(The material referred to, subsequently received, follows:)

HARVARD UNIVERSITY,
DEPARTMENT OF ECONOMICS,
Cambridge, Mass., February 8, 1968.

Senator GAYLORD NELSON,
Chairman, Monopoly Subcommittee,
Select Committee on Small Business,
U.S. Senate, Washington, D.C.

DEAR SENATOR NELSON: During my testimony before the Monopoly Subcommittee on January 25, 1968, you requested that I submit some additional information to be included in the record.

In the 1963 Census of Manufacturers, Pharmaceutical Preparations (Standard Industrial Classification 2834) were divided into two classes: ethical and proprietary. Domestic shipments of ethical preparations were $2,054,897,000, while domestic shipments of proprietary preparations were $836,166,000. I am afraid, however, that total advertising expenditures in these two industries are not available from public sources. For the same year, Internal Revenue Service statistics report that total business receipts in the drug industry (IRS Minor Industry 2830) were $4,505,870,000 while total advertising expenditures for the same firms were $405,007,000, or 9.0% of sales. For the following year, 1964, the IRS listed a smaller number of firms in this industry, and business receipts for these firms were $4,175,331,000, while total advertising outlays amounted to $461,648,000, or 11.1% of sales.

The drug industry, as defined in IRS statistics, include sales of both ethical and proprietary products. Furthermore, the IRS statistics include advertising outlays and revenues for entire firms even though some firms may have considerable operations which are not related to the productions and distribution of drugs. Census statistics, on the other hand, are based on data gathered at the establishment level, and therefore include only business operations which deal specifically with a particular industry.

As I noted in my testimony, the Statistics Division of the Internal Revenue Service accepts the definition of advertising which is made by individual firms in their tax returns. Different firms, moreover, appear to list different categories of expense under different headings, so that gifts for doctors and medical students are included in advertising expense by some firms while others list these outlays under promotional expense. Furthermore, I understand that contrary to my statement on January 25, the cost of samples are sometimes included in advertising expense. Thus, it appears that reported outlays on advertising understate the true volume of advertising and promotional effort in the drug industry even apart from the salaries paid to detail men.

Sincerely,

WILLIAM COMANOR.

Dr. COMANOR. In most industries, even in the consumer goods sector, advertising probably plays a relatively minor role, although it appears to play a major role in a few others.

One further feature of these statistics is that the subset of industries with high advertising-sales ratios is comprised entirely by those which produce consumer nondurables rather than consumer durables. Industries which produce electric appliances or radio and television sets spend relatively little on advertising as a proportion of total sales. And yet, it is precisely these industries which are generally considered to produce highly complex products about which consumers might need considerable information.

In the statistical analysis, we examine the joint effect of advertising, together with a number of other market structure variables, on profit rates. The additional variables are the degree of market concentration, the rate of growth of demand, and estimates of two entry restricting factors: the extent to which production economies of scale exist in the industry, and the total amount of capital required for entry. These additional variables were introduced into the analysis although our