

COMMISSION AUTHORIZED

TESTIMONY
OF
RONALD S. BOND
DEPUTY DIRECTOR FOR OPERATIONS AND RESEARCH
BUREAU OF ECONOMICS
FEDERAL TRADE COMMISSION
Before the
HEALTH COMMITTEE
of the
CALIFORNIA STATE ASSEMBLY

May 10, 1983

These comments represent the views of the Bureau of Economics, Consumer Protection and Competition of the Federal Trade Commission and do not necessarily represent the views of the Federal Trade Commission or of any individual Commissioner. The Federal Trade Commission, however, has reviewed this testimony and has voted to authorize its delivery.

My name is Ronald Bond. I am an economist and Deputy Director for Operations and Research of the Bureau of Economics of the Federal Trade Commission (FTC). I am also one of the principal authors of a study published by the FTC in September 1980 titled, The Effects of Restrictions on Advertising and Commercial Practice in the Professions: The Case of Optometry. Because the study is relevant to the proposed repeal of California statutes that limit forms of commercial practice by optometrists, I have been asked by Assemblyman Johnston to explain the findings of the study to you. Before describing the study, allow me to state that the views I am presenting today are those of the staff of the FTC; the Commission has reviewed and authorized the delivery of these remarks. The Commission has also asked that I deliver to you today the attached letter which responds to Assemblyman Johnston's letter requesting clarification of the Commission's views on the study.

THE BACKGROUND OF THE STUDY

The Bureau of Economics conducts independent research on subjects of policy interest to the Federal Trade Commission. The studies are prepared by professional economists and are reviewed by the Director of the Bureau of Economics who reports directly to the Commission. The Bureau of Economics' study of the optometry profession was initiated in 1977, and was an outgrowth of the Federal Trade Commission's general inquiry into competitive

and consumer issues surrounding the provision of professional services. Although the legal staff later used the completed study as a basis for recommending a rulemaking in the area of commercial practice, the study itself was not a part of any legal proceeding. The study was conceived, conducted and managed within the Bureau of Economics, and the staff economists responsible for the study maintained independence from the legal staff.

The study was designed to examine empirically the relationship between restrictions that prohibit advertising and commercial practice and objectively defined measures of the price and quality of professional services. The relationship had been a matter of some dispute. Proponents of advertising and commercial practice had argued that such behavior increased competition and lowered prices. Opponents had argued that such behavior lowered the quality of professional care available in the market. Little empirical evidence was available.

We chose to look at the optometry profession because there was, in 1977, substantial variation from state-to-state in the laws and regulations governing advertising and commercial practice by optometrists. There were states where advertising and commercial practice were both forbidden, there were states where advertising and commercial practice were both permitted, and there were states where advertising was permitted but commercial practice was not.

THE METHODOLOGY OF THE STUDY

The objective of the study was to assess the independent effects of advertising and commercial practice upon the price of eyeglasses and exams, upon the thoroughness of examinations, upon the accuracy of prescriptions, upon the accuracy of eyeglasses, upon the workmanship of eyeglasses, and upon the degree of unnecessary prescribing. Because we recognized that we lacked expertise on how to measure the quality of eye exams and eyeglasses, we secured the assistance of the College of Optometry of the State University of New York, the Pennsylvania College of Optometry, and the Director of the Optometric Service of the Veterans Administration who served as consultants on the study.

The methodology adopted for the study was relatively straightforward. We hired survey researchers to purchase eye examinations and eyeglasses in cities with a variety of legal environments. Cities were classified as markets where advertising was present if there was advertising of eyeglasses or eye exams in the newspapers or the yellow pages. Cities were classified as markets with commercial practice if eye examinations were available from large interstate optical firms.

Before going into the field, the survey researchers spent a week at the two colleges of optometry being trained to identify important procedures common to complete eye exams. To provide a baseline for judging the accuracy of the prescriptions purchased

in the field, both colleges also performed eye examinations on each member of the survey team. After training, the surveyors went into the field and purchased examinations, prescriptions, and in most cases eyeglasses. After each examination they completed debriefing sheets on which they noted all of the various procedures the optometrist had performed. The debriefing sheets provided the basis for evaluating examination thoroughness. The prescriptions and the eyeglasses provided the basis for judging accuracy and workmanship. Finally, a subset of the subjects went to their examinations wearing eyeglasses that the schools of optometry had already determined were correct. Those subjects asked each optometrist they visited whether or not a new pair of glasses was needed. The optometrist's response became the basis for evaluating overprescribing.

I would note that the study was not designed to examine more complex quality of care issues such as the diagnosis of visual pathologies. The surveyors who were examined were visually healthy individuals with relatively routine optometric needs. Because healthy individuals were used, we do not know whether an examining optometrist would have accurately diagnosed a pathology had it existed. We do know, however, whether the optometrist conducted specific tests designed to reveal such problems.

THE RESULTS OF THE STUDY

Because our study addressed the effects of restrictions that prohibit both commercial practice and advertising, not all of our results will be of specific interest here since advertising is not at issue in the proposed legislation. Moreover, none of the cities we visited were in California. Nonetheless, the cities in the study were selected to cover a broad range of demographic characteristics so that the results of the study would be as generally applicable as possible.

If the proposed legislation were passed, the regulatory environment in California would, I think, be quite similar to that in the cities we visited where there were no restrictions. In those cities optometrists were free to advertise, to practice commercially, or to practice in the traditional manner. In such cities we found that about 10 percent of the optometrists were associated with large interstate optical firms that advertised. Another 19 percent either advertised or practiced with a local optical firm that advertised. Finally, about seventy-one percent of the optometrists neither practiced commercially nor advertised in the media.

The Effect of Restrictions on Price

We found that the prices charged for eye examinations and eyeglasses were significantly lower in cities without restrictions on advertising or commercial practice. The average price charged by optometrists in cities without restrictions was about

\$24, or 25 percent, lower than the average price charged by optometrists in cities with restrictions on both advertising and commercial practice. About \$11, or 45 percent, of the difference was due to advertising and about \$13, or 55 percent, of the difference was due to commercial practice. The lowest price providers were the commercial firms themselves. But the presence of commercial firms resulted in lower prices throughout the market. Even optometrists who practiced in the traditional manner charged prices that were about \$10, or 12 percent, lower in markets where they faced competition from commercial firms than in markets where they did not. I should emphasize that dollar figures I have cited are for 1977.

The Effects of Restrictions Upon Care

Analysis of our measures of quality of care suggested that neither restrictions on commercial practice nor restrictions on advertising raised the level of care available in the market. The data collected on the accuracy of the prescriptions, the accuracy and workmanship of the eyeglasses, and the extent of unnecessary prescribing all suggested that large chain firms perform no worse than optometrists who practice traditionally. In addition, the data suggested that the eye examinations purchased from optometrists in cities both with and without commercial firms were, on average, of about equal thoroughness. I should note,

however, that there was substantial variation in thoroughness among optometrists in both kinds of markets. Both in cities with and without commercial firms, some optometrists offered more thorough and some optometrists offered less thorough exams. But the percent of optometrists offering less thorough exams was about the same whether or not commercial firms were present.

SUMMARY

To summarize, our study suggests that restrictions that prohibit commercial practice tend to raise the prices consumers pay for eyeglasses and eye examinations. The restrictions do not seem to raise the average level of care available in the market. The study shows that commercial firms provide prescriptions and eyeglasses that on average are at least as accurate as those provided by traditional practitioners. The frames and lenses purchased at commercial firms evidenced a level of workmanship equal to that available elsewhere. The study also showed that optometrists at commercial firms engaged in no more unnecessary prescribing than other optometrists.

Perhaps most importantly, the study shows that examinations were on average of about the same thoroughness in markets with and without commercial firms. Although less thorough exams were available in both kinds of markets, the percentage of

optometrists offering less thorough exams was no higher in markets with than in markets without commercial firms.

Based upon the results of the research I have described, the staff of the Federal Trade Commission believes that there is no economic reason to maintain restrictions that prohibit commercial practice. We think that the evidence shows that such restrictions raise prices without raising the level of care, and, as a result, are likely to reduce competition and injure consumers.



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CALIFORNIA YOUTH

COMMITTEES
EDUCATION
JUDICIARY
NATURAL RESOURCES
PUBLIC EMPLOYEES AND RETIRE

April 25, 1983

Mr. James C. Miller, III
Chairman, Federal Trade Commission
Washington, D.C. 20580

Dear Chairman Miller:

I am sponsoring two bills in the California Assembly that would reform the optometry and opticianry laws in California. These bills, AB 1925 and 1926 would foster competition in the delivery of vision care to the public by repealing several statutes that limit forms of commercial practice by optometrists and opticians. I have enclosed a copy of these bills for your review.

One of the most important studies on which my bill is based is that conducted by the Federal Trade Commission's Bureau of Economics entitled "Effects of Restrictions on Advertising and Commercial Practice in the Professions: The Case of Optometry," published in September, 1980. On May 10, 1983 the Health Committee of the California Assembly will meet to hear testimony on AB 1925 and 1926. I would like to invite Ronald S. Bond, Deputy Director of the Bureau of Economics and a principal author of the study to appear before the Committee and explain the findings of that study and respond to questions from members of the Committee concerning it.

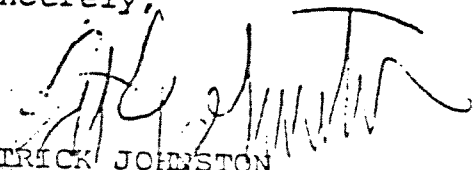
Groups opposing AB 1925 and 1926, in particular the California Optometric Association, have argued that the Federal Trade Commission has rejected the validity of the Bureau of Economics Study, as evidenced by the failure of the Commission to act on its Eyeglasses II rulemaking proposal. If possible, I would appreciate if the Commission could respond to this statement either through a written response to me, or through Mr. Bond's testimony.

James C. Miller, III
April 25, 1983
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I am aware of the controversy that has surrounded the reauthorization of the Federal Trade Commission, particularly in the area of the professions. The efforts by myself and other co-sponsors of this legislation to foster competition in the vision care field have been similarly controversial. I believe that the federal government can play a significant role at the state level through the sharing of information that will enable decisions to be made with more reliable information. The Commission has been in the forefront of gathering reliable evidence on the effects of professional regulation. I believe those data would be helpful on the matters I am sponsoring.

Thank you in advance for your help and consideration.

Sincerely,



PATRICK JOHNSTON
Assemblyman, 26th District

PJ:cr

Enclosures

FEDERAL TRADE COMMISSION
WASHINGTON, D. C. 20580

OFFICE OF THE SECRETARY

Assemblyman Patrick Johnston
State Capitol
Sacramento, CA 95814

Dear Assemblyman Johnston:

In your letter of April 25, 1983, to Chairman James C. Miller III, you noted that concerns have been expressed about the report issued by the Federal Trade Commission's Bureau of Economics in September 1980 titled "Effects of Restrictions on Advertising and Commercial Practice in the Professions: The Case of Optometry." According to your letter, certain groups have asserted that the failure of the Commission to act on its staff's "Eyeglasses II" rulemaking proposal indicates that the Commission has "rejected the validity" of the Bureau of Economics study. This assertion is not true.

One of the functions of the Bureau of Economics is to conduct economic research and publish its findings. That research provides valuable support for our law enforcement activities, and is often helpful to other government agencies and members of the public. The Commission has high regard for the research conducted by the Bureau of Economics.

It is incorrect to assume that the Commission has rejected the validity of the report simply because it has not issued a final trade regulation rule or taken other legal action based on the report's conclusions. The "Eyeglasses II" rulemaking is ongoing, and the amount of time the Commission has committed to this matter reflects a number of factors, including the importance of the issues involved.

The report on optometry by the Bureau of Economics is a sophisticated and reliable piece of research. We are pleased that you and your colleagues in the California Legislature have found it informative and useful.

By direction of the Commission.

Emily H. Rock
Secretary