

Nonprofit Ownership and Antitrust Policy

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Questions

- In general, do nonprofit healthcare organizations use market power to obtain higher prices?
- If so, are some nonprofits more likely to use market power than others? Are there distinctive characteristics of nonprofits that can be predictive of such behavior?
- Assuming that nonprofits use market power, are they likely to channel the additional revenues (i.e., surplus) into community benefits?

Nonprofits: Market Power and Prices

Majority of observational studies indicate that nonprofit hospitals use market power to obtain higher prices (e.g., Melnick and Zwanziger, 1988; Dranove et al., 1993; Connor et al., 1998; Keeler et al., 1999; Young et al., 2000)

- Managed care penetration
- Price levels vs. price changes
- Nonprofit hospitals vs. other nonprofit providers
- Nonprofits vs. for-profits

Nonprofits: Market Power and Prices

Several studies of hospital mergers indicate that the potential cost savings of mergers are sensitive to the competitive conditions in which they occur, regardless of ownership type (Conner et al., 1997; Spang et al., 2001)

- On average, mergers seemed to slow the rate of a hospital's price growth (6 - 7 percentage points).
- Mergers occurring in less competitive markets exhibited much lower savings.
- The independent effect of ownership type on merger savings is not clear.

Nonprofit Characteristics and Market Power

Community Control as Key Theoretical Construct -- Governing Board as a Consumer Cooperative.

- Composition of governing board (e.g., employers)
- Independence of governing board (e.g., hospital systems)

Nonprofit Characteristics and Market Power*

Purpose: Tested relationship between market power and price growth among nonprofit hospitals distinguishable on two dimensions, **system membership status** and **geographic configuration of system** (California sample, 1990-1995).

- Independent hospitals
- Local system hospitals (~ 6 hospitals; 12 miles)
- Non-local system hospitals (~ 15 hospitals; >250 miles)

Results:

- All three types of nonprofit hospitals exhibited faster price growth in less competitive markets.
- Non-local system hospitals exhibited significantly faster price growth than did the other types of hospitals.

*Young et al., Journal of Health Politics, Policy, and Law, 2000

Nonprofit Characteristics and Market Power

Implications of Young et al. study:

Two Scenarios

- A.** Four hospital market, each hospital 25% share, two of the four hospitals merge (post-merger HHI = .375; change in HHI = .125).

- B.** Four hospital market, each hospital 25% share, two of the four hospitals acquired by non-local system (post-merger HHI = .375; change in HHI = .125).

Results imply that price growth in Scenario B would be 50% greater than in Scenario A.

Ownership Type, Market Power and Community Benefits

Several studies suggest that nonprofit hospitals channel some of the surplus earned from using market power into community benefits.

- More market power translates into more uncompensated care (Gruber, 1997)
- More market power does not necessarily mean greater profits (Connor et al., 1998)
- More market power does not necessarily translate into higher prices when price measure accounts for uncompensated care (Simpson and Shin, 1998)

Ownership Type, Market Power and Community Benefits

Whether nonprofits actually provide substantially more community benefits than for-profits do is controversial.

- **Comparative Studies:** On average, nonprofit hospitals appear to provide more uncompensated care than for-profits do (e.g., Lewin Group, 1988; GAO, 1990), **but** this difference may be sensitive to location and board composition (Norton and Staiger, 1994; Young, 1997).
- **Conversion Studies:** Several studies indicate no substantial changes in uncompensated care or prices (e.g., Project HOPE, 1997; Young et al., 1999).

Impact of Conversions on Community Benefits in Florida, Texas, and California, 1981-1995*

	Conversion Hospitals (n=43)	Comparison Hospitals (n=129)	Difference
Percent gross revenue devoted to uncompensated care			
Preconversion	4.65%	4.91%	-0.26%
Change following conversion	0.02	0.16	-0.14
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Net patient revenue per adjusted discharge (1983 dollars)			
Preconversion	\$2,478.82	\$2,315.10	\$163.71
Change following conversion	32.55	49.31	-16.75

*Young and Desai, Health Affairs, 1999