At the time of the hearings on drugs conducted by the late Senator Estes Kefauver eight years ago, the PMA and the pharmaceutical industry believed, and quite correctly, that the drug and pharmaceutical component of the BLS WPI did not measure fully, nor correctly, what was happening to drug prices. This is not to say that the attention given to drug products did not represent a commensurate share of the funds available for constructing the WPI, at a time when the national spotlight had not as yet been focused on drug prices. With the vast universe of commodities that had to be accounted for in the wholesale price index under a very limited budget, it is understandable that a group of products that accounts for less than one percent of the value of all commodities did not receive more attention, particularly with respect to the updating of the list of pharmaceuticals priced for the index.

The revision of the wholesale price index of drugs by the BLS in 1961 went far toward correcting the earlier deficiencies. Prior to this revision, the index included a large number of such products as agar, citric acid, ethyl alcohol and glycerin—old standbys of the pharmacist's trade, but hardly representative of the products used even in the 1950s. The only relatively new products included as late as 1960 were penicillin, streptomycin, and four sulfa drugs. No representation was accorded the hormones, diuretics, cardiovasculars, tranquilizers, cortical steriods or the most important of the pharmaceutical groups, broad spectrum antibiotics.

Before the BLS had indicated that it was revising its drug index, I had been asked by the industry to construct the index now called the PMA Wholesale Price Index of Ethical Pharmaceuticals. To do this, I went back to 1949, and with a more comprehensive list of drugs, constructed an index which showed price movements since that date. The construction of this index is described in a succeeding portion of this paper.

It is pertinent to compare the BLS Drug and Pharmaceutical Index with the PMA index for the periods 1949 to 1960, the period preceding the BLS revision, and 1961 to 1966, the period after the revision. From table IA and Chart IA, one can see that the BLS index in the earlier period showed practically no change in drug prices while the PMA index declined 7.6 percent. The comparison for the later period (with no change in the technique employed in constructing the PMA index) shows that the movements of the two indexes were very similar, with the BLS index showing an even larger decline than shown by the PMA index. (See Table I–B and Chart I–B).

TABLE I.—COMPARISON OF THE BLS AND PMA WHOLESALE PRICE INDEXES FOR DRUGS AND PHARMACEUTICALS 1949–66 (BASE PERIOD 1949), AND 1961–66 (BASE PERIOD 1961)

Year	(A) 1949–66 (1949=100)		(B) 1961–66 (1961=100)	
	BLS	PMA	BLS	PMA
1949	100.0	100.0		
1950	98.8	95.9		
1951	102.2	96.2		
1952	98.8	93.0		
1953	99.3	93.0		
1954	100.3	91.8		
1955	99.2	91.4		
1956	98.4	91.4		
1957	99.7	92.7		
1958	100.4	93.0		
1959	99.6	92.7		
1960	100.1	92.4		
1961	99.9	89.7	100.0	100.0
1962	97.5	87.1	97.6	97.1
1963	96.4	86.2	96.4	96.1
1964	96.1	86.0	96.1	95.9
1965	95.4	86.2	95.4	96.1
1966	94.8	85.9	94.9	95.8