

# Global Economy Pressures U.S. Industry, Healthcare

**F**or the past 15 years American industry has been struggling to cope with the transformation to a global economy, which has brought a multitude of new competitors. Industry's struggle has meant stepped-up pressures on healthcare facilities and professionals to manage healthcare costs better. Speaking at the May meeting of the American College of Physician Executives in San Francisco, Robert B. Reich, JD, explained the stresses affecting U.S. companies—major payers of America's healthcare bill. He described new paradigms for business, healthcare, and society in today's global economy.

For much of this century, Reich said, American business prospered by adhering to the paradigm of "high-volume mass production." In this model, large companies achieved economies of scale by amortizing high fixed costs over many units, creating a "barrier to entry" against smaller companies. In the 1950s, 1960s, and 1970s, a few behemoths dominated every major U.S. industry. The country had three major auto producers, four major chemical producers, and three major steel producers, for example.

But in the mid-1970s the high-volume production paradigm began to crumble, said Reich, a professor at Harvard University's John F. Kennedy School of Government. Companies found that producing large volumes of goods cheaply was becoming obsolete as a means to succeed and prevent competitors from entering their industries. The main reason for the obsolescence was new technologies:

- Manufacturing technologies such as computer-aided design and robotics allowed short run lengths with the same efficiencies of scale as long run lengths.

- Technological changes allowed easier innovation so that product life cycles became shorter, forcing manufacturers to update products to keep up with competitors.

- New communications and transportation technologies such as fiberoptics and container



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ships enabled companies to parcel out work around the globe to wherever it could be done most efficiently.

## ABANDONING OLD PARADIGMS, RESPONSES

Most companies responded with tactics that have not worked over the long term, Reich said, because they did not fundamentally change American industry or lead to higher productivity. These tactics included:

- Reducing labor costs by automating, pressing for lower union wages, and moving more work offshore (between 1975 and 1991 more than half the jobs created by U.S. manufacturers were outside the country). This strategy, which was business's central tactic through the 1980s, did not work because all competitors could do the same thing. Not only that, the strategy reduced U.S. consumers' buying power. "You shoot yourself in the foot," Reich explained, attributing part of the slowdown in today's economy to this strategy.

- Merging and moving assets (through leveraged buyouts, junk bonds, and restructuring), rather than creating new value. As a result of this "paper entrepreneurialism," American companies are now spending 35 percent of their cash flow to pay interest on debt created in the 1980s, as well as dissipating time, talent, and resources on "asset rearranging instead of asset building."

- Going to the government for subsidies and protection from imports. Although business is always calling for a "level playing field" to compete with foreign companies subsidized by their governments, U.S. business also receives government support. "Last year, one out of three dollars spent in the U.S. on research and development by the private sector came from Uncle Sam through the Department of Energy, the Institutes of Health, and the Department of Defense," Reich said. "Then add tax abatements, bailouts, and loan guarantees, and we make overseas companies look like pikers by comparison."

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a rising sea," Reich warned. It hurts the U.S. market by raising prices to downstream purchasers. If steel costs go up, for example, appliance and car manufacturers charge American consumers more for their products.

### HIGH-VALUE PARADIGM

Winning companies are moving away from these strategies to "high-value production." Reich explained three strategies, all related to human resources, that successful companies are using:

- Tailoring products to particular groups of customers. Companies that provide specialized steels, specially coated papers, or customized software are staying competitive in the global economy. They provide a service by helping customers understand how new technologies can meet their needs.

In these companies, "the people who are the closest to the changes in the markets and in the technologies and solutions are the most valuable," Reich said. "They're able to find problems and solve problems." These people collectively make up a barrier to entry.

- Supporting problem solvers. In high-value companies, top managers create environments where problem finders and problem solvers can work effectively.

- Making small innovations. In high-value organizations, change is the responsibility of all employees, not just scientists or people in research and development. Small-scale, incremental innovations are encouraged as employees constantly think about how they can do their jobs a little better and help others.

### RESOURCES FOR SUCCESS

Well-educated, problem-solving employees need good health and a good infrastructure (e.g., communications, roads) to work effectively. Reich sees these three resources—skilled employees, health, and an infrastructure that links businesses around the world—as keys to America's future economic strength and living standard. "The only way to lure global capital to your nation is to tell investors, 'Our skills, education, training, and infrastructure combined with your capital will generate a higher return for you and for us,'" he said.

The reality, however, is that many Americans are not getting the education needed by high-

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value organizations. Reich warned that a "two-tiered economy based on skills, training, and insight" is emerging in the United States.

"The crisis we face right now is that the top 20 percent of Americans by income are doing better and better pretaxes largely because they have good education, training, and access to good infrastructure," Reich observed. In the past 15 years the inflation-adjusted pretax incomes of this group have increased by 9 percent. And the gap is widening. College graduates now earn 65 percent to 70 percent more than nongraduates, an increase from 40 percent in 1980.

As the markets are growing for professionals in fields such as healthcare, marketing, media, law, science, engineering, and consulting, people without education, good health, and access to infrastructure are getting poorer. "The bottom three-fifths—60 percent—of Americans by income saw their incomes decline over the last 15 years by the equivalent of 12 percent," Reich said.

Unskilled workers are now competing with millions of people in other countries who work "for a fraction of the blue-collar wage of the United States," he continued. Thus blue-collar and pink-collar jobs such as data processing are vanishing. Only 16 percent of U.S. workers now hold blue-collar jobs, according to Reich.

### WILL WE INVEST IN THE FUTURE?

Reich is guardedly optimistic that America will invest in people, health, and infrastructure to ensure global competitiveness. "When Americans understand a problem, no nation in history has shown greater capacity to roll up its collective sleeves and get on with the business of solving the problem."

But because the economic morass is now affecting "not just the underclass but the former working and middle class," Reich fears it may already be too late.

"Americans are segregating by income," not race, Reich warned. He said whole cities and towns are poor and have small tax bases to finance infrastructure, and federal and state governments have shifted more and more of the financing responsibility to the local level. "The gap is growing in the quality of schools, libraries, roads, etc., available to different populations in this country," he said.

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### A WARNING TO CHANGE

Reich places responsibility to address structural problems with both the public and private sectors. He suggested such initiatives as performance standards for schools, consolidation of school districts to achieve parity in quality, and higher teacher pay. Business can form partnerships with schools, providing apprenticeships for particular jobs. In his opinion programs that focus on preschool education and health to develop "the capacity to learn" are especially important.

Healthcare organizations are particularly risk averse and resistant to change. Reich advised healthcare leaders, who are "educators in their institutions and communities," to be agents for change. Leaders can demonstrate with real-life answers and anecdotes the benefits of innovation and encourage their organizations to reward people who experiment, even when they fail, he said.

Another factor inhibiting change is the prospective payment system. The Medicare and Medicaid programs, which often do not pay for valuable services, are based on the high-volume paradigm and offer little incentive for innovation and change. Reich urged leaders to educate policymakers and political leaders about how public policies are harming children and families and the quality of healthcare.

Reich left the audience with a warning in the form of the parable of the frog that is put in boiling water and immediately leaps out. But if it is put in lukewarm water and the heat is gradually turned up, the frog is unable to move by the time the water reaches the boiling point. "My fear is that with regard to long-term structural problems, the heat is being turned up too gradually," he said.

"The riot in Los Angeles has focused public attention for a while on economic problems," he noted, "but we may not be able to take the leap when we have to take the leap. We may not be able to change when we have to change." —*Judy Cassidy*

## REMOVING LIFE SUPPORT

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*Origins*, January 30, 1992, p. 554.

20. American Academy of Neurology, *Neurology*, January 1989, p. 125; Committee on Ethics, American Nurses Association, *Guidelines on Withholding and Withdrawing Food and Fluid*, Kansas City, MO, 1987; "Position Of American Dietetic Association: Issues in Feeding the Terminally Ill Adult," *Journal of American Dietetics*, 1987; "Current Opinions," Council on Ethical and Judicial Affairs of the AMA, 1989, no. 220.
21. Edmund Pellegrino and David Thomasma, *For the Patient's Good: The Restoration of Beneficence in Health Care*, Oxford University Press, New York City, 1988, pp. 80-83.
22. Leon Kass, "Neither for Love Nor Money: Why Doctors Must Not Kill," *Public Interest*, Winter 1989, p. 25.
23. When referring to the "reliability of prognosis for many such patients" (persons in PVS), the committee's document makes a blatant error. In footnote 39 it quotes an article on a study of patients in vegetative state, as though the statistics concerning recovery of consciousness were valid for patients in persistent vegetative state (Harry S. Levin et al., "Vegetative States after Closed-Head Injury: A Traumatic Coma Data Bank Report," *Archives of Neurology*, June 1991, pp. 580-585). Levin confirms that "the statistics quoted in our article do not refer to patients in persistent vegetative state" (phone conversation, April 2, 1992).
24. Schneiderman, p. 952.
25. Richard McCormick, "Moral Considerations III Considered," *America*, March 14, 1992, p. 214.
26. *Re Estate of Sidney Greenspan v. Andrew Gelman*, Docket N.67903 (July 19, 1990), pp. 708-711.
27. Peter Steinfelds, "Prelate Raises Questions on the Dying," *New York Times*, April 23, 1987.
28. Richard M. Gula, "Euthanasia: A Catholic Perspective," *Health Progress*, December 1987, p. 28ff.
29. "Termination of Life Support Legislation," Society for the Right to Die, New York City, 1991.
30. Jay Copp, "Illinois Bishops Back Life-sustaining Treatment Bills," *New World*, June 21, 1991, p. 1.
31. See footnote 2 above; others taking this position include the bishops in Providence, RI, and in Minneapolis.

## PROs' EFFECTIVENESS

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societies to suspend or revoke physician licenses without undue exposure to litigation

Steps like these might put the U.S. healthcare system on the road to higher-quality care at lower cost. □

### NOTES

1. Utilization and Quality Control Peer Review Organization Program, report to Congress, fiscal year 1988, p. 1 and attachment H, p. 49.
2. *New York PRO Scope of Work*, Island Peer Review Organization, Lake Success, NY, pp. 7-11.
3. *New York PRO Scope of Work*.
4. Department of Health and Human Services, Contract No. 500-90-0026, "Physician Consultant," attachment J-3 Statement of Work, Baltimore, September 1990, p. 2.
5. *Results of Peer Review Organization Review for the Third Scope of Work*, based on reports submitted through April 30, 1991, reflecting reviews completed through March 31, 1991.
6. Utilization and Quality Control Peer Review Organization Program.
7. *Results of Peer Review Organization Review for the Third Scope of Work*.
8. Utilization and Quality Control Peer Review Organization Program.
9. Utilization and Quality Control Peer Review Organization Program.
10. *Barron's Guide to Medical Schools*, Barron's Educational Services, Happaage, NY, 1991, p. 50; Saul Wischnitzer, *Barron's Guide to Medical and Dental Schools*, Barron's Educational Services, Happaage, NY, 1991.
11. Committee to Design a Strategy for Quality Review and Assurance in Medicare, Division of Health Care Services, Institute of Medicine, *Medicare: A Strategy for Quality Assurance*, vol. 1, National Academy Press, Washington, DC, 1990, p. 188.
12. Neil Baker, presentation to the Michigan State Medical Society Liaison Committee with the Michigan PRO, 1991.
13. John T. Kelly and James E. Swartwout, "Practice Parameters: A Foundation for Quality Advancement," *AAPPO Journal*, February-March 1991, pp. 33-38.