Prix Fixe Medical Care: The Future Of Hospitals?

By Hank Campbell — January 20, 2016

If you've ever been to a hospital, when you got the bill you may have felt like the prices were made up on a dare. And if you know someone who had the exact same procedure elsewhere, they could have spent 10 times as much in another part of the country [2].

A federal analysis [3] a short while ago showed that in New York City, two hospitals had a substantial difference in costs for asthma and bronchitis treatment. One charged, on average, $34,310 while the other was $8,159.

When it comes to buying a computer, we know exactly what we are going to pay. Same for clothes and almost anything else. So why not for medicine? This is not about Dr. House, M.D. medical mystery stuff; even prices for well-defined procedures are unknown going in, and few people seem to mind. Competition is supposed to bring prices down, but health care is one of the few areas where the service instead increases costs -- and no one seems to bother to ask why.

"Greedy hospitals" claims one side, while "government paperwork, defensive medicine and malpractice insurance" replies the other.

There is a trend toward making all of that more transparent: Fixed pricing for procedures, published for everyone to see.

A Menu for Medicine

In 2013, about 40 surgeons and anesthesiologists at the Surgery Center of Oklahoma [4] made a splash in media by telling customers what they would charge in advance. Need a tonsillectomy? That will be $3,600, and the cost includes the doctor, nurse, anesthesiology, the room, the drugs and whatever supplies. They have a prix fixe, or fixed price, menu like in a Parisian restaurant -- you don't even need to leave a tip.
What happened as a result? Hospitals within easy flying distance started engaging in price matching [5] to keep people from traveling to this disruptor in Oklahoma. As a result, costs went down for those patients smart enough to shop around in an industry where competition traditionally makes care more expensive, e.g., Hospital A buys a new MRI machine, so Hospital B does the same thing to look like a technology leader and every patient underwrites the higher costs.

Why wasn't fixed pricing always the case? Health care was not always considered a business, it was once a calling, and so it was successfully portrayed as a values issue, rather than a financial one. You don't negotiate when it comes to your health, and you are a bad parent if you dicker about the best treatment for your kids.

But no more. Due to the Affordable Care Act, elite doctors are creating expensive concierge service, while on the other extreme doctors are engaging in webcam service or anything else they can do to cover costs.

In the middle there is this growing trend of just being transparent. Will it work? It's hard to say. During the wage caps of World War II, businesses had to find ways to recruit workers, and health insurance was one technique to attract talent. Once health insurance became the norm, people were removed from thinking about cost and value, and then health care consolidated over time to where they could set the prices because there could be no competition.

Waste accounts for $750 billion a year [6]. That leaves a lot of room for the free market to get more efficient, if patients begin to care about value instead of assuming more expensive care must be superior.

NOTE:

(1) Like Lupus. Or not.