

### Economies of Scale

I have heard Gerry Smedinghoff speak in Las Vegas, discussed his views with him on the Echelon web forums, and now read his article in *Contingencies* (Sept./Oct. 2000). I disagree with his arguments both stated and implied.

His argument that there are no economies of scale in health care (including health care purchasing) overlooks much of the obvious. While the answer is yes to the posed question, "Does the obstetrician not have to sterilize the instruments for the second mother's delivery?" the question is misleading.

Consider that instruments from several operations may be sterilized in the same process at once, saving time and resources. Information on the patient essential to the success of the operation may be stored in a massive single database with



thousands of other patients and transmitted electronically by a secure line rather cheaply. Scale economies permitted by technology are still scale economies. The extreme of one-on-one health care is each patient and each physician with separate records.

What about the hospital facility itself? Hospitals add value to health care delivery, but if one hospital serves two patients rather than one, haven't we realized scale economies? This is still a very real ques-

tion of economics in many smaller cities.

Mr. Smedinghoff does not address the side of health care purchasing that is the administrative cost of the insurance mechanism in which virtually every actuary realizes there are scale economies.

In fact, without scale economies in both medicine and medical information there would be no payoff from—and thus no development of—new prescription drugs, new medical technologies, and new therapies.

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### Tax-Exempt MSAs

Peter Hendee is correct that a significant portion of health insurance is, in fact, prepaid health care consumption ("We Are Overinsured for Health Care," Sept./Oct. 2000). Although a tax credit might level the field between those in high tax brackets compared to those who owe no taxes, an unlimited tax credit would still encourage overinsurance. But a medical savings account coupled with catastrophic health insurance is designed to counteract that. Tax-exempt MSAs encourage the account holder to build precautionary savings for out-of-pocket medical expenses. The cost of incidental health care consumption is borne solely by the insured whereas major medical occurrences are spread across a large risk pool.

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