

ECONOMICS, LABOR, & BUSINESS*The Fiscal Policy
Of the States*

"State and Local Governments: An Assessment of their Financial Position and Fiscal Policies" by Peter D. Skaperdas, in *Federal Reserve Bank of New York Quarterly Review* (Winter 1983/84), 33 Liberty St., New York, N.Y. 10045.

Most economists' eyes now are on the river of budgetary red ink gushing from Washington, D.C. Forgotten is the fiscal importance of America's state and local governments.

In 1983, their combined outlays totaled \$430 billion, as compared to Washington's \$796 billion, notes Skaperdas, a New York Federal Reserve Bank economist. While the federal government ran up a \$195 billion deficit that year, its state and local counterparts registered a \$15 billion surplus (and will probably do far better this year).

Historically, state and local governments have functioned as one of the nation's major economic "shock absorbers." Their spending for schools and roads cushions economic downturns; in boom times, they help curb inflation by raising taxes to rebuild their budget surpluses. Now, however, there are signs that this old pattern may not hold up.

During the "tax-revolt" years of 1978-80, 32 states cut taxes. Total state and local government outlays dropped just as the nation was entering the 1980 recession. A second economic downturn in 1981-82 occurred as 26 states were enacting big tax *increases* needed to keep their budgets balanced. Their purchases of goods and services, however, rose by only \$.2 billion, not enough to stimulate the national economy. (The Reagan tax cuts amounted to \$39 billion during the 1981-82 recession, but state and local tax increases offset 37 percent of the reductions.)

Today, the state and local governments' combined budget surplus is at an all-time high: Taxes (as a percentage of personal income) are steeper than they have been in years while outlays (as a percentage of gross national product) are at a 21-year low. A similar combination spurred the tax revolt of the 1970s, Skaperdas recalls. His guess is that the state and local surpluses that now partially offset federal red ink are not likely to last much longer.

SOCIETY*Paying More for
Medical Care*

"The Monetization of Medical Care" by Eli Ginzberg, in *The New England Journal of Medicine* (May 3, 1984), 1440 Main St., P.O. Box 9140, Waltham, Mass. 02254-9140.

Next to the legendary "military-industrial" complex, make room for the "medical-industrial" complex.

According to Ginzberg, who teaches at Columbia University, Americans' outlays for health care grew from 4.5 percent of the gross

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national product in 1950 to 10.5 percent (or \$322 billion) in 1982. On a per capita basis, that amounts to a fivefold increase (in constant dollars). He blames the cost explosion on the rapid "monetarization" of medical care.

Before World War II, medicine in the United States was "quasi-eleemosynary": Hospitals relied heavily on charitable donations, young interns worked at hospitals in return for their room and board, and physicians who sought admitting privileges at a prestigious hospital were required to work without pay in its clinics for several half days a week. Even staff doctors were expected to "volunteer" in this way. After the war, all that began to change due to rising U.S. affluence, the spread of private medical insurance, and (in 1965) the creation of federal Medicaid and Medicare.

With more revenue and fewer bad debts, hospitals were able to raise the salaries of nurses and other staff people; at the same time they reduced their reliance on nuns and volunteers. As doctors found it easier to earn good livelihoods, Ginzberg writes, "they curtailed their hours of work and particularly the amount of time that they donated to hospitals for the care of the poor." (No small contributing factor was the cost of maintaining a medical practice: for a New York City neurosurgeon, about \$70,000 yearly for malpractice insurance and \$80,000 for rent and other expenses in 1984.) Gradually, medical care has entered the "money economy."

Monetarization set the stage for the rapid growth of profit-making hospital chains after 1970, Ginzberg says. These new hospital-businesses, unlike their nonprofit competitors, cater to well-insured patients to the exclusion of the less well-off and otherwise seek to maximize income.

Nonprofit hospitals are being forced to follow suit just to stay alive. But Ginzberg argues that the United States cannot afford more runaway health costs. He lauds Congress for imposing limits last year on how much hospitals can collect from Medicare for certain kinds of services. Curbing financial opportunities for health-care providers, he believes, will give Americans their best chance for quality treatment whose cost will not bleed them to death.

The Moral Value Of Gardening

"The Moral Dimensions of Horticulture in Antebellum America" by Tamara Plakins Thornton, in *The New England Quarterly* (Mar. 1984), Merserve Hall, 243 Northeastern University, Boston, Mass. 02115.

Early in the 19th century, Boston's wealthy merchants, manufacturers, and lawyers suddenly discovered the joys of gardening. For them, the cultivation of fruits and vegetables was more than a pleasant pastime. It was a moral act, writes Thornton, a Yale historian.

To the Boston elite (and, eventually, to other well-heeled Americans), horticulture was a balm for anxieties about their role in America's tran-