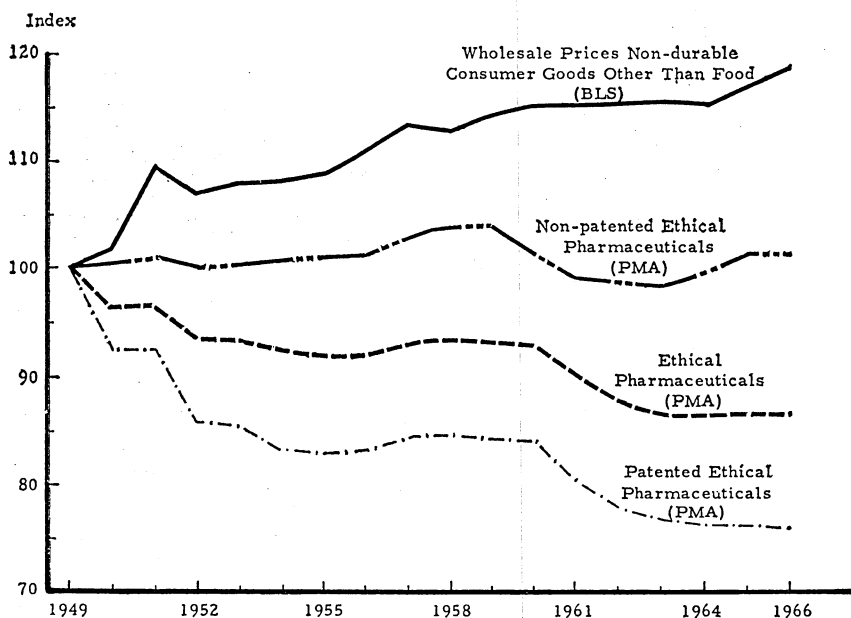


Chart II

WHOLESALE PRICE INDEXES of ETHICAL PHARMACEUTICALS (PMA)
and NON-DURABLE CONSUMER GOODS OTHER THAN FOODS (BLS), 1949-1966

Base Period 1949=100



It is only since 1960 that the Consumer Price Index has included prescription items that by current standards can be considered truly representative. Prior to that year the prescription index was based on three items—APC tablets, elixir terpin hydrate with codeine, and buffered penicillin⁵—hardly a representative list of ethical pharmaceuticals. This index rose 27.8 percent between 1949 and 1960, but I would be reluctant to accept this as an indicator of retail prescription prices. The item list was revised and expanded in 1960 to include seven therapeutic groups, and just this year three additional groups were added. Each group is represented by only one or two products, with a total of seventeen items to represent the ten groups. While this is a rather thin basis to measure price movements of the individual therapeutic groups, it should be reasonably reliable to measure price movements for all prescriptions. The BLS retail prescription index is available on a quarterly basis while the BLS wholesale index for ethical pharmaceuticals is available on a monthly basis and thus can reflect price movements in the short run.

Interpretation of price indexes

Price indexes are designed to show what changes have taken place in average prices over time. It is therefore important, in constructing a price index, to have price as the only variable. To do this, all other factors, in so far as possible, must be kept constant. That is why in calculating price ratios between two periods of time, the list of commodities and their relative importance must be identical in the two time periods. If prices have changed, the index will reflect the net effect of all price changes that have occurred in the interim. An index

⁵ Statement by Commissioner Arthur M. Ross before this Committee, May 16, 1967, p. 235.