INTRODUCTION: PRIVATIZATION AND MENTAL HEALTH CARE REFORM

The collapse of the national health care reform initiative in 1994 marked a lost opportunity for all Americans, but especially for those with chronic conditions who face catastrophic medical costs under the present system. Of all the chronic conditions, serious and persistent mental illness (SPMI) presents the strongest case for reform, because the mentally ill are the most vulnerable to the devastating medical, social, and financial consequences of their illness (Sharfstein & Stoline, 1992). With no further federal initiative on the horizon, the question of how to finance services for
the SPMI is now one of the most pressing “inescapable decisions” of health care reform (Mechanic, 1994).

Like other unresolved health care issues, this question of financing will now most likely be addressed at the state level (“State officials strive,” 1994). In fact, the process of reexamining existing methods is already underway in a number of states, prompted by two concerns. One is the burden on state budgets due to the increasing cost of the Medicaid program, which finances a growing proportion of mental health services. The other is a recognition that expensive state-operated inpatient facilities continue to drive up mental health care costs, even after decades of deinstitutionalization.

Massachusetts is one of the states currently confronting these issues. The state is proceeding with a reorganization of the financing of mental health services through two somewhat independent initiatives. The first is an initiative of the Division of Medical Assistance involving a reorganization of Medicaid into a system of managed care wherein all persons, including the mentally ill, are enrolled, and for whom Medicaid is the primary payor. The second, spearheaded by the administration of Republican Governor William Weld, is a plan known as “facilities consolidation” aimed at downsizing the system of state institutions for the mentally retarded, mentally ill, and chronically ill.

Privatization, as an instrument of public policy, figures prominently in both of the Massachusetts initiatives. In the Medicaid reorganization, privatization takes the form of a “carve-out” of mental health and substance abuse benefits. This relates to privatization in two primary ways: first, it is a model that originated with the private sector; and second, the state has contracted with a private health care provider (Mental Health Management of America, now owned by First Health, Inc. and doing business in Massachusetts as MHMA) to set up and manage the network of mental health services for Medicaid recipients.

The facilities consolidation initiative involves privatization in three respects. First, the Department of Mental Health has contracted with general and private psychiatric hospitals to develop “replacement units” as substitutes for state hospitals that are being closed. Second, many of the patients in state facilities being downsized or closed were transferred to privately managed community placements, such as nursing homes or residential programs contracting with the state. Finally, the Department of Mental Health has also sought to emulate the private sector by developing a system of “public managed care” known as the Comprehensive Community Support System (CCSS).