almost without exception have relatively high profit rates. And this refers specifically to the six industries that have advertising-sales ratios which exceed 6 percent.

Thus, the average profit rate for those six industries was 11.9 percent which is 65 percent greater than the average return for the 35 remaining industries of 7.2 percent.

Senator NELSON. When you say "average profit rates," are you talking about after-tax profits?

Dr. COMANOR. I am talking about after-tax profits.

While motor vehicles has the highest profit rate of any industry in the sample, and at the same time has a relatively low advertising-sales ratio, the next three most profitable industries—cereals, drugs, and perfumes—are all those with very high levels of advertising expenditures.

Senator NELSON. Does the automobile industry fit into the picture you describe later of an industry that has some very difficult entrance barriers—that is, the vast investment it takes to get in?

Is advertising a factor there?

Dr. COMANOR. I think most economists would agree that the automobile industry has very high entry barriers, but that these are not accounted for by advertising expenditures as much as by the important scale economies which exist in the industry, as well as by the very high absolute capital requirements. In addition, the current franchise system does tend to restrict entry. While important entry barriers exist, I think most economists would not stress the effect of advertising in this particular industry, although firms in the industry spend very large absolute sums on advertising, since after all, it is one of our largest industries. But these large absolute sums account for a relatively small percentage of sales.

Senator NELSON. Would you agree that there is a distinction between the automobile and the prescription drug industry on at least a couple of grounds relative to the advertising question, the automobile industry having a relatively low advertising ratio to sales, with the drug industry having a high advertising ratio to sales? Would you agree that one of the reasons for the distinction there is that there is a multiplicity of drugs and the person who makes the determination about what drugs will be used and what brand will be used is the doctor, whereas in the automobile industry, there are only four major companies in this country and the consumer, by looking at the product, makes the decision about what he will buy?

Dr. COMANOR. While this factor is certainly important, I would emphasize a somewhat different factor, which is that in the motor vehicle industry, factors such as high absolute capital requirements inhibit entry so that the auto firms do not feel compelled to allocate further sums to restrict the entry of new firms.

In addition, while advertising promotes product differentiation in the automobile industry, there are various other factors besides advertising which are at least as important, if not more important, in creating product differentiation, such as the annual model changes.

In the pharmaceutical industry, where products which embody the same chemical compound but which are produced by different firms are now similar to one another, advertising plays a much more im-