

# Competition in Hospital Markets

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# Introduction

- Outline
  - ◆ Background
    - General Issues on Competition in Health Care Markets
    - History
  - ◆ Specific Issues
    - Is There Price Competition?
    - Not-for-Profits
    - Quality Competition
    - Information

# General Issues on Competition and Health Care Markets

- Is health care different?

(Pauly, Dranove & Satterthwaite, Gaynor, Gaynor & Vogt)

- ◆ Health care is not like a perfectly competitive textbook market

- Almost nothing is

- ◆ All markets are different

- The markets for computer operating systems and cement are very different.
    - Implies different economic and antitrust analysis and treatment

# Competition and Health Care Markets

- Health care has some specific characteristics that we must take account of in economics and antitrust.
  - ◆ At one level, this is consistent with a standard antitrust view of case specific analysis.
    - Quality assumes particular prominence in health care.

# Competition and Health Care Markets

- Can Markets Give Us What We Want in Health Care?
  - ◆ At present the U.S. relies on a market system for health care.
    - Unlikely to change anytime soon.
  - ◆ The presumption of antitrust is that (unregulated) monopoly is bad.
  - ◆ Is this true in health care markets?

# Competition and Health Care Markets

- What's the alternative?
  - ◆ No regulation at all.
    - Unchecked monopoly is clearly bad.
  - ◆ Self-regulation.
    - How likely is this to give us what we want?
    - It's very hard for market participants to self-regulate in a way that promotes social welfare.

# Competition and Health Care Markets

- Conclusion - antitrust enforcement is a critical element of health policy. It preserves the functioning of markets on which our system is based.
  - ◆ Relevant for public payers (Medicare, Medicaid) as well as private payers.

# History

- Long history of antitrust enforcement in health care
  - ◆ Going back to 1930s
- Hospital mergers have been important area of activity
- Enforcement agencies have not done well in recent years.
- Why? Perhaps underlying discomfort with treating hospitals like “other industries.”
  - ◆ Not-for-profit status (community hospitals), quality, information

# Price Competition in Hospital Markets

- Does Price Competition Benefit Consumers?
  - ◆ Yes, so long as the insurance market is competitive. (Gaynor, Haas-Wilson, & Vogt)
- Is There Price Competition?
  - ◆ Evidence, and institutional facts, seem to indicate no, prior to 1990s.
  - ◆ It seems clear that this changed in the 1990s.
    - Strong evidence that prices are lower in less concentrated markets post-early 90s (most, but not all, studies). (Dranove, Shanley, & White)

# Price Competition in Hospital Markets

- Evidence that mergers lead to higher prices (evidence not as strong as concentration studies). (Krishnan)
- Individual hospitals have considerable power to mark up prices (20%). (Gaynor & Vogt)
  - A lot of local market power.
  - Relevant for market definition.
- Mergers that lead to large increases in concentration can lead to very large price increases.
- Effects are stronger where managed care is more prevalent.
- Most of the evidence is from California data.

# Not-for-Profits

- Will Not-for-Profits Exercise Market Power?
  - ◆ No – defense in some recent merger cases.
    - Possible, but unlikely.
  - ◆ Evidence
    - Most, but not all, studies show that not-for-profits charge lower prices than for-profits, but will increase them if they have increased market power (Dranove & Ludwick; Gaynor & Vogt; Keeler, Melnick, & Zwanziger; Simpson & Shin)
      - Simulated merger to near monopoly (San Luis Obispo, CA) → 53% price increase – same for not-for-profit or for-profit
    - Exceptions – (Lynk, Lynk & Neuman)

# Quality and Competition in Health Care

- Why Is This Important?
  - ◆ Quality is one of the aspects that is particularly prominent in health care.
    - A lot of variation.
    - Consequences of variation can matter a *great* deal.

# Quality Competition in Hospital Markets

- Evidence less settled.
  - ◆ Best evidence so far – quality higher in less concentrated markets. (Kessler & McClellan; Sari; Tay)
    - There are conflicting results across studies. (Gowrisankaran & Town; Volpp & Waldfogel)
  - ◆ Volume-outcome relationships
    - Are they real?
    - How big are they?
  - ◆ Not-for-Profits – no evidence thus far.

# Information

- Can Markets Work without Information?
  - ◆ No.
- Does Everyone Have to Be Well Informed?
  - ◆ No.
- Is Information a Panacea?
  - ◆ No.
- Will Better Information Make Health Care Markets Like “Other Markets?”
  - ◆ Probably not, but it couldn't hurt.

# Summary

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- Competition and antitrust important for health care in the U.S.
- The evidence at this point supports the presumption that competition benefits consumers.
- Information is critical for the functioning of markets – and will play a bigger role in health care.

# Conclusions

- Quality is an important aspect of performance in health care markets.
  - ◆ It should be considered in economic and antitrust analyses of competition.
- Presumption in antitrust is that monopoly is bad, competition is good.
  - ◆ The scientific evidence at this point is not sufficient to reverse that presumption with regard to quality.
  - ◆ Quality should be considered in assessing competitive impacts.