2. And again I quote:

* * * Neither Schumpeter nor I, nor indeed any responsible economist, will argue that industrial abuses should not be corrected, when found (p. 4).

3. Finally, what I think is a very significant statement on page 9:

* * * If one were to decide, by administrative action, to reduce the average rate of return in a risky, competitive industry without at the same time reducing the risks, we would find an immediate impact on that industry's investment policy (p. 9).

(B) In general, I think that Professor Cootner's paper is a sound pedagogical exercise which in commonsense terms conveys some of the major subjective factors which influence an investor's frame of mind in appraising investment prospects.

In fact, I find myself in agreement with virtually every statement he makes. But I particularly agree with the three statements quoted above. Statement No. 3 is sound economic theory. Statement No. 2 is also true, in fact a truism if one defines responsibility in an economist in terms of sensitivity to industrial abuses. And if one agrees with statement No. 2, surely one must agree with statement No. 1, since Professor Cootner neither suggests that he is aware of drug industry abuses nor proposes corrections for them.

(C) The consequences of Professor Cootner's admitted lack of expertise on drug industry economics is that his paper, although educational in a general sense, is misleading because it suggests that the industry is like any other industry in that high returns are likely to be associated with high risk, that the drug industry's aggressiveness in anticipating demand and "promptness in accepting innovation and change" (p. 10) is socially beneficial, and that if industry risks are reduced it will lead to a reduction in the net social productivity presumably due to these risky investments.

But things don't seem to work this way in the drug industry. Consequently, the net effect of Cootner's paper is misleading because he says all the favorable things about the productivity of risk-taking in industry generally, without elucidating any of the drawbacks of the policies which result in high profits and hence in allegedly high risks in drugs.

I would like to emphasize that: 1. Statement No. 3 does not really refer to drugs since it specifies "a risky, competitive industry" while drugs are a profitable and rivalrous industry, not too much troubled by true price competition. Among price-competitive industries, one can expect the average profit levels of firms showing positive profits in risky industries to exceed those shown by similar firms in safer industries. But once we drop the assumption of price competition, there is no such clear-cut relationship.

A pure monopolist of an absolute necessity could make enormous profits in perpetuity and face no risks. But in the drug market there are elements of both monopoly and rivalry. Patents confer monopoly power with respect to a certain product and extremely inelastic demand allows enormous unit profit margins. But these generous margins will attract new entrants who will find it profitable to spend vast sums in imitating the patented product legally. Once a rival compound is concocted, how can the new drug take sales from the old?

Price competition is one route but a very costly one, and unless there are a large number of rivals, it is not likely to break out. Instead,