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PHARMA & HEALTHCARE 5/26/2015 @ 9:03AM 999 views

Economic Development 2.0: Playing The Healthcare Card

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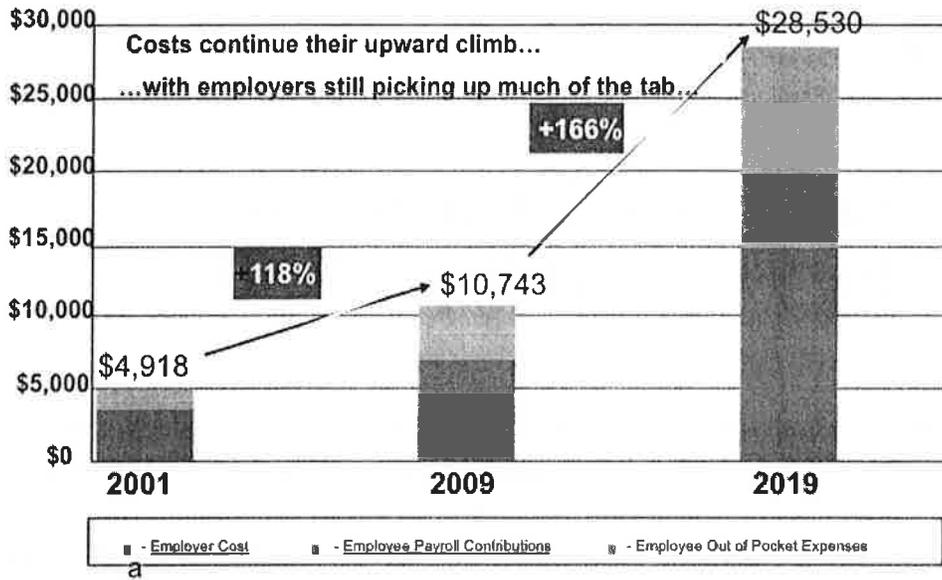
A strong case was made by Jim Clifton, the Chairman of Gallup, that we're in World War III in his book [The Coming Jobs War](#). Just as the previous wars impacted which countries would lead the world in prosperity, the "war" we are in will dictate which communities get the lion's share of the jobs (and thus prosperity).

A common economic development approach for communities is to put a marketing veneer on their community and throw some tax breaks at corporations to entice them to relocate. Economic Development 2.0 recognizes that all the tax breaks in the world are dwarfed by differences in healthcare value from one community to another.

After payroll, the largest cost for most industries is healthcare benefit costs. Just as manufacturers shift production to low-cost manufacturing centers, industries will be attracted to high value healthcare centers. For instance, IBM is making decisions on where to locate new technology centers based on the healthcare value equation. These decisions represent thousands of jobs for communities vying for those growth opportunities.

Why Innovate → Affordability

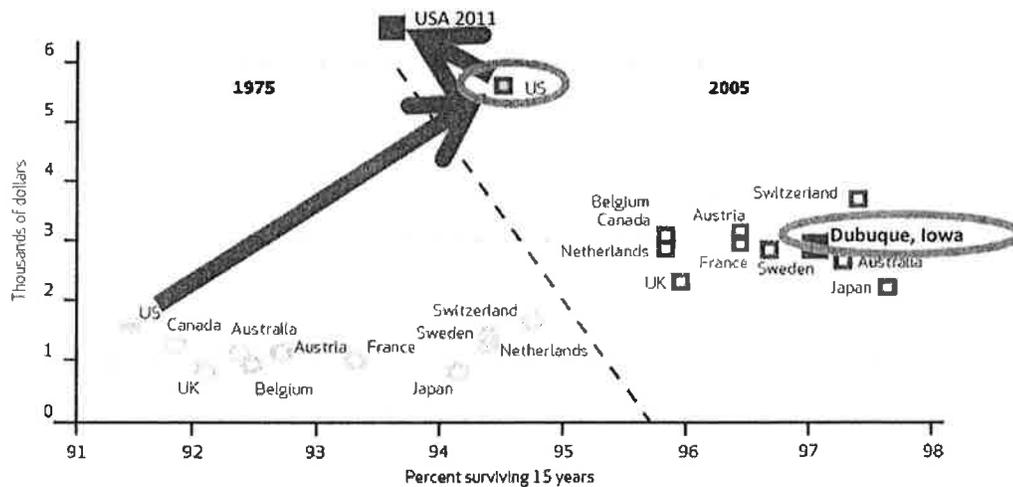
The Elephant in the room



IBM

Thanks to Dr. Paul Grundy who is IBM's Director of Healthcare Transformation for the slides he shared in this article.

Employers foot most of the healthcare tab and are starting to flex their muscle (though it ultimately comes out of their employees' pockets). Consequently, IBM has shifted from thinking about healthcare as an employee benefit to a large cost driver that will impact their profitability. IBM recently made a decision as to where to locate 4,000 new hires based on their analysis of where they received the best value from their healthcare expenditure. After looking at the graph below it's easy to understand why they determined that Dubuque, Iowa, was the best location to expand their employment. With wide cost differentials, some argue that CFOs and CEOs are failing in their fiduciary responsibility to not shift to models that are proven to save money while maintaining or improving health outcomes and patient satisfaction. This is a scary prospect for communities that are high-cost locations for healthcare.



The Cause? Mostly due to unregulated fee-for-service payments and an over reliance on rescue/specialty care. This is stark evidence that the U.S. health care industry has been failing us for years. "Commonly cited causes for the nation's poor performance are not to blame - **it is the failure of the delivery system!!**"

- "Unaccountable Care Organizations"

Source: Paul Grundy MD,
head of worldwide healthcare, IBM

* Peter A. Muennig and Sherry A. Gilled Health Affairs Oct. 7, 2010

Inevitably this will shift how communities think about economic development. It turns out that having a high-value healthcare system is likely to be of greater benefit than a tax break. Conversely, communities with expensive healthcare have what amounts to a healthcare "tax" that will push businesses away or, at a minimum, impair their bottom line.

Health Systems Tax Local Communities: Taxation Without Representation?

MacArthur Genius Grant winner Dr. Jeff Brenner spoke about the "tax" issue in a recent [interview](#):

“ One of the problems is that we have a giant economic bubble underlying this where we have hospital financing authorities underpinning, that are run by states that help hospitals float bonds. And we have this giant bond market called the hospital bond market that's considered very secure, very safe, good investment. And you know, that bond market has floated too much hospital capacity and created and brought online too many hospital beds, far more hospital beds than we need in America. So you know, the most dangerous thing in America is an empty hospital bed. In the center of New Jersey, near Princeton, a couple years ago, we built two brand-new hospitals. These are two \$1 billion hospitals, 10 miles apart, very close to Princeton. So one is called Capital Health, and the other is Princeton Medical Center. I don't remember anyone in New Jersey voting to build two brand-new hospitals. But we are all going to be paying for that the rest of our lives. We'll pay for it in increased rates for health insurance. And, boy, you better worry if you go to one of those emergency rooms, because the chances of being admitted to the hospital when there are empty beds upstairs that they need to fill are going to be much, much higher than when all the beds are full—whether there's medical necessity or you need it or not. So I'd be very worried if you live in Princeton that there are now two \$1 billion hospitals waiting to be filled by you.

Every health system CEO that I have spoken to readily states that there is at least a 40% over-capacity of hospital beds yet some communities still allow for more and more building of healthcare facilities despite there being no evidence that it will improve outcomes. As a recent Harvard School of Public Health report pointed out when studying 195 hospital closings, there was no discernible impact on outcomes when they closed. In countries that have shifted from a “sick care” model to one that is focused on health and well-being, more than half of hospitals closed while they have improved outcomes. This is something to celebrate; however, we have to be mindful of short-term impacts on individuals impacted. The good news is that with the aging baby boomers, there will be more than sufficient demand for clinicians. However, it may be in a different setting.

There are several other indirect costs to the over-building “tax”. Each of the following major issues can be addressed if we design the health ecosystem in a rational way:

1. There are unprecedented levels of dissatisfaction and burnout by doctors. A major reason is we’re layering more and more on top of a design failure. We need to focus on the “Quadruple Aim.” Our communities can’t thrive without doctors and allied health professionals thriving.
2. As Bill Gates pointed out in a TED Talk, out-of-control healthcare costs are directly devastating education budgets that are critical to the long-term future. An accounting firm partner who is also a school board member outlined this in detail in a letter to the Moorestown Sun. Since he bought his house, his property taxes have doubled — all due to increased spending on education. However, as he breaks down, all of the “education increase” was due to healthcare costs.
3. As the US News & World Report found, due to healthcare costs, cities are unable to perform basic services such as filling potholes. More dramatically, there are hundreds of millions of unfunded pension commitments due to healthcare costs.
4. At the state and federal level, bridges are literally falling into rivers as healthcare costs have starved budgets of infrastructure investment. Both the New York Times and the non-partisan Center on Budget and Policy Priorities have reported on the tragic consequences of the spending on healthcare waste and over-treatment while roads, airports, bridges and rails fall apart. As a former chair of the US President’s Council of Economic Advisers said during the debt crisis, “we don’t have a debt problem...we have a healthcare problem.”
5. Healthcare’s hyperinflation has amounted to a “tax” that has crushed nest eggs by \$1,000,000 per household. Had the “tax” not been there, those are monies that could be available to spend on other items.
6. As Atul Gawande pointed out in his book and in the recent PBS Frontline special, we are doing a horrendous job dealing with end-of-life issues, leading to a tortuous experience for those at the end of their life — and it needlessly squanders money in the process. As the WSJ reports, doctors die differently. Careers in medicine have taught them the limits of treatment and the need to plan for the end. Places such as La Crosse, Wisconsin, have shown individuals can have a much more peaceful end-of-life with proper planning. It happens to cost 40% less when a community chooses to have its citizens die as their doctors do.

Biggest Obstacle to Economic Vitality: Preservatives

What's keeping the aforementioned from happening? Our present healthcare model depends on people being sick to profit. Let's face it, there are 3 trillion reasons why established players don't want to change. Unfortunately, the "preservatives" (i.e., those trying to protect status quo/revenue) often cling to old models. Sadly, local leaders have described what they believe are some of the dirtiest anti-competitive, mafia-like tactics they've seen or heard in any industry being employed by non-profit health systems. For example, this month a mayor shared how the non-profit health system CEO in his city threatened electoral retaliation if he made moves to purchase healthcare more wisely as that would impact the hospital's bottom-line. Fortunately, the mayor is staying the course, realizing he must answer to the voters, not special interests. The benefits consultant that has been a part of the process shared how there was a meeting with a handful of hospital executives who were stating their case that they were a "poor" non-profit. He found that the five executives in the room had a collective salary of over \$2 million. Hmmm.

Despite the fact that many health systems are non-profits, they have reflexively viewed top-line revenue growth as their objective. This may be due to the fact that non-profit boards are typically made up of business leaders where revenue growth is the goal. Forward-looking non-profits, instead, focus on long-term economic sustainability. With all of the changes in healthcare, it's just a matter of time before enlightened boards fundamentally rethink whether their health system should fulfill its mission in a different manner.

Unfortunately, most health system leaders are following the path another local/regional oligopoly (newspapers) took and thinking that it's a zero sum game when there were entire new opportunities opening up. Like newspaper execs, many healthcare executives dismiss these opportunities (and competitive threats). In contrast, smart health systems I know are incubating and investing in businesses that address the aforementioned 80% of outcomes addressed by non-clinical factors.

Putting aside anti-competitive behavior by health system leaders, it's understandable why a mayor would be concerned about the economic impact of a hospital going away or seeing their revenues decline. Typically hospitals are one of the largest employers in a community.

The Forward-Looking View on Economic Development

“The healthcare problem is the No. 1 problem of America and of American business. It's the tapeworm, essentially, of the American economy, and we have not dealt with that yet.” – Warren Buffett

The following is a list of how forward-looking public officials are re-thinking economic development:

- Public officials want the assistance of forward-looking healthcare leaders who recognize that 80% of outcomes are driven by non-clinical factors who can be partners in addressing the other 80%.
- “Buy Local” programs reflect that buying from locally owned businesses results in more dollars circulating in the local economy. Municipalities as employers and as trendsetters are increasingly directly contracting for health services. For example, self-insuring rather than sending dollars outside the community to middlemen payors is one example. Another is directly contracting with locally owned surgery and imaging centers rather than with out-of-town owned health chains is another. The potential to recirculate dollars is enormous. Even if one used a low figure like 10% being sent outside the community to non-local health organizations (insurers, providers, etc), in a community of 20,000 people, just factoring in private insurance (~37% of total healthcare payments), that would be a \$7.4 million potential infusion into the local economy (assuming a \$10,000 per capita spend on healthcare). *[Note: These are extremely rough calculations just meant to illustrate a point. It doesn't include Medicare & Medicaid even though people covered under those could choose to "buy local" as well.]*
- More generally, buying health benefits much smarter via the elements outlined in the Health Rosetta. With respected organizations such as PwC stating that more than half of healthcare spending is waste, it's logical that they are rethinking their approach. Cities like the city of Kirkland and Everett (cities in the Seattle metropolitan area) are wisely making those kinds of moves in their own healthcare purchasing. Health Rosetta represents a best practice to model.
- Many hospitals are in high value real estate locations. Re-purposing hospitals for medical malls is one approach. Health system leaders often state that their businesses are “low margin” so they should be open to re-purposing. Situations vary widely between communities so they'll need to evaluate what the highest and best use of resources is.
- Recognizing the point made by Macarthur Genius, Dr. Jeff Brenner, cities do master planning and make permit approvals that should take into account that healthcare is a supply-driven market. Approving more healthcare build-out virtually guarantees an indirect “tax” on local citizens.
- The #1 cause of homelessness and bankruptcy are healthcare costs. Both issues have a profound impact on the economic vitality of a community and neighborhoods.
- I hear rumblings of city attorneys and state attorney generals fighting the non-compete agreements that doctors have signed that are against the public interest. In particular, primary care physicians(PCPs) are foundational to a more effective health system. Unfortunately, the waning fee-for-service industry turned PCPs into milk-in-the-back-of-the-store referral machines. Though PCP practices were ostensibly “money losers” the fact that they can refer more than \$8 million per year in value caused health systems to gobble them up to protect their flank. While logical for them, it harms a well functioning health ecosystem to have PCPs locked into non-compete deals.
- The historic adversarial relationship between school boards and teacher's unions has hurt their community. The school board member's calculations referenced above are a microcosm of what is happening all over the country. Detroit is a canary in the coal mine of how health costs can devastate city and family budgets. Proactive city leaders recognize great schools are one of the most important factors in attracting and retaining citizens. The school boards and unions should have common cause to slay the healthcare cost beast. Otherwise, they are just putting their fingers in the dike. If they look over the dike, it's crystal clear that a tsunami is headed their way.

I'll leave you with a quote from one of healthcare's enlightenment thinkers, Dr. Jeffrey Brenner about the opportunity to drive changes to what may seem like an insurmountable obstacle:

“ There comes a point in a democracy when the public's had enough and they stand up and they get upset. And, you know, the baby boomers shifted every public system they've ever touched. They shifted schools, colleges and universities. They changed the institution of marriage, of child rearing, of employment. I think that they're probably going to change the institution of aging, medical care and dying, ultimately.

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