The Double-Edged Sword
of Regulation

Government Red Tape

Hospitals may be the most regulated industry in the country. All levels of government-city, county, state and federal-are involved in the external control of hospitals, covering everything from rates and acquisition of new equipment to maintenance of patients' charts and the condition of chinaware. The debate is not over the government's right to impose some standards for hospitals to follow but rather whether the total effect of hundreds of overlapping and fragmented regulations is too expensive and counterproductive.

In economic theory, government regulation is intended to correct the inequalities of a free market economy. The government regulates the market or business to make it more accountable to the public for the product or service it offers.

Counterproductive Pressure

Many industries have in recent years been deregulated, including the trucking industry and the airline industry. Hospitals, on the other hand, have been subjected to increased regulatory actions. Proponents of such regulation argue that hospitals are not accountable to the competitive market pressures of supply and demand, and therefore government must use regulatory pressures to maintain quality services at reasonable prices. The question arises as to whether these pressures are counterproductive, and are, in fact, contributing to rising health care costs. A New York study identified 164 agencies regulating hospitals. Compliance with these regulations costs $40 per patient day.1.
In another study, Drs. George Race and Bill Trotter counted 296 different organizations that a major hospital in Texas reported to regularly, or was registered, influenced, or accredited by. These included many licensing, inspection, and accreditation agencies for 23 specialty areas. In this same study, some hospitals estimated that 25 percent of the cost of each bed was a regulatory cost.1

These costs are staggering, especially for smaller hospitals. An economic profile of regulatory costs shows that small hospitals have greater financial problems resulting from regulation than large hospitals. A case study in Michigan showed that hospitals under 250 beds were spending 66 percent more on regulatory compliance than large hospitals when their direct compliance costs were compared with their annual operating expenses.2

Another study by the Maryland Hospital Association emphasized the scope of the regulatory problems. It found 108 agencies regulating 113 areas of hospitals for a total of 1,078 activities. Steve Chasin, one of the authors, said, "It may not be overly expensive for hospitals to comply with individual requirements of particular agencies, but there are 1,078 sets of regulatory requirements they must meet... It's difficult to get a feeling for the cumulative impact of so many small requests."3

ConflictingRegs

All these regulations often duplicate one another and even conflict. In Maryland, for example, the state requires hot water in patients' rooms to be kept between 110 and 115 degrees Fahrenheit, while federal regulation dictates that the temperature should not exceed 110 degrees.

Why then has there been this build-up of regulation? Regulation is a result of increased federal funding of hospital-based programs. In 1965, federal payments to hospitals totaled $2.4 billion; with the development of Medicare and Medicaid, government payments have increased dramatically to $34.9 billion in 1979. As a result, layers of bureaucracy have been created to closely watch hospitals. It is reported that of the $85 billion that Americans spent on hospital care in 1979, an estimated 10 to 12 percent, or between $8.5 and $10 billion, was incurred simply to meet government regulations. That means hospital compliance with government regulation has been estimated to cost each person in the United States between $40 and $50 in 1979.4

Another cause of the regulatory burden on hospitals is the isolation of regulators from hospitals. They are unaware of complex hospital operations and remain insulated from the regulations they impose. Consequently, they are unaware of the full costs of their demands.

What has been the result? Regulation has had little or no effect in reducing health care costs and has, in fact, contributed to those costs. Thus, it is evident that the solution to rising health care costs is not more regulation.

Instead, we need to see regulators minimizing their paperwork demands and becoming more flexible in terms of alternative methods of accomplishing the same goals.

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