

CITIZENS LEAGUE  
530 Syndicate Building  
Minneapolis, MN 55402

November 4, 1981

STATEMENT TO THE METROPOLITAN HEALTH BOARD

SUMMARY COMMENTS OF THE CITIZENS LEAGUE  
HEALTH & HOSPITALS TASK FORCE  
REGARDING THE PHASE IV REPORT

MADAM CHAIRMAN, MEMBERS OF THE METROPOLITAN HEALTH BOARD, AND THE METROPOLITAN COUNCIL

I am Charles Neerland, the Chairman of the Citizens League's Health & Hospitals Task Force. Our task force has recently completed its work and issued a report that is the product of a solid year of intensive study of the issue of health care cost containment.

The Citizens League appreciates the opportunity to render its comments on the Health Board's Phase IV Report, the assumptions behind that report, and its nine strategies for action. We will also provide some ideas about the scenario we think is the most likely to succeed. For the being being, we'll call that a TENTH SCENARIO.

It is clear from the degree of media attention and the crowd that is present here tonight that this report has generated great interest and growing community controversy. We would suggest that this controversy has two component parts. The first part has to do with the Phase IV Report itself and with what it does and does not say. The second part has to do with the larger issue of how our community can succeed in containing its health care spending. Our testimony this evening will focus on each of these controversies in turn, but devote most of its attention to the latter.

THE PHASE IV REPORT IS THE CULMINATION OF A PROCESS THAT HAS BEEN A CATALYST IN FOCUS-  
ING THE COMMUNITY'S ATTENTION ON THE GROWING PROBLEM OF UNCONTROLLED HEALTH CARE  
SPENDING.

This report should be looked at as part of the community's progress. A great deal has happened since the Citizens League issued its 1977 report, "More Care About the Cost in Hospitals," and the Health Board released the Viable Hospital Report. Two hospital trustee councils have been formed, thereby engaging the true policy leaders of the hospital industry in thinking about excess capacity and controlling health care costs. Both trustees groups faced up to this difficult issue and recommended ways to reduce under-utilized beds.

The Health Board's long-range planning process has, on the whole, been a useful exercise for the Twin Cities community to go through. In initiating this process and report the Health Board has been fulfilling its federal mission and responsibilities under the law. With each new phase in the process, the level of community awareness of the need to control health care costs has deepened.

In short, this process and this report have helped our community to recognize that it has a problem. Uncontrolled health care expenditures add a great deal to the price inflation that all consumers feel. It contributes to excessive governmental expenditures. And it impacts the poorest members of our society the hardest in the skyrocketing prices of other goods and services that are bought and sold in the economy.

The Health Board's unswerving attention to this issue has been a catalytic force in forging a community consensus that something must be done about the problem of

unrestrained health care spending. THE ISSUE, THEN, IS NO LONGER WHETHER TO DO ANYTHING ABOUT UNCONTROLLED HEALTH COSTS, IT IS HOW TO DO IT. THE DEBATE IS OVER MEANS, NOT ENDS.

However, while we stand together on the need to do something about this problem, we stand divided about what to do.

That is why the Citizens League, in its recent report, argues that our metropolitan area is at a crossroads or major decision point in its policy debate over how to control rising health care costs. At this juncture, our metropolitan area and you, its policy leaders, really have two alternatives.

THE FIRST OF THESE IS TO CONTINUE WITH THE LARGELY REGULATORY STRATEGY THAT CHARACTERIZES THIS REPORT. The Health Board could conceivably decide to implement one of the nine scenarios in this report, by using its certificate-of-need powers to shape the system in the manner it believes best. There are at least three major problems with this approach:

1. CHOOSING ONE OF THE SCENARIOS AND ATTEMPTING TO IMPLEMENT IT THROUGH CERTIFICATE-OF-NEED PROCESS WOULD BE UNLIKELY TO ENGENDER PUBLIC SUPPORT.

We suspect that, during the course of its four-phased reduction process, the Health Board's attempts to bring about a capacity reduction in the region's hospital system has become an increasingly lonely and alienating process for the Board. As we have seen (and as can be dramatically shown tonight), there is always a ready public constituency for adding things, or maintaining them -- new hospitals, more beds, additional services, or new technology. But there is rarely an easily identifiable public constituency for taking things out of the system.

2. CHOOSING ONE OF THE NINE SCENARIOS AND ATTEMPTING TO IMPLEMENT IT WOULD LIKELY BECOME BOGGED DOWN IN THE COURTS -- AN OUTCOME THAT WOULD DO LITTLE TO ACHIEVE THE HEALTH BOARD'S OR THE COMMUNITY'S ULTIMATE OBJECTIVES

Pursuing this strategy, we fear, would wind up exactly where the process is today -- stalled in court. That outcome would not be "healthy" for anyone. The Health Board would be unable to accomplish its major goal -- systemwide cost containment. The hospitals and the community would be subject to on-going scrutiny as to the viability of their operations and encounter potentially negative publicity over time.

In short, this strategy would aid no one, least of all the consumer, and would affect the problem not at all. The divisiveness that it would generate would be counterproductive to the community as a whole.

3. FINALLY, FOR THE HEALTH BOARD TO CHOOSE ONE OF THE NINE SCENARIOS AND ATTEMPT TO IMPLEMENT IT WOULD BE TO FOCUS ON A SYMPTOM OF THE PROBLEM, RATHER THAN THE "PROBLEM" ITSELF.

During the last four years, the League has come increasingly to believe that excess or empty beds, while significant and costly to the system, are not "the problem." Our task force has concluded that the overriding problem is not excess capacity, but more fundamentally that of a "dysfunctional market." Simply put, the problem is market failure. As our report states:

"The problem is not excess beds (capacity) nor excess utilization (demand). These are only symptoms of a much larger problem -- a

system that cannot gain control of its use of resources."

Our Twin Cities health care system lacks the elements of a well-functioning competitive system in the classic economic sense.

There is no price competition. No single finding echoes louder through our report than this one. Ironically enough, here in the Twin Cities, hailed by many as the home of health care competition, we find a faulty price mechanism with regard to hospital costs. Two important studies -- one by the Department of Health and the other by the State Health Planning and Development Agency -- confirm that hospital prices for comparable diagnostic procedures in our metropolitan area differ by as much as two to one, and sometimes as much as four to one.

Additionally, other key elements of a healthy market are weak or absent altogether. Price and quality information are not readily available to consumers. Neither consumers nor providers are cost-sensitive, since they are insulated from the consequences of their decisions by their ability to pass costs along. Providers virtually incur no risk of going out of business, and have inadvertently been protected from new forms of competition by the certificate-of-need mechanism.

Thus, even though the health care system contains many forms of competition, the absence of price competition causes the competition that does occur to be cost-generating, not cost-saving.

TO MOVE IN THIS NEW DIRECTION WILL REQUIRE A MUCH DIFFERENT SCENARIO THAN ANY THAT IS PRESENTED IN THE PHASE IV REPORT. IT WILL REQUIRE A FUNDAMENTALLY DIFFERENT COMBINATION OF COMPETITION AND REGULATION. IT WILL REQUIRE THE COOPERATION OF BOTH PUBLIC AND PRIVATE SECTORS IN THE DEVELOPMENT AND ADOPTION OF A TENTH SCENARIO -- ONE BASED ON MARKET INCENTIVES.

We believe that this is the direction that the Metropolitan Health Board and the community should now move. They should, in effect "use competitive means to achieve regulatory ends." Inefficient hospitals should be forced to close as a result of consumers' choices, rather than through regulatory decisions.

Should the region then give up the goal of eliminating excess capacity? No. A health care marketplace, if structured correctly, can be made to eliminate the present excess capacity. The challenge is to restructure the health care market in such a way as to assure that excess capacity will be eliminated through the medium of consumers' choices.

We believe that our report contains a strategy to achieve that end. Our report is not the last word on this subject. It is not meant to be a blueprint cast in stone. But it is a carefully thought-out strategy which we believe can be of real service to policymakers and a public in search of a meaningful competitive strategy. We would urge that the Health Board, local trustees and other interested parties consider its ideas, debate its strategies, adopt its thrust, and identify their own competitive scenarios.

We will not attempt to go through the specifics of the report tonight. We have brought copies of the report for your further study. We would, however, like to mention the seven key elements of our competitive approach:

1. In order to enhance consumer cost consciousness and introduce true price competition, all health providers should release price and quality information.

2. Consumers should be given a real choice between additional income and additional health insurance.
3. Employers should offer employees a choice among several health insurance plans with varying levels of coverage, to encourage consumers to buy only the insurance they need.
4. Consumers should be informed, in advance, of how much employers and insurers will pay for a given medical condition. In order to contain costs and encourage competition, employers and insurers should set limits on reimbursement and offer incentives to use low-cost providers.
5. Both public and private employers should adhere to a "choices" strategy. But it is particularly important that the public sector do so now, to set an example and contain costs.
6. To provide for ease of market entry, certificate-of-need for hospitals should be eliminated.
7. Some public body with an interest in regional health care cost containment ought to determine when and under what circumstances tax-exempt financing for new construction should be granted.

In conclusion, just as there were three reasons why selecting one of the nine scenarios in the Phase IV report would be inadvisable, we believe that there are three reasons why choosing a hybrid approach of competition and regulation would be advisable.

1. It deals with the real problem, not just its symptoms.
2. It is likely to produce the greatest amount of community support. Rather than being alienating for the Health Board and divisive for the community, this approach is most likely to bring together the needed coalitions of business, employers, hospital trustees and other interested parties to assure that change occurs. Far from being a call for the Health Board to "retreat," it is, in fact, a call to "bring in the cavalry."
3. Finally, rather than winding up stalled in the courts, this approach affords the best opportunity for making real progress in controlling health care costs.

The Citizens League stands ready to assist you in any way we can during the challenging days ahead.