

Healthier Hospitals, Healthier People, and a Healthier Economy

Op-Ed by Charles Courtemanche, Associate Professor of Economics and Director of the Institute for the Study of Free Enterprise, Gatton College of Business of Economics, University of Kentucky

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Hospitals are vital not only to the health of Kentucky's residents, but to the economic health of the state as well. Although their presence is often taken for granted, many hospitals – particularly those in rural areas – face serious financial challenges. Public policies – such as Senate Bill 27 (SB27) and House Bill 490 (HB490), which aim to ensure the best possible prescription drug prices for patients at safety-net hospitals – are vital to ensuring the viability of these struggling hospitals.

A new report by the Kentucky Hospital Association (KHA) found that the state's hospitals generate an annual economic benefit of \$14 billion – roughly 6% of Kentucky's Gross Domestic Product. \$6 billion comes from wages. Another \$6 billion represents purchases of capital equipment, other goods, and services that stimulate growth in other sectors of the economy. The remaining \$2 billion largely comes from taxes paid and financial assistance given to patients. Kentucky's hospitals provide emergency care to 2 million people annually, implying one visit for every 2.3 of the state's residents.

Despite these impressive numbers, many hospitals face financial challenges that threaten their ability to continue to meet the health care and economic needs of their communities. Hospitals face a multitude of regulations, including the requirement to provide emergency care to uninsured patients that often ends up uncompensated. Moreover, federal and state governments set payment rates for patients on Medicare and Medicaid, which leads to losses on certain services.

The problems are particularly pronounced in rural areas with disproportionate numbers of Medicaid and uninsured patients. For instance, according to a [study by the University of Minnesota](#), about 40% of rural hospitals lose money on their obstetrics programs. [A report by the Center for Healthcare Quality and Payment Reform](#) found that 16 of Kentucky's 72 rural hospitals are at risk of closing, with the risk being immediate at 10.

The consequences of these closures can be dire. When Our Lady of Bellefonte Hospital closed in Russell in Greenup County, 1000 jobs were lost and the city of 3,400 people lost nearly 25% of its payroll tax base. Moreover, the loss of easy access to health care reduces the city's appeal to businesses and potential residents, likely leading to further economic losses over time.

What is the appropriate role for public policy in addressing these challenges? Economists often extol the virtues of free markets, with winners and losers in business determined by market competition. However, the extensive regulations facing hospitals and private insurers, combined with the government's major role as payer and price-setter, mean that the market for hospital services is anything but free. Hospital closures may therefore reflect inefficient distortions of markets rather than the underlying forces of supply and demand.

A case can be made for sweeping, national reforms that move the health care industry in a free market direction. In the absence of such reforms, though, there is a role for state and local governments to take incremental steps toward solving the most acute problems.

One such example is before the Kentucky General Assembly now in SB27 and the related HB490. These bills relate to the 340B drug discount program, which requires pharmaceutical manufacturers to provide specified discounts on outpatient drugs to safety-net hospitals that serve disadvantaged populations. These hospitals are allowed to use “contract pharmacies” as additional sites for patients to receive their medication. Drug manufacturers have begun imposing arbitrary limitations on these contract pharmacies to avoid having to offer the discounted price. These restrictions will cost Kentucky’s most vulnerable hospitals millions of dollars, affecting service availability. The bills before the legislature will prohibit these restrictions and ensure the best possible pricing.

Kentucky’s hospitals serve vital roles as both providers of health care and engines of economic development. However, many of these hospitals face major financial challenges due to regulations and top-down fee setting rather than the market forces of supply and demand. While a major overhaul of the U.S. health care system is beyond the control of the state government, policymakers can still take important incremental steps toward ensuring that hospitals serving the most vulnerable populations are able to continue meeting the needs of their communities.