only portions of their respective costs. The very low daily rates in most hospital "wards"—$2.00 or $3.00—are evidence of this public policy, for these rates are presumed to be lower than the costs of the services to which they apply. The ward rates are established at these levels for the purpose of allowing certain members of the population to benefit from the public's voluntary and tax contributions, but also to pay sums within the limits of their reasonable ability to pay. The data from an analysis of hospital costs would enable the hospital superintendent to show clearly which of the various services were not self-supporting from patients' fees. For example, one hospital's entire need for public support may result from the inadequate fees collected for board-and-room care in the wards or from out-patient care. In another institution the need for public funds may be traceable directly to the costs of education for student nurses. But it should be made clear that community support of hospitals is, properly considered, merely the payment of a bill for important public services and not a subsidy for poorly trained hospital administrators.

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In summary: Hospital service is similar in many details to other types of business. The economic policies now current in hospital service, however, create special problems which make hospital administration unique, complex and difficult.

First, hospital care is usually delivered in conjunction, and frequently in economic competition, with a doctor's or special nurse's services.

Second, hospital service is conducted with the use of community capital, donated without expectation of repayment or of interest earnings. This fact has tended to obscure the role of fixed charges in hospital costs, also the economic advantages of adequate utilization of plant and equipment. The public's method of investing in hospitals has at times burdened efficient superintendents with the management of institutions which were unnecessary for a community's needs or which were so poorly planned as to interfere with economical administration.

Third, hospital service is in part regarded by the public as a social service to be provided without regard to ability to pay. Fees have usually not been established with a view to recovering the full costs of the services, and many individual patients pay little or nothing for hospital care.

Fourth, analysis of the costs of hospital service would be desirable as a basis both for efficiency and for adequate financing, for, if fees are to be kept low by public policy, the cost analysis provides the explanation of the need for public support and sets forth a detailed statement of hospital services for the general public. Cost analysis from this point of view would be an aid to financing, as well as to internal efficiency of administration.

Hospital Management as a Business Undertaking

By LEWIS N. CLARK

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IN DR. HOWARD HAGGARD'S book, "Devils, Drugs and Doctors," he tells us that in 1505 the Parliament of Paris nominated a commission of eight citizens to manage the temporal affairs of the Hotel Dieu. He says: "Whatever the shortcomings in medical practice may have been, there was at least a healthy directness in handling administrative difficulties; the monks and nuns who objected to the changes that were made were dismissed, and the physicians who sided with them were committed to prison." How often the management of the hospital of today would like to use this kind of "healthy directness." Max Nordau's account of the horrors of the Hotel Dieu at that time, Semmelweis' description of the Gratz Hospital as recently as 1850, and La Forte's of the Maternité of Paris in 1864, should, however, give us some encouragement when we consider how far we have come and how few are our shortcomings in comparison with the hospitals of seventy-five years ago. I believe that in no line of human endeavor has such progress been made, even though all hospitals, no matter how carefully they are managed, are still the object of more or less frequent criticism.

Everyone who has the responsibility of a hospital is willing to acknowledge that his institution deserves criticism in many instances, and that things occur

(sometimes far too frequently) which are very much to be regretted. I am going to try to show later on why it is so difficult to prevent many of these occurrences. One criticism, however, which every hospital man resents as he would an unkind word about his only child is that of extravagance. When I hear someone say that hospitals "throw the public's money around" or that they would be more careful how they spent their money "if they were in regular business," I feel a great deal of resentment. There is only one business in any way comparable to hospitals, and that is the hotel business. One often hears a hospital compared to an American-plan hotel, usually to the advantage of the hotel. Let us have a look at this comparison and see if the charge of hospital extravagance is justified.

I found it somewhat difficult to get accurate figures on hotel costs. Also, it was necessary that I know what part of their costs was included in the items, interest on investment, taxes and depreciation. Hospitals have no interest on investment as a usual thing because the money which builds them is given by the public. Very rarely is any depreciation figured in a hospital's operating costs, and they are free of taxes unless privately owned. Two prominent firms of auditors and hotel cost accountants very kindly furnished me with the figures I needed, and I am glad to acknowledge my indebtedness to them. Messrs. Horwath and Horwath have given me a composite figure of $6.70 cost per guest per day. Included in this is $1.75 a day for the three items I have mentioned above, leaving a net operating cost of $4.95. They have warned me that these figures are for American-plan hotels, that very few of them operate twelve months a year, and that the costs are consequently higher than they would be if these hotels operated continuously. Messrs. R. M. Grinstead and Company have compiled figures for me from averages of over 150 hotels of various sizes. They show an average cost per guest per day of $5.75. The items of interest, depreciation and taxes account for $1.40 of this, leaving a net operating cost of $4.35 per day. If we strike a mean between these two groups of hotels we arrive at a figure of $4.65 per guest per day, *not* including the items I have mentioned.

As to hospital operating costs: The Commonwealth of Pennsylvania reports for twenty-eight state-aided hospitals of 200 beds and over, for the year ended February 28, 1931, an average cost per patient per day of $4.64. This group of large hospitals (my own being included in the twenty-eight) includes those caring for well-to-do patients in private rooms, as well as ward patients. City hospitals, which care for ward patients only and whose costs are kept down to a minimum, are not included. These hospitals give an American-plan hotel service—but they give a great deal in addition. All of this is included in the patient-day cost. I am quoting the average for the twenty-eight hospitals. The operation of the Pathological Laboratory costs seventeen cents per patient day, the X-ray Department seventeen cents, the Special Therapy Department four cents, and the Social Service Department five cents. The Out-Patient Department, (although it has nothing to do with the in-patient cost) was included in these figures sent out by the State, and costs eleven cents per in-patient day. Ambulance service costs three cents, anesthesia costs eight cents, medical and surgical supplies nineteen cents, drugs thirteen cents, medical services eight cents and nursing sixty-seven cents. This leaves us $2.92 of our $4.64 per diem cost and we still have one important item left before we can make a fair comparison with the hotel figure. Hospitals not only care for the sick; many of them are training schools for medical students and twenty-seven out of the twenty-eight hospitals reporting have training schools for nurses. There is an average of from one to one-and-a-half pupil and graduate nurses to every three patients. Hidden away in the housekeeping, dietary, operation of plant and maintenance and repair items is the care of the nurses home, the feeding of the nurses, and again the housing and feeding of the employes who care for the nurses' quarters and who feed them. Add to this the living expenses of the intern staff and the cost of laundry for all the nurses and interns, and you have another item of cost (which hotels do not have) of at least eighty-seven cents per patient day. We now have a balance of $2.05 left as compared with the hotels' cost of $4.65 per guest day, and I have not attempted to show the living cost of the dietitians, anesthetists, druggists and other hospital employes who, because of the nature of their work, must live within the hospital and be kept by the hospital.

I do not believe this group of hotels, the cost figures of which I have given above, can be charged with either extravagance or inefficient management. It can be taken for granted that their costs are as low as is consistent with the good service they try to give.

I trust that I have satisfactorily met the charge of extravagance in hospital management, and I would like to show you that this very low cost figure is