

If data are readily available, and the cost of revision is not too great, annual changes in weights and commodity lists should be made, particularly in a product area where changes are rapid and dramatic. Such frequent changes permit indexes to reflect a more gradual transition to current conditions than when changes are made at infrequent intervals. In any event, changes are inevitable. They are unavoidable if the index is to have any meaning.

Quality changes

The Price Statistics Review Committee, in its 1961 report to the Office of Statistical Standards of the Bureau of the Budget, stated that "if a poll were taken of professional economists and statisticians, in all probability they would designate (and by a wide majority) the failure of the price indexes to take full account of quality changes as the most important defect in these indexes. And by almost as large a majority, they would believe that this failure introduces a systematic upward bias in the price indexes—that quality changes have on average been quality improvements." This is no reflection on the ability or integrity of index statisticians. It merely points up the difficulty of measuring in dollars and cents the value to the purchaser of style changes, improved efficiency of a new model of refrigerator, the more silent operation or greater durability of a room air conditioner, or the speed of action and the sustained duration of pain relief from a new drug as compared to its predecessors.

WHOLESALE PRICE INDEXES

The BLS Wholesale Price Index

The BLS Wholesale Price Index is designed to measure changes in the prices of all commodities sold in commercial transactions in primary markets of the United States including Alaska and Hawaii. A primary market is defined by the BLS as the first commercial transaction for a product, so as to avoid confusion with subsequent wholesale transactions. Commodities produced in the United States are included, as well as those imported for sale. They include manufactured and processed goods and the output of manufacturing, agriculture, forestry, fishing, mining, gas and electricity. All these commodities, taking account of grade, size and other specifications number in the hundreds of thousands and the total number of price transactions for them in a month are in the untold millions.

To measure what happens to prices, the Bureau collects actual price quotations on a sample of about 2300 representative items from manufacturers and other producers. The actual number of price quotations collected per month numbers nearly 7000, in order to represent various markets and multiple producers of a given product. These 2300 items are classified into 15 major groups, 90 subgroups, 314 product classes, and 37 subproduct classes. Thus, "antibiotics" is a subproduct class of the Ethical Pharmaceutical Preparations product class of the Drug and Pharmaceutical subgroup of the Chemicals and Allied Products major group.

Ethical Pharmaceutical Preparations account for about 0.5 percent of the total importance of commodities in the WPI. If we add to this Proprietary Pharmaceutical Preparations and Drug and Pharmaceutical Materials (the other product classes of the Drugs and Pharmaceutical subgroup), the combined importance to the economy is less than 0.9 percent. I point this out to demonstrate that a relatively larger number of commodities are used to construct these index components of the WPI than for most other product classes. There are 31 drug and pharmaceutical materials, 55 ethical pharmaceuticals divided into 15 subproduct classes and 24 proprietary pharmaceuticals divided into 8 subproduct classes making a total of 110 products. A proportionate share, that is 0.9 percent of the 2300 products used for the entire WPI would be 21 which probably results in the drug category being more representative than most other categories of like weight. Even before the revision and updating of the pharmaceutical indexes in 1961, 37 products were included. Thus, pharmaceuticals are not glossed over in the WPI. But even this list of products leaves something to be desired in a definitive study of drug prices.