

# Medical Care Price Changes in Medicare's First Two Years

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AN EARLIER article in the BULLETIN described the nature of changes in the prices of medical care during the first year that health insurance for the aged (Medicare) was in effect—from July 1966 to June 1967.<sup>1</sup> It was noted then that medical care price increases, as measured by the Bureau of Labor Statistics Consumer Price Index, considerably outpaced the increases in all consumer prices during that period. The next 12 months, from July 1967 to June 1968, however, witnessed a deceleration in the rate of increase for medical care prices at a time of relatively greater increases in all consumer prices.

This article examines the nature of changes in medical care prices as measured by the Bureau of Labor Statistics during Medicare's second year (July 1967–June 1968) and compares the price movements with those for the previous year. Emphasis is placed on the behavior of the prices for five in-hospital procedures of particular significance to the aged that are specially priced by the Bureau of Labor Statistics for the Social Security Administration. The price changes are presented on a quarterly, semiannual, and annual basis. Definitions and explanatory material relating to the consumer price index, its various components, and related items are given at the end of this report.

## MEDICAL CARE PRICES

For the fiscal years 1967 and 1968, table 1 presents annual average figures for all items and for selected medical care components. The annual figure represents the average of the 12 monthly or the quarterly indexes, taking into account the price movements and fluctuations reported during the year. The percentage change in medical care prices that was reported for the year ending

June 1968 was exactly the same as that for the previous year—6.4 percent.

Contrary to the past pattern of movement of medical care prices and of all items, the index for all consumer items increased at a higher rate during the second year: 3.1 percent during fiscal year 1967 and 3.3 percent during fiscal year 1968. The indexes for hospital daily service charges and for physicians' fees, which had been rising at an accelerated rate since the beginning of 1966, showed some slowing down in the rate of increase during the second year of Medicare.

Indexes for all consumer items and the medical care components for the last month of each of the 8 quarters from June 1966 to June 1968 are presented in table 2. Table 3 shows the percentage changes for medical care prices for the 6-, 12-, and 24-month periods. These monthly indexes are useful for analysis of short-run price changes, especially in periods of fluctuating price movements. Hence, they are presented and discussed throughout the remainder of this report.

Examination of these indexes and the short-run changes reveals that, in general, the prices of the various medical care components increased faster from June 1966 to June 1967—the first year of Medicare—than during the program's second year. At the same time, however, the reverse pattern is found in the consumer price index for all items and all services. The rate of increase for all consumer prices was more than 50 percent greater in Medicare's second year than it was in the first. The rate of increase in medical care prices in the later year was almost one-fifth smaller, however.

The effect of the sharp rise in prices of consumer items other than medical care is clearly evident when the medical care component is removed from the "all items" index. The rate of increase in that index, with medical care excluded, was 70 percent greater during the second year of Medicare than the first; with medical care included the rate was 55 percent greater. The two 12-month percentage changes for all items and all services, with and without the medical care components, are as follows:

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<sup>1</sup>"Medical Care Price Changes in Medicare's First Year," *Social Security Bulletin*, January 1968, pages 20–25; see also "Trends in Medical Care Prices," in the July 1967 *Bulletin*.

Item	Percentage change from—	
	June 1966 to June 1967	June 1967 to June 1968
All items.....	2.7	4.2
All items less medical care.....	2.4	4.1
All services.....	4.4	5.1
All services less medical care.....	3.6	4.8
Medical care.....	7.3	5.9
Medical care services.....	9.2	7.1

The rise in the index for all services also reflects the impact of the sharp rise in prices for services other than medical care. The all services index (with medical services) rose about 16 percent faster in Medicare's second year. Included in all services, in addition to medical care services, are the prices for rent, insurance and finance, utilities and public transportation, house-keeping and home maintenance services, personal care services, and other miscellaneous services. The prices for the services other than medical care increased one-third faster during fiscal year 1968 than they had in the previous year, but the rate of increase for medical care services was about one-fifth less in the second year. Nevertheless, even with this deceleration, the rate of increase for medical care services from June 1967 to June 1968 was nearly 50 percent greater than that of all other services—7.1 percent compared with 4.8 percent.

Rising prices for medical care during the past 2 years have aroused much discussion and focused attention on the possible reasons for such increases and the extent to which the Medicare and Medicaid programs contributed to them. It is not pos-

TABLE 1.—Annual average price index and percentage changes of consumer prices and selected medical care components, fiscal years, 1966-68

[1957-59=100, unless otherwise specified]

Item	Index, fiscal year annual average <sup>1</sup>			Annual percentage change	
	1966	1967	1968	1966-67	1967-68
	CPI, all items.....	111.2	114.7	118.5	3.1
CPI, all services.....	119.6	125.2	130.6	4.7	4.3
Medical care, total.....	124.3	132.3	140.8	6.4	6.4
Medical care services.....	129.6	139.9	151.0	7.9	7.9
Physicians' fees.....	124.1	133.4	141.5	7.5	6.1
Dentists' fees.....	119.0	124.4	131.0	4.5	5.3
Hospital daily service charge.....	158.3	184.6	213.1	16.6	15.4
Drugs and prescriptions.....	98.2	98.2	98.0	0	-2

<sup>1</sup> Average of specially weighted quarterly indexes or of indexes for 12 months for years ending June.

Source: *Consumer Price Index*, Bureau of Labor Statistics.

sible to measure precisely the contribution of these programs to the increase in medical care prices. Many factors contributed to the accelerated rises in medical care prices, but the forces at work operated differently for hospital charges and for physicians' fees. The discussion that follows describes the recent movement in prices for each of these components and reviews the various factors contributing to these increases.

## HOSPITAL CHARGES

Hospital daily service charges have been rising faster than any other component of the medical care index. From June 1966 to June 1967, this component increased more than a fifth—21.9 percent. In the following year, however, a significant deceleration occurred that resulted in a percentage increase that was just above half that of the earlier period—12.2 percent.

A review of the quarterly changes in this component shows a slowing down in the second quarter of 1967 and again in the second quarter of 1968. In both years the rate of increase during the quarter ending in June was about half that of the previous quarter.

Seasonal variations may account in part for the sharp drop in the rate of growth in hospital room rates during the second quarter of the year. In several previous years the rate of increase for this index was appreciably slower in the second quarter, compared with the first, as indicated by the data that follow:

Year	Percentage change from preceding quarter for quarter ending—			
	March	June	September	December
1960.....	2.7	0.9	1.4	1.2
1961.....	2.2	3.1	1.6	1.5
1962.....	2.6	.5	1.2	1.0
1963.....	3.0	1.2	1.2	.9
1964.....	1.8	.8	1.0	1.0
1965.....	1.8	1.7	1.6	1.4
1966.....	2.4	2.1	5.1	6.0
1967.....	6.1	3.0	2.0	3.6
1968.....	4.0	2.1	.....	.....

The index for operating-room charges also rose at a rapid rate between June 1966 and June 1967—14.2 percent. In the following year, the pace slowed slightly, reaching 11.0 percent—a rate of increase very close to that for hospital

daily service charges for the same period. The third hospital service priced for the consumer price index—X-ray and diagnostic series, upper gastrointestinal—has not gone up as fast as the other two hospital services that are priced. Between June 1966 and June 1967, the index for this service rose 7.1 percent and decelerated to 4.3 percent in the later period.

Of the factors affecting the sharp acceleration in hospital charges, a prime force is the pressure of rising costs. The major ingredient of hospital

expense is payroll, which accounts for more than three-fifths of total hospital expenses. Recent increases in the salaries of hospital personnel have played a significant part in the overall increase in such costs. Some of these increases are due to the extension of the minimum wage laws to hospitals. There has been a continuing trend in recent years toward closing the gap between hospital wages and wages in other industries. Since capital has not replaced labor in hospitals to the extent that it has in many other industries,

TABLE 2.—Consumer price index and quarterly percentage change for medical care prices, by item, June 1966–June 1968

[1957–59=100, unless otherwise specified]

Item	Quarter ending—								
	June 1966	Sept. 1966	Dec. 1966	March 1967	June 1967	Sept. 1967	Dec. 1967	March 1968	June 1968
	Index								
CPI, all items.....	112.9	114.1	114.7	115.0	116.0	117.1	118.2	119.5	120.9
CPI, all services.....	122.0	123.5	125.2	126.3	127.4	128.7	130.1	132.1	133.9
Medical care, total.....	127.0	129.4	131.0	134.6	136.3	138.5	140.4	142.9	144.4
Medical care services.....	133.0	136.2	139.4	142.9	145.2	148.0	150.4	153.6	155.5
Professional services:									
Physicians' fees.....	128.0	130.8	132.9	135.5	137.3	139.4	141.0	143.2	144.9
Family doctor, office visit.....	128.1	131.1	133.3	136.4	138.5	140.7	142.7	144.9	146.4
Family doctor, house visit.....	133.3	135.9	138.3	140.7	142.2	144.1	145.8	148.4	151.6
Herniorrhaphy (adult) <sup>1</sup> .....	107.5	108.5	110.5	112.1	114.1	115.3	116.0	117.7	119.3
Tonsillectomy and adenoidectomy.....	127.3	129.8	130.8	132.2	132.8	136.9	137.4	138.8	140.6
Obstetrical cases.....	121.9	125.5	127.5	130.4	132.5	134.0	134.6	136.5	138.4
Pediatric care, office visit <sup>1</sup> .....	115.0	117.5	119.5	121.8	123.6	125.1	126.2	128.1	129.0
Psychiatrist, office visit <sup>1</sup> .....	108.9	110.2	112.6	113.0	113.5	114.0	115.1	118.7	119.0
Dentists' fees.....	120.9	122.8	124.3	125.8	126.9	128.8	130.7	132.9	134.1
Other professional services:									
Examination, prescription, and dispensing of eyeglasses.....	115.7	117.1	118.6	120.6	121.7	122.8	123.6	124.6	125.2
Routine laboratory tests <sup>1</sup> .....	105.7	106.9	107.6	108.6	109.1	109.0	111.4	112.1	112.3
Hospital service charges:									
Daily service charges.....	164.2	172.6	183.0	194.2	200.1	204.1	211.4	219.9	224.6
Operating-room charges <sup>1</sup> .....	112.6	115.4	119.0	124.3	128.6	131.8	133.7	138.6	142.7
X-ray, diagnostic series, upper G.I. <sup>1</sup> .....	104.5	107.6	110.0	111.0	111.9	113.5	114.4	115.6	116.7
Drugs and prescriptions.....	98.6	98.5	98.3	98.0	97.7	97.9	98.1	98.2	98.0
Prescriptions.....	90.5	90.5	90.3	89.6	88.8	88.6	88.4	87.8	87.2
Over-the-counter items <sup>1</sup> .....	102.9	102.6	102.5	102.6	103.1	103.8	104.7	105.7	106.1
	Percentage change from preceding quarter								
CPI, all items.....	0.8	1.1	0.5	0.3	0.9	0.9	0.9	1.1	1.2
CPI, all services.....	1.6	1.2	1.4	.9	.9	1.0	1.1	1.5	1.4
Medical care, total.....	1.4	1.9	1.9	2.0	1.3	1.6	1.4	1.8	1.0
Medical care services.....	1.7	2.4	2.3	2.5	1.6	1.9	1.6	2.1	1.2
Professional services:									
Physicians' fees.....	2.0	2.2	1.6	2.0	1.3	1.5	1.1	1.6	1.2
Family doctor, office visit.....	1.9	2.3	1.7	2.3	1.5	1.6	1.4	1.5	1.0
Family doctor, house visit.....	2.6	2.0	1.8	1.7	1.1	1.3	1.2	1.8	2.2
Herniorrhaphy (adult).....	.4	.9	1.8	1.4	1.8	1.1	.6	1.5	1.4
Tonsillectomy and adenoidectomy.....	2.1	2.0	.8	1.1	.5	3.1	.4	1.0	1.3
Obstetrical cases.....	1.4	3.0	1.6	2.3	1.6	1.1	.4	1.4	1.4
Pediatric care, office visit.....	5.3	2.2	1.7	1.9	1.5	1.2	.9	1.5	.7
Psychiatrist, office visit.....	1.4	1.2	2.2	.4	.4	.4	1.0	3.1	.3
Dentists' fees.....	1.2	1.6	1.2	1.2	.9	1.5	1.5	1.7	.9
Other professional services:									
Examination, prescription, and dispensing of eyeglasses.....	1.0	1.2	1.3	1.7	.9	.9	.7	1.1	.2
Routine laboratory tests.....	1.8	1.1	.7	.9	.5	-.1	2.2	.6	.2
Hospital service charges:									
Daily service charges.....	2.1	5.1	6.0	6.1	3.0	2.0	3.6	4.0	2.1
Operating room charges.....	1.3	2.5	3.1	4.5	3.5	2.5	1.4	3.7	3.0
X-ray, diagnostic series, upper G.I.....	1.3	3.0	2.2	.9	.8	1.4	.8	1.0	1.0
Drugs and prescriptions.....	.2	-.1	-.2	-.3	-.3	.2	.2	.1	-.2
Prescriptions.....	-.4	0	-.2	-.8	-.9	-.2	-.2	-.7	-.7
Over-the-counter items.....	1.1	-.3	-.1	.1	.5	.7	.9	1.0	.4

<sup>1</sup> Base, December 1963.

Source: *Consumer Price Index*, Bureau of Labor Statistics.

TABLE 3.—Percentage change for medical care prices, by item, selected periods, June 1966–June 1968

Item	6 months ending—				12 months ending—		24 months ending June 1968
	Dec. 1966	June 1967	Dec. 1967	June 1968	June 1967	June 1968	
CPI, all items.....	1.6	1.1	1.9	2.3	2.7	4.2	7.1
CPI, all services.....	2.6	1.8	2.1	2.9	4.4	5.1	9.8
Medical care, total.....	3.9	3.3	3.0	2.8	7.3	5.9	13.7
Medical care services.....	4.8	4.2	3.6	3.4	9.2	7.1	16.9
Professional services:							
Physicians' fees.....	3.8	3.3	2.7	2.8	7.3	5.5	13.2
Family doctor, office visit.....	4.1	3.9	3.0	2.6	8.1	5.7	14.3
Family doctor, house visit.....	3.8	2.8	2.5	4.0	6.7	6.6	13.7
Herniorrhaphy (adult).....	2.8	3.3	1.7	2.8	6.1	4.6	11.0
Tonsillectomy and adenoidectomy.....	2.7	1.5	3.5	2.3	4.3	5.9	10.4
Obstetrical cases.....	4.6	3.9	1.6	2.8	8.7	4.5	13.5
Pediatric care, office visit.....	3.9	3.4	2.1	2.2	7.5	4.4	12.2
Psychiatrist, office visit.....	3.4	.8	1.4	3.4	4.2	4.8	9.3
Dentists' fees.....	2.8	2.1	3.0	2.6	5.0	5.7	10.9
Other professional services:							
Examination, prescription, and dispensing of eyeglasses.....	2.5	2.6	1.6	1.3	5.2	2.9	8.2
Routine laboratory tests.....	1.8	1.4	2.1	.8	3.2	2.9	6.2
Hospital service charges:							
Daily service charges.....	11.4	9.3	5.6	6.2	21.9	12.2	36.8
Operating room charges.....	5.7	8.1	4.0	6.7	14.2	11.0	26.7
X-ray, diagnostic series, upper G.I.....	5.3	1.7	2.2	2.0	7.1	4.3	11.7
Drugs and prescriptions.....	-.3	-.6	.4	-.1	-.9	.3	-.6
Prescriptions.....	-.2	-1.7	-.5	-1.4	-1.9	-1.8	-3.6
Over-the-counter items.....	-.4	.6	1.6	1.3	.2	2.9	3.1

Source: *Consumer Price Index*, Bureau of Labor Statistics.

the higher hospital wages have not been matched by higher labor productivity and the result has been more rapidly rising labor costs.

In addition, the ready availability of operating funds under the Federal Medicare program probably provided the opportunity for many hospitals to meet demands for increased wages, to purchase additional equipment and supplies, and to improve and expand services to patients.<sup>2</sup> It is possible that Medicare also brought about a rearrangement of the pricing structure of hospitals. Before Medicare, charges for room and board and other routine services were set below their actual costs and those for ancillary services were above costs. The repricing of hospital services to relate prices to costs more closely may reflect in part the influence of Medicare, under which additional recordkeeping and cost-finding is required.

### Physicians' Fees

Like hospital daily service charges, fees for physicians' services (a combined index of seven procedures), as measured by the Bureau of Labor Statistics, slowed down somewhat in rate of increase during Medicare's second year. Between June 1967 and June 1968, the rate of increase was

5.5 percent, a decrease of about a fourth from the preceding 12 months. Examination of the percentage changes of the seven physicians' procedures for the two 12-month periods ending June 1967 and 1968 shows that all but two—tonsillectomy-adenoidectomy and psychiatrists' office visits—increased at a lower rate during the later period.

The acceleration in the rate of increase in physicians' fees during 1966 and 1967 resulted from different factors than those in the hospital sector. Part of the increase early in 1966 may have reflected an upward revision of fees in anticipation of the introduction of Medicare. Continued increases in physicians' fees since the implementation of Medicare are also part of a long-run trend in which increases in demand without a corresponding increase in supply have led physicians to raise their fees. Although the total number of physicians has increased somewhat during the past two decades and there has been some growth in productivity of physicians, the supply has not kept pace with demand.

Population increases, changes in the characteristics of the population, more widespread insurance coverage, and an increasing awareness of the benefits of medical care have contributed to a greater demand for physicians' services. The increased coverage of doctors' services under Medicare probably contributed to the growing demand that had developed over the years.

<sup>2</sup> See "Financial Position of Hospitals in the Early Medicare Period," by Paul J. Feldstein and Saul Waldman, *Social Security Bulletin*, October 1968.

## FIVE SPECIAL PROCEDURES

Additional information relating to the increase in the prices of physicians' services is available from data provided by a continuing study of five special in-hospital procedures of particular significance to the aged that are conducted by the Bureau of Labor Statistics for the Social Security Administration. Prices are collected for three surgical procedures (cholecystectomy, prostatectomy, and fractured neck of the femur) and two in-hospital medical services (myocardial infarction and cerebral hemorrhage). Prices for these five special procedures are not incorporated in the regular sample of the consumer price index. It was believed that fees for such services might be sensitive to the new Medicare program and hence would provide baseline data to assess the impact of the program on physicians' fees.

The five procedures of special importance to the aged reflect only the care provided for the aged in the hospital. The fee quotations are obtained on a sample basis and, consequently, are subject to all the limitations of sampling variability. In addition, the BLS fee quotation is obtained from the physician in response to a request that he furnish information on his "usual" fee for this service. There could be some disparity be-

tween the physician's fee quotation and his actual charges to patients.<sup>3</sup>

Data are now available from this special study for the first 2 years of Medicare. The quarterly indexes and percentage changes are shown in table 4, and table 5 presents the percentage changes for 6-, 12-, and 24-month periods and compares them with increases in the index for all physicians' fees.

In Medicare's first year the consumer price index for physicians' fees advanced more rapidly than the five special indexes of hospital procedures for the aged. By the end of the second year, however, the earlier disparity between the increases in the two sets of indexes no longer existed. As the first year ended, the index for physicians' fees had risen 7.3 percent, while the increases for the five procedures ranged from 4.5 percent for cholecystectomy to 6.7 percent for prostatectomy. By the close of the second year, however, the 2-year rate of increase for two of the five special procedures for the aged had exceeded the 13.2-percent increase of the combined

<sup>3</sup> Anne A. Scitovsky, "Changes in the Costs of Treatment of Selected Illnesses, 1951-65," *The American Economic Review*, December 1967, reported that in 1964-65, the average fee for office visits by pediatricians for otitis media was 89 percent of the "customary" fee and for home visits it was 103 percent.

TABLE 4.—Quarterly indexes and percentage changes for physicians' fees and for in-hospital procedures for the aged, by item, June 1966-June 1968

[December 1965=100, unless otherwise specified]

Item	Quarter ending--								
	June 1966	Sept. 1966	Dec. 1966	March 1967	June 1967	Sept. 1967	Dec. 1967	March 1968	June 1968
	Index								
Physicians' fees: <sup>1</sup>									
1957-59=100.....	128.0	130.8	132.9	135.5	137.3	139.4	141.0	143.2	144.9
December 1965=100.....	103.8	106.1	107.8	109.9	111.4	113.1	114.4	116.1	117.5
In-hospital care for the aged: <sup>2</sup>									
Myocardial infarction.....	101.3	102.7	104.7	106.4	107.8	108.4	110.5	112.2	113.9
Cerebral hemorrhage.....	101.2	102.5	104.1	106.0	107.3	107.9	109.9	111.1	112.9
Cholecystectomy.....	101.4	101.9	102.5	104.8	106.0	107.6	109.9	112.1	113.0
Prostatectomy.....	102.5	104.8	106.9	108.3	109.4	110.4	114.3	115.1	116.6
Fractured neck of femur.....	101.2	102.0	103.5	105.2	107.7	109.3	111.3	113.2	116.2
	Percentage change from preceding quarter								
Physicians' fees.....	2.0	2.2	1.6	2.0	1.3	1.5	1.1	1.6	1.2
In-hospital care for the aged:									
Myocardial infarction.....	.8	1.4	2.0	1.6	1.3	.6	2.0	1.5	1.5
Cerebral hemorrhage.....	.8	1.3	1.6	1.8	1.2	.6	2.0	1.1	1.6
Cholecystectomy.....	1.1	.5	.6	2.2	1.1	1.5	2.1	2.0	.8
Prostatectomy.....	1.6	2.3	2.1	1.3	1.0	.9	3.5	.7	1.3
Fractured neck of femur.....	.8	.8	1.5	1.6	2.4	1.5	1.8	1.7	2.7

<sup>1</sup> Combined index of all physicians' fees regularly reported in the CPI.

<sup>2</sup> From special study of prices for 5 procedures, not incorporated in the regular sample of the CPI; important to but not necessarily limited to older people.

Source: Compiled by the Social Security Administration from unpublished data reported by the Bureau of Labor Statistics.

TABLE 5.—Percentage changes for physicians' fees and for in-hospital procedures for the aged, by item, selected periods, June 1966–June 1968

Item	6 months ending—				12 months ending—		24 months ending June 1968
	Dec. 1966	June 1967	Dec. 1967	June 1968	June 1967	June 1968	
Physicians' fees <sup>1</sup> .....	3.8	3.3	2.7	2.8	7.3	5.5	13.2
In-hospital care for the aged: <sup>2</sup>							
Myocardial infarction....	3.4	3.0	2.5	3.1	6.4	5.7	12.4
Cerebral hemorrhage....	2.9	3.1	2.4	2.7	6.0	5.2	11.6
Cholecystectomy.....	1.1	3.4	3.7	2.8	4.5	6.6	11.4
Prostatectomy.....	4.3	2.3	4.5	2.0	6.7	6.6	13.8
Fractured neck of femur..	2.3	4.1	3.3	4.4	6.4	7.9	14.8

<sup>1</sup> Combined index of all physicians' fees regularly reported in the CPI.  
<sup>2</sup> From special study of prices for 5 procedures, not incorporated in the regular sample of the CPI; important to but not necessarily limited to older people.

Source: Compiled by the Social Security Administration from unpublished data reported by the Bureau of Labor Statistics.

physicians' fees index. The other three indexes increased almost the same amount as the combined physicians' fees index: increases ranged from 11.4 percent to 12.4 percent.

#### MAGNITUDE AND FREQUENCY OF FEE INCREASES

Detailed data on the extent and magnitude of the price increases through March 1968 are now available for the five special in-hospital procedures for the aged and for two of the physicians' services regularly priced in the consumer price index—office and house visits of family doctors. (Data for June 1968 were not available when this article was written.) As indicated in earlier articles in this series, two measures are employed by the Social Security Administration to analyze the changes in physicians' fees: the percentage of physicians reporting fee increases and the average percentage increases in fees for those reporting the higher fees.<sup>4</sup>

Table 6 shows the percent of physicians reporting fee increases during each of the 8 quarters, March 1966–March 1968, and the average percentage increase in fees for office and house visits regularly priced in the CPI and for the five special in-hospital medical and surgical proce-

<sup>4</sup> See the *Bulletin* for July 1967 and January 1968, *op. cit.* The figures for earlier quarters presented in those articles have been revised to incorporate changes resulting from more accurate reporting and a revision in the methodology for estimating the average percentage increase in fees for physicians who raised fees.

dures important to the aged. The number of physicians raising fees during a given period and the average percentage increase in fees underlie the variations in the indexes for these items that are shown in tables 2 and 4. The index for office visits, for example, increased from 133.3 in December 1966 to 142.7 in December 1967. This 12-month increase of 7.1 percent reflects the fact that 21.3 percent of all the family doctors raised their fees by an average of 30.8 percent.

Especially interesting are the data shown in table 7 that report the two measures for the 12 months ending December 1966 and 1967 and for the entire 2-year period ending December 1967. In addition, presented for the first time are similar data on the frequency of fee increases during these periods. The two 12-month periods ending December 1966 and December 1967 are used in order to include the 6 months before the start of Medicare, when acceleration in the rate of increase of physicians' fees was evident.

Of the general practitioners and internists who provide fee quotations on routine office and house visits, about a third raised these fees sometime during the year ending December 1966. During the following year, this proportion declined somewhat. In each 12-month period, relatively few physicians increased their fees for these two services more than once. During the 2-year period ending December 1967, however, almost half (48 percent) had raised their fees for office visits at least once, and 17 percent of this group increased them more than once. For house visits, of the 55 percent who raised their fees at least once, 14 percent reported more than one increase. Represented in the count for each period are only those physicians who were in the sample and provided quotations for the entire period.

The average increase for the 24-month period amounted to roughly one-third for office visits and house visits. For example, an office visit priced at \$5.00 at the end of 1965 increased on the average to about \$6.65 by the end of 1967. As expected, the average total increase for physicians who raised their fees more than once was considerably higher than that for physicians with only one increase. An office visit priced at \$5.00 at the end of 1965 rose on the average to \$6.50 for physicians with one increase and to \$7.50 for those with more than one increase.

Changes in physicians' fees for the five in-

TABLE 6.—Percent of physicians reporting fee increases and average percentage increase in fees, by type of procedure, each quarter, March 1966–March 1968

Procedure	3 months ending—								
	March 1966	June 1966	Sept. 1966	Dec. 1966	March 1967	June 1967	Sept. 1967	Dec. 1967	March 1968
Percent of physicians reporting fee increases									
Family doctor, office visit.....	8.3	10.0	9.4	7.6	7.1	5.1	5.0	4.8	6.4
Family doctor, house visit.....	9.4	8.4	11.4	7.2	8.2	5.9	5.7	6.5	6.7
In-hospital medical care: <sup>1</sup>									
Myocardial infarction.....	3.9	4.3	8.1	8.3	8.3	8.2	5.8	7.0	8.4
Cerebral hemorrhage.....	4.1	4.2	7.3	8.0	7.3	7.8	6.0	6.9	8.2
In-hospital surgical procedures: <sup>1</sup>									
Cholecystectomy.....	6.5	7.6	5.8	8.9	11.7	7.7	8.7	8.7	11.5
Prostatectomy.....	5.4	13.5	11.8	10.7	14.6	11.4	9.1	11.1	10.9
Fractured neck of femur.....	3.2	6.4	7.2	10.1	10.7	8.8	9.5	9.1	11.6
Average percentage increase in fees									
Family doctor, office visit.....	28.6	23.6	24.1	26.5	28.4	33.0	33.5	27.8	30.4
Family doctor, house visit.....	25.9	24.0	26.3	22.9	27.9	30.9	29.0	23.0	23.0
In-hospital medical care: <sup>1</sup>									
Myocardial infarction.....	18.5	18.1	22.2	28.8	17.9	23.0	13.1	26.8	19.4
Cerebral hemorrhage.....	18.2	17.8	21.6	27.0	21.1	23.9	15.0	24.4	24.3
In-hospital surgical procedures: <sup>1</sup>									
Cholecystectomy.....	16.8	16.1	14.8	18.1	16.8	14.6	25.7	22.2	14.4
Prostatectomy.....	13.2	14.9	18.1	16.8	17.0	10.4	21.0	16.8	13.6
Fractured neck of femur.....	14.1	14.9	17.3	14.8	24.8	22.4	19.7	20.8	17.5

<sup>1</sup> From special study of prices for 5 procedures, not incorporated in the regular sample of the CPI; important to but not necessarily limited to older people.

Source: Compiled by the Social Security Administration from unpublished data reported by the Bureau of Labor Statistics.

hospital procedures of particular significance to the aged are also presented in table 7. By the end of the 2-year period between December 1965 and December 1967, about two-fifths of the general practitioners and internists in the Nation had raised their fees for in-hospital visits to heart attack and stroke patients, and the increase was about 28 percent. The dollar amounts for these two procedures are, of course, considerably higher than for office and house visits. Thus, a 28-percent increase in fees for heart attacks could amount to about \$30, on the basis of a charge of \$110 for care of a heart-attack patient who stays in the hospital a total of 21 days; a 28-percent increase in physicians' fees for a stroke patient hospitalized for 14 days would amount to about \$20, based on a \$75 charge.

Examination of the frequency of price increases during the 24-month period shows that (1) a larger ratio of physicians raised their fees more than once for the two in-hospital medical procedures than for office and house visits and (2) the average total increase in these fees was almost double the added amount charged by physicians with one increase. With an assumed average fee of \$110 for hospitalized heart-attack patients, the data show that about a third of all the physicians,

or less than three-fourths of those reporting fee increases, raised their fees about \$25; the remaining fourth increased them an average of about \$45.

For the three in-hospital surgical procedures for the aged, relatively more physicians raised their fees at least once, compared with the proportion for in-hospital medical procedures. On the assumption that fees for each of these surgical procedures averaged about \$350 at the end of 1965, about half the general and orthopedic surgeons reported fee increases averaging about \$90 by the end of 1967. Of those who increased their fees for these procedures during the 2-year period, about a fourth raised them more than once. The total increase for general surgeons performing gall bladder removal and for orthopedic surgeons performing hip surgery was about the same—38 percent or about \$135.

Relatively more urologists than physicians in any other specialty raised their fees in the 2-year period. More than three-fifths (63 percent) of those who performed prostatectomies raised their fees, and their increases averaged 22 percent. About a third of that group raised fees more than once for this procedure, and their average increased 32 percent.

TABLE 7.—Percent of physicians reporting fee increases and average percentage increase in fees, by frequency of increase and type of procedure, selected periods, 1966 and 1967

Procedure	12 months ending Dec. 1966—			12 months ending Dec. 1967—			24 months ending Dec. 1967—		
	Total reporting increase	One	More than one	Total reporting increase	One	More than one	Total reporting increase	One	More than one
Percent of physicians reporting fee increases									
Family doctor, office visit.....	33.6	31.3	2.3	21.3	21.1	0.2	48.4	40.3	8.0
Family doctor, house visit.....	34.9	33.1	1.8	25.6	24.5	1.0	54.9	47.1	7.7
In-hospital medical care: <sup>1</sup>									
Myocardial infarction.....	21.3	19.0	2.4	26.2	23.2	3.0	42.6	33.5	9.1
Cerebral hemorrhage.....	20.4	18.1	2.3	25.1	22.3	2.8	40.7	31.7	9.0
In-hospital surgical procedures: <sup>1</sup>									
Cholecystectomy.....	25.6	22.5	3.1	31.1	26.2	5.0	50.8	38.4	12.4
Prostatectomy.....	37.3	33.4	3.9	40.2	35.8	4.4	63.4	41.8	21.6
Fractured neck of femur.....	23.6	21.4	2.2	33.4	28.4	4.9	51.6	38.4	13.2
Average percentage increase in fees									
Family doctor, office visit.....	27.7	26.5	43.8	30.8	30.6	50.0	33.1	29.5	51.1
Family doctor, house visit.....	26.9	24.9	62.6	28.9	28.1	47.9	30.8	27.2	53.1
In-hospital medical care: <sup>1</sup>									
Myocardial infarction.....	26.4	26.0	29.4	23.0	19.9	46.1	27.5	23.6	41.9
Cerebral hemorrhage.....	25.7	24.9	31.7	24.0	20.5	52.3	28.1	23.7	43.5
In-hospital surgical procedures: <sup>1</sup>									
Cholecystectomy.....	19.5	17.9	31.5	21.5	17.4	43.5	23.7	18.9	38.4
Prostatectomy.....	17.7	16.8	25.9	17.2	15.6	29.6	22.2	17.2	31.9
Fractured neck of femur.....	17.0	15.3	33.3	25.6	22.5	43.3	25.2	20.6	38.5

<sup>1</sup> From special study of prices for 5 procedures, not incorporated in the regular sample of the CPI; important to but not necessarily limited to older people.

Source: Compiled by the Social Security Administration from unpublished data reported by the Bureau of Labor Statistics.

Some generalizations may be made on the pattern of increases in physicians' fees since Medicare began. Some physicians (about 18 percent) increased their fees for office and house visits during the first 6 months of 1966, before the Medicare program began operations, for several reasons. Some may have felt that their fees were low compared with those of doctors around them. Others may have been apprehensive that the "customary" fee under Medicare would be frozen.<sup>5</sup>

During the next 6 months about the same proportion of physicians increased their fees for these services. The evidence is now clear that, for the most part, these were different physicians raising their fees in line with their colleagues' fees. By the end of 1966, only about 2 percent of the physicians had increased their fees for office and house visits more than once.

During 1967 a smaller proportion of the physicians than in the previous year increased their fees for office and house visits—many of them only once during that year and many for the first time since the beginning of 1966. For the 2-year

period, about half of these physicians had raised their fees at least once. The proportion who had increased them more than once was relatively small—less than 10 percent. The magnitudes of the increases, however, were especially large—over 50 percent for those physicians who had increased their fees for office and house visits more than once during the 2-year period ending December 1967. In dollar terms, their average fees for office visits increased from about \$5.00 to \$7.50.

The pattern of increases during the 2-year period for the five special procedures for the aged was different than that for office and house visits. Relatively more physicians increased their fees at least once for these procedures during 1967 than during the previous year. In addition, a larger proportion increased their fees more than once during the entire 24 months ending December 1967.

Because the charges for these five in-hospital procedures are so much higher than charges for office and house visits, the average amount of increase was large for those increasing their fees once. For those increasing their fees more than once the total average increase was significantly larger.

<sup>5</sup> See Theodore R. Marmor, "Why Medicare Helped Raise Doctors' Fees," *Trans-Action*, September 1968.



## DEFINITIONS AND EXPLANATIONS

### CONSUMER PRICE INDEX

An index prepared by the Bureau of Labor Statistics that measures the changes over a period of time in average prices of the goods and services purchased by urban wage earners and clerical workers and their families. The general procedure is to measure price changes by repricing a "market basket" of goods and services at regular intervals and comparing the aggregate costs with those of an equivalent market basket purchased in a selected base period.

### MEDICAL CARE PRICE INDEX

A component of the CPI that measures the changes in the prices paid for medical care goods and services used by wage earners and clerical workers. It currently consists of 19 medical services and 20 drugs and prescriptions.

### PHYSICIANS' FEES

A component of the CPI currently consisting of the fees for seven services, including family doctors' office and house visits, adult herniorrhaphy, tonsillectomy and adenoidectomy, obstetrical cases, and pediatric and psychiatrist office visits. These seven physicians' services are combined into one overall index of physicians' fees.

### HOSPITAL DAILY SERVICE CHARGES

The amount charged to adult in-patients for routine nursing care, room, board, and minor medical and surgical supplies. It usually excludes additional charges incorporated in the hospital bill such as laboratory work,

X-ray, operating-room, and special charges. Indexes for operating-room charges and for X-ray diagnostic services for upper gastrointestinal (G.I.) series are reported separately.

### IN-HOSPITAL CARE OF SPECIAL SIGNIFICANCE TO THE AGED

*Myocardial infarction (heart attack).*—Usual hospital visit fee for first day, second day, etc., and/or the constant charge per day to regular patient suffering from myocardial infarction. Includes cost of admitting, hospital write-up, examination, and other services. Excludes cost of cardiograms, other laboratory fees, and medications. Assumes a 21-day stay in the hospital.

*Cerebral hemorrhage (stroke).*—Usual hospital visit fee for first day, second day, etc., and/or constant charge per day to regular patient suffering from a cerebral hemorrhage. Includes cost of admitting, hospital write-up, examination, and other physicians' services. Excludes cost of laboratory fees and medications. Assumes a 14-day stay in the hospital.

*Cholecystectomy (gall bladder).*—Usual fee for cholecystectomy with exploration of common duct. Includes usual single preoperative visit and postoperative care. Excludes fee for diagnosis and tests, fee for appendectomy, and anesthetist's fee.

*Prostatectomy.*—Usual fee for prostatectomy by one of the following procedures: (a) transurethral electroresection of prostate; (b) perineal, subtotal; (c) suprapubic, one or two stages; or (d) retropubic. Includes usual single preoperative visit and postoperative care. Excludes fee for cystoscopy, diagnosis and tests, and anesthetist's fee.

*Fractured neck of femur.*—Usual fee to repair fractured neck of femur by open reduction with pinning. Includes usual single preoperative visit and postoperative care. Excludes fee for diagnosis and tests and anesthetist's fee.