

all manufacturing (11.22 per cent as compared to 7.15 per cent). Again, it is noted that the rate of return in all manufacturing generally declined during this period, whereas in pharmaceuticals it has increased. In pharmaceuticals it rose substantially from 1953 to 1957, and, while declining in the four years thereafter, to the low point of the period in 1961, rose again in 1962 and 1963, and in 1964 was the second highest rate of the twelve-year period.

It should be noted that the above-mentioned rates pertain to the total operations of the drug industry. It is reasonable to expect that the rate of return on sales of packaged human pharmaceuticals only would be somewhat higher. Supporting this conclusion, the Pharmaceutical Manufacturers' Association of Canada, in its brief to this Committee, reported an average rate of return (before taxes) of 10.8 per cent of sales for the total operations of the 41 companies replying to its 1964 survey (brief, page 3.5). The rate of return on sales of packaged human pharmaceuticals only was estimated at 15.0 per cent (brief, page 2.3). Six individual members of the association, in their submissions to the Committee, reported the following rates:

Company	Total Operations	Human Pharmaceuticals
A.....	17.7%	25.7%
B.....	21.5%	
C.....	10.9%	
D.....	15.4%	17.2%
E.....	18.2%	
F.....	—	16.0%

From the foregoing it is concluded that, as a percentage of sales, profits in the pharmaceutical manufacturing industry are significantly higher than those of all manufacturing industries combined and, further, that during the period 1953-1964, the pharmaceutical industry effectively resisted or was immune to the influences which caused a decline in the rate of return to manufacturing in general.

*Return on Investment*

The Consumers' Association of Canada criticized use of the rate of return on sales as a basis of comparison:

"I would certainly admit that this is a common proportionate measure of profit often employed, but, again as an economist, I must argue that it is not a very meaningful measure, because, after all, people who earn profits are those who have invested their capital, and the meaningful judgment on profit is the level of profit per dollar of investment, not per dollar of sales" (Minutes of Proceedings and Evidence, page 1136).

A similar opinion was expressed in the brief of the Pharmaceutical Manufacturers Association of Canada:

"Return on sales is one indication of the profitability on an industry, but it is an unsatisfactory indicator of economic effectiveness because it fails to relate earnings to the resources employed." (brief, page 3.5).

Although these views are considered valid, it is noted that the rate of return on sales is useful for the purpose of indicating the potential scope for unit price reductions, other than through reduction of costs. Generally speaking, the higher the rate of return on sales, the greater the scope for reduction in unit prices, assuming a satisfactory rate of return on capital employed.