

Notes and Brief Reports

Medical Care Price Changes Under The Economic Stabilization Program *

On August 15, 1971, the President announced an immediate 90-day freeze on prices, wages, salaries, and rents and the creation of a Cost of Living Council (CLC) to administer the freeze and to advise on further stabilization policies and actions. Three months later, on November 14, Phase II of the Economic Stabilization Program (ESP) began.

The ESP goal was to reduce the rate of inflation to about half the prefreeze rate. Two groups were established to administer the program: the Price Commission, consisting of seven public members, and the tripartite Pay Board with 15 members drawn equally from business, labor, and the public sector. Because of the complexity of the health care industry and the high rate of inflation of medical care costs, the President also appointed a 21-member advisory panel, the Committee on the Health Services Industry, to advise the CLC on ways that the President's program could be applied in the health field.

On December 30, 1971, the CLC promulgated regulations that divided the health care industry into two categories: ¹

1. *Institutional providers*, such as hospitals and nursing homes, were permitted only such price increases as were justified by allowable costs adjusted for productivity gains. The regulations permitted a provider to increase its prices over the base prices and thereby increase its aggregate annual revenue up to 2.5 percent without previous approval. Increases from 2.5 to 6.0 percent in the provider's aggregate annual revenue had to be reported to the Internal Revenue Service with supporting justification and to the appropriate Health Insurance for the Aged (Medicare) intermediary; increases above 6.0 percent required that an exception be granted by the Price Commission, based on re-

view of the recommendations of a State advisory board.

2. *Noninstitutional providers*, including physicians, were permitted aggregate increases in their prices, based on allowable cost increases, of no more than 2.5 percent per year.

Both categories of providers were subject to the restriction that under no circumstances could (a) for-profit providers increase their profit margins above the average of the highest 2 of the past 3 years or (b) nonprofit providers increase the ratio of their net revenues to their total revenues above the base-year average.

The period of mandatory controls ended on January 11, 1973, when Phase III of the ESP was announced. Mandatory wage and price controls were abolished except for problem areas in the economy—food, construction, interest and dividends, and the health care industry. To administer Phase III, a Cabinet-level CLC was appointed and an advisory committee of private citizens was established to advise the CLC in the health area.

In focusing on medical care price changes under the ESP this note attempts to ascertain, as far as possible, the effect of controls in containing the escalation of medical care charges. To understand the initial imposition of controls under the ESP and the continuation of controls on the health care industry, it is useful to review price movements for consumer goods in general, as reported in the all items Consumer Price Index (CPI) and for the medical care components before the 1971 freeze (tables 1 and 2).

LONG-RUN TRENDS, 1950-70

The CPI measures the changes over a period of time in average prices of goods and services purchased by urban wage earners and clerical workers and their families. It is the most generally accepted measure of price changes, and its medical care components are the most widely used indicators of health care prices. Tables 3 and 4 present the average annual indexes and percentage changes for consumer prices and the medical care components for selected years, 1950-72.

* Prepared by Loucele A. Horowitz, Division of Health Insurance Studies, Office of Research and Statistics.

¹ Economic Report of the President, 1972, page 90.

TABLE 1.—Comparison of annual rates of change of the Consumer Price Index and the medical care components during the prefreeze, Phase I, and Phase II periods

Item	Annualized rate of change during—		
	Fiscal years 1969-71, average	Phase I, August- November 1971	Phase II, November 1971- January 1973
CPI, all items.....	5.6	1.8	3.6
Less medical care.....	5.5	2.4	3.6
CPI, all services.....	7.4	3.2	3.6
Less medical care.....	7.4	3.6	3.4
Medical care, total.....	6.7	¹ - .8	3.4
Medical care services.....	7.6	¹ - .8	3.9
Hospital service charges ¹	NA	NA	3.6
Semiprivate room.....	13.3	2.8	5.4
Operating room charges.....	11.7	6.1	7.8
X-ray diagnostic series, upper GI.....	6.5	.8	2.8
Physical therapy ²	NA	NA	2.9
Oxygen ³	NA	NA	1.9
Intravenous solution ³	NA	NA	3.0
Electrocardiogram ³	NA	NA	4.0
Antibiotic ³	NA	NA	- .3
Tranquillizer ³	NA	NA	2.0
Laboratory tests (urinalysis) ³	NA	NA	2.7
Professional services:			
Physicians' fees.....	7.4	2.4	2.4
General physician, office visits.....	8.0	1.2	2.5
General physician, house visits.....	6.8	6.6	3.3
Hemiorrhaphy (adult).....	5.9	6.1	2.4
Tonsillectomy and adenoidectomy.....	6.0	2.0	1.3
Obstetrical cases.....	6.8	2.0	2.1
Pediatric care, office visits.....	8.1	4.1	2.1
Psychiatrist, office visits.....	5.8	4.9	3.1
Other professional services:			
Dentists' fees.....	6.4	6.1	3.0
Examination, prescription, and dispensing of eyeglasses.....	5.4	3.2	2.5
Routine laboratory tests.....	3.8	2.0	2.6
Drugs and prescriptions.....	2.0	.4	0
Over-the-counter items.....	2.8	1.2	-.9
Prescriptions.....	1.2	-.4	-.9

¹ Decreases are the result of the annual adjustment in the medical care index for the price of health insurance, which is not shown as a component of the index but is a factor used in calculating the monthly index.
² January 1972=100. Phase II annualized rate of change based on percentage change since January 1972 rather than November 1971.
³ Tetracycline hydrochloride.
⁴ Chloridazepoxide hydrochloride or meprobamate.
 Source: *Consumer Price Index*, Bureau of Labor Statistics.

The inflationary trend that characterized the American economy for more than two decades has been reflected more sharply in the acceleration of medical care prices than in the prices of other goods and services. Historically, charges for doctors' and hospital services have always increased more rapidly than prices for consumer goods and services in general. During the 1950's, medical care prices rose at an average annual rate of 3.9 percent—nearly twice the 2.1 percent annual rate reported for all consumer prices.

During the first half of the 1960's there was a perceptible decline in the rate of increase for all consumer prices. The all items CPI increased at an average annual rate of 1.3 percent during 1960-65—about half the rate reported for the medical care index (2.5 percent). This long-

TABLE 2.—Annual indexes and percentage changes in semiprivate room charges, total expense per patient day, and expense per adjusted patient day, 1966-72

Year	Hospital semiprivate room index	Total expense per patient day ¹	Expense per adjusted patient day ¹
Index or amount			
1966.....	83.5	\$48.15	\$43.66
1967.....	100.0	54.08	49.46
1968.....	113.6	61.38	55.80
1969.....	128.8	70.03	64.26
1970.....	145.4	81.01	73.73
1971.....	163.1	92.31	83.43
1972.....	173.9	¹ 103.02	¹ 92.61
Average annual percentage increase			
Period:			
1965-66.....	10.0	8.3	7.6
1966-67.....	19.8	12.3	13.3
1967-68.....	13.6	13.5	12.8
1968-69.....	13.4	14.1	15.2
1969-70.....	12.9	15.7	14.7
1970-71.....	12.2	13.9	13.2
1971-72.....	6.6	¹ 11.6	¹ 11.0

¹ Data for the accounting period ending September 30, each year.
² Estimates based on the percentage change from 1971 to 1972 for identical data for the year ending September 30, taken from the "Hospital Indicators" National Hospital Panel Survey, *Hospitals* (Journal of the American Hospital Association), Dec. 16, 1972.
 Source: Charge data are from the *Consumer Price Index*, Bureau of Labor Statistics; expense data from *Hospital Statistics, 1971*, American Hospital Association, 1972, and *Hospitals* (Journal of the American Hospital Association), Dec. 16, 1972.

term relationship between the two sets of indexes changed for the period 1965-70. Prices for goods and services in general rose at an average annual rate of 4.2 percent while medical care prices increased 6.1 percent.

A summary of the average annual percentage change for the CPI and selected medical care components for selected periods follows:

Calendar year	Average annual percentage increase					
	All items	Medical care total	Physicians' fees	Dentists' fees	Semiprivate room	Drugs and prescriptions
1950-60.....	2.1	3.9	3.4	2.5	6.6	1.7
1950-55.....	2.2	3.8	3.4	2.7	6.9	1.4
1955-60.....	2.0	4.1	3.3	2.4	6.3	2.0
1960-70.....	2.7	4.3	4.7	3.5	9.8	-.1
1960-65.....	1.3	2.5	2.8	2.3	5.8	-.8
1965-70.....	4.2	6.1	6.6	5.3	13.9	.7

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

PRICE CHANGES UNDER ESP

When Phase I was announced in mid-August 1971, prices for consumer goods had increased at an average annual rate of 5.6 percent during the preceding years (from fiscal years 1968-69 to 1970-71).

The impact of Phases I and II on the CPI and the medical care component is shown in

table 1. This table compares annualized per-
ponents during three periods: (a) the 2 years
centage rates of change of selected CPI com-
(from fiscal years 1968-69 to 1970-71) immed-
ately preceding the ESP; (b) the 3-month
period of the wage-price freeze (Phase I,
August-November 1971); and (c) the 14-month
period of controls on wages and prices (Phase
II, November 1971-January 1973). Selected
data from table 1 for these periods follow.

Item	Annualized rate of change during—		
	Fiscal years 1969-71, average	August- November 1971 Phase I	November 1971- January 1973 Phase II
CPI, all items.....	5.6	1.6	3.6
Medical care, total.....	6.7	¹ -.8	3.4
Semiprivate room.....	13.3	2.8	5.4
Operating room charges.....	11.7	6.1	7.8
Physicians' fees.....	7.4	2.4	2.4
Dentists' fees.....	6.4	6.1	3.0
Drugs and prescriptions.....	2.0	.4	0

¹ The decrease is due to the annual adjustment in the medical care index for the price of health insurance, which is not shown as a component of the index but is a factor used in calculating the monthly index.

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

The price of goods and services in general reported in the all items CPI increased at an annual rate of 3.6 percent during the 14 months of Phase II—about three-fifths the rate of the pre-freeze period, fiscal years 1968-69 to 1970-71. The slowdown in overall prices is reflected to a greater degree in the medical care price component. During Phase II, the index for medical care increased at an annual rate of about one-half that reported during the prefreeze period—3.4 percent, compared with 6.7 percent. The decrease reported for this component during Phase I resulted from once-a-year adjustments made in October for the net cost of private health insurance, not from an actual decline in medical care prices.

Hospital Service Charges

Beginning January 1972, a composite index of 10 hospital service charges was incorporated into the CPI. Earlier, the hospital component consisted of three services reported separately—hospital daily service charges (private and semiprivate room); operating rooms; and X-ray diagnostic series, upper GI. The new index

consists of charges for semiprivate room; operating room; X-ray diagnostic series, upper GI; and the following seven ancillary services: physical therapy, oxygen, intravenous solution, electrocardiogram, antibiotic (tetracycline hydrochloride), tranquilizer (chloridazepoxide hydrochloride or meprobamate), and laboratory tests (urinalysis).

During Phase II, the annualized rate of change for the new composite hospital services index was 3.6 percent. Comparison with earlier periods for this index is not possible. The components for which comparable data are available include semiprivate room, operating room, and X-ray diagnostic series, upper GI. The semiprivate room index refers to the average daily charge for room and board and routine nursing care in this accommodation. All special services such as drugs, tests, blood, and use of operating room, intensive care units, etc., are excluded. Annual rates of increase of charges under Phase II controls for semiprivate accommodations (5.4 percent) and X-ray diagnostic series, upper GI (2.8 percent) were held to approximately two-fifths of their prefreeze rates of increase. The rate of increase of operating room charges during Phase II was relatively less restrained—7.8 percent, or two-thirds of the prefreeze rate of increase.

Hospital Costs

The CPI hospital semiprivate room component reflects changes in the charges for a day's room and board in the hospital. Another measure of hospital cost inflation is reported by the American Hospital Association (AHA) as compiled from their monthly and annual surveys of community hospitals. Unlike the semiprivate room index, the AHA figure for average expense per patient day represents an estimate of the total expense for a day of hospital care. It is an aggregate figure derived by dividing total expense (including outpatient and other expenses not attributable to inpatient care) by the number of adult and pediatric (not newborn) patient days. Expenses incurred by inpatients but not billed by the hospital, such as physicians' fees for treatment, are excluded.

The problem of dividing by an output figure

TABLE 3.—Average annual indexes for consumer prices and medical care components, selected years, 1950–72

[1967=100]

Item	1950	1955	1960	1965	1966	1968	1969	1970	1971	1972
CPI, all items.....	72.1	80.2	88.7	94.5	97.2	104.2	109.8	116.3	121.3	125.3
Less medical care.....			89.4	94.9	97.7	104.1	109.7	116.1	120.9	124.9
CPI, all services.....	58.7	70.9	83.5	92.2	95.8	105.2	112.5	121.6	128.4	133.3
Less medical care.....			85.2	93.2	96.4	104.9	112.0	121.3	127.7	132.6
Medical care, total.....	53.7	64.8	79.1	89.5	93.4	106.1	113.4	120.6	128.4	132.5
Medical care services.....	49.2	60.4	74.9	87.3	92.0	107.3	116.0	124.2	133.3	138.2
Hospital service charges ¹										
Semiprivate room.....	30.3	42.3	57.3	75.9	83.5	113.6	128.8	145.4	163.1	173.9
Operating room charges.....				82.9	88.6	111.5	128.7	142.4	156.2	168.6
X-ray diagnostic series, upper GI.....				90.9	94.1	104.3	109.3	116.3	124.9	129.1
Professional services:										
Physicians' fees.....	55.2	65.4	77.0	88.3	93.4	105.6	112.9	121.4	129.8	133.8
General physician, office visits.....	54.9	65.4	75.9	87.3	92.7	105.8	113.3	122.6	131.4	134.8
General physician, house visits.....	52.9	61.2	75.0	87.6	95.5	106.5	114.5	122.4	131.0	136.7
Herniorrhaphy (adult).....				81.3	94.8	104.6	108.8	115.0	123.4	128.2
Tonsillectomy and adenoidectomy.....	60.7	69.0	80.3	91.0	94.9	104.9	110.3	117.1	125.2	129.9
Obstetrical cases.....	51.2	68.6	79.4	89.0	93.0	105.2	113.5	121.8	129.0	133.8
Pediatric care, office visits.....				85.8	92.5	104.9	114.4	122.7	132.0	136.2
Psychiatrist, office visits.....				82.1	96.1	105.3	113.5	119.4	124.8	129.2
Dentists' fees.....	63.9	73.0	82.1	92.2	95.2	105.5	112.9	119.4	127.0	132.3
Fillings, adult, amalgam, one surface.....	63.9	72.5	81.9	91.3	94.7	105.4	113.1	120.3	128.0	133.8
Ext. actions (adult).....	62.8	73.8	82.0	93.9	96.7	105.2	112.9	118.6	126.9	132.2
Dentures, full upper.....				92.2	94.9	106.1	112.3	118.3	124.9	129.3
Other professional services:										
Examination, prescription, and dispensing of eyeglasses.....	73.5	77.0	85.1	92.8	95.3	103.2	107.6	113.5	120.3	124.9
Routine laboratory tests.....				94.8	96.8	103.5	107.5	111.4	116.1	120.4
Drugs and prescriptions.....	88.5	94.7	104.5	100.2	100.5	100.2	101.3	103.6	105.4	105.6
Prescriptions.....	92.6	101.6	115.3	102.0	101.8	98.3	99.6	101.2	101.3	100.9
Over-the-counter items.....				98.0	99.0	102.5	103.2	106.2	110.2	111.3

¹ January 1972=100—date the index was introduced.

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

that excludes outpatient care can be alleviated by a variant measure—average expense per adjusted patient day. For this measure, total expenses are divided by adjusted patient days in which patient days are added together with the patient-day equivalents of outpatient visits. For example, if the value (price) of an inpatient day is four times the value of an outpatient visit, then four visits will equal (in terms of effort required) 1 inpatient day. Adjusted patient days would then equal patient days plus one-fourth of the number of outpatient visits.

Table 2 presents the indexes or amounts of these three measures since 1966. Comparison of the semiprivate room charge in the CPI and the two AHA series—expense per patient day and expense per adjusted patient day—shows that although the three measures differ fundamentally (one reflects the price the patient pays for daily room-and-board charges and the other two reflect the cost to the hospital of providing a day of hospital care), the same general trend emerged until 1972. Under Phase II, the rate of increase of the index for semiprivate room was about one-half the annual rate of increase of the previous 4 years. In contrast, the rate of increase in the two AHA

series of expense per patient day declined only 2–4 percentage points for the same period. In 1972, per diem cost was about 11 percent higher than it was in 1971.

Physicians' and Dentists' Services

Prices for physicians' services, as reported in the composite physician fee index representing seven types of services, rose at an annual rate of 7.4 percent during the 2-year prefreeze period. This figure reflects average annual rates of increase ranging from 5.8 percent for psychiatric office visits to 8.1 percent for pediatric office visits.

Under Phase II, the physicians' fee index rose 2.4 percent—about one-third of the annual rate for the prefreeze fiscal years 1969–71. This drop in the rate of increase of the overall physicians' fee index is not reflected to the same degree in all physicians' services components. The annualized rates of change ranged from about one-fifth the prefreeze level for tonsillectomy and adenoidectomy to almost three-fifths for psychiatric office visits.

The rate of increase of fees for dentists' services has also declined, but not to the same

TABLE 4.—Average annual percentage change for consumer prices and medical care components, selected periods, 1950–72

Item	1950-55	1955-60	1960-65	1965-70	1966	1967	1968	1969	1970	1971	1972
CPI, all items.....	2.2	2.0	1.3	4.2	2.9	2.9	4.2	5.4	5.9	4.3	3.3
Less medical care.....			1.2	4.1	3.0	2.4	4.1	5.4	5.8	4.1	3.3
CPI, all services.....	3.9	3.3	2.0	5.7	3.9	4.4	5.2	6.9	8.1	5.6	3.8
Less medical care.....			1.8	5.4	3.4	3.7	4.9	6.8	8.3	5.3	3.8
Medical care, total.....	3.8	4.1	2.5	6.1	4.4	7.1	6.1	6.9	6.3	6.5	3.2
Medical care services.....	4.2	4.4	3.1	7.3	5.4	8.7	7.3	8.1	7.1	7.3	3.7
Hospital service charges ¹				13.9	10.0	19.8	13.6	13.4	12.9	12.2	6.6
Semiprivate room.....	6.9	6.3	5.8	11.4	6.9	12.9	11.5	15.4	10.6	9.7	7.9
Operating room charges.....				5.1	3.5	6.3	4.3	4.8	6.4	7.4	3.4
X-ray diagnostic series, upper GI.....											
Professional services:											
Physicians' fees:											
General physician, office visits.....	3.5	3.3	2.8	6.6	5.8	7.1	5.6	6.9	7.5	6.9	3.1
General physician, house visits.....	3.6	3.0	2.9	7.0	6.2	7.9	5.8	7.1	8.2	7.2	2.6
Herniorrhaphy (adult).....	3.0	4.2	3.2	6.9	6.7	7.0	6.5	7.5	6.9	7.0	4.4
Tonsillectomy and adenoidectomy.....				4.7	3.8	5.5	4.6	4.0	5.7	7.3	3.9
Obstetrical cases.....	2.6	3.1	2.5	5.2	4.3	5.4	4.9	5.1	6.2	6.9	3.8
Pediatric care, office visits.....	6.0	3.0	2.3	6.5	4.5	7.5	5.2	7.9	7.3	5.9	3.7
Psychiatrist, office visits.....				7.4	7.8	8.1	4.9	9.1	7.3	7.6	3.2
Dentists' fees:				5.3	4.3	4.1	5.3	7.8	5.2	4.5	3.5
Fillings, adult, amalgam, one surface.....	2.7	2.4	2.4	5.3	3.3	5.0	5.5	7.0	5.8	6.4	4.2
Extractions (adult).....	2.6	2.5	2.2	5.7	3.7	5.6	5.4	7.3	6.4	6.4	4.5
Dentures, full upper.....	3.3	2.1	2.7	4.8	3.0	3.4	5.2	7.3	5.0	7.0	4.2
Other professional services:				5.1	2.9	5.4	6.1	5.8	5.3	5.6	3.5
Examination, prescription, and dispensing of eye-glasses.....	1.0	2.0	1.7	4.1	2.7	4.9	3.2	4.3	5.5	6.0	3.8
Routine laboratory tests.....				3.3	2.1	3.3	3.5	3.9	3.6	4.2	3.7
Drugs and prescriptions.....	1.4	2.0	-.8	.7	.3	-.5	.2	1.1	2.3	1.7	.2
Prescriptions.....	1.9	2.6	-2.2	-.1	-.2	-1.8	-1.7	1.3	1.6	.1	-.4
Over-the-counter items.....				1.6	1.0	1.0	2.5	.7	2.9	3.8	1.0

¹ January 1972=100—date the index was introduced.

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

degree. Under Phase II controls, the price of dentists' services decelerated to an annual rate less than half the prefreeze level—3.0 percent, compared with 6.4 percent.

Drugs and Prescriptions

The index for drugs and prescriptions, which includes over-the-counter items and prescrip-

tions, increased 2 percent per year in the 2-year prefreeze period. Under Phase II controls, the combined index for drugs and prescriptions did not change. The index for prescriptions declined at an annual rate of 0.9 percent during Phase II, compared with an annual increase of 1.2 percent during the prefreeze period. The index for over-the-counter items, on the other hand, rose 0.9 percent per year during Phase II, about one-third the prefreeze level.