

dispensing of increasing quantities will cause the average charge to increase. Table 6 depicts the sharp contrast between the price indexes and an index of the average prescription charge as reported in the *Lilly Digest*.

Although the average prescription charge is an average of prices actually paid by consumers for prescriptions, Table 6 shows beyond doubt that it is not a measure of prices, price changes, or price trends at the consumer level. If it cannot measure or reflect any kind of valid price or charge, and if its index of change moves countercurrent to true price indexes, it can be a major source of confusion and result in a liability rather than an asset to pharmacy when it is taken out of context.

TABLE 6.—THE AVERAGE PRESCRIPTION CHARGE INDEX COMPARED WITH PRICE INDEXES  
[1961=100]

| Year      | BLS-CPI<br>Prescription<br>drug subsection | BLS-WPI ethical<br>pharmaceuticals<br>subsection | PMA-Firestone<br>prescription<br>specialties | Lilly Digest<br>average prescription<br>charge |
|-----------|--------------------------------------------|--------------------------------------------------|----------------------------------------------|------------------------------------------------|
| 1961..... | 100.0                                      | 100.0                                            | 100.0                                        | 100.0                                          |
| 1962..... | 96.1                                       | 97.6                                             | 97.1                                         | 102.2                                          |
| 1963..... | 93.8                                       | 96.4                                             | 96.1                                         | 104.3                                          |
| 1964..... | 92.5                                       | 96.1                                             | 95.9                                         | 104.9                                          |
| 1965..... | 91.5                                       | 95.4                                             | 96.1                                         | 107.1                                          |
| 1966..... | 91.3                                       | 94.9                                             | 95.8                                         | 110.5                                          |

#### CONCLUSION

The average prescription charge is not an indicator of drug prices or of prescription charges. However, it can be a useful tool to the pharmacist in understanding his particular departmental operation. A case in point is that of a pharmacist who decided to lower his drug prices. After a reasonable length of time had passed, he was surprised to find that his average charge continued to rise. This led him to seek the reasons. He found that lowered prices had encouraged the prescribing of larger quantities per order. His dollar volume remained the same, but greater quantities per order had decreased the number of prescriptions and renewals dispensed, which caused the average charge per prescription to increase.

Many useful ratios are available to indicate standards for or levels of performance in pharmacies. They depend on data which may vary over time, but they neither measure nor reflect changes or trends in prices. Their usefulness lies in calling attention to an area and, when necessary, triggering further investigation, a review of policies and procedures, and, finally, some specific corrective action for improving operations.

As a ratio of prescription revenue to the number of prescriptions dispensed, expressed in dollars and cents per prescription, the average charge has limited value as an over-all measure of the economics of professional performance. Aside from this, it has no other useful value in itself, in economic analysis, or in pharmacy.

Senator NELSON. Dr. Whitney?

Mr. CUTLER. We have just one more witness, Mr. Chairman, and that is Prof. Simon Whitney, professor of economics at New York University, who has a statement on the subject of profits and prices in this industry.

Senator NELSON. Dr. Whitney, we are very pleased to have you come here today. You have been very patient to wait as long as you have to be presented. Your biographical sketch will be printed at this point. Please proceed.

(The biographical sketch follows:)

#### BIOGRAPHICAL SKETCH OF SIMON N. WHITNEY, PH. D.

Present position: Professor of Economics, University College of Arts and Science, New York University.

Education: B.A., Yale University, 1924 and Ph. D., Yale University, 1931.