Doctors Don't Trust Themselves To Own Hospitals, So Why Should You?

We trust doctors as clinicians, until they scale into successful entrepreneurs.

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We trust doctors with our health and our lives. We let them put us under anesthesia, operate on our bodies, and prescribe powerful pharmaceuticals. Yet, that trust seems to dissipate when that very same doctor *owns* the facility in which they operate on us.

Under the Affordable Care Act (ACA), physician-owned hospitals (POHs) are effectively banned from treating Medicare and Medicaid patients.[1] Ostensibly, Congress enacted this ban to protect taxpayers and non-profit community health systems. The argument was that physician-owners would "cherry-pick" the healthiest, best-insured patients and self-refer them to their own facilities, stripping full-service hospitals of the lucrative elective procedures needed to subsidize emergency rooms and other unprofitable yet important services to the community.[2]

Even on its own terms, this rationale makes little sense upon further inspection. Non-profit and corporate hospital systems self-refer, cherry-pick profitable service lines, and cut unprofitable ones like obstetrics/pediatrics or maternity wards all of the time. If such behavior—self-referral, cherry picking, and service unbundling—was the true policy concern, regulators would have targeted the behavior itself. Instead, they singled out a particular class of owners, doctors. Why?

Policy analysts usually explain this discrepancy by pointing to the lobbying group representing corporate owned hospitals, the American Hospital Association (AHA). Corporate owned hospital systems simply used government regulation to eliminate a competitor. Indeed, the AHA still justifies the ban on POHs today by warning against the inherent conflict of interest that physician self-referrals create.[3]

While this explains the AHA's motives and actions, it gives corporate lobbyists far too much credit in explaining the effective ban on POHs. It ignores a key accomplice in the downfall of physician hospital ownership: the physicians themselves. The ban on physician-owned hospitals persists because doctors have spent over a century signaling to the public that they cannot be trusted as businessmen.

To be sure, American culture romanticizes the doctor as a small-business owner.[4] The image of the doctor who owns his own practice is fiercely defended against the current wave of corporate consolidation and vertical integration in healthcare. When the scale of a medical enterprise remains small, we trust doctors not to prioritize short-term profit over long-term patient care.

However, when a medical enterprise scales to the size of a multi-specialty facility or a full-service hospital, a subtle shift occurs. Romanticization gives way to suspicion. Suddenly, the doctor is no longer a dedicated healer, but a greedy corporate executive in a white coat. This moral suspicion of doctors involved in so-called ‘big medicine' has very deep roots.

In the early 20th century, the American Medical Association (AMA) was waging a fierce campaign against ‘corporate medicine,' attacking company doctors, and even hospital-employed physicians for putting non-physicians in charge of medical decisions.[5] The doctors that did engage in such practices were scorned and even had their licenses revoked under pressure from the AMA on state medical boards.

At the same time, entrepreneurial physicians began forming so-called group practices—multi-specialty clinics that offered comprehensive care under a prepaid subscription model. Importantly, such group practices were wholly physician-owned and managed.

Given their opposition to corporate medicine, one would think that the AMA would embrace physician-owned group practices as the ultimate defense of professional autonomy. The AMA denounced them all the same. The AMA attacked group practices for fostering "commercialism" that degraded the "dignity of the medical profession." To the medical establishment, commercialization, i.e., building a big healthcare business beyond the scale of an independent practice, was inherently corrupting, because building anything "big" required doctors to more fully embrace the *world of business*.

The fact that doctors themselves owned and managed such businesses didn't absolve them of the sin of commercialism. In fact, it made it worse, precisely because commercialism was seen as being beneath the medical profession. Better for a non-physician than a physician to dirty their hands with business concerns, even when group practice models, like the early Mayo Clinic, clearly improved patient outcomes.

This deep-seated self-distrust in medical professionals as businessmen remains alive and well to this day. Even direct primary care physicians, who pride themselves as businessmen, will often be suspicious of, if not outright attack, any attempt to scale their model. I have even heard direct care specialists say that they wish they didn't need to charge their patients, as if charging patients and making a profit were some necessary evil to provide value to their patients.

Physician-hospital owners also betray this same self-distrust as businessmen . When defending their facilities, they rarely say, "We build better, more efficient healthcare enterprises." Instead, they offer a meek apology: "Unlike corporate hospitals, we put patients over profits." In other words, they defend themselves by promising that they are physicians first and reluctant businessmen second, instead of saying that because they are good businessmen they provide better value to their patients.

By implying that business acumen and scale are fundamentally at odds with patient care, such doctors validate the very premise used to caste suspicion on and maintain the ban on physician-owned hospitals. If enterprise and the profit motive in healthcare are inherently suspect, then turning a physician into a hospital executive doesn't elevate the business—it degrades the doctor, and threatens the patient.

So if we're concerned with behaviors like cherry-picking, self-referrals, and cutting unprofitable services, then the ban on POHs makes little practical sense since it does nothing to stop corporate-owned hospitals from engaging in such practices. But the ban makes complete sense if we are told that doctors engaged in any form of business beyond the scale of an independent practice are morally suspect and not to be fully trusted. And many doctors themselves have been telling us that no less.

Laying the blame for the ban on physician-owned hospitals primarily at the feet of the AHA is therefore worse than intellectually lazy; it is an evasion of the hard and necessary work that doctors need to engage in, namely, persuading the public that their role as businessmen is an asset, not a threat, to professionalism and patients.

Above all, doctors need to discard this losing argument that they are more trustworthy to own hospitals because they will keep their business mindset in check. Rather, it should be stated loud and clear that doctors who properly embrace their role as businessmen are able to provide better value for their patients.

Until that happens, don't expect the public to defend and embrace physician-owned hospitals. Why should they if doctors themselves refuse to do so?

About the Author

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