MPR News | Minnesota Now A researcher who tracked every healthcare merger since 2000 says they're driving up costs 01M61STQPWYDXJE5GPCB1Q7GXJ

NINA MOINI: I'm Nina Moini. Thanks so much for tuning in to *Minnesota Now.* Minnesota is quickly becoming the land of health care mergers. Just last week, Central Minnesota's largest health care provider, CentraCare, announced it will acquire Stellis Health. This follows an announcement last month from HealthPartners and Essentia Health saying they'll combine their operations in the upper Midwest, and Sanford Health and North Memorial Health completed their merger just in early September.

We'll talk now to someone who's been studying hospital mergers and their impacts to get a closer look at the consolidation of health. Joining us now is Yale University professor Zack Cooper. Thanks for your time today, Professor Cooper.

ZACK COOPER: Thanks for having me.

NINA MOINI: You just heard a list there coming out of Minnesota. Your research looks at every hospital merger that's taking place across the US since 2000. I mean, that's a quarter century. What changes broadly have occurred that have led to this wave of mergers over the last couple decades?

ZACK COOPER: Yeah. So I think what you're asking is, why are these mergers happening? And there are, I think, a couple of reasons. So one of them is if I'm running a hospital-- and they're not going to say this publicly, but it's kind of easier to operate when I face less competition. It sort of shields me from the type of competition that maybe forces me to lower my prices or compete more aggressively.

So that's, I'd say, probably about 20%, 25% of mergers. Some of the other ones, we see things like CEOs' pay go up when the organizations they lead get bigger. We can think of this empire-building CEO, and it's kind of cool to run a really big organization.

And I think the other is it's becoming pretty tricky to run smaller hospitals right now. So you just think there are returns to scale. And so some of these smaller hospitals are getting gobbled up by their bigger competitors.

NINA MOINI: Yeah. And would you say that that's become more common, I mean, over the 25-ish years, 26 years you've been looking? When did it start to become more of a trend?

ZACK COOPER: It really has picked up over-- so 2000 to 2015, we saw the number of mergers steadily increasing. It's actually gone down a little bit over the last decade or so in terms of sheer numbers. But what we're seeing is a smaller number of bigger transactions exactly like the ones you're describing. And some that's kind of mechanical. It turns out if you bought all of the small hospitals in 2002, by construction, the deals that you see later are just going to be bigger. So you're going to see fewer bigger deals, and that's exactly what we're seeing.

Now, I think the real question is, what about us and patients? And I don't think there's anybody-- your listeners, you, or me-- who looks out and says, we've got a really responsive health care system that is customer centric, meets our needs, and is affordable. And for me, as an economist, the missing ingredient isn't less competition. It's more competition. We want more competition.

And so I worry about these deals. I think they're often good for the parties that are merging and not that good for the rest of us. And that's why there's so much frustration out there right now about health care.

NINA MOINI: Yeah, and we've talked on the program with people across the state, in rural areas in particular, about the challenges for care, even things like transportation to get to somewhere to get care. There are so many challenges. Does your work look at what some of the barriers are to increasing services in all areas, urban and rural?

ZACK COOPER: Well, I think the big challenge is, in some of these rural places, there just aren't the number of people you'd need to make it economically viable for a big hospital to exist. And so I think one of the things that we're probably going to have to get more comfortable with over time is patients traveling a longer distance to get care. So if you buy a car, often people are now shopping 50, 100 miles across state lines and getting it shipped.

Getting a hip replacement is a really big purchase. It also matters a lot. You want a good place. And so I think what's challenging-- and it's just the reality-- is you can get much better care at a lower price if you're willing to travel a little bit. And that's good for the person who's traveling. It also injects more competition into the system.

NINA MOINI: Are there specific areas across the country, broadening out a bit, that you're seeing more consolidation?

ZACK COOPER: This is really a nationwide trend. So we're seeing it in cities, and we're seeing it in rural areas. We're seeing it in red states, and we're seeing it in blue states. And I think the challenge, though, is taking a step back. Prices in the hospital sector over the last 25 years, this period we're talking about when all these mergers have happened, they've gone up faster than prices in any other sector of the economy.

And one of the things that we've shown at the Health Care Affordability Lab is that's why health insurance premiums are going up. So unless we really get our hands around competition, unless we make these markets more dynamic, or we regulate prices, we're going to continue to see higher premiums and higher out-of-pocket costs for consumers.

NINA MOINI: And also, the ripple effects can extend to layoffs, correct, and just staffing in different areas and specialties that are available for people to pursue or those types of resources. What does it mean for hospital staffing?

ZACK COOPER: Well, it's such a good question. I'm actually going to talk about what it means for the rest of the economy.

NINA MOINI: OK.

ZACK COOPER: So when hospitals merge and the prices go up, it raises insurance premiums. And if you're a company out there outside the health care sector, that makes it more expensive for you to keep your workers employed. And so one of the things that we show in our research is that when hospitals merge and prices go up, folks outside the health care sector are losing their jobs, and those job losses are concentrated among folks earning less than $100,000 a year.

And I think we can-- that's empirical research. But I think we can feel that when we look around towns across the US. You'll see a gleaming hospital with rolling lawns, and then you'll see a Main Street that's struggling. Turns out those two are directly connected. When health spending goes up and premiums become more expensive, it's a drag on the rest of the economy. And that's why addressing health care costs in this country is so, so, so important.

NINA MOINI: So with that in mind, who is responsible for assessing these mergers, for regulating these mergers?

ZACK COOPER: It's really going to be two groups. So it's going to be the states attorneys general. So the attorney general is going to have to look at these transactions at the state and say, are we OK? Is this going to create benefits or is it going to create harms? And then it's going to be the Federal Trade Commission at the federal level.

And the challenge is, the FTC, it's pretty under-resourced. So they're able to go after the worst transactions. But there are a lot of transactions that are, let's say, medium bad that they let to go through. And we end up with death by papercuts. That's why we're spending a lot of time talking to states attorneys generals and saying, look, you got to look at what's happening. This is making Main Street struggle. It's really putting the screws to middle-class Americans across the country.

And we've got to look at these transactions and say, are they reducing competition and raising prices, or are they bringing benefits to local communities? And if they don't bring benefits, I think we got to see them push back, because even though it's hard to maybe feel day to day, I think a lot of the financial pressure that families across the country are feeling flow from mergers just like the ones that you're describing.

NINA MOINI: And all those mergers, wen through the proper channels, and there were many discussions and cases around them. But I do wonder what you're talking about, the pros and cons, maybe, so to speak. Is there a way to know before you move forward with a deal if the positive or the negatives outweigh the other?

ZACK COOPER: Such a good question, and there is. So we can really predict-- the tools that are available to your attorney general, the tools that are available to the FTC, we can predict which of these transactions are bad in advance. And the question is, do we have the money to engage in the enforcement actions to stop them?

It's kind of like-- the difference between this and maybe policing is an antitrust. We can actually predict where the crimes are going to occur. The merging parties tell us. They say, we're about to do this. And it turns out we have the tools to say, is what you're about to do good or bad for the public?

The challenge is, are we willing to spend on the enforcement to say, if this deal is bad, we're going to stop it? Are we willing to push back on some of these hospitals that are really big political players? They're donating lots of money. Are we willing to say, hey, we appreciate your donations, we appreciate you're important members of the community, but we got to measure the benefit for the community as a whole? And as a result, we're going to push back, even though you're telling us that this is probably pretty good.

NINA MOINI: Professor, thanks so much for your time and explaining all of this and walking through it with us. We hope you'll join the program again sometime.

ZACK COOPER: Thanks for having me. And yeah, a conversation to be continued.

NINA MOINI: For sure. Zack Cooper is a professor at Yale University.