President’s Message – Winter 2004

Planners and Deciders Beware
by Dean Montgomery

State legislative sessions are just around the corner. Legislative atmospheres may not be friendly to planners, and could be downright hostile to deciders. In recognition of this possibility, this issue of TODAY in Health Planning focuses on the Federal Trade Commission (FTC) campaign against Certificate of Need (CON) regulation. Articles include an update on the prospects for reinstatement of CON regulation in Pennsylvania. Summary critiques of selected aspects of the FTC report, Improving Health Care: A Dose of Competition, also are enclosed.

Restoration of CON regulation in Pennsylvania, long hoped for, appears to have run into difficulty (page 4). Apparently, the state hospital association and the largest insurer have succumbed to the FTC’s siren song that, when it is not ineffective, CON regulation is counter-productive. Both are reported to have opted to support a form of enhanced licensure as an alternative to community-based planning and CON regulation.

1 “We don’t believe in planners and deciders making the decisions on behalf of Americans.” G. W. Bush. Scranton, PA, September 6, 2000.

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Legislative season: instructive, for those preparing for the 2005 session. The catalytic role of the FTC report, and potentially, arguments from similarly-related organizations is already evident. The only saving grace, if there is one, is that CON provides no benefit and costs the unsuspecting public an estimated $110 million per year.\(^2\) The second billing may go to a recent Cato Institute "policy analysis" demurely titled *Health Care Regulation: A $169 Billion Hidden Tax*. This libertarian tract, prepared by Christopher Conover, a Duke University assistant research professor with a distinguished CON-bashing pedigree, purports to show that CON regulation provides no benefit and costs the unsuspecting public an estimated $110 million per year.\(^3\) The only saving grace, if there is one, is that CON represents a mere 0.4% of the $169.1 billion in clandestine health care taxes. Some state officials are already being urged to take cognizance of the Cato tract. Opponents of CON regulation can be expected to use the FTC and the Cato reports in combination where they see a receptive audience.

Both planners and deciders should get their FTC-Cata inoculations early. Minimum prophylactic measures include:

- **Become familiar with the reports.**

  Distinguish the supportable elements of the reports, if any, from the problematic arguments, assumptions, and recommendations. Become familiar with all of the problematic arguments and recommendations in the FTC report, for example, not just those that apply to CON regulation. The non-CON arguments and criticism help make clear the doctrinaire nature of the report.

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2. For a detailed summary of recent developments in Pennsylvania see C. Lyn Fitzgerald, "Certificate of Need reinstatement" December 2004, at [www.physiciansnews.com](http://www.physiciansnews.com). Punxsutawney Phil, a noted decider, but not much of a planner, is being consulted on the Pennsylvania licensure vs. CON regulation question. Phil’s prediction is expected in the next edition of TODAY in Health Planning.

✓ **Understand the FTC modus operandi.**

The FTC report did not arise from idle curiosity; it is based on orthodox economic doctrine. There is a goal: to define and shape the national health care debate. The FTC has actively opposed CON regulation for at least two decades. It has shown diligence and, if past experience is a guide, can be expected to continue the effort indefinitely.\(^4\)

✓ **Study and appreciate the rhetoric of the reports.**

Many opponents of planning and CON regulation use language well. Both the FTC and Cato couch their arguments in populist terms and rhetoric, with the ostensible goal of putting the ordinary consumer in charge. Their incessant use of terms such as:

- “consumer driven”;
- “consumer choice”;
- “individual choice”;
- “transformation”; and
- “opportunity”

is neither accidental nor incidental.

✓ **Catalog and reinforce arguments in support of community-based planning and CON regulation.**

Planning and CON regulation links to, and role in, the relationship between service and practitioner volume and treatment outcome should be emphasized. Specific attention should be given to the recently reported experience of the U. S. automakers and the most recent studies on the beneficial effects of planning and regulation in the provision of cardiovascular services.

✓ **Review and assess the anti-CON literature.**

Distinguish rhetoric and weak arguments from studies and reports that appear credible. It often is instructive to compare the consultant reports and testimony of CON critics with the academic studies they produce. Care should be taken to prevent CON critics from indulging in over-generalizations, and applying study results to areas not actually studied.

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\(^4\) For a summary of the history of FTC opposition to CON, see the AHPA assessment of Improving Health Care at [www.AHPAnet.org](http://www.AHPAnet.org).
Policy Perspective

by John Steen, Consultant, Health Planning and Health Policy

Between a Rock and a Hard Place:
The Quandary of CON in Pennsylvania

For the first time in eight years, legislators in Pennsylvania are seriously considering the restoration of Certificate of Need (CON) in the Commonwealth, and bills were introduced into the State House of Representatives (HB2760) and the Senate (SB261) this past February to do so. The CON statute, enacted in 1979 as a part of the Pennsylvania Health Care Facilities Act, was allowed to expire in 1996 as the result of an intense lobbying effort pitting suburban Philadelphia hospitals wanting to expand into open-heart surgery against the city hospitals looking to block any further expansion of such programs. After no compromise could be reached, legislation authorizing the program expired. Since that time, more than a half-dozen new heart surgery programs were launched in the Philadelphia region.

The Rock
All year, legislators here have been feeling the competing demands of the state’s business lobbies and of their constituencies for economic relief from the rapid increases in health care costs. Once again, CON is being perceived as a way of bringing some control back to the delivery of health care by constraining the unchecked proliferation of new services. Over the past eight years, new forces have entered the debate in an attempt to shape its conclusion to their own ends. The participants in the political debate now include ambulatory surgery centers, specialty care hospitals, and imaging centers in addition to employers, labor, physicians, hospital associations, and insurers.

Diagnostic imaging services in particular are seen as a major contributor to recent double-digit increases in insurance premiums. The increase of 47 percent in the number of freestanding (non-hospital) MRI units in the state between 1999 and 2001 was cited in a report in Health Affairs one year ago as an example of the relationship between the availability of technology and health care spending. The American College of Radiology confirms that utilization of MRI scans increased 45 percent in that period.

The Pennsylvania Health Care Cost Control Commission reports that patient visits to ambulatory surgery centers have increased 83 percent between 2001 and 2003. Since 2000, the number of freestanding ambulatory surgery centers has increased 55 percent, and utilization is now 32 percent above the U.S. average. Between July 2003 and May 2004, 48 new ASCs opened, bringing the statewide total to 161. Patient visits to ASCs between July 2003 and May 2004 jumped from 279,335 to 510,781, an increase of 83 percent.

The erosion of quality can accompany the increase in costs when the state’s coronary artery bypass graft (CABG) services are permitted to proliferate. In 1995, there were only 43 hospitals licensed for open-heart surgery. Under CON, the standard for open-heart surgery was 450/year, the Leapfrog Group standard. By 2002, there were 62 facilities, and only seven of them met it.

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The Hard Place
The Hospital & Healthsystem Association of Pennsylvania (HAP) entered the discussion by citing the results of a Federal Trade Commission (FTC) and Department of Justice (DOJ) joint report, which concludes that, “CON programs are not successful in containing health care costs and, indeed, pose serious anti-competitive risks that outweigh their purported economic benefit.” It wishes to ensure competition and a level playing field by new legislation to bring all freestanding facilities under licensure regulations designed to limit capacity and ensure quality. This had also been its immediate response to the sunsetting of CON when it entered into a cooperative effort with the Department of Health (DOH), shifting many of the planning and regulatory functions to licensing. The state has since become a model for this approach.

It was recently joined in that effort by Highmark Blue Cross Blue Shield, Inc., the state’s largest health insurer, citing the same FTC/DOJ report. Highmark is backing a new bill that proposes to base the licensure of new facilities on a peer review process and on data analysis, an approach pioneered by New York State which uses it in addition to, not instead of, CON. New service-specific quality indicators would be developed, and outcomes would be tracked for both facilities and physicians. The State DOH would establish Clinical Advisory Committees (CACs) to do this. The CACs would establish ranges for each indicator and advise the DOH regarding licensing sanctions, including de-licensing, for those that fall short in performance. The new bill (HB2771) passed the House in November and is now in the Senate. With its passage in the House, HB2760 was tabled, and its author now supports HB2771.

The Quandary and the Lesson
Despite the “free market” in health care over the past eight years in Pennsylvania, costs soared so much that the legislature was seeking a consensus on regulatory measures in which CON was expected to be restored. The FTC/DOJ report, by convincing two big players to back competition, has nevertheless ended the CON option at least for the time being. Business seems still to realize that markets will not control utilization, and the state Chamber of Commerce supports HB2760. Some Democratic legislators agree, but most Republican legislators favor “free markets.” The next round will be fought when legislators re-convene in January.

There is a vitally important lesson here that we are learning the hard way time and time again in our great nation, but there is also a national blindness surrounding the worship of freedom at all costs, and the corollary denigration of collective efforts by government. “Markets are designed to facilitate the free exchange of goods and services among willing participants, but are not capable, on their own, of taking care of collective needs. Nor are they competent to ensure social justice. These ‘public goods’ can only be provided by a political process.” (The Bubble of American Supremacy, George Soros, 2003).
Improving Health Care: A Dose of Competition

AHPA Response

Arguments in Favor of Planning and CON Regulation

Though a small part of Improving Health Care, the FTC attack on CON regulation is full force and unrelenting. It has been underway for two decades and can be expected to continue unabated. There are a number of logical and practical arguments in favor of planning and CON regulation that are largely ignored in the report. These arguments include:

- **CON is a useful market balancing tool**
  In a necessarily imperfect, and an increasingly inequitable health care system, community-based planning and CON regulation are flexible tools that, when used intelligently, help protect the critical health care infrastructure that is required to meet both expected and unanticipated public need. Market forces are invaluable in balancing the cost, supply, access, and quality of most goods and services. Market fluctuations and vagaries are acceptable for most commodities, but are problematic for essential social goods and services, especially health care. Planning acknowledges that health care is not, and should not be treated as, an ordinary economic commodity.

- **Under current and expected health system market conditions, community-based planning and CON regulation are useful in promoting competition.**
  CON regulation, and related planning, can be and has been used to provide consumers and other purchasers with price and quality information, and stimulate direct competition and market entry where indicated. This is now done when and where market forces are shown to apply or be effective.

- **Recent empirical evidence shows substantial economic and service quality benefit from CON regulation and related planning.**
  Empirical studies by all three major U.S. automakers show substantially lower health care costs in states with CON programs. Similarly, the most recent and largest study of CON regulation on treatment outcomes found that open heart surgery mortality rates are more than 20% lower in states with CON regulation than in states without regional planning and regulation.

- **CON regulation is one of the few practical planning tools available to policymakers.**
  Whatever its limitations, CON regulation, with related community-based planning, is one of the few tools that policymakers, health system officials, and ordinary citizens have available for use in trying to compensate for known weaknesses and deficiencies in the existing health care system. CON decision-making processes provide a unique forum where all interested parties, and ordinary citizens, can express their views and state their needs. CON review, and related community-based planning, is distinct in that it often is the only light available to illuminate important quality, cost, and access concerns that are important to consumers. The sentinel effect of community-based planning and CON regulation is substantial and should not be ignored or undervalued.

- **CON regulation is the only practical tool available to implement basic planning policies and practices**
  The inverse relationship between average annual service volume and treatment outcome is well known. Generally, higher average annual program volume is correlated with lower complication, readmission, and mortality rates. It has been documented repeatedly for many of the services regulated under CON programs. CON regulation is the most reliable and practicable tool for implementing service, institutional and regional planning policies and practices that facilitate and ensure appropriately high program volumes.

- **Improved Geographic Distribution of Services**
  Planning and CON regulation are the only means currently available to promote and ensure that there is a reasonable geographic distribution of health care services and facilities, and to ensure a minimal commitment to serving the medically indigent. Planning and CON controls necessarily limit the concentration of services and facilities in affluent areas at the expense of less affluent communities. Both planning and CON regulation can be used, and often are used, proactively to improve both geographic and economic access to care.

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1. *Improving Health Care: A Dose of Competition.* A Report by the Federal Trade Commission and the Department of Justice, July 2004. The full report is available at [www.ftc.gov](http://www.ftc.gov). See specifically Chapter 8 (pp. 1-6) and the Executive Summary (p. 22).


Improving Health Care: A Dose of Competition
AHPA Response

Arguments Against FTC Assertions and Assumptions

Improving Health Care, more than 300 pages in length, is critical of many aspects of the existing health care system. Although it offers only a handful of recommendations, the report is replete with problematic assertions and assumptions, many of which are doctrinaire and unsupported by demonstrated fact or cogent analysis. The common theme is opposition to planning, regulation, and government intervention in the health care system. Arguments against these doctrinaire, and often unsupported, assertions and assumptions include:

• The health care market is inherently imperfect (not perfectible)
The FTC recognizes that the usual benefits of competition are not achievable in the health care system under current conditions. The report acknowledges a number of glaring market imperfections that need to be cured if market forces and competition are to have their presumed beneficial effects. The problems cited include the mediating influence of service selection and purchasing intermediaries such as insurance, Medicare, physicians and other health care professionals, the lack of price and quality information, legislatively imposed service mandates, cross-subsidization within the system, and service to all in urgent and emergent circumstances regardless of ability to pay.

The report argues that these imperfections should be cured as quickly as possible. Whatever the merit of this view and argument, cures are not likely soon. Even if acted upon aggressively, the changes required would take years to accomplish in most cases. Community-based planning and CON regulation are linked to, and help compensate for, a number of these acknowledged imperfections. It is important to maintain and strengthen planning and targeted CON regulation until the related market imperfections are corrected.

A stable and more equitable health care system cannot be based on the pursuit of ideological purity and unrestrained market forces.

• Health care is not or at least should not, be treated as a commodity
Although the FTC does not state directly that health care should be treated as an economic commodity, its arguments and assumptions make practical sense only if that were the case. Even in theory, much less in practice, market forces can have the system-shaping effects the FTC calls for, and argues will result from unfettered competition, only if health care is treated as any other economic good. The report laments that many, if not most, people see health care as “a special good” that is not, and should not be, subject to unfettered market forces. The positive aspects of planning, CON regulation, facility licensure, and a number of other mediating social constraints are in place, in part, because market forces do not, and probably cannot, be used to discipline this market without unacceptable collateral damage and cost.

• The studies critical of CON cited by the FTC are not reliable
The argument that planning and CON regulation result in higher costs and prices, inferior quality, reduced access, less innovation, and lower operating efficiency, though asserted repeatedly, is not supported by demonstrated fact. This refrain is based largely on an unwavering adherence to orthodox economic doctrine.

Most of the sources cited that purportedly show negative economic and quality effects of CON regulation are FTC staff reports, and FTC staff statements, which, in turn, are usually based on these studies. Thus, many of the citations are self-referential. The base studies themselves are highly problematic.

1 Improving Health Care: A Dose of Competition. A Report by the Federal Trade Commission and the Department of Justice, July 2004. The full report is available at www.ftc.gov specifically Chapter 8 (pp. 1-6) and the Executive Summary (p. 22).
The data used, the timeframes covered, and analytical processes relied upon are problematic. The conclusions drawn are debatable. Based on multi-variate regression analysis and statistical correlation, none demonstrates cause and effect and, beyond theoretical conjecture, none explains the method or mechanism by which the changes observed were achieved.

Analyses that try to examine the economic and quality effects of CON regulation yield mixed findings, not the uniformly negative results asserted in the FTC report. Contrary to the impression conveyed in the FTC report, there are no reliable studies showing the effects of CON regulation on access to care, system efficiency, innovation, or other specific system characteristics. Assertions to the contrary are based largely doctrinal assumptions.

- **Empirical evidence and experience are ignored or treated dismissively**
  The recently reported experience of U.S. automakers showing lower costs in States with CON programs and published analyses showing significantly lower mortality rates among open-heart surgery patients in States with CON programs are dismissed. This information, when acknowledged, usually cited in the testimony of a commentator or hearing panel member, is often dismissed by pairing it with opposing anecdotal testimony of CON critics.

- **Health care should not be treated as a privilege**
  The FTC prides itself on working in the interest of the consumer, the average citizen. It argues that a “consumer driven” health care system is desirable and possible if market forces are permitted free reign. The paean to consumer control, though superficially attractive, borders on the disingenuous when examined in the light of economic and health system realities. The report prescribes theoretical cures to real problems. The discussion is at the macroeconomic level. The assumption appears to be that if you address, at least theoretically, overarchig system questions and imperfections, maximum benefit will flow (trickle down) to the individual.

Unfortunately, the individual is treated as a theoretical economic entity or construct. Market realities are such that under FTC prescriptions access to quality health care would become a privilege, not a right or reasonable social expectation, dependent upon the economic standing, the knowledge base, and the social status of the individual. The report appears to anticipate and endorse this outcome. It speaks approvingly of consumers needing incentives to “balance costs and benefits and search for lower cost health care with the level of quality that they prefer.” Presumably, the poor might “prefer” a “level of quality” consonant with what they could afford. As with any other commodity, an unfettered health care system will offer many different quality levels or categories, in both clinical and economic terms.

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2 *Improving Health Care: A Dose of Competition*, Executive Summary, p. 5.

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2 Improving Health Care (against)
Cont’d, from page 7:
Only One Real Healthcare Solution - Provider Integration
by Robert Vogel, Vice President
Managed Care, Sisters of Mercy Health System

A few weeks ago, the Sunday New York Times’ lead front page story was about Kaiser Permanent’s Northern California health system, serving more than nine million members. Then an industry publication article on Kaiser’s George Halverson, President and CEO, and his vision for the future of that organization. The takeaway? Kaiser’s integrated approach to care supported by actionable information and compensation for achieving better health outcomes leads to higher quality care.

While a piecemeal approach employing disease management, health savings accounts, consumer empowerment and benefit redesign may have a marginal positive impact on cost and quality, only implementation designed to overcome our current fragmented approach will reach a state of significant and continuous improvement.

Because Kaiser is a single organization encompassing medical professionals, institutions, health plans and financing, it has the backbone to achieve integration. Absent such organizational characteristics, which is true for most of the remaining care structure, we must look to virtual integration as the solution. Virtual integration will require access to data and the ability to extract information to guide care and inform providers about outcomes and quality improvement opportunities; contemporary, knowledge-based medicine; teamwork among clinicians and with administrators and support structures; and compensation tied to measurable improvement and achieving benchmark outcomes.

Centers for Medicare and Medicaid (CMS) has headed this direction with multiple demonstration projects and funding initiatives. Based on these pilots, CMS will implement, and eventually require, disease registries, electronic medical records, computerized drug management systems, and public reporting by hospitals and physicians on common quality measures.

Given the prevalence of such systems in other industries from manufacturing to retail to banking, virtual integration is achievable. The biggest challenge is not technology or design, but culture-bound fragmentation that resists any and all change. New leaders in healthcare will emerge from among those who can be creative and forceful in leading this cultural change.

Wizard’s Corner
Cont’d. from page 5:

Health Facilities: Regulation of health facilities to maintain or improve access, control costs, and maintain or improve quality has a net cost (costs less benefits) of about $25.1 billion annually.

Certificate of Need: CON regulation is assumed to have no benefit and, therefore, results in a net cost of $110.0 million annually.

Chorus: Delenda est CON

Quality: Quality-related facilities regulations impose a cost of $21.8 billion and provided benefits amounting to only $4.0 billion annually.

Licensure and Quality: Medicare and the majority of state health departments rely on the Joint Commission on Accreditation of Healthcare Organizations to certify quality. But “it is apparent that the JCAHO is not associated with improving the quality of care.” Chorus: Delenda est Licensure

The uninsured: There are 6.8 million uninsured whose plight arguably might be attributed to excess regulatory costs, or roughly one in six of the average daily uninsured.

Mortality: Studies suggest there may be one “statistical death” for every $7.6 million reduction in societal income (in 2002 dollars). So, $169.1 billion in health services regulation costs could itself induce upwards of 22,200 deaths a year. Thus, CON regulation probably results in 14.47 unnecessary “statistical deaths” annually. Chorus: Delenda est CON

Comparative mortality: The Institute of Medicine has estimated that 18,000 uninsured Americans die every year due to lack of coverage. So, over 4,000 more Americans die every year from health services regulation than die because of a lack of health insurance.

Alarmed but enlightened, a certain wizard has enrolled in Blue Devil University’s School of Moral Accountancy. He plans to file for a moral reparations income tax credit of $579.11 in April.

*For more, and the rococo explanations of these “facts” see Christopher J. Conover, Health Care Regulation: A $169 Billion Hidden Tax, Policy Analysis No. 4, The Cato Institute, October 4, 2004. The full report is available
http://www.cato.org
A number of Board members of the American Health Planning Association (AHPA) delivered presentations in Washington, DC, as part of a long-standing cooperative effort with the Community Health Planning and Policy Development (CHPPD) Section of the American Public Health Association (APHA). Both of these sessions were held on Wednesday, November 10, 2004.

The first was an early morning session titled “Health Planning Today: A Way Forward” which explored the current state of community-based health services planning and proposed strategies for making planning more effective by responding to changing social and market conditions. As shown in the pictures below, the session moderator, Dean Montgomery described evidence-based health services planning, followed by Paul Parker who discussed the Maryland community-based planning initiatives. Then, Rick Thomas capped off the session with a presentation on health planning data sources, methods and uses.

The second was a mid-day session titled “Certificate of Need Challenges: Efficient Management in a Competitive Marketplace” which made participants aware of a number of planning methods to assure a healthy community, prepared them to assess the value of cooperative planning and regulation in their community, and provided tools to participate in the debate over managed care vs. planning and regulation. Moderated by Tom Piper, this session started with a presentation by John Steen about how government oversight assures greater value for the public’s health care dollars. This was followed by Mike Dexter describing how a reasonable balance can be drawn between public planning and regulation, and private investment and innovation to achieve reasonable health care delivery. The session was wrapped up by Bob Vogel who discussed the outcomes of regulation versus competition by enabling information access, assessment modeling, and outcomes evaluation through AHPA’s ePlanner, a community health planning Internet tool.

In spite of being on the last day of APHA’s 4-day annual conference, the presentations were well-received by over 50 people, many of whom had extensive questions both during and after the sessions. Each year CHPPD offers this cooperative opportunity to AHPA as part of its partnership for improved health planning. The Board members who participated expressed continued satisfaction with this arrangement and expressed their appreciation to APHA for such continued cooperation.