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Why Medicare's Pilot Programs Failed

John C. Goodman **April 10, 2012**

The failure of Medicare's demonstration projects to reduce the costs of care has been the subject of much disappointment in the health policy world. Recall that these are critical to President Obama's challenge "To find out what works and then go do it."

If nothing works, the fallback weapon in ObamaCare is to reduce fees paid to doctors and hospitals. Yet the Medicare actuaries tell us squeezing the providers in this way will put one in seven hospitals out of business in the next eight years, as Medicare fees fall below Medicaid's. Under this scenario, senior citizens may be forced to line up behind welfare mothers, seeking care at community health centers and in the emergency rooms of safety net hospitals.

I've confidently predicted health care costs will never be controlled by running pilot programs and trying to "copy what works." The Congressional Budget Office (CBO) has shared this viewpoint from the beginning.

No Significant Savings

Over the past two decades, Medicare's administrators have conducted two types of demonstration projects. Disease management and care coordination demonstrations consisted of 34 programs that used nurses as care managers to educate patients about their chronic illnesses, encouraged them to follow self-care regimens, monitored their health, and tracked whether they received recommended tests and treatments. The primary goal was to save money by reducing hospitalization. With respect to these efforts, the CBO finds:

- On average, the 34 programs had little or no effect on hospital admissions.
- In nearly every program, spending was either unchanged or increased relative to the spending that would have occurred without the program.

Value-based payment demonstrations consisted of four programs in which Medicare made bundled payments to hospitals and physicians to cover all services connected with heart bypass surgeries. The CBO finds "only one of the four … yielded significant savings for the Medicare program" and in that one Medicare spending only "declined by about 10 percent."

As Robert Laszewski, president of Health Policy and Strategy Associates, put it recently, "thirty years into managed care, the stark reality is that we aren't yet smart enough to get things under control." That's an understatement.

Why is none of this working? Because it all involves people on the demand side of the market trying to take the place of entrepreneurs who would ordinarily be on the supply side.

Entrepreneurs Needed

Successful innovations are produced by entrepreneurs *challenging* conventional thinking, not by bureaucrats *trying to implement* conventional thinking. There are numerous examples of successful entrepreneurship in health care, but very few examples of successful bureaucracy. Can you think of any other market where the buyers of a product are trying to tell the sellers how to produce it efficiently?

On the supply side, we have the islands of excellence—Mayo, Intermountain Healthcare, Cleveland Clinic, etc. On the demand side, we have a whole slew of experiments with pay-for-performance and other pilot programs designed to see whether demand-side reforms can provoke supply-side behavioral improvements, and never the twain shall meet.

We cannot find a single institution providing high-quality, low-cost care that was created by any demand-side buyer of care. Not the Centers for Medicare and Medicaid Services (CMS), which runs Medicare and Medicaid. Not Medicare. Not BlueCross. Not any employer. Not any payer, anytime, anywhere.

Also, wherever we do find excellence we almost always discover it cannot be copied. Pilot programs—even when they work—are not always scalable.

No Formula for Success

Scholars associated with the Brookings Institution identified 10 of the best hospital regions in the country and then tried to identify common characteristics that could be replicated. There were almost none.

Some regions had doctors on staff. Others paid fee-for-service. Some had electronic medical records. Others did not.

A separate study of physicians' practices found much the same thing. There were simply not enough objective characteristics that the practices had in common to allow an independent party to set up a successful practice by copycat alone.

Bottom line: Bureaucracies can't do what only markets can do.