from Phyllis Schlafly

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Will Hospital Cost-Shifting Bring Us Price Controls?

Why does a five-day hospitalization for infection cost $10,169? That was the complaint in a recent letter to Ann Landers. It doesn't take a Ph.D. in Economics to know that something is wrong.

Americans don't understand why hospitals may charge $50 for a sponge. When questioned about this, one hospital administrator in Florida said cynically, "What difference does it make what we charge? These days, virtually no one pays charges."

No one, that is, except hard-working Americans with ordinary health insurance who are accustomed to paying bills for services rendered by honest businesses. They are the victims of a practice called "cost-shifting."

For at least 80 percent of patients, the list price of hospital services is a fiction. The price actually paid by that 80 percent is determined by prearranged contracts between the hospital and a third party -- either the government (for Medicare and Medicaid. patients) or insurance companies, primarily those dealing in "managed care" such as HMOs (Health Maintenance Organizations) .

Hospitals think they are not paid enough by government and HMOs, so they SHIFT some of the costs onto the backs of the 20 percent of their patients who come without a pre-negotiated contract for hospital services. How? Each hospital makes the latter pay the list price of services while granting discounts to insurance companies that force their patients to use that particular hospital instead of a competitor.

Hospitals have become quasi-governmental bodies which, in effect, impose "taxes" on one type of patient in order to pay the unreimbursed costs of services to other types of patients. These "otther" patients are not only the indigent without insurance, but also I${0 and Medicare patients who are getting services at less than the list price.

It is difficult to know exactly how much this cost-shifting adds to the hospital bills of paying patients. Estimates range from 25 to 40 percent.

Of course, cost-shifting is not the sole cost of high hospital bills. Milton Friedman has calculated that the cost of a day in the hospital, even adjusted for inflation, increased 26 times between 1945 and 1989. Cost increases for HMO coverage averaged 8.8 percent in 19921 more than twice as much as the rise in the consumer price index, even though HMOs benefit from cost-shifting.

Nevertheless, cost-shifting is cited by the Clinton health care advisers as justification for total government control of all care. Their argument goes like this: health care costs are like a balloon; if you squeeze one side, the balloon bulges out on the other side; therefore, government must seize control of the entire balloon in order to control rising health care expenditures. They forget that, when you squeeze the whole balloon, it explodes rather than shrinks.

Leaks from Hillary's task force indicate that the Administration is considering imposing price controls on all hospitals and doctors, which will be trumpeted as "temporary" until Congress passes the Clinton scheme called "Managed Competition." The Clinton team argues that, when all Americans are forced into big HMOs, hospitals and doctors will be able to cost-shift to patients outside the system.

Under "Managed Competition" which is long on government management and short on free-market competition, all Americans would be forced into a few large HMOs. The government, in consultation with HMO managers, would decide what health care each of us would be permitted to receive. However, a report from the Congressional Budget Office states that, even if all Americans were covered by managed care, the impact on cost growth would be small.

Under Managed Competition, you would only have the right, to choose among competing HMOs, but not the right to choose your own doctor. When they are healthy, most Americans don't care whether they have the choice of Aetna's, Travelers', or Cigna's HMO; but when they are sick, they care very much about whether they can choose Dr. Smith or Dr. Jones -- and that is what they will lose under Managed Competition. You won't be able to choose a doctor who doesn't belong to your HMO.

A11 our experience shows that price controls have never worked, and there is nothing about price controls or Managed Competition that eliminates the underlying problems that have driven medical costs out of sight. Managed Competition simply changes the cost-shifting from the covert current system to an overt plan where a tax increase is imposed up front to pay for the uninsured. It does nothing to introduce consumer competition, which is the best way to reduce costs.

The solution to the problem of rising health care costs is not a bigger bureaucracy but a smaller one. The only way to bring hospital prices down is to encourage as many patients as possible to spend wisely and to scrutinize their hospital bills.

We can accomplish this by allowing the individual to keep any unspent health care dollars instead of turning them over to the government, employer, or insurance company. Give patients tax-free Medical Savings Accounts and watch the price of hospital care come tumbling down!