computers have an up-front role in American banking, says *Rutgers Journal* editor Wolfson, legal steps must be taken to ensure consumer privacy, provide proof of payment, and assess liability for negligence.

Use of EFT systems is not yet widespread. Banks and other "depositary institutions" have installed some 200 "off-premise" systems (in supermarkets and department stores, for example), with a modest 10,000 terminals. However, "rapid expansion" is anticipated—particularly when the federal government clarifies regulations dealing with the nature and status of EFT. A report is due this autumn from Congress's National Commission on Electronic Fund Transfer Systems.

According to an early draft of the report, writes Wolfson, the Commission will recommend that EFT terminals *not* be classified as bank branches, thus bypassing geographic restrictions on branch offices. It will also recommend that financial institutions share facilities, allowing customers of different banks to use the same terminal at retail outlets. (In general, EFT will parallel check and credit card operations.) The Commission will recommend finally that Congress safeguard the privacy of EFT transactions from access by government or other third parties, such as credit agencies, without due process of law.

Inflation vs. Democracy

"Inflation and the Destruction of Democracy: The Case of the Weimar Republic" by Lewis E. Hill, Charles E. Butler, and Stephen A. Lorenzen, in *Journal of Economic Issues* (June 1977), 509-J, Business Administration Building, Pennsylvania State University, University Park, Pa. 16802.

It has long been established that the great German inflation of 1919–23 helped destroy the Weimar Republic, which governed Germany between the dismemberment of the Kaiser's Empire (1918) and the rise of Hitler's Third Reich (1933). Analyzing the relationship between inflation and democratic attitudes in prewar Germany, the authors, economists at Texas Tech, conclude that inflation by its very nature remains the most serious structural threat to liberal self-government in the West.

German inflation progressed slowly during and immediately after World War I, but reached hyperinflation levels by late 1922. (Hyperinflation is defined as a price-increase rate of more than 50 percent a month for 12 months.) The German wholesale price index, with a base of 1 in 1913, increased to 36.7 in January 1922, 2,785 in January 1923, 74,787 six months later, and a staggering 750 billion by November. In December 1923, new currency, known as the *rentenmark,* was issued at an exchange rate of 1 trillion to 1.

Inflation's bite is selective, the authors note. Hardest hit are workers and the middle class, historically the strongest proponents of democratic government. In 1923, a quarter of all union members in Germany were out of work; those who had jobs saw their real income decline to 65 percent of its 1913 level. Professionals, civil servants, *rentiers,* and the self-employed were largely ruined. Speculators, industrialists, and financiers, on the other hand, prospered. When the deprived and humiliated middle classes turned against Weimar, the way was clear for Hitler's National Socialism—long nourished with money and borrowed respectability from prominent industrialists.

SOCIETY

The Real Villain: Health Insurance

"The High Cost of Hospitals—And What To Do About It" by Martin Feldstein, in *The Public Interest* (Summer 1977), National Affairs, 10 E. 53rd St., New York, N.Y. 10022.

Most critiques of soaring hospital costs (they have risen 1,000 percent since 1950, compared to an overall consumer price index increase of 125 percent in the same period) cite both the burden of labor costs and an insufficiency of hospitals amid unprecedented demand for better health care. These factors are minor, writes Harvard economist Feldstein, who argues that the growth of health insurance has permitted patients and their doctors to demand more sophisticated and expensive treatment. Insurance now pays 70 percent of all hospital bills, up from 37 percent in 1950.

Higher labor costs, Feldstein says, account for only one-tenth of hospital cost inflation. An imbalance in hospital supply and patient demand is equally insignificant. Hospitals have simply responded to the "increased willingness to pay for sophisticated services by providing them, and costs have gone up accordingly."

Rather than imposing direct regulation on the health care industry or enacting a comprehensive plan to finance health care costs through higher taxes, Feldstein proposes major-risk insurance (MRI). Its main feature would be an "expense limit," perhaps 10 percent of annual income, for which each family is responsible. Once the limit is passed, insurance would cover the remainder. Since less than 1 family in 15 spends more than $3,000 per year for medical care, the cost to the government would be only $19 billion annually. The attractiveness of MRI, Feldstein says, is that it compels each patient to be aware of the cost of health care, thus helping to control demand for more.