

rates of leading drug manufacturers exceeded those of large firms in the 21 other industries. In fact, drug industry profits were twice as great as one-third of the remaining industries; were 44 percent or more above those of all but 4 other industries; and they exceeded even such traditionally high profit industries as motor vehicles and computing machines.

Nor was 1966 an exceptional year. Table 1 compares over the period 1950-1966, the average profits of *large* drug companies and *large* companies in the 22 industries shown in Figure 1. Several points are of special interest. First, in the early years, 1950-1955, average drug company profits were about equal to or somewhat above the average of other large manufacturers. Second, beginning in 1956, however, average profit rates of drug companies were well above the average of other large companies. Finally, since 1956 drug companies have consistently ranked either first or second² among all large manufacturing industries. This indicates that during the last decade large drug companies have occupied an especially advantaged position relative to large companies in other American industries. Table 2 summarizes profit data of *all* drug companies and *all* manufacturing companies for the period 1956-1967. Over the period covered it shows essentially the same picture as Table 1. Since 1956 drug manufacturers have failed to occupy first place in only one year.

TABLE 1.—RATES OF RETURN OF LEADING DRUG MANUFACTURERS AND ALL LEADING MANUFACTURERS, 1950-66

Year	Drug industry ¹	All manufacturing ²	Ranking of leading drug companies among all leading manufacturing companies
1950.....	19.6	17.3	6
1951.....	15.7	14.6	7
1952.....	12.7	12.7	11
1953.....	12.3	13.2	12
1954.....	12.8	12.8	8
1955.....	15.4	15.5	8
1956.....	18.2	13.8	2
1957.....	21.5	12.8	1
1958.....	20.2	9.3	1
1959.....	20.3	10.8	1
1960.....	18.4	10.3	1
1961.....	17.6	9.8	1
1962.....	17.1	10.6	2
1963.....	17.8	11.5	2
1964.....	18.9	12.3	2
1965.....	21.0	13.4	2
1966.....	21.1	13.3	1

¹ Based on 8 largest companies from 1950 to 1953 and 12 largest companies from 1954 to 1966.

² Based on the 8 largest companies from 1950 to 1953 and the 12 largest companies from 1954 to 1966 in each of the 22 industries shown in fig. 1 with the exception of the computer and motor vehicle industries in which the 8 largest firms were used for all years and cigarettes in which the 4 largest firms were used for all years.

Note: Rate of return after taxes as a percent of stockholders' investment.

Sources: Report of the Federal Trade Commission, "Rate of Return for Identical Companies in Selected Manufacturing Industries, 1955-66" and Moody's Industrial Manual, 1952-54.

This pattern of persistently high profits indicates that large drug companies occupy a unique position in the American economy. And they appear to have become increasingly unique since the mid-1950's.

Before turning to an analysis of the Conrad-Plotkin-Markham-Cootner explanation of high profits in the drug industry, I shall review briefly what appears to be a virtual consensus of opinion among researchers in the field of industrial organization concerning the causes of high profits of drug manufacturers.

In this connection I would like to emphasize the crucial role which Congressional hearings have played in developing the facts necessary for scholars to study the organization and performance of the drug industry. Prior to the Kefauver drug hearings on administered prices in 1959-1961, not a single article concerning the American pharmaceutical industry had appeared in a professional economic journal.³

² In each case they ranked second to automobile manufacturers.

³ Hugh Douglas Walker, "Market Power and Price Levels in the Ethical Drug Industry," Unpublished Ph.D. dissertation, Vanderbilt University, June 1967, pp. 2-3.