Managed Care & Globalization: The Argentinean Case

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Goals of the Presentation

- Offer a structural and contextual analysis of the introduction of Argentina into the globalization process and of the health care system reform as a result of this process.
- Offer a structural and contextual analysis of the national and international interests competing for maintaining or obtaining a position in this process.

Globalization

- The role of the financial capital in installing globalization has been crucial and dominant:
  - Financial capital has increased its importance in all economies since the economic crisis in the mid-70s and has become more important than productive capital in the global economy.
  - This growth required an expansion into economic areas and places in which to operate by moving into new activities or across national boundaries.

Globalization

- Pension and mutual funds, and capital from insurance and life insurance activities were the financial assets that increased more than others.
- U.S. is the most important country generating these assets:
  - In United States these assets together increased from $1,606.9 to $8,008.4 billion between 1980 and 1993 (an increase of 500%).
  - In 1993, the U.S. pension funds represented 82.7% of the pension funds among the five major countries generating pension funds.

Managed Care, Health Care & Globalization

- Managed care was the first step in introducing health care into the globalization process through:
  - Investments by MCO subsidiaries of insurance companies and mutual and pension fund administrators.
  - Reforms to privatize the management of public and social security funds.
  - Introduction of managed care as an organizational model for health care.
  - Installation of the idea that for-profit MCOs are more efficient than public or non-profit organizations and will limit health care costs.

Globalization in Latin America

- In the early 1990s multilateral lending agencies demanded:
  - Privatization of the enterprises owned by public administrations.
  - Reduction of public expenditures (health, education, social security).
  - Regularization of payments and decreasing external debts.
  - Openness to transnational capital.

Globalization in Argentina

- The Argentinean economy was subject to the structural adjustment policies that included the health system reform.
- These policies were designed by the International Monetary Fund, World Bank, and Inter American Development Bank, and accepted by the Argentinean government in 1991.

Health Care System in Argentina Before Reforms

- Health care was a right guaranteed by the state and financed by public, private, and social security funds.
- Social security was a very large fund managed by governments or worker unions.
- The public health care services ensured universal access through an important and qualified network of public hospitals and primary care centers.
- The fragmentation of the system and corruption were the principal sources of cross subsidies and high expenditures

Health Care System in Argentina in 1980s

- Public health care services and preventative programs were underfinanced.
- Social security funds decreased through lowered wages and dismissal of workers, while health care costs rose. They limited and denied health care services to their insured, who then were forced to turn to the public hospitals and clinics for their health care or to contract private insurances.
- Private providers pressured social security to maintain their contracts (fee for services and expensive high technology and treatments). They used their corporate power to deny services.

Health Care System Reform Principles

- Health care is no longer a right guaranteed by the state, but is a good to be acquired.
- The health care sector is a market that needs to be deregulated and made competitive.
- The public system should be concerned about those living in absolute poverty; the rest of the population should pay for health care.
- The state administration should finance only programs considering questions of general public health.

Strategies to Implement Health Care Reforms

- Loans controlled by international lending agencies to reform public hospitals and social security institutions.
- Negotiations with union leaders managing social security institutions to facilitate their acceptance of the new model.
- Attracting policy-makers and managers of public hospitals and social security institutions through “trade shows” to build interest in managed care principles.

Implemented Health Care Reforms

- Transformed public hospitals into self-management hospitals to force them to compete among themselves and with the private sector by attracting social security patients and those with the capacity to pay.
- Privatized some profitable health care services and administrations in public hospitals.
- De-regulated social security institutions to compete among themselves and facilitated national and multinational financial capital having access to such funds.
- Changed legislation to favor the entrance of international investors into the health market.

Implemented Health Care Reforms

- The de-regulation of the social security institutions allowed union leaders and the multinational financial groups, interested in operating in the health care system, to develop agreements.
- These agreements permitted corporations to manage social security funds and transfer the most profitable affiliates from the social security institutions to the prepaid plans.

Corporate Strategies for Entering into the Health Care Market

- Purchase of already established companies dedicated to pre-paid plans.
- Joint ventures with local companies.
- Agreements with union leaders to manage social security funds.
- Agreements with some provincial governments to manage public hospitals.

Principal Financial Groups Operating in Argentina

- Principal MCOs from the U.S. operating in Argentina have been: Aetna, International Managed Care Advisers, American International Group (AIG), International Medical Group, and The Principal.
- Pension and mutual fund administrators operating in health care are: Exxel Group, Swiss Medical Group, Santander Central Hispano Bank (BSCH), Oppenheimer & Co., and HSBC Holdings.

The Exxel Group: A Paradigmatic Case

- Administrator of foreign mutual and pension funds.
- The financial model used was “leveraged buyout”.
- The president is a former president of the Citicorp Capital Investors, a group used by Citibank for programs that capitalize on external debt.

Exxel Group: a Paradigmatic Case

- Head office located in the Cayman Islands.
- Started operating in Argentina in 1992 through the investment of $47 million provided by Oppenheimer & Co.
- Other investors in the Group were Aetna, Allstate, Brown University, Columbia University, General Electric Pension Trust, Massachusetts Institute of Technology, Princeton University, Rockefeller & Co., The Ford Foundation, and The Getty Family Trust, among others.

The Exxel Group: A Paradigmatic Case

- The Exxel Group purchased companies in very different fields: prepaid health plans, medical social security institutions, energy distributors, credit card services, music store chains, private mail companies, airport storage facilities, duty-free shops, cargo transport companies, and supermarket chains.

The Exxel Group: A Paradigmatic Case

- In 1998, the Group had 73 companies, 40,000 employees, assets worth $4,500 million, and an operation capital movement of $4,800 billion per year.
- In five years, the Group became one of the ten biggest companies in Argentina.
- However, in 2003, Exxel Group has only 7 companies, their assets are under $500 million, and the majority of the companies are in bankruptcy.

The Exxel Group: A Paradigmatic Case

- It operated in the three health care sectors: public, social security, and private prepaid plans:
  - Purchased three of the most prestigious Argentinean prepaid plans, merged them into one company, and introduced managed care principles to operate the company.
  - Purchased a social security institution to compete for affiliates when the deregulation of these institutions opened up free choice to the affiliates.
  - Managed the billing process of 27 public hospitals in a province charging 20% of the total bills to the government owner of the hospitals.

How Did the Exxel Group Operate?

- Identified local companies having high capital assets.
- Secured foreign investors and obtained their funds in some “fiscal paradise,” such as the Cayman Islands, outside of the control of the IRS and U.S. Treasury.
- Negotiated with foreign banks, specifically Citibank, which gave short term loans.
- Issued bonds to repay the loans and sold the bonds in external markets as “junk bonds” that pay a high rate of interest.

How Did the Exxel Group Operate?

- This process required an artificial increase of capital asset value and a level of indebtedness that led the companies into bankruptcy.
- The Group did not pay income taxes to the Argentinean government because its official accountability showed giant losses.
- All these mechanisms are related to fiscal evasion, movements of national capital outside of the country, and perhaps money laundering .

Ten Years of Economic Globalization

– Between 1991 and 1998 the Argentinean economy grew by 5% annually, but after this the GDP had a negative annual growth until 2003.
– In the same period, productivity grew 30% but the average salary increased only 3%.
– In 2002, unemployment was 21.5%, increasing 74.2% since 1998, while in 1991 it was 6.3%.
– In 2002, 49% of the population lived below the poverty level, + 59% between 1998 and 2002.
– In the last 10 years the gap between the richest 10% and the poorest 10% grew 70%.

Results in the Health Care System

- Public hospitals:
  - Failure to receive payments from social security or private prepaid plans while people with only public sector coverage increased from 36% to 43% of the total population during October 2001 and May 2002.
  - Budget cuts in the public sector have closed surgery rooms and entire wards, pharmacy shelves are empty and people need to buy medication and other supplies and carry them themselves to the hospitals.

Results in the Health Care System

- Social security institutions:
  - Social security institutions for working people have decreased their income 12% between 2002 and 2003.
  - Social security for retired people has decreased its income 40%, during the same period.
- Private prepaid plans were merged and most of them are managed by financial groups.
- Private providers, including pharmacies, accumulated, in 2002 alone, a debt from the entire social security system of around $1 billion.

Free Trade Agreements

- A second step of the globalization process is the free trade agreements that in words of a former director of the WTO Trade in Service Division: “Without the enormous pressure generated by the American financial service sector, particularly companies like American Express and Citicorp, there would have been no service agreements.” (Hartridge, 1997).

GATS

- The European Commission stated in 1999: “The GATS is not just something that exists between governments. It is the first and foremost an instrument for the benefit of business, and not only business in general, but for individual service companies wishing to export services or to invest and operate abroad.” (European Commission, 1999).

Conclusions

- An overview of the globalization process as developed in Argentina indicates important international and national groups have taken advantage of this situation by engaging in illegal or corrupt activities, fiscal evasion, uncontrolled movement of capital around the world, and extraction of money from one activity to invest in others in order to maximize the amount of profit obtained.
- International organizations are recognizing the problem and creating groups to analyze it and engaging countries in the fight against these kinds of activities.

Conclusions

- The different free trade agreements under negotiations could help to stop this process if the origin and movements of the financial capital are controlled and countries have the power to regulate them.
- If the power of the multinational financial capital is stronger than the power of the governments and international organizations the free trade process could become uncontrolled.
- Financial capital from terrorist groups or drug organizations, among others, could increase its control of the global economy and weaken legal economies.