BOOK REVIEWS

Health Care in America, H. E. Frech III, Ed. Pacific Research Institute for Public Policy. (1988)

Reviewer: Mark R. Greene, Ph.D. Professor of Risk Management and Insurance, Emeritus, University of Georgia.

This book is a collection of articles by different authors organized under four headings: Health Care Competition, The Hospital Industry, Government Health Insurance, and Private Health Insurance. The publisher is a non-profit organization producing studies aimed at "long term solutions to difficult issues of public policy." All of the articles are oriented toward an economic analysis of the health care problem in the United States.

Three main reasons are said to justify an economic approach to solving health insurance problems: (1) The health insurance industry is poorly organized from the standpoint of pricing and providing incentives for efficiency, (2) Health costs are escalating rapidly, necessitating a major effort toward cost containment, (3) The industry seems likely to benefit from economies of scale and the use of modern methods of profit management. Much of the argument seems to reduce to an appeal for greater use of free market incentives in the health insurance industry.

Examples of questions addressed in this book are: Will profit-based hospitals skim off the most desirable cases, leaving others to traditional non-profit hospitals? Will the DRG system used in hospitals result in lower quality care by dismissing patients prematurely? How have cost containment measures such as second opinions in surgery worked? Can we rely on competition to do a good job, or do we need more regulation to maintain quality? Should we encourage or discourage "medi-gap" insurance policies designed to pay costs excluded by deductibles in social insurance plans? Has the plan tried in West Germany gives premium refunds in exchange for "no claims" been successful? (Answer: Rebates are better at restraining utilization of medical care than either deductibles or coinsurance alone). Why has the price of commercial health insurance declined since 1952 when the price of coverage offered by "The Blue's" has not?

An example of the approach in this book is well illustrated in Chapter 6. "The Questionable Cost Containment Record of Commercial Health Insurers," by Clark C. Havighurst. Uneconomic public policies advocated by the commercial health insurance industry are especially criticized as inimical

to successful reforms needed in the health care industry. These include (1) efforts to expand tax subsidies for health insurance, a policy which camoflauges rising costs and hides underlying inefficiencies, (2) efforts to have federal and state regulation of hospital rates, (3) efforts to prohibit discounts to aggressive buyers of medical services and supplies, (4) and efforts to expand antitrust exemption for health insurers. Havighurst concludes: "Commercial insurers, if they are to have any future at all, must respond to the new demands for cost control."

This book is well worth reading by all serious students of health insurance. It contains much information and analysis not ordinarily covered by introductory insurance textbooks. The chapters contain well reasoned arguments and offer full bibliographies for additional reading. All in all, it is a first rate contribution to our knowledge of this important area.

Medicare's New Hospital Payment System: Is It Working?, by Louise B. Russell (The Brookings Institution, 1989)

Reviewer: Jacqueline S. Zinn, Temple University

Six years have passed since the medicare program replaced its cost-based retrospective method for hospital payment with the charged-based prospective payment system (PPS). Has enough time elapsed for meaningful evaluation of its performance? In this book, Louise Russell, a health care economist affiliated with Rutgers University, attempts a preliminary assessment and issues an interim grade.

The relatively speedy passage of the federal PPS legislation in 1983 was an effort to salvage the medicare program from imminent bankruptcy. The intent was to make payments to hospitals more predictable than under the open-ended cost-based retrospective system, and to curb the rate of cost increase. Thus, the first criteria applied in assessing PPS performance is the extent to which program expenditures have been brought under control. Evidence indicates that results have far exceeded expectations. Actual 1990 expenditures were 20 percent below 1980 projections. As a result of these savings, the Hospital Insurance Trust Fund is projected to remain solvent through the year 2000. Further, the author contends that prospective payment accomplished its primary goal without shifting costs to medicare recipients or to other third party payers.

A balanced assessment of PPS requires identification of any negative health care consequences attributable to its implementation. From the onset, the new financial incentives under PPS clearly implied the use of alternatives to hospital care. In what may have been a reaction to pressure to contain hospital admissions, the use of outpatient and home health services surged, while admissions and hospital length of stay dramatically declined. While there has been no apparent change in the volume of nursing home services provided to medicare beneficiaries, there is evidence that the amount of terminal care provided to nursing home residents has increased. However, as the author