

substantial returns. Yet the evidence that high risk exists would require low profits for the unfortunate firms, and such evidence is not apparent.

Table 1 shows data for profits in the drug or pharmaceutical industry¹⁰ compared to broader aggregative groupings for the past decade. The data show quite clearly the continuing and substantial above-average profitability of drug manufacture and sale.

TABLE 1.—ANNUAL RATES OF RETURN AFTER TAXES ON STOCKHOLDERS' EQUITY, DRUG INDUSTRY AND ALL MANUFACTURING CORPORATIONS (EXCEPT NEWSPAPERS), 1957-61; PHARMACEUTICALS AND ALL INDUSTRY, 1962-66

[In percent]

	Drug industry	All manufacturing corporations (except newspapers)
1957.....	18.6	10.9
1958.....	17.7	8.6
1959.....	17.8	10.4
1960.....	16.8	9.2
1961.....	16.7	8.8
	Pharmaceuticals	All industry
1962.....	14.4	8.9
1963.....	14.7	9.1
1964.....	16.3	10.5
1965.....	18.0	11.8
1966.....	20.3	(1)

¹ Not available.

Sources: 1957-61, Federal Trade Commission—Securities Exchange Commission Quarterly Financial Report; 1962-65, Fortune Annual Directory of 500 Largest Industrial Corporations; 1966, Federal Trade Commission, cf. New York Times, June 4, 1967, p. 14F.

Within the drug industry, company profits for the recent past not only are high on the whole, but fairly stable. For example, in the decade 1952-61, for 18 of the largest drug firms for which data have been obtained, the average after-tax rate of return to net worth was 18.5 percent: Only four firms earned below 10 percent, a reasonable estimate of the all-industry average, as based on Table 1, at any time in this period. Of these four, Mead-Johnson fared below 10 percent (9.3 percent) only in 1952; Merck had annual profits of 9.6, 8.9, and 9.6 percent in the first three years and averaged 15 percent in the last seven; Bristol-Myers had annual profits of 7.1, 6.8, and 9.3 percent in each of the first three years and averaged 16 percent in the last seven. Olin-Mathieson is the fourth. It entered the industry with its acquisition of Squibb in 1955, and, in the seven years within this period in which it participated in drug manufacture, had profits below 10 percent in four. But Olin-Mathieson is a large conglomerate firm, and its drug operations are a small part of its total activities. Merck, Mead-Johnson, and Bristol-Myers are also conglomerates, though in lesser degree, owing to their sizeable activities in bulk chemicals, dietary products, and proprietary drugs, respectively, and in each case the drug-operations of these conglomerates have been substantially more profitable than other operations.¹¹

These and other data show that profits in the drug industry as a whole, and for the large majority of its leading firms, rank substantially and consistently above those of industry in general. Examples of unstable or occasionally below-average company profits are difficult to find. Thus evidence in support of the existence of a high risk element facing the large firm is lacking.

Another defense of the industry's high profits is that these profits are needed to finance the industry's large research effort. But, as we have seen, the research

¹⁰ The data for the "drug industry" and "pharmaceuticals" include both ethical and proprietary (non-prescription) products. Since ethical account for 70 percent or more of total pharmaceutical sales, however, the inclusion of proprietaries does not seriously distort the accuracy of the data.

¹¹ Subcommittee on Antitrust and Monopoly, Senate Committee on the Judiciary, *Administered Prices, Drugs, Report*, Washington, D.C.: U.S. Government Printing Office, 1961, p. 63.