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THE GLOBAL ANTITRUST ECONOMICS CONFERENCE 2019
"HEALTH SECTOR: TOO MANY MERGERS?"

An interview with Prof. Martin Gaynor (Carnegie Mellon University) by George Rozanski (Bates White)

George Rozanski (Partner, Bates White, Washington, DC) has interviewed **Martin Gaynor** (Professor, Carnegie Mellon University, Pittsburgh) in view of their panel **"Health Sector: Too Many Mergers?".**

They joined **the Global Antitrust Economics conference** that took place in New York on June 1, 2018, at New York University Stern Business School.

The US health care system has been criticized as being costly, inefficient, inequitable, delivering uneven quality, and leading to relatively poor health outcomes. To the extent you agree with any of these characterizations, do you think that among the causes for poor performance is a lack of competition, or do you think that enhanced competition could help to address any of the problems?

I do think that lack of competition is responsible in no small part (but not totally) for high prices, inefficiency, and poor quality. I think it's also likely that the least fortunate among us bear a disproportionate share of these burdens, which would contribute to inequality. It's less obvious to me that lack of competition has a major impact on health outcomes, since those are in large part determined by factors other than health care. However, there is research that shows that lack of competition leads to a higher probability of death for heart attack patients, so there is some evidence of an impact of competition on health outcomes. I think that enhanced competition can help substantially with these problems (if it can be achieved), but we also should realize that health care markets aren't going to work like markets for goods like milk or paper clips, no matter how competitive they come to be.

Last year two proposed horizontal mergers involving leading health insurers were successfully challenged in Court by DOJ. The current crop of proposed mergers includes vertical mergers involving leading health insurers, PBMs, and pharmacies. What is your view of the effect of past horizontal mergers in the healthcare sector on the quality of care? Do you see promise for improved quality and more innovative approaches to delivering healthcare from vertical mergers? If so, are there plausible reasons why the same benefits could not be achieved by some alternative means, such as a joint venture or contractual relationship?

There have been over 1,600 horizontal hospital mergers over the last twenty years. As a consequence, we have a lot of research evidence on the impacts of these mergers. That evidence fails to show that mergers reduce costs, improve the quality of care, or lead to efficiencies generally.

There could be efficiencies that stem from the proposed mergers between insurers and PBMs. For one thing, they would eliminate any double marginalization. Insurers would also capture all of the rebates that PBMs negotiate with manufacturers. The insurer and PBM/pharmacy would have good incentives to make mutually beneficial investments. All of these things likely would be facilitated by merger/integration, and probably better than by a joint venture or long term contract. Of course, there could also be harms to competition, such as foreclosure of rivals.

Horizontal mergers in the healthcare sector are sometimes justified on the grounds that they will create leverage necessary to control costs, including costs of hospital care, physician services and, perhaps most notably, prescription drugs. Are mergers among purchasers an effective response to rising input costs, and when if at all would you be concerned that cost savings that could benefit final consumers would come at the expense of desirable investment by suppliers?

The effects of insurer mergers on provider prices are not entirely straightforward. They can increase bargaining leverage and thereby reduce provider prices. They can also increase insurer profits and thereby lead to higher provider prices (as providers negotiate a share of the increased profits). Regardless, the evidence shows that insurer horizontal mergers lead to higher premiums, so even if insurers do obtain lower provider prices due to merger, those don't get passed on to consumers.