What's Behind For-Profit Health Care

By Dr. William S. Andereck Jr.

IN ANCIENT times, one of the things that separated physicians from priests was that physicians — not priests — figured out how to charge a fee to each supplicant for the magic provided.

Since that time, doctors in every society have been earning their livelihood providing medical care to their patients. Nurses, pharmacists and other health care workers have also been paid for the services they provide. Recently a new way to make money in the health care arena has developed — investing capital in for-profit health care companies with an eye toward a handsome return in stockholder dividends.

For-profit medical care is not new. Eli Ginzberg, in a special article in the New England Journal in 1988, estimated that 22 percent of the national expenditure for health care went to for-profit corporations as early as 1965.

It's clear why investors were attracted to health care in the '70s and '80s — money and lots of it. Any industry that consumes $1 billion a day as it did in 1983, or $3 billion a day as it does now, is an irresistible magnet to the financier who drools when thinking of the profits to be gained by managing such enormous sums. The stock market eagerly provided capitol for investments that seemed to be essentially risk free.

The for-profit world provided strong management skills that introduced tighter controls on staffing and resource utilization. It was able to exploit some of the economies of scale that had been ignored by traditional providers. Larger hospital chains were able to develop efficient managers and administrators and advance these individuals to positions of greater authority than was possible at an individual medical center.

But the rapid rise of for-profit medicine did not occur with sound managment and economies of scale alone. Initial efforts concentrated on the suburbs. Healthy middle-class Americans with good insurance were targeted almost exclusively. Inner-city populations and groups with chronic diseases, especially AIDS, were shunned. The burden of caring for these patients was gladly shifted to county and non-profit community hospitals.

In addition, the profit motive has little tolerance for services that do not perform, regardless of community need. Thus emergency rooms and other low margin departments like pediatrics were often expendable and closed.

By the mid-'80s, the profitable markets had been saturated. Ginzberg and others thought that the for-profit medicine had reached it's natural penetration. They were wrong. Early for-profit efforts were careful to leave physicians alone. But, when returns on investment started slipping, business realized it could no longer afford to treat physicians as independent agents. They had to be brought on board with incentives to maximize profits.

Clearly, this is the intent behind the marriage of managed care and for-profit medicine. As a result, for-profit medicine has had a strong resurgence in our health care economy, particularly in California.

Incentives take on a different form when they arise from the ethic of the marketplace rather than that of medicine. Doctors' fiduciary responsibility is to work for the benefit of their patients, but companies see no problem with unethical reimbursement systems such as individual physician capitation, a reimbursement method in which an individual physician receives a fixed monthly payment for each enrolled patient regardless of how often the patient sees the doctor.

Insurance companies gladly pass financial responsibilities — via capitation — onto physicians. The key is that insurance companies require huge financial reserves, which physicians do not have.

Despite slick four-color brochures and warm fuzzy television spots, the for-profit health industry has only one motive. Maximizing the returns to it's shareholders. At the very least, it's another dip into the health care dollar before it reaches the patient. At it's worst it is a worm in the soul of medicine, destroying the values of the profession by altering it's goals and introducing serious conflicts of interest for physicians trying to maintain their integrity in a difficult environment.

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