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.