Testimony on

An Act Regarding Managed Health and Long Term Care for the Elderly

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Disclaimer: As always, we write and speak only for ourselves, not on behalf of Boston University or any of its components.

Thank you for the opportunity to submit written testimony on one aspect of this bill.

Section five of this bill specifies that the various senior care option (SCO) plans be state agencies or authorities, not-for-profit corporations, or not-for-profit subsidiaries of for-profit corporations.

We endorse this requirement.

Were a functioning free market present in health care or social services, there would be few reasonable objections to allowing for-profit SCOs. Most Americans, with good reason, that a functioning free market enhances efficiency and satisfaction of consumer wants. In a functioning free market, Adam Smith's invisible hand converts the selfish pursuit of private greed and profit into greater well-being for the society at-large.

But these benefits all rest on certain assumptions. They do not follow automatically. It is not enough to say, to assume, or to believe that a free market exists. More than wishful thinking and pious ideology is needed.

Indeed—and unfortunately—nothing close to a functioning free market is present in health care (excepting a few small and unusual areas, such as eyeglasses and contact lenses). And nothing close to a free market can be created.

None of the main requirements of a functioning free market are remotely satisfied in the health care and social services fields. A genuine free market requires at least these things:

Many small buyers and sellers, so no party has any leverage over price. But increasingly, a few hospitals dominate each region. HMOs merge and try to gain market power also.

No artificial restrictions on supply, demand, or price. But consumers are not sovereign; doctors or other experts largely judge what patients need and what they will get. Patients are not spending their own money as sovereign consumers.

Easy entry and exit. But it is hard to enter the profession of medicine, and hard to build a new hospital. Further, many of our surviving hospitals, HMOs, and home health agencies have gotten so large and have won such substantial market share that their bankruptcy would destabilize care for large numbers of patients.

Good information about price and quality. Patients and consumers sometimes have reasonably good information about price, but relevant evidence about quality is usually very hard to obtain. In a free market, the injunction is to “Let the buyer beware!” But in health care, mistrust undermines recovery. Patients are more likely to get better when they trust their doctor, other things equal.

Since the requirements for a free market are absent in health care, Adam Smith’s invisible hand is palsied. There is nothing to convert the private pursuit of profit into the public good. Rather, we get profit without honor.

The record of the for-profits in health care is not generally a happy one. A substantial share of the largest for-profit hospital chains, for example, have paid or are about to pay substantial fines for engaging in radically inappropriate activities.

The for-profits are not more efficient. So how do they make their money? By raising prices, by selling more services, by cutting back on quality, or by other inappropriate means.

Sending public money to for-profit SCOs would therefore be a bad deal for the Commonwealth, and a bad deal for people who need help.

We thank you for the opportunity to submit this information for your review.