FACTORS AFFECTING THE PRICING OF MEDICAL SERVICES
(Discussion of Dr. Gottlieb's talk)

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The market for medical services, as Dr. Gottlieb has pointed out, bears little resemblance to the perfectly competitive model of economic theory. Despite its imperfections, the market for medical services has, I think we must agree with Dr. Gottlieb, worked rather well until recent years. The quality of the medical care provided to consumers has improved constantly and doctors have been provided with reasonable incomes.

Changes in the demand for medical services and in payment procedures have, however, made the continued existance of certain monopoly-like practices less tolerable than they were in years past. Health insurance, decreased numbers of free patients, and increased family incomes have improved collection ratios and have brought about rapid increases in doctor's incomes. These income increases have failed to bring about the increases in the number of entrants into the field which might have been expected. This clearly is the result of monopoly-like restrictions in medical school enrollments.

It perhaps should be pointed out that the effects of these restrictions probably have been mitigated by the increasing productivity of individual doctors. Doctors are now seeing far more patients in a week than they did a quarter century ago. Estimates made by an economist at the University of California, Berkeley suggest that physicians increased their productivity by as much as 129-142 per cent between 1935 and 1951.[1] This increase in productivity has had the effect of increasing the supply of doctors' services without any increase in doctor-population ratios. It undoubtedly has been an important factor in increasing doctors' incomes and in protecting consumers from the price increases which might have occurred had the increasing demand for medical services pressed on a more fixed supply. It seems reasonable to expect that future increases in productivity will be less dramatic and cannot be counted on to have much stabilizing effect on prices.

Dr. Gottlieb has suggested several measures which would remove some of the imperfections of the market for medical services and would help protect consumers from the effects of its present monopoly-like behavior. Restrictions on the supply of physicians clearly should be eased. In view of the persistent increases in the demand for physicians' services there seems little reason to fear that reasonable increases in the number of physicians will have any adverse effect on incomes.

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[1] J. W. Garbarino, "Price Behavior and Productivity in the Medical Market," Industrial and Labor Relations Review (October, 1959), p. 11.

The publication of fee schedules by individual doctors, so as to permit consumers to compare charges, was suggested as another step toward perfecting the market. I fear that such a plan falls short of giving the consumer full protection against discriminatory charges. Published fee schedules can protect the consumer only when the scope and duration of treatment is rather clearly defined as with an operation or an episodic illness, such as measles. Fee schedules provide less protection against discriminatory pricing and exploitive practices when the disease under treatment is a chronic one, requiring continuing supervision. Nor do published fee schedules provide much protection in the case of psychosomatic illnesses. In the cases of both chronic and of psychosomatic illnesses, the ordering of extra office visits and extra procedures of only marginal benefit may have the same end effects as discriminatory pricing. It may be virtually impossible for the consumer to detect such practices and it likely will be difficult for even an insurance company to detect them. In view of the widespread occurrence of chronic and psychosomatic illnesses, fixed fee schedules probably can, at best, provide only partial protection against discriminatory pricing practices.

One method of settling the problem of discriminatory pricing is by placing the doctor in a situation where he has no direct financial relationship with the individual patient. One organizational form which assures doctors a reasonable income, frees them from direct financial relations with their patients, and provides consumers with care at reasonable prices is the Group Health Plans. The operations and performance of Group Health Plans appears to be a promising direction in which to turn our discussion next.