Price Controls and Surprise Billing in Healthcare

Introduction

Nobel Prize winning economist Milton Friedman once said, "We economists don't know much, but we do know how to create a shortage. If you want to create a shortage of tomatoes, for example, just pass a law that retailers can't sell tomatoes for more than two cents per pound. Instantly you'll have a tomato shortage. It's the same with oil or gas." Decades later, despite overwhelming research in opposition to them, lawmakers are once again considering price controls to "fix" problems within America's healthcare system.

Key Points

- Federal lawmakers are once again floating the idea of imposing price controls on the American healthcare system.
- Price controls distort the market forces of supply and demand, reducing the accuracy of information providers receive.
- Historically, price controls have led to consolidation, less innovation, and less access to goods and services.
- This is especially worrisome for rural states like Kentucky, where rural hospitals have long struggled to succeed financially.

Understanding the Issue

Recently, price controls have been proposed as a way to deal with surprise billing. Surprise billing occurs when a patient goes in for a procedure, and - due to limitations - may have some part of their procedure done by someone not covered by their health insurance provider. Patients generally believe that because they have chosen an in-network provider, all services should be covered, and they are shocked to receive a bill from an out-of-network provider. Surprise! you owe some money you did not expect. The extent of this problem is debatable, but problem or not - price setting would only exacerbate the issues faced by patients.

In the last few years, lawmakers on both the state and federal level have attempted to curb surprise billing through greater regulation of the healthcare system. Lawmakers have called this approach many different things along the way; price controls, benchmarking, rate setting, or caps on costs.

These policy proposals to reduce surprise billing are almost certainly well-intentioned and would most likely decrease cases of surprise billing in short term. However, as we have seen the many times price controls have been implemented, it is ultimately the patients that will pay the price.

Pricing a product through the interaction of supply and demand is one of the most basic tenets of economics. Prices are not just the final numbers printed on a product or displayed at the bottom of a receipt. A price indicates a complex interaction between a consumer and a manufacturer. Prices not only allow for manufactures to understand which services, or products are in demand - they also allow for insights to further innovation. As such, prices should only change when consumers force them, not when government says so.

By setting a benchmark for pricing, government disrupts the most essential aspect of providing quality services. Without proper knowledge of consumer habits, it is unlikely, in this case, that hospitals and health care providers could ever provide higher quality more accessible care.

Impact on Care

The essential policy question of price controls is whether they will improve the overall quality of our healthcare system. The COVID-19 pandemic has allowed us to more clearly see just how razor thin the profit margins are for many hospitals in Kentucky. When forced by government to postpone elective surgeries, hospitals across Kentucky have had to furlough hundreds of employees in order to keep their doors open. The largest hospital in Eastern Kentucky, Appalachian Regional Healthcare, has laid off 500 employees. UK Healthcare, based in Lexington, has furloughed 1,500 staff members and Jenny Stuart Health, based in Hopkinsville, has furloughed 248 of their 1,000 employees.

In 2015, Kentucky State Auditor Adam Edelen found that a 1/3 of Kentucky's rural hospitals were in poor financial shape, and that closure may be an unfortunate reality. Price controls, which would almost certainly cut into these already slim margins and reduce any profit that may allow these hospitals to innovate and compete, could deliver the final blow that forces them to close their doors. Fewer hospitals and less innovation would only exacerbate the pain felt by patients now.

In fact, a 2007 study titled Pharmaceutical Price Controls and Entry Strategies from researcher Margaret Kyle and published in *The Review of Economics and Statistics*, found that "pharmaceutical companies headquartered in countries with drug price controls reach fewer markets than those in countries without price controls and overall those companies tend to avoid markets with price controls."

A 1993 report from the Heritage Foundation, *Why Global Budgets and Price Controls Will Not Curb Health Costs*, notes that price controls, "result in shortages of the goods or services subject to control" and would "lead to reductions in the quality of the goods or services subject to control."

A 2001 Cato Institute report titled *The Problems of Price Controls*, reiterates that "When prices are held below natural levels, resources such as talent and investor capital leave an industry to seek a better return elsewhere. This means that there will be less discovery and innovation, and fewer new drugs will become available to consumers." The same report also notes that in 1990 when the government set price controls for pharmaceuticals and Medicaid, "[t]he legislation resulted in an increase in drug expenditures for many private buyers as drug manufacturers tried to raise prices on government sales.

A study published in August of 2019 in the *American Journal of Managed Care* found that after California passed price controlling legislation in response to surprise billing - although the law resulted in fewer surprise bills, it also led to "lower provider payment rates and increased physician group consolidation." Additionally, according to the California Medical Association, "[t]he California Department of Managed Health Care recently reported that there was a 48% increase in patient access to care complaints [from] 2016-2018 – after the passage of California's surprise billing law."

Legislative Recommendations

When considering how to fix any issues that may arise in the healthcare sector, lawmakers should reject attempts to use price controls. This this especially true in the midst of the COVID-19 pandemic. Doing so would only reduce access to care, reduce innovation in healthcare, and leave patients paying the price.

Conclusion

The United States healthcare market, just like every other market, faces its share of problems, and just like every other market, the healthcare system must be able to adapt to the needs of its consumers. Hospitals, healthcare providers, and insurers should be granted this flexibility especially to ensure a high quality of care and more equitable access. Federal price controls, ultimately, would be destructive of those ends.

Works Cited

Duffy, E. L. (2019). Influence of Out-of-Network Payment Standards on Insurer–Provider Bargaining: California's Experience. The American Journal of Managed Care, 25(8)(243). Retrieved from https://www.ajmc.com/journals/issue/2019/2019-vol25-n8/influence-of-outofnetwork-payment-standards-on-insurer-provider-bargaining-californias-experience

Edelen, A. (2015). Special Report On The Financial Strength Of Kentucky'S Rural Hospitals. Auditor of Public Accounts.

Haislmaier, E. (1993, March 8). Why Global Budgets and Price Controls Will Not Curb Health Costs. Retrieved April 20, 2020, from https://www.heritage.org/health-care-reform/report/why-global-budgets-and-price-controls-will-not-curb-health-costs

Kyle, Margaret K. "Pharmaceutical Price Controls and Entry Strategies." *The Review of Economics and Statistics* 89, no. 1 (2007): 88–99.

Scott, F. M. (2001, June 20). The Problems of Price Controls. Retrieved April 20, 2020, from https://www.cato.org/publications/commentary/problems-price-controls