Evidence on the Impacts of Hospital Mergers

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Hospital Mergers

• Over 1,600 mergers over the last 20 years
  • Over 450 over the last 5 years
  • Over half (2010-2012) were between hospitals in the same area
  • Majority of hospital markets are highly concentrated
  • Many areas of the country are dominated by one or two large hospital systems
    • E.g. Boston, Pittsburgh, San Francisco

• Mergers could lead to benefits: lower costs, higher quality, coordinated care, achievement of scale,…
  • But – consolidation isn’t integration

• Mergers could lead to harms: less competition – higher prices, lower quality, choked off entry, less innovation
What Does the Evidence Show?

• There is extensive evidence on the impacts of hospital mergers
  • Over 1,600 mergers
  • Occurring over 3 decades

• Impacts on prices
  • Mergers between hospitals that are close competitors lead to substantial increases in prices (10%-60%).
  • Substantial, clear evidence on this.
  • Recent evidence that mergers of hospitals in different markets leads to substantial price increases.
What Does the Evidence Show?

- **Impacts on quality**
  - No systematic evidence that quality is improved.
  - Evidence that less competition leads to lower quality.

- **Impacts on costs**
  - Most studies don’t find evidence of systematically lower costs.
  - Recent study finds lower costs for acquired hospital, but not when hospitals located close to each other.

- **Contracts**
  - Dominant hospitals negotiate restrictive terms in insurer contracts.

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**Percentage Increase in Mortality Rate**

- **US Medicare AMI**: 3.37%
- **UK NHS AMI**: 2.26%
- **UK NHS All Causes**: 0.77%
Policies Toward Health Care Markets

• **Competition policy for health care**
  • Antitrust: Federal and States
    • Continue and step up horizontal merger enforcement
    • Pursue vertical cases
    • Pursue anticompetitive practices
  • Regulations: Federal and States
    • Coordinate, minimize regulatory burden
      • Higher compliance costs lead to incentive to consolidate
      • Eliminate/modify regulations that restrict competition and protect incumbents
  • Payment: Federal, Private Insurers
    • End distortions that incentivize consolidation
  • Employers
    • Private exchanges
    • Reward value

• **What to do in highly consolidated markets?**
  • Break up large, integrated systems?
  • Regulation/oversight?
    • Price cap regulation?
    • Arbitration?
Resources

• Overviews of Evidence

• Policy Recommendations
    Brooking Institution.  
    https://www.brookings.edu/research/making-health-care-markets-work-competition-policy-for-health-care/
    https://www.americanprogress.org/issues/healthcare/reports/2018/12/05/461780/provider-consolidation-drives-health-care-costs/