

Case 13

The Rural Hospitals Program

The Commonwealth Fund, 1927

Scott Kohler

Background. In 1926, health care in the rural United States lagged far behind what was then routinely available in cities. Less well-known than the health risks associated with urban over-crowding and industrialization was the virtual unavailability of health care to much of the country. At the time, Dr. Hermann Biggs, the New York Commissioner of Health, documented the inadequacy of rural healthcare in his state:¹⁹⁵

- Over 250 incorporated villages in New York State “were without the services of a physician”
- eleven New York counties were without any hospital

New York was not alone in this problem. In fact, over half of the 3,027 counties in the United States had no hospital.¹⁹⁶ And, even when there was a local doctor or hospital, the quality of rural medical care was very low.

Dr. Biggs “convinced [the Commonwealth Fund’s general director] Barry Smith that the Commonwealth Fund could do no greater service than to meet the need for hospitals for rural communities and for areas in which the black population predominated.”¹⁹⁷ As it happened, Edward S. Harkness, the Fund’s president and co-founder, was already sympathetic to the need for more hospitals, having wondered, in a 1919 report, “[m]ight it not be that the Commonwealth Fund could better confine itself to giving money to help build new hospitals. . . [in which] each patient pay[s] what he is able to...”¹⁹⁸

Strategy. The first Commonwealth hospital was “a pilot endeavor; if it succeeded, Smith proposed to establish a Division of Rural Hospitals, which would erect one or two fifty-bed hospitals a year. . . .” Several conditions were imposed. The Fund chose to leverage its grants by requiring communities to raise one third of the construction costs and to defray all future hospital expenses—similar to what Andrew Carnegie required in the construction of the libraries he financed. Furthermore, each hospital must provide care “without considering race, color, creed, or economic status.” Still, applications for Commonwealth funding came from far more communities than the Fund could possibly support. So two criteria were used in the selection process: (1) a community’s need, and (2) its willingness and ability to operate and maintain the hospital, without further Commonwealth assistance, once it had been built.

Outcomes. The first Commonwealth-funded rural facility, the Southside Community Hospital, in Farmville, VA, cost \$180,000 to build and opened on November 9, 1927. Between 1926 and 1948, the Commonwealth Fund supported the construction of fifteen rural hospitals. And all told, in its twenty-seven years of operation (1925–1952), the Fund’s Division of Rural Hospitals gave out a total of \$6.84 million.¹⁹⁹

By 1930, the first six Commonwealth hospitals combined were serving some 410,000 people. During the subsequent five years, new construction stopped, as the hardships of the Great Depression made it difficult for local communities to support new hospitals. The Fund meanwhile concentrated its efforts on shoring up the six existing hospitals, and, as a result, although fewer and fewer people could afford to pay for their medical treatments, none of the six stopped operating for a single day during the Depression.

Impact. By 1931, Barry Smith could assert that “[n]o project undertaken by the Fund has aroused more interest and favorable comment, none has presented greater difficulties, and none has shown

more marked results in a period of equal length.”²⁰⁰ The fifteen hospitals built through the program have provided medical care to millions of people, many of whom could not otherwise have afforded the services they received. All of these hospitals are still operating today.²⁰¹ A single one of them, for example—the Southside Community Hospital, in Farmville—had revenues of over \$37 million in FY 2003 and net assets worth over \$11.4 million.²⁰² This hospital was founded in 1927 thanks to a \$120,000 donation by the Fund, or \$1.27 million in 2003 dollars.

By far the most significant impact of the Rural Hospitals Program was in serving as a blueprint and a spur for the Hill-Burton Act, which passed Congress in 1946. Hill-Burton, properly known as the Hospital Survey and Construction Act, directed federal funds to follow the foundation’s lead on a massive scale. Before Hill-Burton was written, The American Hospital Association and the United States Public Health Service—with financial support from Commonwealth and several other foundations—formed in 1942 the Commission of Hospital Care, which made the formal recommendations to Congress upon which the Act was based.²⁰³ Following the example of the Commonwealth Fund, Congress required, for instance, that each local community raise a portion of its hospital’s construction costs²⁰⁴ and maintain the hospital without further assistance. Congress also required the hospitals “to provide free or reduced charge medical services to persons unable to pay.”²⁰⁵ Since 1946, Hill-Burton has provided over \$4.6 billion in grants and \$1.5 billion in loans for the construction of hospitals in communities that lack them.

Notes

195. McGehee Harvey and Susan L. Abrams, *For the Welfare of Mankind: The Commonwealth Fund and American Medicine* (Baltimore: Johns Hopkins University Press, 1986).

196. *Ibid.*

197. *Ibid.*

198. *Ibid.*

199. This is not broken out, except by year. In addition to hospital construction, the Division funded postgraduate fellowships for aspiring rural doctors.

200. Harvey, *For the Welfare of Mankind: The Commonwealth Fund and American Medicine*.

201. Mary Lou Russell, Robert Oksner, and Anne MacKinnon, *For the Common Good: The Commonwealth Fund 1918–1993* (New York: The Commonwealth Fund, 1994).

202. Department of the Treasury, Internal Revenue Service Form 990 of South-side Community Hospital, Inc., available from <http://www.guidestar.org>.

203. Harvey, *For the Welfare of Mankind*. Harvey and Abrams describe the Rural Hospitals Program as “an important example for the framers of the Hill-Burton Hospital Survey and Construction Act.”

204. In fact, the Hill-Burton Act required communities to raise two-thirds of the money, as opposed to the one-third requirement of the Commonwealth Fund.

205. Available from <http://www.hrsa.gov/osp/dfcr/about/aboutdiv.htm>.