

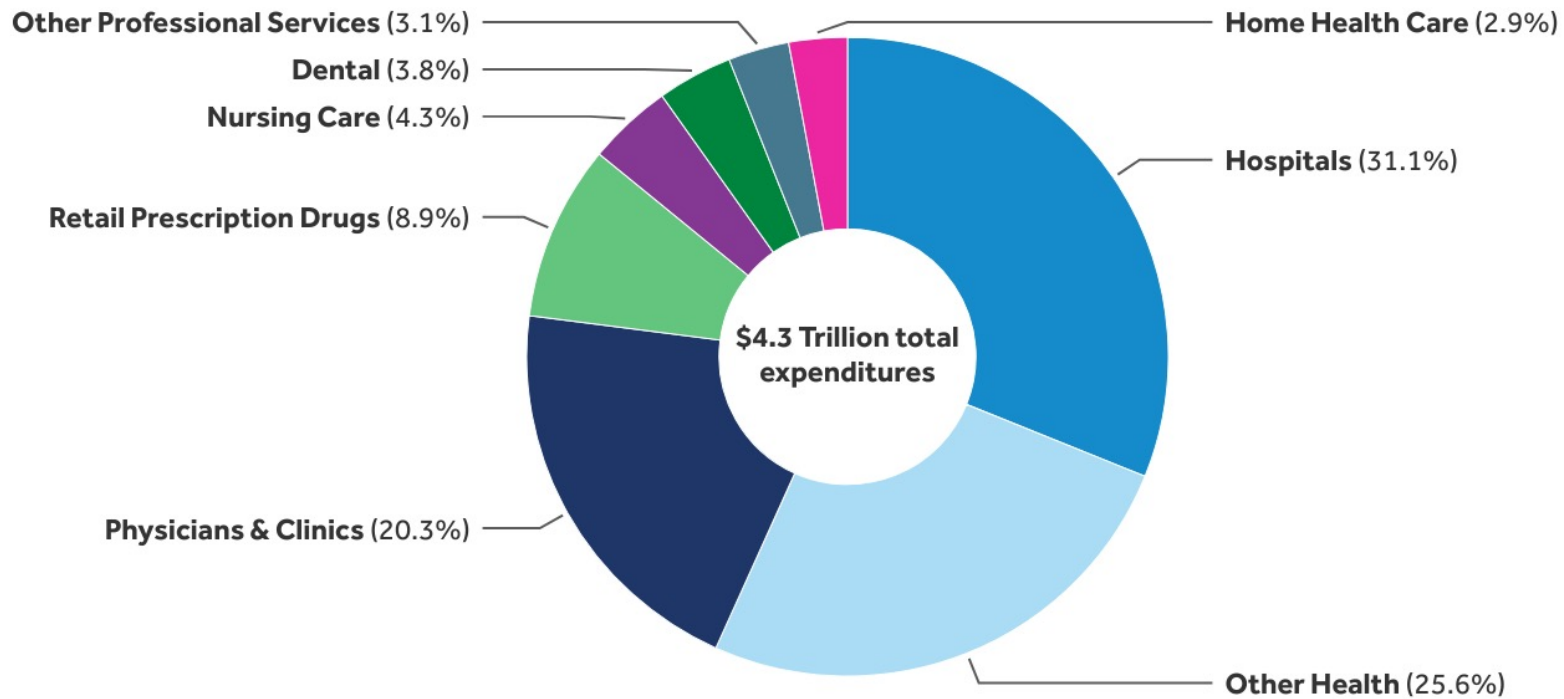
Hospital Competition in the US

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The US Hospital Industry is 6% of GDP

Relative contributions to total national health expenditures, by service type, 2021



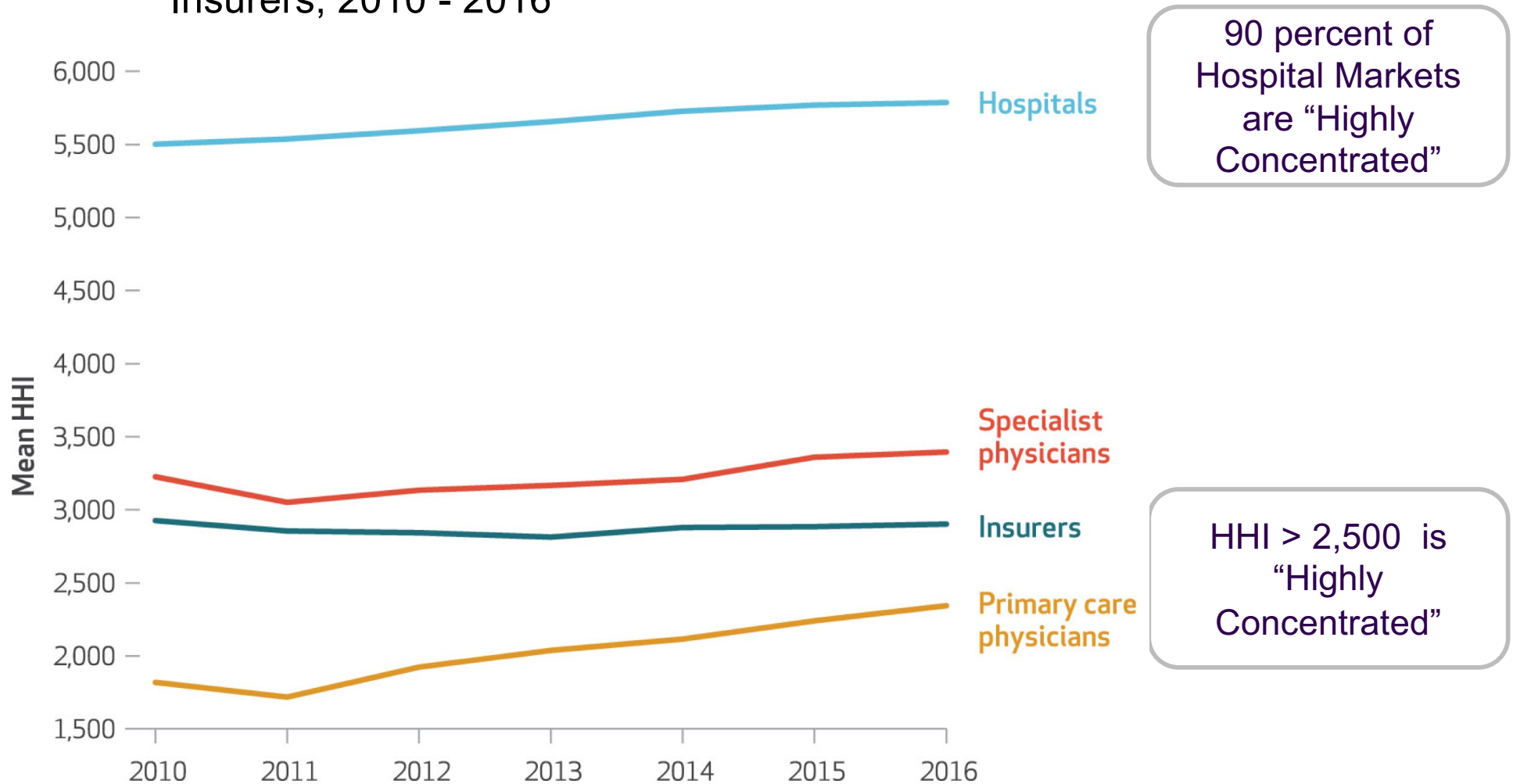
Note: 'Other Health' includes spending on durable and non-durable products; residential and personal care; administration; net health insurance; and other state, private, and federal expenditures. 'Other professional services' includes spending for services provided by chiropractors, optometrists, physical, occupational, and speech therapists, podiatrists, private-duty nurses, and others. Nursing care represents expenditures for nursing care facilities and continuing care retirement communities.

The Vital Role For Healthy Markets and Competition in the US Hospital Sector

- **Traditional Medicare:** Hospitals compete on quality
- **Medicare Advantage:** Hospitals compete on price and quality
- **Private Health Insurance:** Hospitals compete on price and quality

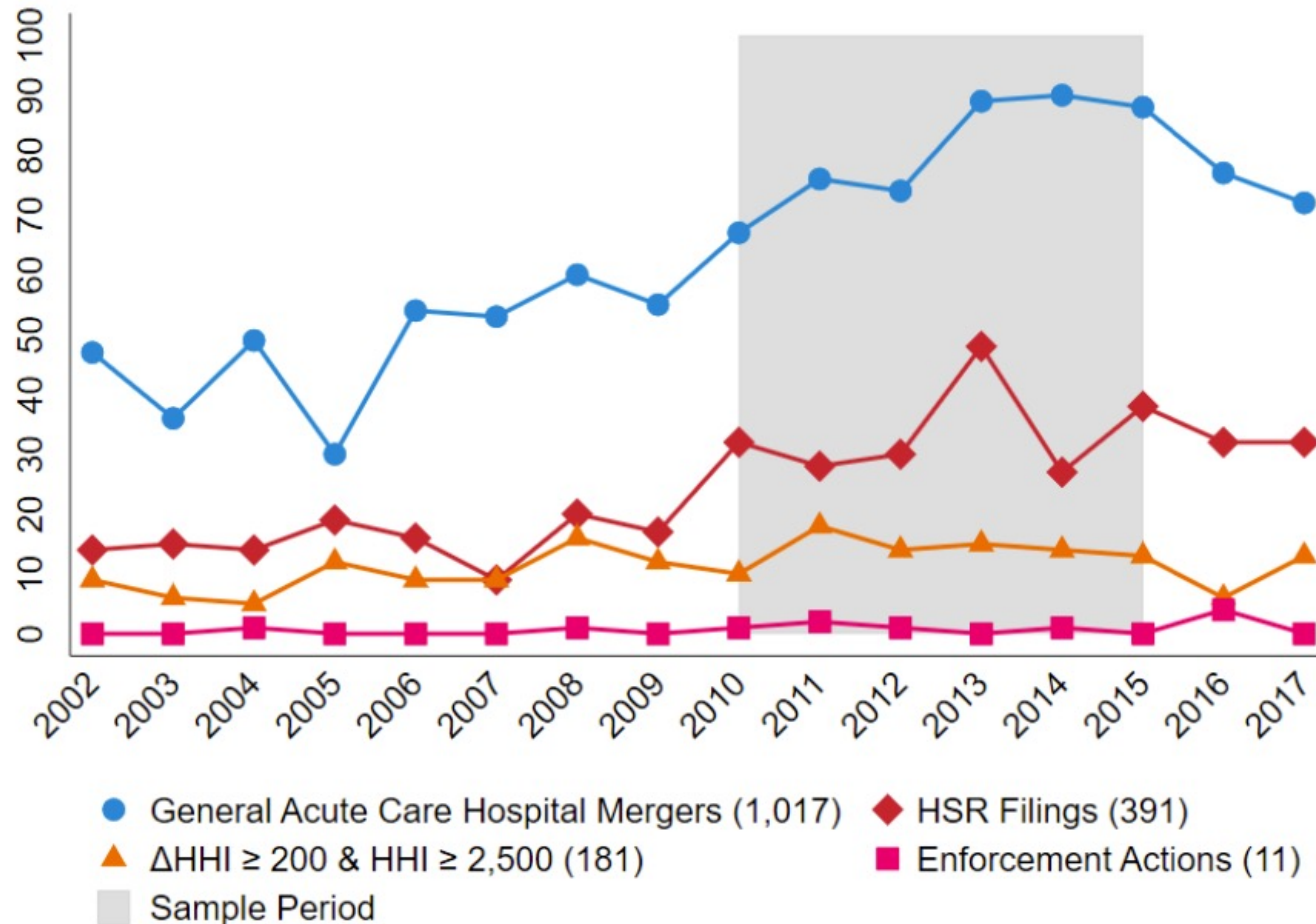
Health Care Markets Are Increasingly Consolidated

Market Concentration (HHI) for Hospitals, Physicians, and Insurers, 2010 - 2016



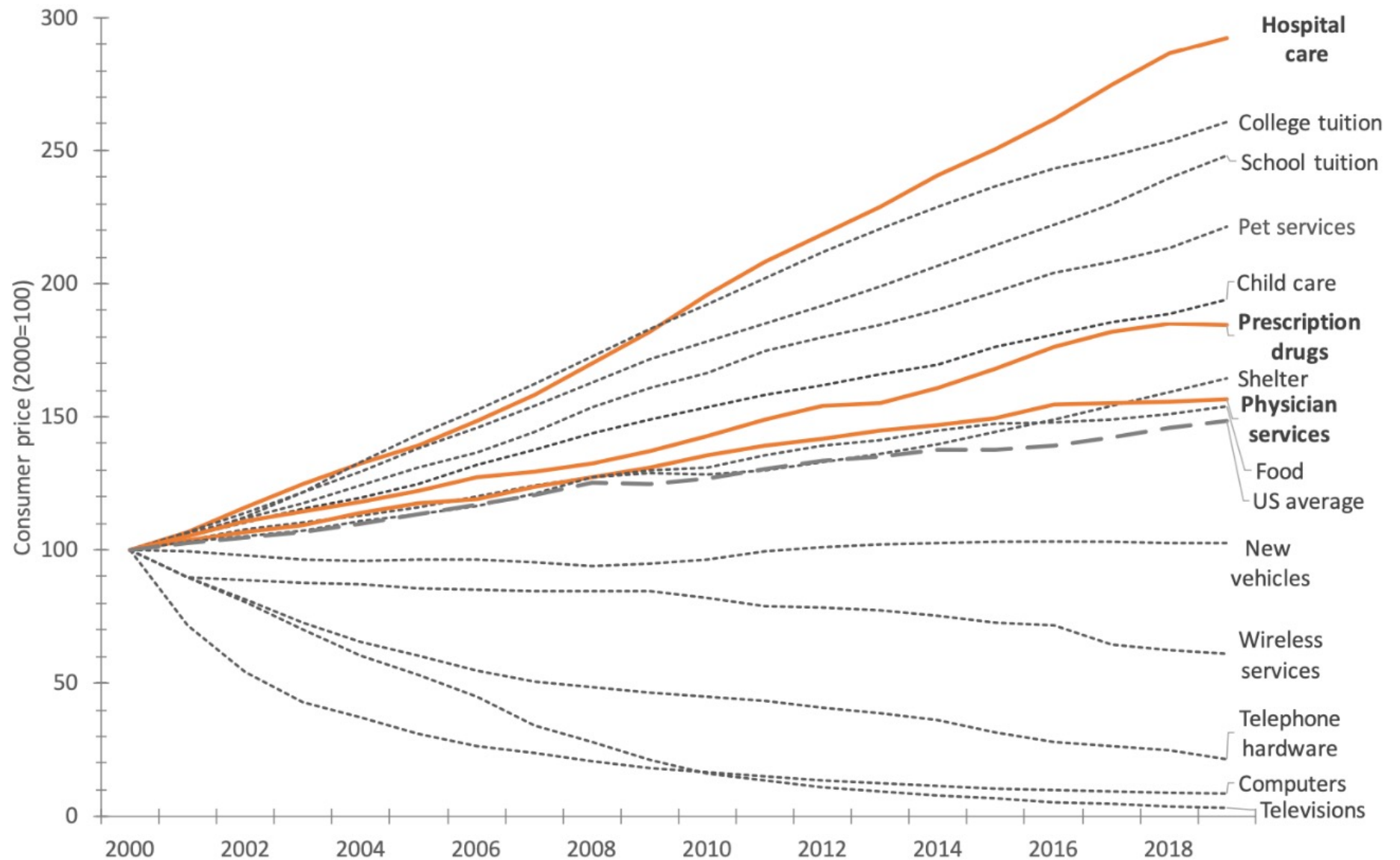
Source: Fulton (2017); DOJ/FTC Horizontal Merger Guidelines. "Market" in this chart is the Metropolitan Statistical Area (MSA). Primary care physician HHI is based on weighted average HHI within "primary care service areas" in the relevant MSA

There Has Been Significant M&A Activity in the Hospital Sector and Limited Enforcement



Source: Cooper et al., 2023

Hospital Prices Have Soared: Correlation or Causation?



Source: Bureau of Labor Statistics

Hospital Prices and Quality

- Estimating the causal relationship between hospital prices and quality is hard because of selection – sicker patients likely go to higher priced hospitals
- Cooper et al., 2023 – we address this issue by exploiting the strong influence ambulance companies have on where patients receive care
- **Higher priced hospitals have markedly better quality:**
 - moving from ~20th to 80th percentile in prices raises spending on patients by 53% and lowers mortality by 1 percentage point (37%)
 - High prices appear to be cost effective
 - Relationship between prices and quality is **ONLY** present in markets with an HHI < 4,000

Hospital Mergers and Prices

- Not all mergers are bad!
- Large academic literature shows clear evidence that mergers between hospitals can lead to price increases
 - Effects are larger when rivals are closer competitors (Cooper et al., 2019)
 - Price increases are found for non-profit and for-profit hospitals
 - Some individual transactions can have extremely large price increases: Gowrisankaran et al. (2015) look at proposed Inova/Prince William Hospital merger and predict price increases of 30%
- So-called “cross-market” mergers can also lead to 7-10% price increases when the same insurers negotiate at both facilities (Dafny, Ho, Lee, 2019)

Hospital Mergers, Quality, and Efficiency

- Schmitt 2017: Acquired hospitals can reduce costs by 4-7%, but this effect is **only present for mergers where firms aren't close competitors**
- The effects of mergers on quality suggests no effect or a reduction in quality
 - **Zero evidence of quality gains**
 - Beaulieu et al., 2020: no systematic changes in mortality
 - Romano and Balan (2011): Evanston Northwestern/Highland park merger led to quality drops on some measures, not others
 - Capps (2005) and Hayford (2012: some evidence of mortality increases
- Clear evidence that exposing hospitals to competition lowers mortality (Kessler and McClellan, 2000; Cooper et al., 2012; Gaynor et al., 2015)
- Prager and Schmitt (2021): Can lower nurse wages

Policy Options

- Clear we need more antitrust enforcement
 - By most accounts, the FTC is underfunded
 - Consider amending the FTC Act so the agency can take action against anticompetitive conduct of non-profits
 - Strengthen antitrust laws: right now, standard is for plaintiffs to show “likely harm to competition.” Amending to “appreciable risk to competition” would have real effect
 - Reporting requirements for small mergers and acquisitions
- How do you unscramble eggs? ~18% of hospitals face de minimis competition and 50% have HHI >4,000
- Proposals for price regulation and some state action (e.g., Oregon and Rhode Island): need to see the impact of these approaches