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Motivation

• Significant consolidation in U.S. healthcare markets
  ◦ Research (especially about U.S. hospitals) shows horizontal consolidation in healthcare → P↑
  ◦ Several enforcement actions directed toward these

• Much consolidation is not horizontal (by traditional definitions)
  ◦ Specifically combinations across geographic areas and product markets (=provider types)

• Prior to this study: little theoretical research, and limited empirical research on “cross market mergers”
U.S. hospitals have been consolidating into larger systems

![Bar chart showing hospital system size consolidation](chart1.png)

Source: Irving Levin Associates and American Hospital Association, cleaned by authors

Many hospital mergers do not have any traditional horizontal overlap

![Bar chart showing hospital merger overlap](chart2.png)

Notes: Based on 528 general acute care hospital mergers reported by Irving Levin in 2000-2012
Prior evidence suggests cross-market mergers tend to lead to higher hospital prices

- **Anecdotal**
  - Community Tracking Study of 12 metro areas (Berenson et al 2012)
  - “Numerous participants in contract negotiations between health plans and hospitals noted that provider leverage depends on how big the hospital or hospital system is and how much of an insurer’s patient volume it generates.”

- **Systematic**
  - Acquisition of independent hospitals by systems followed by price increases even when other members are outside broad metro area (Lewis and Pflum 2015)

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**Insurer-system negotiations span multiple markets**

*BCBS of Texas “said it will cut network ties with all medical facilities in Texas run by...Hospital Corporation of America...should the parties fail to successfully resolve contract negotiations”*
Our study explored a theory of harm and quantified average price effects of x-market mergers

• What are possible **anticompetitive mechanisms** by which cross-market mergers can yield price increases?
  ◦ Only mergers that lead to a “lessening of competition” are violations of the U.S. Clayton Act

• What are the **price effects** of cross-market mergers?
  ◦ Setting: GAC hospital mergers across geographic markets

• Are these price effects likely to be due to the anticompetitive mechanisms we described, i.e. is there **evidence of anticompetitive effects**?

Synopsis of our study

• **Model**: Expand existing theoretical framework for hospital-insurer bargaining over price
  ◦ If buyers of insurance value providers in different markets, merger can lead to reduced competition for inclusion in networks: “common customer effect”

• **Empirics**: Estimate price effects of mergers across geographic markets
  ◦ Focus on “bystanders” to mergers to address merger endogeneity
  ◦ Contrast effects for “adjacent” and “non-adjacent” bystanders

• **Results**: Adding an adjacent system member \( \rightarrow P \uparrow 7-10 \% \)
  ◦ No significant price effect of non-adjacent bystanders
  ◦ Common insurer is vital
  ◦ 10% estimate is for acquirers only