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Do Higher-Priced Hospitals Deliver Higher-Quality Care?

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Summary

Hospital prices in the US are set via negotiations between hospitals and insurers. The US relies on competition to generate efficient hospital prices. However, over the last two decades, hospital prices have risen faster than physician prices and inflation. Rising market concentration has been a key driver of rising hospital prices. Over the past 20-years, there have been nearly 2,000 mergers among the nation's 5,000 hospitals, which have left most US hospital markets highly concentrated. High prices and rising market concentration have led to calls to regulate hospital prices. However, as policymakers consider price regulation, they must balance the goal of reducing prices with maintaining providers' quality. As a result, before moving towards price regulation, it is vital to understand whether these markets are functioning to determine if and how hospital prices should be regulated.

This research examines whether patients who receive care at high-priced hospitals get better outcomes and analyzes whether there is a similar price/quality relationship in concentrated and unconcentrated markets. The researchers overcome selection bias — sicker patients may differentially be admitted to higher-priced hospitals — by analyzing outcomes during health emergencies among privately insured patients who are transported to the hospital by ambulance. The paper exploits the fact that ambulance companies are randomly assigned to patient calls and have strong preferences over where they transport patients. This generates quasi-random variation in where patients are treated.

Health spending: In both concentrated and unconcentrated hospital markets, the study finds that receiving care from high-priced hospitals increases health spending by approximately 52%.

Unconcentrated/competitive markets: The additional spending on high-priced hospitals in competitive/unconcentrated markets (e.g., markets with a Herfindahl-Hirschman Index (HHI) below 4,000) lowers mortality by ~47% (e.g., 1.37 percentage points). In these markets, receiving care at high-priced hospitals results in $1 million - $4 million in added spending for each life saved, which is likely cost effective. As a result, regulating hospital prices in unconcentrated markets may reduce providers' quality.

Concentrated markets: The additional spending on high-priced hospitals in concentrated markets (e.g., markets with a HHI above 4,000) does not lead to lower mortality. High prices in these markets likely reflect hospitals' higher profit margins and patients' lack of alternative options. Regulating prices in these concentrated markets has scope to limit the excess rents hospitals collect from their bargaining power and could be successful if regulated prices were set high enough to guarantee adequate quality.

Urgent need for antitrust enforcement: This paper highlights that hospital competition can produce efficient outcomes. These results underscore the urgent need to continue to block anticompetitive mergers and ensure that hospital markets in the US are functioning. Effective antitrust enforcement requires giving state and federal enforcement agencies the resources they need to maintain these vital markets.