Labor Market Power: Another Consideration In Hospital Merger Reviews?

Why This Study Is Important

Currently, hospital mergers can trigger antitrust scrutiny if they involve sufficiently large partners and present concerns about anticompetitive behavior that could negatively affect the market for hospital services, such as by raising prices or reducing patient access. The Federal Trade Commission (FTC), Department of Justice, Congress and outside experts have all recently asked whether merger review should also consider whether merging firms gain *labor market* power that enables them to hold down employees' wages. This paper takes a first-time, empirical look at that question for the hospital sector, informing the discussion of expanding merger review criteria. Through a comprehensive series of analyses, the authors establish that hospital mergers can affect wage growth for some types of workers and attribute these wage impacts to enhanced labor market power rather than to other factors that could also affect wages, such as post-merger changes in managerial practices or production technology.

What This Study Found

- Hospital mergers within the same labor market resulted in statistically significant slowdowns in wage growth, but only for workers whose employment prospects are more closely linked to hospitals and only for mergers that dramatically increased the degree of employer concentration in the local labor market (the top quartile of mergers).
- Over the four years after these high-impact mergers, nominal wages were 4 percent lower for skilled workers and 6.8 percent lower for nurses and pharmacy workers than they would have been absent the merger. The implied reductions in annual wage growth of 1 and 1.7 percentage points are substantial slowdowns relative to average annual nominal wage growth of 3 to 4 percent. Post-merger wage growth was not affected for general workers, who arguably have a wider range of employer options.
- Mergers between hospitals in different labor markets, which by definition do not give participating hospitals more local labor market power, have no impact on post-merger wage growth for their workers.
- Nurse unionization rates and absence of state right-to-work laws, both indicators of greater wage negotiating power for workers, mitigate the effect of hospital mergers in depressing nurse wage growth.

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What These Findings Mean

Hospital mergers that significantly reduce the number of hospital systems competing locally for labor can depress wage growth for workers for whom a hospital job is a primary employment option. Numerous sub-analyses support the interpretation that these observed wage impacts are due to enhanced labor market power enjoyed by merging hospitals. Accordingly, a case could be made to expand hospital merger review criteria to consider labor market power, at least for certain mergers and for certain categories of employees. However, because the geographic markets from which hospitals draw patients are likely narrower than the areas from which they draw labor, the product market effects that are already part of merger review decisions may dominate labor market effects. Adding labor market considerations may not change initial FTC decisions about which hospital mergers merit further scrutiny. The calculus could be different, however, in other industries where product markets are less localized but where labor market effects could be sizeable.

More About This Study

The main analysis in this study used a difference-in-differences model to compare changes in wages for specific types of workers for hospitals in labor commuting zones (markets) that experienced a merger of local hospitals during the 2000-2010 period and labor markets with no mergers. Wage data were derived from the Medicare Cost Reports for three categories of workers: general workers who have the least industry-specific skill set, skilled workers in positions that are more tied to the hospital setting, and nurses and pharmacists, for whom hospitals are a key employment option. Hospital mergers were divided into quartiles based on the extent to which the merger increased employer concentration in the local labor market, and the effects were estimated separately for each worker category. To identify labor market power as the mechanism suppressing post-merger wage growth, a similar model compared wage trends for out-of-labor-market hospital mergers vs. no mergers, and nurse unionization rates and state right-to-work indicators were interacted with the merger quartile variables.

Prager E and Schmitt M. "Employer Consolidation and Wages: Evidence from Hospitals." American Economic Review, *2021, 111(2):397-427, https://doi.org/10.1257/aer.20190690.*