Competition? It's What the Doctor Ordered

The hospital industry claims that mergers result in better care. Evidence shows otherwise.

The New Health Care

By AUSTIN FRAKT

Many things affect your health. Genetics. Lifestyle. Modern medicine. The environment in which you live and work.

But although we rarely consider it, the degree of competition among health care organizations does so as well.

Markets for both hospitals and physicians have become more concentrated in recent years. Although higher prices are the consequences most often discussed, such consolidation can also result in worse health care. Studies show that rates of mortality and of major health setbacks grow when competition falls.

This runs counter to claims some in the health care industry have made in favor of mergers. By harnessing economies of scale and scope, they've argued, larger organizations can offer better care at lower costs.

In one recent example, two Texas health systems — Baylor Scott & White, and Memorial Hermann Health System — sought to merge, forming a 68-hospital system. The systems have since abandoned the plan, but not before Jim Hinton, Baylor Scott & White's chief executive, told The Wall Street Journal that "the end, the more important end, is to improve care."

Yet Martin Gaynor, a Carnegie Mellon University economist who been an author of several reviews exploring the consequences of hospital consolidation, said that "evidence from three decades of hospital mergers does not support the claim that consolidation improves quality." This is especially true when government constrains prices, as is the case for Medicare in the United States and Britain's National Health Service.

"When prices are set by the government, hospitals don't compete on price; they compete on quality," Mr. Gaynor said. But this doesn't happen in markets that are highly consolidated.

In 2006, the National Health Service introduced a policy that increased competition among hospitals. When recommending hospital care, it required general practitioners to provide patients with five options, as well as quality data for each. Because hospital payments are fixed by the government — whichever hospital a patient chooses gets the payment for care provided to that patient — hospitals ended up competing on quality.

Mr. Gaynor was an author of a study showing that consequences of this policy included shorter hospital stays and lower mortality. According to the study, for every decrease of 10 percentage points in hospital market concentration, 30-day mortality for heart attacks fell nearly 3 percent.

Another study found that hospital competition in the N.H.S. decreased heart attack mortality, and several studies of Medicare also found that hospital competition results in lower rates of mortality from heart attacks and pneumonia.

Another piece of evidence in the competition-quality connection comes from other types of health care providers, including doctors. Recently, investigators from the Federal Trade Commission examined what happens when cardiologists team up into larger groups. The study, published in Health Services Research, focused on the health care outcomes of about two million Medicare beneficiaries who had been treated for hypertension, for a cardiac ailment or for a heart attack from 2005 to 2012.

The study found that when cardiology markets are more concentrated, these kinds of patients are more likely to have heart attacks, visit the emergency department, be readmitted to the hospital or die. These effects of market concentration are large.

To illustrate, consider a cardiology market with five practices in which one becomes more dominant — going from just below a 40 percent market share to a 60 percent market share (with the rest of the market split equally across the other four practices). The study found that the chance of having a heart attack would go up 5 to 7 percent as the largest cardiology practice became more dominant. The chance of visiting the emergency department, being readmitted to the hospital or dying would go up similarly.

CHRISTOPHER CAPOZZIELLO FOR THE NEW YORK TIMES

An M.R.I. technologist at the Saint Raphael campus of Yale New Haven Hospital. After the hospitals merged in 2012, prices increased.

The study also found that greater market concentration led to higher spending. And a different study of family doctors in England found that quality and patient satisfaction increased with competition.

For many goods and services, Americans are comfortable with the idea that competition leads to lower prices and better quality. But we often think of health care as different — that it somehow shouldn't be "market based."

What the research shows, though, is that there are lots of ways markets can function, with more or less government involvement. Even when the government is highly involved, as is the case with the British National Health Service or American Medicare, competition is a valuable tool that can drive health care toward greater value.

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