

What to Do about Health-Care Markets? Policies to Make Health-Care Markets Work

A Hamilton Project proposal by Martin Gaynor of Carnegie Mellon University describes the substantial consolidation that has occurred in U.S. health-care markets, showing that it has generally resulted in higher prices without gains in quality or other improvements. Gaynor proposes three types of policy reforms to increase competition in health care and improve market functioning.

Specifically, Gaynor's proposal would:

- **Reduce or eliminate policies that encourage consolidation** or that impede entry and competition.
- **Strengthen antitrust enforcement** so that federal and state enforcement agencies can act effectively to prevent and remove harms to competition.
- **Create an agency responsible for monitoring and overseeing health-care markets** with the authority to intervene flexibly when markets are not working.

Issue Overview

- **Competition yields important benefits for patients and the U.S. healthcare system.** For example, one study found that hospital patients in the least-concentrated markets experience 4.4 percent lower mortality than those in the most-concentrated markets. Competition matters for prices as well: physician practices that face less competition have substantially higher prices.
- **U.S. health-care markets, including insurers, hospitals, and providers, have become substantially more consolidated over time.** This has generally resulted in higher prices for consumers and payers without any gains in quality or other improvements.
- **Many (though not all) health-care markets could be more competitive,** leading to lower health-care costs. For markets where competition cannot realistically be increased (e.g., markets that are very small), monitoring and oversight are necessary to lower costs.

The Challenge

Due, in part, to mergers and lax antitrust enforcement, health-care markets have become far less competitive over the last thirty years. This has generally resulted in higher prices without gains in quality or other improvements. Instead, consolidation among hospitals, physician practices, and insurers who were previously close competitors has reduced competition, led to higher prices, and harmed quality. Reduced competition also tends to preserve the status quo in health care by protecting existing firms and making it more difficult for new firms to enter markets and succeed.

The Path Forward

There are many health-care markets where competition is or can be effective with the right policies. In other markets, robust competition would be more difficult to achieve due to the scale of the market or other factors, necessitating a different policy approach. In response, Gaynor's proposal would:

- **Reduce or eliminate policies that encourage consolidation or that impede entry and competition.** The health-care industry is highly regulated, and that can entail policies that either encourage consolidation (often unintentionally) or impede market entry or competition. Policies related to certificates of need, any willing provider requirements, network adequacy regulations, certificates of public advantage, and occupational licensure need to be modified so that they are narrowly tailored to achieve their objectives.
- **Strengthen antitrust enforcement so that federal and state antitrust enforcement agencies can act effectively to prevent and remove harms to competition.** Policymakers should increase funding for antitrust enforcement by a third, or \$157 million per year; eliminate certain policies that limit antitrust enforcement; and create a specialized court to hear all antitrust cases. Antitrust enforcement agencies should continue to block anticompetitive horizontal mergers, do more to address anticompetitive practices like anti-tiering and anti-steering, and conduct research on antitrust harms from certain health-care practices.
- **Create a federal agency responsible for monitoring and overseeing health-care markets, and give it the authority to flexibly intervene when markets are not working.** The agency will be particularly valuable for addressing problems in health-care markets that cannot reasonably be solved through enhanced competition.

The health-care sector is one of the most important parts of the U.S. economy, both in terms of size and impact on our lives. But the U.S. health-care system does not operate efficiently, and health-care markets are often uncompetitive. While there is no single policy that will address all of the health-care system's ills, Gaynor proposes a suite of pro-competition policies that would lower health-care costs without impairing quality.

About the Author

Martin Gaynor is the E. J. Barone University Professor of Economics and Public Policy at Carnegie Mellon University