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I

INTRODUCTION

1. The Price Statistics Review Committee was formed under a contract which was entered into by the Bureau of the Budget and the National Bureau of Economic Research in July 1959. The salient provision of this contract, which established the mandate of the Committee, is:

The scope of the review shall include but is not limited to the following:

- a. Uses of indexes
- b. Concepts and structure of existing indexes
- c. Timing of the collection and publication of the data
- d. Specification and collection problems
- e. Introduction of prices of new commodities and services
- f. Program of revisions in indexes
- g. Use of probability methods in collection of prices
- h. Consumer expenditure surveys
- i. Continuing research program in price index methodology

This review shall include the Bureau of Labor Statistics' Consumer Price Index and Wholesale Price Index and the Agricultural Marketing Service Index of Prices Paid by Farmers and Index of Prices Received by Farmers, and the price collections related to these indexes which are useful for other purposes. The review may, in the discretion of the National Bureau of Economic Research, be extended also to other price indexes prepared by the Federal Government, and indexes not now prepared by the Federal Government but to the preparation of which consideration might be given.

The review should take into account not only the needs of the Government but also those of the general public, including business, agriculture, labor, and private research organizations. Attention should be given to the need for data reflecting current economic conditions and also to the need for basic information required for meaningful historical analyses and studies of price and cost relationships. Some attention should be given to the special problems which arise as a result of the use of the indexes for wage adjustments and price supports.

2. The possible scope of the Committee's survey was therefore extremely wide: it included not only the study of the main price series compiled by the Federal Government but also the minor price series and important areas of economic life for which price series are not available. Yet even the exhaustive investigation of every procedure now undertaken in the compilation of a single major price index, and its comparison with alternative procedures, would require time and resources many times greater than we possessed.

3. Accordingly, we have been compelled to be severely selective in the scope of our survey. Our main efforts have been devoted to the three principal price areas:

The Consumer Price Index (CPI)

The Wholesale Price Index (WPI)

The Indexes of Prices Paid and Received by Farmers

Lesser attention is paid to import and export price indexes, construction cost indexes, and asset price indexes. Nor have we scrutinized every detail of the procedures followed in constructing the major indexes. The systems of weights have been examined only from the conceptual viewpoint, and many operational procedures have been passed over. Our intuitions as to where to concentrate our studies have no doubt been imperfect, but concentration was unavoidable.

Our decision to concentrate upon problem areas in the price statistics fields means that we have purposely passed quietly over aspects of the work of the price statistics agencies which are especially strong or worthy of commendation. We believe that such concentration is more useful than comprehensive but less intensive appraisal, but we regret the corollary that much fine work of the agencies is not discussed. This orientation should be kept in mind in reading our report.

4. The staff studies which accompany our report were prepared by the indicated authors and represent their individual viewpoints. The Committee accepts the views and findings in these studies only to the extent made explicit in the Report. These forbidding, if necessary, remarks should not conceal our large debt to the authors of the staff papers, and our gratitude to them for the important contributions they have made not only to our work but to the general field of index numbers. A special expression of indebtedness is due to Harry E. McAllister, who was also secretary of the Committee, and to Thomas F. Mosimann, who was our liaison representative from the Bureau of the Budget. We also wish to acknowledge assistance from Raymond W. Goldsmith and Nancy Ruggles.

5. Our debt to the price-collecting agencies—the Bureau of Labor Statistics, the Agricultural Marketing Service, and the Bureau of Foreign Commerce—and to other agencies (the Bureau of the Census and the Interstate Commerce Commission) is immense. These agencies have made numerous and extensive special studies, despite the heavy burdens of their official duties; they have instructed us in countless ways; and they have maintained unflinching cooperativeness under the ordeal of endless questioning. Their dedication to the improvement of the price indexes is one of our major resources in the area of price statistics.