

Estimate of the Situation

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The Affordable Care Act and the Law of Unintended Consequences

We made too many wrong mistakes.” — Yogi Berra

In the wake of *the Affordable Care Act*, Edward C. Banfield’s thin but seminal work, “*The Unheavenly City*”, is a highly recommended read for health

care decision makers. First published in 1970, it contains two embedded themes, both of which are especially relevant today. Those two themes are the importance of “future orientedness” to success and the power of the Law of Unintended Consequences.

Banfield believed that “future- orientedness”, not economic status, was the primary determinant of success in society. In Banfield’s words, “The individual’s orientation toward the future will be regarded as a function of two factors: (1) ability to imagine a future, and (2) ability to discipline oneself to sacrifice present for future satisfaction.”

With respect to future-orientedness factor (1), by now it is clear beyond question that the ACA was enacted by a Congress that had no idea of its consequences for an apparently unimagined future. With respect to factor (2), it seems highly unlikely that self-discipline even made it to the list of potential Congressional considerations.

Banfield also believed that the law of unintended consequences made large scale action by government inherently dangerous. The idea dates back at least to Adam Smith, but it was the sociologist Robert K. Merton who popularized the concept in the twentieth century. Although unintended consequences can at times be positive, the reference has come to mean that an intervention in a complex system tends to create unanticipated and often undesirable outcomes. For example, the Interstate Highway System did revolutionize travel—but it also led to the hollowing out of cities as businesses moved to the suburbs and the new Interstates enabled white flight. Similarly, Social Security, while providing the elderly with a financial cushion, also resulted in the creation of the nursing home industry, effectively destroying the institution of the extended family. In the particular case of the Affordable Care Act, early results suggest

that it has produced an increase in ER visits, the direct opposite of what was expected. This is only one unexpected adverse outcome on a rapidly growing list.

Confronted with an unfamiliar situation requiring action, people tend to fall back for comfort to familiar solutions. In health care, the Affordable Care Act has produced an accelerated rush among hospitals toward merger, consolidation, and practice acquisition. These solutions are based on a conventional wisdom that relies upon long-cherished theories and business models, ideas that generations of MBA graduates have absorbed. They include a nearly absolute faith in economies of scale, the beneficial effect of information systems, and the predictive power of big data.

For good or ill, mega-institutions and systems are emerging. Whether they can actually survive and prosper in the new environment remains to be seen but the temptation for small and mid-sized hospitals to sacrifice autonomy in favor of becoming a part of a larger system looms large. Before taking that step, decision makers would do well to carefully consider the potentially profound implications of the following organizational truisms, both for the hospital and for the community it serves.

1. The first priority for any organization is always its own maintenance.
2. The larger the organization, the more resources must be consumed in its maintenance.
3. Resources consumed in organizational maintenance are not available to do the work of the organization.
4. To optimize effectiveness, decisions should be made at the lowest reasonable level in the organizational hierarchy consistent with capability and accountability.
5. In any system, when interests of a component conflict with those of the parent organization, the parent's preferences will always prevail.



brady & associates .

7667 N.W. Prairie View Road, Suite 204
Kansas City, Missouri 64151
(816) 587-2120
<http://bradyinc.com>