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Protection of the Health Care Consumer

The Truth Agency

By Regina Herzlinger

A Health Care SEC

I was stunned. Why were the frequent flyers on my plane applauding a movie? When I looked up, the answer was clear: the screen showed Helen Hunt's famous tirade against the HMO that denied adequate care to her sick son and ignored her suffering.¹

The managed care backlash I had long predicted had clearly arrived.² Earnest elected representatives rushed to the rescue. Their remedies ran the gamut from mandated benefits to national health care quality standards.

Well intentioned? Sure. But in the light of day, reality strikes: Regulation is no sure-fire problem solver. Will new regulations solve the perceived managed care problems of inadequate care, excessive costs, and financial fragility? One can doubt their efficacy. Regulations can ossify institutions and suppress much-needed innovation, and they can be politicized.

Fortunately, another sector of the economy offers valuable lessons for effective resolution of similar problems. Although at one time it, too, suffered from lack of public trust and was thought to damage American consumers, it is now among the most admired parts of the U.S. economy, widely held up as an international model.³

"It" is the U.S. securities markets. They are appropriate reform models because both securities and health insurance policies are complex and purchased in similar ways--either directly, from the firm or broker, or indirectly, through a mutual fund or the employer. But while the markets for health insurance are widely viewed as failures, those for securities are viewed as successes. Why?

To my mind, the U.S. government's Securities and Exchange Commission (SEC) served as the handmaiden for the transformation of the securities markets. It did so by providing information and oversight, not through evaluation and micromanagement. A health insurance SEC that contains the essential features described below would replicate this success. With such an agency in place, the health insurance markets would:

- Disclose complete and reliable information.
- Contain fair prices for health insurance policies in the sense that they reflect all publicly available information.

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- Protect consumers with information that helps them to redirect money from ineffective insurers that provide too little medical care for their price to insurers that give customers the quality and price they want.
- Lower the transaction costs of buying health insurance.

These potential benefits would be enhanced if the choice of health insurance were in the hands of consumers instead of employers. In other publications, the Progressive Policy Institute and I have described reforms to increase consumer choice.⁴

In what follows, I will analyze the deficiencies of current efforts to protect health care consumers, the causes for the SEC's success, the characteristics of regulations most likely to replicate its salubrious effects in health insurance, and the transformation of the health insurance market that appropriate regulation can create.

I will discuss the characteristics of the SEC and its related private sector organizations in great detail because they are frequently misunderstood. God is in these details. Those who misunderstand them may convert the SEC from a positive overseeing organization that enhances disclosure to a negative evaluating agency that micromanages private sector organization

The Pipe Dreams of Patient Protection Legislation

The many current patient protection bills, to varying degrees, rely on three mechanisms to solve the problems of managed care: Government-controlled information disclosure, standards for medical care, and mandated benefits. Superficially, they appear benign, even reassuring; but, as presently drafted, some pose a worrisome potential to cause harm.⁵

Government-Controlled Disclosure

Substantial problems exist with providing consumer information in a sector that has little experience with public disclosure and that lacks widely accepted standards of measurement.

Many agree that, despite a firm scientific foundation, the art of health care quality measurement is in its infancy.⁶ What to measure, how to measure and disseminate it, how to adjust for individual characteristics and severity of illness--these are but a few of the fundamental unresolved issues.⁷ Small wonder then that consumers simply ignore presently available data. They correctly suspect the statistical reliability and data integrity of the measures.⁸ Some data are irrelevant or deficient; for example, pooling all of us into a vast sea that neglects the significant differences among the information needs of the chronically ill, women, and the elderly,⁹ or focusing exclusively on the clinical aspects of medical care and ignoring the busy U.S. consumer's interest in service convenience.¹⁰ Moreover, consumers want specific, timely information so, when needed, they can readily identify the health professionals who can best treat them.

Such novel information will require many perspectives and considerable experimentation. It is unlikely to emanate from the agencies designated to implement an information policy under both Democratic and Republican proposals, such as the Departments of Labor and Health and Human Services. Because they both regulate and buy health care services, these agencies have an intrinsic conflict of interest. For example, regulators may unintentionally bias the information to focus only on the intended impact of their regulations and not on unexpected, possibly pernicious, side effects. Moreover, government organizations often politicize standards. For example, in 1998, to mollify the powerful

teachers union, the Massachusetts government lowered the "standard grade" it initially required of new teachers on a statewide examination to include 263 teachers who had failed the exam.¹¹

Further, designation of any one agency as the sole source of information about health care is downright chilling. Consumers want multiple perspectives for their information. Investors, for example, choose from hundreds of excellent sources of information, ranging from Morningstar for mutual funds to easily available public media analysts. No one source is sufficient: even the estimable Consumer Reports' automobile ratings are unlikely to meet the needs of Harley-Davidson drivers. Similarly, consumer ratings of HMOs differed substantially from those of physicians.

Medical Care Standards: Science v. Art

More worrisome is the insistence on national standards for the appropriate medical care for each patient. Some managed care plans are no doubt guilty of arbitrarily overruling doctors' judgments about patient care; but the proposed federal rules that purport to put providers back in charge of patient care may well have the opposite effect, creating more pressure to comply with increasingly rigid standards.

Useful standards are typically based on replicable empirical experiments and sound theoretical footings; for example, standards for metal fatigue, although imperfect, are, nevertheless, useful because of the advanced theory and practice of materials science. But, because many agree that present-day medicine is art more than science,¹² the requirement for standards is akin to specifying the width of Van Gogh's brush strokes.

Indeed, the insistence on national standards may curb critical innovation in the practice of medicine, such as the efforts of many research groups and professional societies to develop and disseminate standards of care and best practices.¹³ Notes Dr. Robert Waller, the distinguished CEO of the Mayo Foundation, "Regulations put a stake in the ground that says, You have to meet that standard.' But what's quality on Monday is not what's quality on Tuesday."¹⁴

Mandated Benefits

Many pieces of legislation contain a shopping bag full of mandated benefits, such as direct access to specialty care for women and children, to overcome a perceived reluctance by managed care to provide important needed services. The overseers of managed care know they must tackle the 20 percent of events that account for 80 percent of the costs.¹⁵ For example, their 24-hour limit on a new mother's hospital stay may have been partially motivated by the 80-20 rule: There are four million births annually in the United States.¹⁶

These legislative mandates were primarily induced by consumer activists.¹⁷ On an anecdotal basis, individual mandated benefits appear perfectly reasonable. Take Mary Jo Sadosky's complaint when, exhausted and in pain, she was asked to leave a hospital 12 hours after giving birth to twins. No wonder she fought for a ban against "drive-through deliveries."¹⁸

While one cannot argue with individual complaints like these, the overall strategy has undesirable effects. A one-size-fits-all medical care strategy is unlikely to prove cost effective because Mother Nature designed us in infinite variety. Worse yet, mandated benefits may suppress the innovations in medical care delivery that offer the best hope for improving its cost-effectiveness. For example, according to a 15-year study, a program of frequent, at-home visits by a nurse for low-income mothers lowered their rates of drug and alcohol abuse and dependency on

welfare and the abuse rates of their children.¹⁹ Will a health insurer that is forced to follow a one-size-fits-all mandate invest in innovative programs to supplant it? Do not count on it.

To consider the pernicious impact of mandates on innovation, think about Dick Fosbury, the 1968 Olympic Gold Medalist in the running high jump. Unlike other jumpers who faced the bar, Fosbury backed into it and flopped 7 feet and 4-1/4 inches over it.²⁰ His unlikely innovation, the Fosbury Flop, is now routinely used.

But, imagine if well-intended Olympic officials had mandated forward-facing high jumps. Although they might have plausibly reasoned that backward jumps increase the chances of injury or are aesthetically unpleasing, the resulting bottom line--or, more correctly, the top line--no Fosbury flopping, no innovation.

What Works: Information Disclosure

Fundamentally, the primary complaint about the health insurance market is that consumers are not getting a good deal because they do not really know what they are buying. As a result, health insurers allegedly can offer too little health care for the money, skim off too much for themselves, or operate with excessively risky infrastructures. The paucity of information enables insurers that offer a bad buy to flourish. In contrast, many experts agree that the prices of publicly traded securities are fair, in the sense that they fully reflect the impact of all publicly available information.²¹ The information reflected in these prices serves to redirect capital from ineffective firms to effective ones.²² If health insurance markets operated like these "efficient" securities markets, consumers would have access to complete, reliable information and the prices of health insurance policies would reflect that information. Bad buys would become good ones.

Efficient Markets

The conclusion that securities prices reflect the impact of all information is surprising. After all, many individual owners of securities are incapable of fully evaluating the complex, publicly available information. How can they incorporate this information into the price?

At least two explanations for this seeming paradox exist.²³ First, the consensus estimate of a group on say, football game results, is generally better than the average knowledge of the individuals within the group. As Stanford's William Beaver explains, our individual evaluations are based on some kernel of valid knowledge and some idiosyncratic opinions. When we are grouped, our idiosyncratic opinions have little impact because they are not widely shared by other group members, while the kernel of truth within us is culled out as the group's consensus because it is shared by many other group members.²⁴

Additionally, experts in the interpretation of information help investors to evaluate the price. Some experts' analyses are freely available through the mass media--TV, radio, newspapers, the Internet, and magazines--and to the clients of brokerage houses. The experts are themselves rated. For example, *The Wall Street Journal's* annual "All-Star Analysts" section evaluates the performance of analysts who specialize in different industries and the overall performance of their brokerage houses.²⁶ Other experts offer their skills through the mutual funds they manage. These experts, too, are rated in readily available and understood information such as the mutual fund ratings of *Forbes* and *Consumer Reports*.²⁷ Investors use this to reward recent good performers, by allocating more money to them, and less to poor performers.²⁸

The growth in information retrieval services, especially the electronic

information retrieval component which increased by over 100 percent in one year,²⁹ will support the continued efficiency of the market. These services are estimated to grow from their 1997 level of \$19.8 billion to \$42.4 billion in 2002.³⁰

The SEC: The "Truth" Agency

Many knowledgeable observers contend the U.S. Securities and Exchange Commission (SEC) is a critical element of the efficiency of the securities markets.³¹ (While the issues of state insurance commissioners and state vs. federal regulations are important, they are beyond the purview of this report.) (See Sidebar A.)

The SEC was created in 1934, to much fanfare, during the administration of U.S. President Franklin Delano Roosevelt, to correct the woeful abuses of small investors in the markets: insider trading, stock watering, nonexistent or misleading information, and outright fraud.³² The hope was that the SEC would restore public confidence in the markets and succeed where lax, inconsistent, inadequately funded state "blue sky" regulations-- meant to check promoters who would sell "building lots in the blue sky"--had failed.³³

Regulation of securities was not a new idea. As early as 1285, the English King Edward I required licensure of London brokers.³⁴ Much of this early regulation relied on authorities to evaluate the worthiness of a security before permitting its public sale.³⁵ But, from its inception, the SEC, unlike its predecessors, was not a "merit" agency. As Roosevelt noted: "The Federal Government cannot and should not take any action that might be construed as approving or guaranteeing that . . . securities are sound. . . ." Rather, the SEC was to insure full disclosure of all material facts about the securities. In Roosevelt's words, "It puts the burden of telling the truth on the seller."³⁶

There was plenty of truth waiting to be told. At the time of the SEC's creation, there were minimal requirements for listing of securities on the stock exchange and no source of generally accepted accounting principles. Information disclosure was limited and not subject to oversight. In 1923, only 25 percent of the New York Stock Exchange firms provided reports to their shareholders.³⁷ Sound familiar?

To put teeth in its mission, the SEC was given the power to enforce "truth in securities" (the Securities Act of 1933) and to regulate the trading of securities in markets through brokers and exchanges (the Securities Exchange Act of 1934). Firms that trade their securities in inter-state markets must register with the SEC and file regular information reports. Exchanges and inter-state brokers must also be registered. The SEC also reviews the rules for market operations and requires that brokers meet minimum capital requirements and submit information about their transactions. The 1934 act also protects investors against deceptive practices.³⁸

These SEC powers to regulate information and the functioning of the securities markets are key elements of the efficient U.S. markets.

The Private Sector Sources of Information

The information that lies at the heart of the efficiency of the markets wells from the delicately balanced interaction among three private sector groups: the firms, the FASB (Financial Accounting Standards Board, the accounting information standards promulgator), and the accounting profession.

The presence of three different groups provides checks and balances and fuller consideration of diverse points of view. Unlike a government

agency, this troika does not sing out of one hymnal. And their private-sector nature requires political and financial support for their continued existence. If they hit a sour note with their diverse supporters, they can, and have been, forced to change their ways.

The SEC recognized the following advantages of ceding some of its authority to disclose information to the private sector:³⁹

- Practicing accountants were closer to the firms and thus could more accurately identify emerging issues.
- The involvement of the private sector in creating disclosure requirements would encourage greater compliance than government mandates.
- The SEC could more readily audit the work of the private sector information disclosers than its own. Involvement of the private sector in disclosing information would resolve a conflict of interest for the SEC.⁴⁰

The Firm

Much of the information emanates from the firm itself: Organizations registered with the SEC must disclose both financial and nonfinancial information in routine reports, including the firm's financial statements; management's discussion and analysis of performance; disclosure of the top executives' compensation; and evaluation of the firm's various lines of business.

Although the firm's managers prepare this information, they must use the methods promulgated by the FASB and its predecessors to measure some financial statement items. (The SEC had legal authority to specify these accounting standards but, with active oversight, it generally relies on the FASB to do so.)⁴¹ The managers hire an independent accounting firm to audit whether the financial statements have been prepared in accordance with the generally accepted accounting principles (GAAP) as defined by the FASB and others. The generally accepted auditing standards that guide the auditing process have been defined by the American Institute of Certified Public Accountants' Auditing Standards Board.⁴² The auditors render a formal opinion of the firm's financial statements. If the information deviates from GAAP, or if the auditor cannot issue a clean opinion for other reasons, the SEC may well suspend trading in the stock and thus bar the firm from access to the capital markets.

The FASB

Because the FASB is a private, nonprofit organization, it lacks the stability of tax-financed government organizations. To survive, it must earn sufficient revenues to cover its expenses and the respect of its constituency. These results are not so easily achieved: Two predecessor organizations to the FASB folded in part because they could not reach a politically acceptable consensus on specific accounting standards.⁴³

The FASB was designed to remedy some of the structural problems of its predecessors.⁴⁴ Unlike them, it was an independent, well-funded organization, sponsored by a nonprofit foundation whose board represents auditors, businesses, users, and the public.⁴⁵ Its \$16 million in 1997 operating revenues were derived primarily from publication sales and secondarily from contributors, such as accounting groups and private sector businesses.⁴⁶ To provide independence, the FASB's board members serve a full-time, five-year term at handsome rates of pay.⁴⁷ Although they are all well-versed in accounting, they come from diverse backgrounds, including large and small accounting firms, financial analysts, accounting academics, and industry.⁴⁸

In recognition of the political, consensus-building nature of its mandate, the FASB's process for issuing an accounting standard elicits widespread, thoughtful responses. The process is completely public and repeated rounds of exposure drafts encourage wide participation.

As a result of the open, elaborate standard-setting process, FASB's standards incorporate diverse points of view in an acceptable political consensus. This process is crucial to the FASB's success. Although accounting techniques were codified in 1494 by the mathematician Luca Pacioli,⁴⁹ as in health care, a conceptual foundation that can clearly adjudicate all measurement disputes still does not exist.⁵⁰ As a FASB chairman noted, "Accounting, like law, is an art whose rules are not susceptible to . . . tests of validity. . . accounting is rather a convention supported by general acceptance, consensus."⁵¹

The Accounting Profession

The independent accountants who audit the financial statements represent yet another important check and balance in the process of providing market information.

Certified accountants are professionals who must fulfill stringent examinations and educational requirements.⁵² They frequently work in one of the Big Five accounting firms which, in 1996, audited nearly 80 percent of publicly traded firms.⁵³ Accounting firms can be held legally liable for negligence, fraud, and breach of contract.⁵⁴ One firm, for example, was required to pay up to \$110 million to the creditors of the bankrupt DeLorean Motor Co. for negligent auditing, on top of a private \$35 million payment to the British government.⁵⁵ Accountants have been found criminally liable for misstatements in cases even where they did not directly benefit from them.⁵⁶

Accountants are thus subject to three powerful pressures: Their profession's standards of ethics,⁵⁷ the marketplace (accountants must satisfy their clients, the corporations that hire them), and their legal liability.

Impact of the Private Sector on the Quality of Information

The managers who prepare a firm's information disclosures are subject to many checks and balances. On the one hand, they may prepare financial statements and other information disclosures that reflect their distinctive economic circumstances. Although they must use FASB standards, these are typically not straitjackets: Similar firms may account for similar circumstances in substantially different ways.⁵⁸ On the other hand, corporate executives face substantial legal liabilities and the wrath of the SEC for failure to disclose material events. And if their auditor decides to resign or they decide to switch auditing firms, the SEC requires a public filing and explanation of the reason for the change.⁵⁹

Although this process can, and likely will, be altered, two characteristics are central to its success.⁶⁰ First, the private sector organizations must satisfy their constituencies or, like the FASB's predecessors, they will cease to exist. Second, the many participants in the process serve to promote the perspectives of diverse interest groups that are essential for fair and complete information disclosure.

The Users of Information: The Markets

The SEC's oversight of the markets in which securities are traded also helps to promote their efficiency. These markets are roughly analogous to the markets in which employers purchase insurance on behalf of employees because, as in the health insurance markets, people invest through registered brokers. The analogy is limited, of course, because

unlike investors who could choose their own brokers and the securities they wish to purchase, most employees currently have only a limited choice of insurance options. Nonetheless, employers run the risk of an unhappy workforce if they ignore their employee's preferences when selecting coverage.

Different Strokes for Different Folks

The securities markets' efficiency has not been achieved through cookie-cutter SEC market requirements. The many markets in which securities are traded have traditionally differed considerably in their operations. For example, prior to their merger, the American Stock Exchange (Amex) used a central specialist auction system of trading, while the Nasdaq relied on dealers networked by computers. The rules for market participation differed too.⁶¹ Not surprisingly, the exchanges differ in their successes. The Nasdaq options trading foray failed but its 1997 stock trading volume amounted to 648 million shares daily. Conversely, the Amex accounted for a whopping 25 percent share of the options market, but traded only 25 million shares daily.⁶²

The vast amount of public information about these markets enables the intensive scrutiny that improves their efficiency. For example, a critical academic analysis of the bid-ask price spread on the Nasdaq prompted an SEC investigation and ultimately findings of price rigging. In response, the Nasdaq agreed to spend \$100 million to improve its regulation⁶³ and investors are likely to reap more than \$1 billion in settlement of a class-action suit.⁶⁴ The information also helps Congress to monitor the markets. U.S. Rep. John Dingell's (D-MI) investigation of a Nasdaq company whose stock price plummeted ultimately caused the SEC and Nasdaq to improve their operating procedures.⁶⁵ The best, and most important, monitor is the public. As the New York Times noted, "... It is the rising power of [average amateur American investors pouring their money into mutual funds and retirement accounts that have made] the fairness of stock trading systems a populist political issue. . . . Advances in technology have made it far easier for regulators, professional investors, and even amateurs to figure out who is getting a fair shake."⁶⁶ By August of 1998, the SEC received 120 daily e-mail messages from the suspicious on-line investors who were the agency's largest source for Internet investigations.⁶⁷

Competition

Competition among sellers of securities also increases the fairness of the prices on the markets, abetted by the SEC's deregulation of fees.⁶⁸ For example, when the firm E*Trade first established its own Web site for on-line stock trading, its low \$14.95 commission quickly attracted millions of trades. But, by April of 1998, E*Trade's on-line competitors had cut commissions to less than \$10 a trade.⁶⁹ And when the SEC forced the Nasdaq to open its data systems on bid-ask spreads and to permit private trading systems to post their prices on Nasdaq's system, a new breed of "guerrilla marketmakers" emerged. As the profit margins of traditional marketmakers plunged, decreasing by nearly 50 percent in the period 1993-1997, investors saved \$20 billion in 1997.⁷⁰

Such competition is spurred by comprehensive, easily available evaluations of transaction costs. For example, SmartMoney's Interactive Web site recently ranked Brown & Co. the "best on price," with a commission charge of only \$5 a trade, while Charles Schwab was rated the "worst" with a commission of \$116.06 for the same transaction. Nevertheless, in the first quarter of 1998 Schwab claimed that it grew probably more than all the discounters and on-line firms added together.⁷¹ Why? Likely because consumers value the research and other services it offers.⁷²

The impact of information on these favorable market characteristics is

highlighted by an analysis of security markets in developing countries. It revealed that in early stages of market development, improvements in information convinced creditors to lend more. As the markets matured, firms substituted equity for debt financing. The overall impact of the information was to lower the cost of both debt and equity capital.⁷³

How to Make it Happen: Translating the Lessons of the SEC to the Health Insurance Market

The U.S. securities markets are successful in precisely the ways that health insurance markets should replicate:

- Prices are fair in the sense that they reflect all publicly available information, despite the inability or unwillingness of many buyers to avail themselves of this information.
- Buyers use this information to redirect capital so that it rewards productive firms and penalizes unproductive ones.
- Information and competition continually reduce the transaction costs of buying securities.

Societal Consequence of SEC-like Regulation

The presence of these characteristics in the health insurance market would achieve two important social goals:

First, they would divert capital from health insurers that offer a bad buy to those that offer a good one. The bad buy insurers would shrink or improve. The good buy insurers would flourish.

Currently, many complain that health insurance is a bad buy. The allegations take a number of forms: Too little is expended for medical care and service ⁷⁴ --unfair, inconvenient, horrific restrictions abound; too much is spent on administrative salaries and returns to capital; and, paradoxically, too little is returned to capital.

These complaints cannot be easily evaluated. Wharton's Professor Patricia Danzon convincingly pegs the administrative costs of large-firm insurers at 5.5 percent to 30 percent or more for firms with 20 or fewer employees. Are these excessive? Single-payer advocates maintain that administrative expenses, which they estimate at 25 percent-48 percent, are a dead loss; but Danzon contends that competition among insurers likely lowers costs and inhibits adjustment of premiums at the consumers' expense.⁷⁵ (Although the appropriateness of administrative expenses appears moot, the hefty compensation of some HMO executives takes one's breath away. While Oxford Health Care's providers were left languishing for payment,⁷⁶ the 1996 compensation of its CEO was \$29 million and the total compensation of the top five executives was \$58 million, exclusive of unexercised stock options.⁷⁷ A study by Graef Crystal, a noted compensation expert, concluded that managed care companies paid their CEOs 62 percent more than other comparable-sized firms and 35 percent more than their stockholder performance warranted.⁷⁸)

Complaints about the industry's excessive profitability ignore the industry's risk--after all, a deep sea diver should be paid more than a bank clerk to compensate for risk--and were not as relevant recently when many managed care organizations were operating at a loss, as in 1994 when the ostensibly nonprofit Kaiser Permanente earned a 6.7 percent profit and, in 1995, when Oxford earned a 5.2 percent rate.⁷⁹ And yet, paradoxically, some health insurers were severely undercapitalized.⁸⁰ For example, the \$39 million 1992 capital balance of New York's mammoth \$7 billion Empire Blue Cross- Blue Shield ⁸¹ was

comparable to an elephant's balancing on the edge of a razor blade.

Complaints like these are not unique to the health insurance sector. The U.S. automobile sector, too, was characterized by years of poor quality ratings; doubt about its leadership; and serious concerns about the financial stability of Chrysler.⁸² But U.S. automobile consumers could act more decisively than health insurance consumers because of the widespread availability of quality and price information. The information redirected capital from bad buys (U.S. cars) to better buys (foreign ones). Nor was the process static. Poor results caused dramatic improvement in the quality-to-price ratio of U.S. cars, Chrysler became a strong company,⁸³ and weak dealers disappeared.⁸⁴ All in all, information improved the entire sector.

Similar results were obtained when New York State required the collection and dissemination of risk-adjusted mortality rates for hospitals and surgeons for coronary bypass surgeries. As a result, statewide mortality rates dropped.⁸⁵ Widespread availability of information will similarly impact the health insurance market. Insurers that offered inappropriate quality or risk relative to their cost would shrivel or improve; health insurers that offered good buys would flourish.

Second, they would reward and punish effective and ineffective purveyors of health insurance.

Currently, the magnitude of transaction costs for purchasing health insurance is a bit of a mystery. One health insurance broker estimates the expense of designing policies, communicating and advising enrollees, and handling renewals for a 40-person company between 2 percent to 2-1/2 percent of the total costs. When pressed for more specific data, he said, "Asking about this kind of stuff is like asking the military for their nuclear weapons plans. It is not top secret--or it should not be--but it is treated that way."⁸⁶ Tracking down comparable prices for health insurance policies is also a major research undertaking.

Contrast this mysterious effluvium with the clarity of information about the transaction costs and prices of securities. For example, the online broker E*Trade openly compares its transaction costs with those of other brokers.⁸⁷

In the securities markets, investors can readily evaluate the services offered by their brokers relative to their costs. As a result, discount brokers flourished and full-price brokers were forced to offer their customers additional services, such as proprietary research and analysis.⁸⁸

If purchasers of health insurance could readily access comparable transaction cost and price information, they, too, would benefit from competition among brokers. Some would offer only low prices, while others would provide extensive research analysis of the merits of various policies, among other services, to justify their fuller price. If these analyses were publicly available, the health insurance analysts would be rated with evaluations comparable to the *Wall Street Journal's* "All-Star Analysts" list.

How To Make It Happen

The key to achieving these desirable characteristics in the health insurance market is legislation that replicates these essential elements of the SEC model:

- **Registration:** The SEC requires firms that want to trade their securities in interstate markets and all such market-makers to register with the agency. A corresponding health care agency would oversee the

integrity and require the public disclosure of information for health insurers, the policies they issue, the services they provide, and the interstate markets in which such insurance policies are sold. It would be armed with powerful penalties for undercapitalized, unethical, misleading, and fraudulent market participants.

- **Private Sector Disclosure and Auditing:** The SEC relies heavily on private sector organizations to supply financial and nonfinancial information, standardize its measurement, and audit its integrity. The new health care agency would delegate the powers to derive measurement principles to an independent, private nonprofit organization that, like the FASB, represents a broad constituency. The agency would require auditing of the information by independent professionals, who would render an opinion of the information and bear legal liability for misstatement and full disclosure.

- **Private Sector Analysis:** The evaluation process is primarily conducted by private sector analysts, who disseminate their reasoning and frequently divergent ratings. To encourage similar private sector analysts, the new health care agency would require public dissemination of all health insurance prices and related transaction costs, and the characteristics of the policies, such as quality and customer satisfaction.

How Not to Make It Happen

Unfortunately, many of the well-intended proposals to achieve patient protection undermine one or more of these essential characteristics. (See Sidebar B: The Real McCoy.) All too often, the health care regulator(s) would evaluate and micromanage health insurers and the markets in which they operate. Many would grant the government regulator substantially greater powers than those exercised by the SEC.

- **Government-controlled Disclosure:** Disclosure requirements would be prepared by governments, not the private sector. The open FASB process that incorporates professional criteria and the perspectives of many different interest groups would likely be compromised with government promulgation of the measurement yardstick. After all, while the FASB's private sector status requires the respect and financial support of many constituencies for its continued survival, these are much weaker motivational forces for a government agency.

One voice may be substituted for many.

- **Government-controlled Analysis:** In many proposals, the agency will prepare benchmarks or standards of achievement, sometimes even a report card. When health insurers and brokers are thus required to sing out of the same hymnal, innovations in health care may not be recognized and may well be discouraged. And the importance of the many analysts who provide evaluations to investors will be curtailed.

One perspective may override those of many.

- **Government Micro-management:** Many proposals require health insurers and insurance markets to comply with enormously detailed managerial requirements. The likely result? Lack of innovation. Wave good bye to the Dick Fosburys of health services and insurance.

One managerial vision will be substituted for many entrepreneurial ones.

All of this is not to say that government action is not required. To the contrary, the much-abused U.S. health care consumer needs, and wants, government protection.⁸⁹

But the present crop of patient protection bills is unlikely to fully achieve

the results in the health insurance markets that the SEC legislation achieved in the securities markets. Indeed, it may inadvertently cause government protection to cross the line from providing helpful information and oversight to causing paralyzing evaluation and micromanagement.

God is in the details.

Sidebar A:

Is Government Needed for an Efficient Market?

Is government regulation of information disclosure essential to the efficiency of markets?

In a classic 1964 article, the great University of Chicago economist George Stigler answered that question with a resounding "no."^a In this view, information is like any other competitive asset: If it is beneficial to the firm, its managers will advertise it; if it is detrimental, the firm's competitors will trumpet it; and, if it exists, whether good or bad, analysts will ferret it out. No need for the government in this arena.

As is usual in works of such significance, Stigler's and similar analyses were widely criticized^b and other credible studies reinforced the important role of the SEC. For example, an analysis of the pricing of initial public offerings of stocks demonstrated that SEC requirements had a significant downward effect on the prices.^c Despite the unusually abundant presence of intelligent research, this issue cannot be settled solely on the basis of empirical analyses. Is there a theoretical basis for government's presence in the information market?

To my mind, two compelling reasons exist. First, the public good nature of information disclosure enables free riders to benefit without paying its costs. When information is disclosed to the public, everyone can benefit from it. Because the disclosers cannot price the information on the basis of the benefits that these users derive from it, they lack incentives for full disclosure.^d As an example, some corporate executives have complained that the competitive information in FASB's line-of-business disclosure benefits the firm's rivals, with little net benefit to the stockholders.^e Clearly, if left to their own devices, these executives may not disclose this important information. Absent government regulation, the quantity of publicly available information will be undersupplied.

Then too, absent regulation, disclosure may favor some recipients and exclude others.²⁵ Such selective discrimination, however temporary, violates our national notions of equity. Regulations that penalize insider activity and require simultaneous dissemination of information level the playing field.

Some also argue that the government disclosure of public information may cost less than the sum of the costs of many private disclosures of the same information. But if the economies of collective action are so powerful, an industry group could attain them as well as a government organization.^f

Endnotes for Sidebar A

a. George J. Stigler, "Public Regulation of the Securities Market," *Journal of Business*, April 1964, pp. 117-142. Reprinted in Gary John Previts, *The Development of SEC Accounting* (Reading, Mass.: Addison-Wesley, 1981), pp. 143-170.

b. For a similar analysis see George Benston, "Required Disclosure and the Stock Market: An Evaluation of the Securities and Exchange Act of 1934," *American Economic Review*, vol. 63, no. 1 (March 1973), pp. 132-155. For critiques, see, for example, Nicholas Dopuch, "The Capital Market, The Market for Information, and External Accounting," *Journal of Finance*, vol. 31, no. 2 (May 1976), pp. 611-630 and Edward Deakin, "Accounting Reports, Policy Interventions, and the Behavior of Securities Returns," *Accounting Review*, vol. 51, no. 3 (July 1976), pp. 590-603.

c. Sela Tinic, "Initial Public Offerings," *The Journal of Finance*, vol. 43, no. 4 (September 1988), pp. 818-819.

d. Joseph E. Stiglitz, Jaime Jaramillo-Vallejo, Yung Chal Park, "The Role of the State in Financial Markets," *World Bank Research Observer*, 1993, pp. 16-61.

e. Jill Dutt, "Unlikely Adversaries: Top Regulators in Dispute Over Plan to Change Accounting Rule on Derivatives," *The Washington Post*, August 24, 1997, p. H1.

f. William H. Beaver, *Financial Reporting: An Accounting Revolution* (Englewood Cliffs, N.J.: Prentice Hall, 1989), p. 191.

Sidebar B: *The Real McCoy*

For example, in "Promarket Regulation: An SEC-FASB Model," Lynn Etheredge proposes a SEC-FASB mechanism for the health care market.^a While his general proposal is fine--health information is virtually an oxymoron today and markets cannot function efficiently in the absence of information--his detailed specifications for the health care analogue to the real SEC may not replicate the results achieved in the securities markets.

The SEC provides the environment for what I dubbed **DADS** in a *Harvard Business Review* article, "Can Public Trust in Nonprofits and Governments Be Restored?": It facilitates the disclosure of information, the analysis of that information by management, and the ready dissemination of that information to all market participants through its power to inflict painful sanctions against corporations that seek capital but that fail to disclose, analyze, and disseminate information about their performance.^b Etheredge's version of the SEC-FASB model blurs the distinctions between information and evaluation, between oversight and micromanagement. For example, as his analogue to the FASB, he proposes a Health Care Quality Assessment Board to evaluate quality, and he would require his analogue to the SEC to evaluate health care benefits and problems in coverage.^c But the real FASB does not assess the quality of the output produced by corporations, nor does the real SEC evaluate whether the markets for the products that corporations sell yield effective, efficient outputs. Instead, they ensure the provision of reliable, useful information that participants in the market can use to perform their own analyses.^d

This misinterpretation is more widely held. For example, a senior health plan official said: "If a FASB-like board had been around during the furor over how long new mothers can stay in the hospital . . . we would have brought forth research, looked at the pros and cons and had a much more reasoned debate. . . ."e Notes a leading accountant: "To think that the FASB would have something to say about length of stay is pretty farfetched."^f

Sidebar B: Endnotes

a. Lynn Etheredge, "Promarket Regulation," *Health Affairs*, vol. 16, no. 6 (December 1997), pp. 22-25.

b. Regina E. Herzlinger, "Can Public Trust in Nonprofits and Governments Be Restored?", *Harvard Business Review*, vol. 74, no. 2 (March/April 1996), pp. 97- 107.

c. Lynn Etheredge, op. cit.

d. See, for example, Regina E. Herzlinger and Denise Nitterhouse, *Financial Accounting and Managerial Control for Nonprofit Organizations*, (Cincinnati, Ohio: South-Western, 1994).

e. Marilyn Werber Serafini, "Micromanaged Care?" *National Journal*, vol. 29, no. 50 (December 17, 1997), p. 2506.

f. Correspondence, Robert Forrester, Pricewaterhouse Coopers, to Regina E. Herzlinger,

January 18, 1998.

Endnotes

1. Regina E. Herzlinger, "Healthy Competition," *The Atlantic*, vol. 268, no. 2 (August 1991), pp. 69-81, and "The Quiet Health Care Revolution," *The Public Interest* (Spring 1994), pp. 72-90.
2. *Ibid.*
3. William H. Beaver, Financial Reporting: *An Accounting Revolution* (Englewood Cliffs, N.J.: Prentice Hall, 1989), pp. 130-162.
4. Regina E. Herzlinger, op.cit., and David B. Kendall, "Better Luck Next Time: Moving Beyond Partisan Posturing over Patients' Rights" and "President Clinton's Medicare Buy-in: Right Goal, Wrong Program," (Washington, DC: Progressive Policy Institute, October, 1998 and February, 1998).
5. While my purpose is to specify the desirable characteristics of government regulation and not to criticize individual pieces of legislation, I would like to identify the leading bills introduced in the 105th Congress: "Patients' Bill of Rights Act of 1998" (H.R. 3605 and S. 1890), Rep. Dingell (D-Mich) and Sen. Daschle (D-S.D.); "Patient Protection Act of 1998" (H.R. 4250), Rep. Hastert (R-Ill); "Patients' Bill of Rights Act" (S. 2330), Sen. Nickles (R-Okla); "Promoting Responsible Managed Care Act of 1998" (S. 2416), Sen. Chafee (R-R.I.).
6. Mark R. Chassin and Robert W. Galvin, "The Urgent Need to Improve Health Care Quality: Institute of Medicine National Roundtable on Health Care Quality," *Journal of the American Medical Association*, 280, no. 11 (September 16, 1998), p. 1000.
7. See, for example, Steve Isaacs, "Consumers' Information Needs: Results of a National Survey," *Health Affairs*, vol. 15, no. 4 (Winter 1996), pp. 31-41.
8. Susan Edgman-Levitan and Paul Cleary, "What Information Do Consumers Want and Need?", *Health Affairs*, vol. 15, no. 4 (Winter 1996), p. 45.
9. Anne Tumlinson, Hannah Bottigheimer, Peter Mahoney, Elliot M. Stone, and Anne Hendricks, "Choosing a Health Plan: What Information Will Consumers Use?", *Health Affairs*, vol. 16, no. 3 (May/June 1997), pp. 229-238.
10. See Regina E. Herzlinger, *Market-Driven Health Care* (Reading, Mass.: Addison-Wesley, 1997), Chapters 1 through 4, for descriptions of busy and intelligent health care consumers and Edgman-Levitan and Cleary, op. cit., for their information interests, pp. 45 and 52-53. Linda O. Prager, "Fee-for-service Plans Tops Among Doctors in Most Markets," *American Medical News*, October 12, 1998, p. 13.
11. Carey Goldberg, "Massachusetts Retreats on Threshold for Teacher Test, Flunking Nearly 600," *New York Times*, July 2, 1998, Sec. A, p. 12, col. 1.
12. Regina E. Herzlinger, op. cit., "Medicine: Art or Science?", *Market-Driven Health Care*, pp. 71-76.
13. Michael L. Millenson, *Demanding Medical Excellence* (Chicago, Ill.: University of Chicago Press, 1997).
14. Geri Aston, "Congress At Odds Over Managed Care," *American Medical News*, March 23/30, 1998, p. 12.
15. Regina E. Herzlinger, op. cit., *Market-Driven Health Care*, pp. 184-186.
16. Health United States 1996-97 (Washington, D.C.: Government Printing Office, 1998), p.83.
17. George J. Annas, "Women and Children First," *New England Journal of Medicine*, vol. 3, no. 24 (December 14, 1995): 1647-51.
18. Julie Miller, "Mother and Newborn: How Long in the Hospital," *New York Times*, August 20, 1995, Section 13CN, p. 1.
19. Harriet Kitzman, David L. Olds, Charles R. Henderson, Carole Hanks et al., "Effect of Prenatal and Infancy Home Visitation by Nurses on Pregnancy Outcomes, Childhood Injuries, and Repeated Childbearing," *Journal of the American Medical Association*, vol.

278, no. 8 (August 27, 1997), pp. 644-652. David L. Olds, John Eckenrode, Charles R. Henderson, Harriet Kitzman et al., "Long Term Effect of Home Visitation on Maternal Life Course and Child Abuse and Neglect," *Journal of the American Medical Association*), vol. 278, no. 8 (August 27, 1997), pp. 637-643.

20. *The Information Please Almanac* , "Sports--The Summer Olympic Games" (Boston: Houghton-Mifflin, 1993), p. 898.

21. In statistical terms, the concept of the efficient market hypothesis assumes that investment returns are serially independent and that their probability distributions are constant through time. The interpretation of the efficient market hypothesis has evolved to mean that if a market is efficient with respect to information, an investor is playing a fair game, meaning that prices behave as though everyone had access to the same information. (Eugene Fama, "Efficient Capital Markets: A Review of Theory and Empirical Work," *Journal of Finance*, vol. 25, no. 1 (1970), pp. 383- 417. William H. Beaver, *Financial Reporting: An Accounting Revolution* (Englewood Cliffs, N.J.: Prentice Hall, 1989), pp.130-152. Burton Malkiel, *A Random Walk Down Wall Street: Including a Life-Cycle Guide to Personal Investing* (New York: W.W. Norton & Company, 1996), p.3. William H Beaver, *Financial Reporting: An Accounting Revolution* (Englewood Cliffs, N.J.: Prentice Hall, 1989), pp. 130-162.

22. This is not to say that the market is always right, but rather that it reflects all the information publicly available at that time.

23. Eugene Fama first proposed three definitions or standards to test the efficient market hypothesis: weak, semi-strong, and strong. The strongest form of the efficient markets hypothesis asserts that all information known by market participants is fully reflected in market prices so it is impossible for insiders who trade on private information to earn abnormal profits. (Maurice A. Joy, "Hunting the Stock Market Snarks," *Sloan Management Review* , vol. 3, no. 28 (Spring 1987), p. 22. Eugene Fama, "Efficient Capital Markets," op. cit.) While it is not impossible for insiders to profit from information, for the most part, the stock market comes very close to meeting the strongest standard for efficiency (Joy, op. cit. See also, for example, Michael Jensen, "The Performance of Mutual Funds in the Period 1945-1964," *Journal of Finance* , vol. 42, no. 2 (May 1968): 389-416; and Michael Jensen, "Risk, the Pricing of Capital Assets, and the Evaluation of Investment Portfolios," *Journal of Business* , vol. 42, no. 2 (April 1969): 167- 247).

24. "Here's How Our Staff Picks em," *Chicago Daily News* , November 25, 1996, p. 43; November 24, 1967, p. 38), and November 29, 1968, p. 43. As cited by Beaver, *Ibid.*, p. 150.

25. Eventually investors will share this information. For example, if you have special knowledge of IBM's rosy future and buy a large amount of its stock, I can learn about your purchase. I can then judge what circumstances motivated you and buy the stock for myself. But you will have a temporal advantage over me, because you learned this special information before I did.

26. "All-Star Analysts," *Wall Street Journal* , June 30, 1998, pp. R1-R15.

27. Interested investors can compare annual evaluations of mutual funds published in financial and consumer magazines such as *Forbes* (February 10, 1997), *Money* (March 1998), and *Consumer Reports* (March 1998) or they can turn to mutual fund newsletters such as "Morningstar" and "Valueline" for quarterly updates.

28. Richard A. Ippolito, "Consumer Reactions to Measures of Poor Quality: Evidence from the Mutual Fund Industry," *Journal of Law and Economics* , vol. 35, no. 1 (April 1972), pp. 45-70. Burton G. Malkiel, *A Random Walk Down Wall Street* (New York: W.W. Norton & Company, 1996), pp. 443-444. Also, Michael Jensen. "The Performance of Mutual Funds in the Period 1945-64," *Journal of Finance* 23 (May), pp. 389-416.

29. *U.S. Industry and Trade Outlook 1998: Information Services* (Washington, D.C.: U.S. Department of Commerce, 1998), pp. 26-28.

30. U.S. Department of Labor, *SIC Description for 7375: Information Retrieval Services* , www.osha.gov/cqi-bin/sic/sicser7375.

31. See, for example, Joel Seligman, *The Transformation of Wall Street* (Boston: Northeastern University Press, 1995), pp. 561-568.

32. Fred Skousen, *An Introduction to the SEC* (Cincinnati, Ohio: South-Western Publishing, 1991), p. 118. U.S. Securities and Exchange Commission, "Good People, Important Problems and Workable Laws: 50 Years of the Securities and Exchange Commission" (Washington, D.C.: The Commission, 1984).

33. Joel Seligman, *op. cit.*, pp. 44-46.

34. Fred Skousen, *op. cit.*, p. 2.

35. Arguably the most famous, or notorious, of this kind of regulation was the 1720 Bubble Act that required the personal approval of the English monarch for all corporate charters. The act resulted from the financial panic induced by the pricking of a speculative bubble that had buoyed the stocks of many newly incorporated English firms. In 1720, the South Sea Company's stock, for example, rose from £130 to more than £1,000, only to collapse when the company's directors began to sell their shares (Burton G. Malkiel, *op. cit.*, pp.40-44).

36. Joel Seligman, *op. cit.*, pp. 54-55.

37. Joel Seligman, *op. cit.*, pp. 43-48.

38. Fred Skousen, *op. cit.* pp. 22-28.

39. Richard E. Baker, "Accounting Rule-Making--Still at the Crossroads," *Business Horizons*, vol. 19, no. 5, October 1976, p. 66.

40. Nevertheless, although the SEC *does not* dictate substance, it *does* have substantive gatekeepers who oversee the integrity of the firms, their securities, and the markets in which they sell their securities and severely penalize those that transgress. For example, to enforce the probity and integrity of securities and those who sell them, the SEC required one stock-one vote and anti-dilution rules and full disclosure of the riskiness of securities to vulnerable investors.

41. Paul W. Miller, Rodney J. Redding, and Paul R. Bahnson, *The FASB: The People, the Process, and the Politics* (Burr Ridge, Ill.: Richard D. Irwin, 1994), pp. 20-21.

42. Coopers & Lybrand, "Independence Standards Board," *Audit Committee Update 1998* (Jersey City: Coopers & Lybrand, 1998), pp. 20-21.

43. The Accounting Principles Board (APB), the FASB's immediate predecessor, collapsed in 1973, in some measure because of disagreement with its proposed accounting treatment for business combinations and an earlier opinion on tax credits. In the latter case, the APB proposed to defer recognition of some of the benefits of the credit. Although the APB's standard conformed with accounting theory, three accounting firms announced they would not comply with the opinion. Even the SEC decided that its registrants need not follow it. Absent the support of business, the accounting community, and the SEC, the APB found its authority to set accounting standards severely eroded (Gary John Previts and Barbara Dubis Merino, *A History of Accounting in America* (New York: John Wiley, 1979), pp. 290-291). Some also worried about the APB's excessively close ties to the accounting institute; its sponsors; its large, 17-member board; and the continued allegiance of its part-time board members to their employers or clients (Paul W. Miller, Rodney J. Redding, and Paul R. Bahnson, *The FASB* (Burr Ridge, Ill.: Richard D. Irwin, 1994), p. 56. Marshall S. Armstrong, "The Politics of Establishing Accounting Standards," *The Government Accountants Journal*, vol. 25, no. 2, Summer 1976, pp. 8-13.

44. Paul W. Miller et al., *op. cit.*, pp. 30-58.

45. Paul W. Miller et al., *op. cit.*, p. 35.

46. Financial Accounting Foundation (FAF), *Annual Report 1997* (FAF: Norwalk, Connecticut, 1998); *Guide Star--Financial Report* (Washington, D.C.: Philanthropic Research Inc., 1998). Stephen Barr, "FASB Under Siege," *CFO*, vol. 10, no. 9 (September 1994), pp. 34-46.

47. Financial Accounting Foundation, *op. cit.*, p. 24.

48. Stephen Barr, *op. cit.*

49. Gary John Previts and Barbara Dubis Merino, *A History of Accounting in America: An Historical Interpretation of the Cultural Significance of Accounting* (New York: Wiley, 1979), p. 6.

50. Although such a conceptual foundation theoretically exists--currently, it takes the form of six concept statements that cover issues such as the Elements of Financial Statements (Cheri L. Reither, "How the FASB Approaches a Standard-Setting Issue," *Accounting Horizons*, vol. 11, no. 4 (December 1997), pp. 91-104) in practice, debates about fundamental accounting issues--such as current vs. historical costs value or capitalization vs. expensing--continue to roil the profession (Miller, *op. cit.*, "Some Recurring Accounting Controversies," pp. 114-127).

51. Marshall Armstrong, *op. cit.*, p. 10.

52. U.S. General Accounting Office (GAO), *The Accounting Profession* (Washington, D.C.: Government Printing Office, September 1996), pp. 89-90.
53. GAO, *Ibid.*, p. 2.
54. Gary Previts and Barbara Marino, *op. cit.*, p. 204.
55. Dave Phillips, "Jury Gives DeLorean Creditors Millions," *The Detroit News*, March 6, 1998, p. B1.
56. Fred Skousen, *An Introduction to the SEC* (Cincinnati, Ohio: South-Western Publishing, 1991), p. 128.
57. Gary Previts and Barbara Marino, *op. cit.*, pp. 314-315.
58. See, for example, "The Firm's Selection of Alternative Accounting Principles," in Clyde P. Stickney, Roman L. Weil, and Sidney Davidson, *Financial Accounting* (Orlando, Florida: Harcourt Brace Jovanovich, 1991), p. 800- 802.
59. GAO, *op. cit.*, pp. 44-45.
60. To the contrary, critics abound. Some complain about the excessive amount of information disclosed and urge adoption of the more spartan disclosure policies used abroad (See, for example, Ray J. Groves, "Financial Disclosure: When More Is Not Better," *Financial Executive*, vol. 10, no. 3, (May 1994), p. 11). Others note the paucity of disclosure abroad and complain that, even in the United States, disclosure is hobbled. They contend that the SEC's choice to focus on preventing misleading financial statements, rather than informative disclosure, has created a "climate of conformity" that inhibits experiments in financial accounting (Stephen A. Zeff, "A Perspective on the U.S. Public/Private Sector Approach to the Regulation of Financial Reporting," *Accounting Horizons*, vol. 9, no. 1 (March 1995), pp. 52- 70).
61. Laura M. Holson and Diana B. Henriques, "Two Exchanges Discuss Merger," *New York Times*, March 12, 1998, p. A1. Leslie Eaton, "Big Plan Driven by the Rising Power of the Little Investor," *New York Times*, March 12, 1998, p. D2. Floyd Norris, "Stock Market Merger Talk: The Markets--Odd Couple for Wall Street," *New York Times*, March 13, 1998, p. D1.
62. Leslie Eaton, "Stock Market Merger Talk: The Traders," *New York Times*, March 13, 1998, p. D1.
63. Laura Holson and Diana Henriques, *op. cit.*, p. A1.
64. "Collusion in the Stock Market," *The Economist* (January 17, 1998), p. 71.
65. General Accounting Office (GAO), *Securities Regulation* (Washington D.C.: GAO, February 1998).
66. Leslie Eaton, *op. cit.*
67. Rebecca Buckman, "Cyber-Sleuths," *Wall Street Journal*, August 4, 1998, p. C1.
68. W. Kent Moore and David L. Scott, "Deregulation That Worked," *Akron Business and Economic Review*, vol. 17, no. 3 (Fall 1986), pp. 109-120.
69. Josh McHugh, "Destroying the Old Myths," *Forbes* (April 20, 1998), pp. 46-47.
70. Matthew Schiffrin with Scott McCormack, "Free Enterprise Comes to Wall Street," *Forbes* (April 6, 1998), pp. 114-119. Gretchen Morgenstern, "Surrender," *Forbes* (April 6, 1998), p. 120. Matthew Schiffrin, *op. cit.*, p. 116.
71. SmartMoney Interactive, *Trading Costs*, June 16, 1998, www.smartmoney.com/si/brokers/discount.
72. *Ibid.*
73. Asli Demirguc-Kunt and Vojislav Maksimovic, "Stock Market Development and Corporate Finance Decisions," *Finance & Development*, vol. 33, no. 2 (June 1996), pp. 47-49.
74. Rhonda Rundle, "Under Attack, HMOs Address Patients' Gripes," *The Wall Street*

Journal, November 27, 1998, p. B1.

75. Patricia M. Danzon, "Hidden Overhead Costs," *Health Affairs*, vol. 11, no. 1 (Spring 1992), pp. 21-41.

76. Milt Freudenheim, "Shake-Up at a Health Giant: The Reaction," *New York Times*, February 25, 1998, p. D3.

77. Ron Pollack and Lorie Slass, *Premium Pay: Corporate Compensation in America's HMOs* (Washington, D.C.: Families USA Foundation, April 1998) p.24.

78. Graef S. Crystal, "Managed Care CEOs: It's Great to be the King," *Medical Benefits* (March 15, 1996), p.5.

79. McKinsey & Co., 1995 *Health Care Annual* (New York: McKinsey & Co., 1995), pp. 270-273.

80. Milt Freudenheim, *op. cit.*, p. D3.

81. Ramona Hilgenkamp and Regina E. Herzlinger, "Empire Blue Cross and Blue Shield (A)" (Boston, Mass.: Harvard Business School Publishing, case No. 195-216, August 1995).

82. Consumer Reports, April issue; J.D. Power & Associates, The Power Report, vol. 10, no. 8 (August 1988); and "Chrysler's Financial Plight," *New York Times*, July 25, 1970, p. C1.

83. Robyn Meredith, "Shaping a Global Giant," *New York Times*, March 8, 1998, p. D4.

84. John K. Teahen, Jr., "Dealership Decline Is Steepest Since 82," *Automotive News*, March 16, 1996, p. 1.

85. Mark R. Chassin and Robert W. Galvin, "The Urgent Need to Improve Health Care Quality," *Journal of the American Medical Association*, (280) No. 11, September 16, 1998, p. 1003.

86. Transcript of interview by Bea Bezmalinovic, Summer, 1998, of an insurance broker who prefers to remain anonymous.

87. www.etrade.com/advantage/et

88. Kent Moore and David Scott, *op. cit.*, pp. 109-120.

89. Steve Stenberg, "Finding the Health Care System Unfit, Many Americans Fear the Care Won't Be There," *USA Today*, November 23, 1998, p. 1D.

Regina E. Herzlinger is the Nancy R. McPherson Professor of Business at the Harvard Business School and an expert in both health care and accounting. Professor Herzlinger has chaired the Audit and Pension Committees of the Board of Directors of a number of large, publicly traded firms.

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