

below 5 percent, you are receiving less than you would earn in sort of an insured, risk-free investment.

Companies in most manufacturing industries had profit rates ranging between 5 percent and 15 percent. By considering this range to represent a sort of "norm," we can visualize the extent to which large drug manufacturers departed from it. Over the period 1954-66, the eight largest drug manufacturers were in this range about 25 percent of the time and none ever fell below it. On the other hand, 75 percent of the time the leading drug manufacturers earned profits exceeding 15 percent, and fully 17 percent of the time they had profit rates exceeding 25 percent.

No other industry matched drugs in the frequency with which companies had profit rates exceeding 15 percent. In only three other industries—motor vehicles, computing machines, and aircraft—did large firms have profit rates exceeding 15 percent more than 50 percent of the time. On the other hand, all but four of the remaining 18 industries had profit rates exceeding 15 percent less than one-fourth of the time. Finally, some companies in all but two of the 21 industries outside drugs earned below 5 percent at least part of the time. These contrasting patterns cast serious doubt on the proposition that large drug companies face a serious risk of incurring losses.

I might add parenthetically that if we take the 29 drug companies used in the Conrad-Plotkin study, their profit performance was not a great deal different than the eight used in that chart. The 29 companies earned below 5 percent only 0.4 percent of the time. If we had used as many companies, say 29 companies, in those other 21 industries, the red area shown on the right, these other industries—in other words, the below 5 percent area—would be considerably wider.

Figure 3 illustrates the profit experience of leading drug companies in each year during the 1954-66 period. Most importantly, it shows a pattern of persistently high profits. None of these large companies earned below 5 percent in any year, and in only 4 years did any company earn between 5 percent and 10 percent; 3 of these years were in the beginning of the period—1954, 1955, and 1956. Since then, in only 1962 did a company earn below 10 percent. And in the last 3 years only a small percentage earned below 15 percent.

This actual profit experience seems to fly in the face of the Conrad-Plotkin-Markham-Cootner inference that drug manufacturing is a uniquely risky business. The explanation, of course, is to be found in their definition of risk. Using a different definition of risk, Dr. Irving N. Fisher and Dr. George R. Hall of the Rand Corp. concluded that risk accounts for a very small portion of the high profits of drug companies. The findings are shown in table 3. They show that for the period 1959-64 drug companies earned an average return of 18.32 percent. Fisher and Hall attributed 1.68 percent of this to risk. They concluded that the "risk premiums" for drugs are "very low" and that the explanation for high profits "must be sought in factors other than risk."¹

Mr. GORDON. Mr. Plotkin testified here last month. I quote from his testimony on page 2743 of the transcript:

¹ The report "Risk and Corporate Rates of Return," by Dr. I. N. Fisher and Dr. G. N. Hall, appears as Appendix II, p. 2120, *infra*.