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An End to the ‘Medical Arms Race’ in Massachusetts

by [Tony Dokoupil](#) November 14, 2010

Republicans have pledged to roll back health-care reform in the name of fiscal restraint. But the cost of implementing the new law remains unclear, largely because of the human equation. Universal insurance will lower the cost of care for millions of people. That could drive demand to the priciest treatments, regardless of their effectiveness, and set off what researchers call “a medical arms race” in which hospitals woo patients who care less about cost. Because hospitals account for more than a third of total health-care spending, such a spike could drive up costs across the board, including insurance premiums and government subsidies. That, at least, is the worry.

But perhaps it shouldn't be. A new study by the National Bureau of Economic Research is the first to track hospital costs in Massachusetts, where a 2006 law became a model for national reform. It finds that 93 percent of people in the Bay State are now insured. But despite an influx of patients, total hospital costs haven't grown more than usual. New efficiencies probably helped: thousands fewer patients now use the ER for routine care or show up because of a preventable condition. And the average length of a hospital stay is down an hour per person. But University of Pennsylvania economist Jonathan Kolstad, who coauthored the study, speculates that the real heroes could have been insurers, who bargained with hospitals. If the same clout is exercised nationally, optimists may be right about reform's cost savings.