by Al Lauzon

Handout or Strategic Investment

Why would municipalities spend money on physician recruitment?

Small communities face many challenges, and one of those challenges is maintaining adequate healthcare services for their community members. Part of the healthcare challenge in small communities is the need to attract and retain adequate numbers of physicians to service their populations. However, in a time when physician demand exceeds supply, physician recruitment becomes a very competitive process among communities. Consequently, municipalities must often offer up a monetary incentive in order to attract physicians to their community. This then raises the question whose responsibility is it to provide the money for these incentives: municipalities or hospitals?

Both hospitals and municipalities have their own current set of fiscal challenges and certainly cash is short-in-hand for all. And, some municipal councils may view contributing money toward incentives as a "handout." After all, it is a healthcare issue and healthcare is a provincial responsibility. And yes, it is true that it is in the municipality's best interest to assure that the people they serve have adequate physicians to meet community needs and demand; but they are not mandated to do this, and it is understandable, given the current fiscal climate, why they might be reluctant to commit municipal money to physician recruitment.

However, there is an alternative way of understanding this issue. Rather than seeing their contribution as a *handout* councils should view it as a form of *strategic investment* – and this requires a change in their frame of reference. This article strives to provide sufficient evidence to demonstrate why this change in frame of reference would make good sense for municipal councils.

Strategy for Attracting Investment

It has been argued that small communities that have limited infrastructure are not attractive places for development and investment.[1] Others[2] have argued that "High quality service infrastructure is an essential component of a society's growth and development ... A viable health care sector is a major component of community infrastructure, and attracting new firms to provide jobs and economic growth can be extremely difficult without quality medical services."

After all, a "healthy" healthcare sector promotes a healthy labour force and this is important to those who might invest in communities. For example, a study found that CEOs identified adequate healthcare infrastructure as the sixth most important variable (out of 12 variables identified) in making decisions about industry site location.[3] Furthermore, they identified the presence of a hospital and an adequate number of physicians as the critical components of the local healthcare sector.

But, adequate healthcare infrastructure is about more than simply making a community more attractive to investment and keeping their labour force healthy. It also contributes in significant ways to the local and regional economies. For example, it has been reported that one physician who employs 3.5 people

Al Lauzon is currently a professor in the School of Environmental Design and Rural Development, University of Guelph. He is also a member of the board of trust of the Alexandra Hospital, Ingersoll, Ontario. He can be reached at <allauzon@uoguelph.ca> or 519-824-4120 ext. 53379.

1 L. Ryser, and G. Halseth, (2010), "Rural Economic Development: A Review of the Literature from Industrialized Economies," *Geography Compass*, 4/6, pp. 510-531.

2 G.A. Doeksen, and V. Schott, (2003), "Economic Importance of the Health-Care Sector in a Rural Economy," *Rural and Remote Health*, 3, online, p. 2.

3 J. Lyne, (1990), "Health Care and Education?: Important QOL Factors, But Who's Accurately Measuring Them?" *Site Selection*, 35 (5), pp. 832-838.

Future governments, regardless of political stripe, will be forced to rationalize healthcare costs as they attempt eliminate their deficits

will generate an additional four jobs in the community for a total of 8.5 jobs (including the physician). It was further found that a community with two physicians, two optometrists, two dentists and one chiropractor employed 67 employees, and had a combined payroll of approximately $2,615,000.[4] If this is averaged out, it means each healthcare practice generates 9.5 jobs and $373,571 of local income.

In addition to direct impacts on the local economy, the health care sector also induces local economic growth. For example, it has been reported that a hospital employing 120 people resulted in a total of 204 local jobs; local doctors and dentists creating 67 jobs resulted in a total of 120 local jobs; and local pharmacies employ 16 people resulted in a total of 23 local jobs. This constitutes an employment multiplier of 1.70 for the hospital, 1.79 for physician and dentist practices, and 1.49 for pharmacies.

In terms of income, they found that a hospital payroll of $2,406,564 resulted in $3,537,649 of local income; doctor and dentist practice payroll of $2,615,000 resulted in $3,504,100 of local income; and a pharmacy payroll of $435,753 resulted in $685,463 of local income. This constitutes an income multiplier of 1.47 for the hospital, 1.34 for doctor and dentist practices, and 1.61 for pharmacies.[5]

In a study of nine counties in Oklahoma it was found that the healthcare sector was directly responsible for nine percent of local employment and, when secondary employment was considered, accounted for 14 percent of all local employment with employment multipliers ranging from 1.30 to 1.81 and income multipliers ranging from 1.45 to 1.87.[6] Clearly, the healthcare sector makes a significant contribution to the local economy in both direct and indirect ways.

Hospital Closure Impacts

A study of 130 mayors whose local hospital had closed reported that 71.1 percent of the mayors stated that physician shortage was an important reason for the hospital closure; 63.4 percent identified the most negative consequence of hospital closure was its economic impact; and 72.4 percent report a decline in community health status, with 37.4 percent reporting that community health status had become much worse.[7] Other studies that have examined the impact of hospital closure found a reduction of 4 percent in income and a rise in the local unemployment rate by 1.6 percent, an out-migration of physicians, and a significant reduction in overall community income. When those communities that did not experience hospital closure were compared to those communities whose hospital had closed, it was found that non-closure communities had a greater number of retail businesses and higher level of retail sales.[8,9,10] Clearly the healthcare sector is significant in terms of its economic contributions to small communities.

As we look to the future, there will be a need to eliminate the provincial deficit at the same time that we are seeing escalating healthcare costs. Clearly, there is a "perfect storm" brewing. Future governments, regardless of political stripe, will be forced to rationalize healthcare costs as they attempt to eliminate their deficits. Small communities with hospitals will need to be cognizant of their vulnerability. For example, the recent report of the Rural and Northern Health Care Panel[11] states in its planning standards and decision-making criteria that 90 percent of residents in a community should receive primary care and emergency services within 30 minutes of travel time from their place of residence. If these standards were applied without other factors being taken into consideration many small hospitals in small communities would be placed at risk. And, while there has been no real political discussion about hospital closure (as it is an unpalatable discussion for politicians

4 S. Kleinholz, and G.A. Doeksen, (1991), "The Impact of Rural Hospitals and Rural Physicians on the Economy of a Rural Community," Paper presented at the Western Conference on Simulation, Anaheim, CA.

5 G.A. Doeksen, and V. Schott, (2003), "Economic Importance of the Health-Care Sector in a Rural Economy," *Rural and Remote Health*, 3, online.

6 G.A. Doeksen, T. Johnson, D. Baird-Holmes, and V. Schott, (1998), "A Healthy Health Sector is Crucial for Community Economic Development," *The Journal of Rural Health*, 14 (1), pp. 66-72.

7 L.G. Hart, J. Pirani, and R. Rosenblatt, (1991), "Causes and Consequences of Rural Small Hospital Closures: Closure from the Perspective of Mayors," *The Journal of Rural Health*, 7 (3), pp. 222-245.

8 G.M. Holmes, R.T. Slifkin, R.K. Randolph, and S. Poley, (2006), "Underserved Populations: The Effect of Rural Hospital Closure on Community Economic Health," *Health Services Research*, 41 (2), pp. 467-485.

9 J. Christianson, and L. Faulkner, (1981), "The Contribution of Rural Hospitals to Local Economies," *Inquiry*, 18 (1), pp. 46-60.

10 M.S. Lara Brooks, and B.E. Whiteacre, (2010), "Critical Access Hospitals and Retail Activity: An Empirical Analysis in Oklahoma," *The Journal of Rural Health*, 00, pp. 1-10.

11 Rural and Northern Healthcare Panel (2010), Rural and Northern Health Care Framework/Plan: Stage 1 Report, Ontario Ministry of Health and Long-Term Care.

to engage in – especially politicians facing an election) the future of the healthcare landscape is uncertain. Once the aftermath of elections is over, the government of the day will need to turn their attention to both the deficit and the healthcare system.

The hospitals that will be most vulnerable will be those that cannot adequately deliver their services (i.e. emergency services). And, for hospitals to be effective, they need physicians.

Reframing the Issue

As we have seen above, physician shortages can place small hospitals in jeopardy and, when the local hospital is placed in jeopardy, so is the local economy. From this perspective, physician recruitment is an essential form of strategic economic investment and municipal leaders and politicians in small communities need to understand the role of the healthcare sector in their local economies. Physician recruitment and retention for communities with small hospitals is not just about the delivery of healthcare services, it is about economics.

Municipal councils need to frame the issue of physician recruitment and physician incentive fees in the context of strategic investment and not see it as a handout. It is true that municipalities are not in the healthcare business; but, they *are* in the business of economic development, and small vibrant communities need to have a healthy healthcare sector to ensure that they have a healthy economy, and ultimately a healthy community. Physician recruitment is essential to hospital viability and the hospital is a vital economic institution that contributes fiscally in many direct and indirect ways to maintaining the well-being of the community, its members, and its economy.

The return on investment for physician recruitment is significant, making it a wise investment, and for the most part, insignificant in the context of overall municipal budgets. Does this mean that municipalities need to carry the fiscal burden for physician recruitment alone? My answer to that question is no, but it must be shared equally by all stakeholders who have a vested interest in maintaining a vibrant healthcare sector that will contribute to local well-being.

Hospitals need physicians and municipalities need the economic contributions hospitals and the healthcare sector make to the local economy. All stakeholders with a vested interest must be willing to partner and share the fiscal burden of strategically investing in the recruitment of physicians. MW

AUMA CONVENTION & AMSC TRADE SHOW
the Future is Local
Calgary TELUS Convention Centre September 28-30, 2011
Alberta Urban Municipalities Association
Advocacy
Trusted Advisors
GOVERNANCE
Local Matters
Alberta Municipal Services Corporation
Benefits Services
e-learning
Energy Services
MuniFUNDS
Risk Management
municipal
Representing the advocacy & business interests of Alberta's municipalities for more than 100 years
AUMA AMSC
Contact us
Alberta Urban Municipalities Association / Alberta Municipal Services Corporation
780-433-4431 / 310-AUMA (2862) main@auma.ca
Visit our web site at www.auma.ca