

been requested to address my remarks to drug prices and particularly to testimony on this subject which has been presented by earlier witnesses.

First may I express my appreciation to the chairman and to members of the committee for the opportunity to appear before you and may I say that I sincerely hope that my testimony will contribute to a better understanding of the factors entering into drug price trends. For the measurement and meaning of changes in price levels is indeed not a simple matter.

Price changes cannot be taken at face value, since very often the prices compared are not strictly comparable though at first view they may seem to be.

I should like to discuss briefly the ways in which wholesale and retail price indexes are constructed, how they differ from each other, what they mean, and as important, what they do not mean in respect to drug prices. I should also like to examine the concept of an average prescription price, and point out the pitfalls in using this as a measure of change in the price of drugs, particularly at the wholesale level.

Price indexes are designed to do only one thing. They measure the change in prices over time for the universe of commodities which the index is meant to represent. The index number does not, for instance, show the effect on the housewife's market basket when she substitutes cake mixes for the crude ingredients or frozen packaged vegetables for a sack of potatoes. It does not tell us whether we are using more expensive or less expensive commodities than we used in the past. It does tell us whether, once introduced into the index, they and the other components of the market basket, have risen or fallen in price from one period to the next.

Once the market in which prices are to be measured has been defined, a sample must be taken of the commodities and of the specifications to be priced. For prescription pharmaceuticals for example, a selection must be made of package size, dosage form and strength, of transaction size, of terms of sale and of points in time and place at which these prices are to be taken.

In constructing a price index, logical weights (measures of the importance of the products selected for the index) must be employed. These weights should, as truly as possible, reflect the relative importance of the commodities in the index. Changes in the prices of the most widely and frequently used commodities should have greater influence on the index than changes of price in less important or infrequently used products.

These studies of relative importance of commodities cannot be "once and for all" studies. Like most else in our society, they become obsolescent. For, in a dynamic economy such as ours, new products are constantly appearing on the market, many older products diminish in importance and often disappear altogether. Also the use of existing products changes continuously as custom and needs decree.

Due to the high cost usually entailed in collecting data, revisions of indexes are infrequent, and the accuracy with which the index measures average price changes is impaired.

Until 1967, as long as 9 years after the fact, it was necessary to employ 1958 weights for the BLS wholesale price index. The 1963 weights