Policy Principles

Excerpted from: Addressing Pricing Power in Health Care Markets: Policy Options to Strengthen and Shape Markets

Crafted by a diverse group of national experts, these principles provide a starting point for a public discussion about addressing market power in health care markets. There is broad agreement among the study panel members that these principles also offer a useful framework for crafting policy. Substantively, these principles reflect a preference for market solutions and for targeted regulation in markets that lack competition — in some cases because of provider consolidation — or where new competitors are unlikely to enter the market. These principles recognize the need for policy to address broader societal goals — for example, around issues of access and quality — but the panel believes that meeting these societal goals should explicitly recognize the potential impact on prices and competition. Finally, these principles reflect the important role of competition in generating new ideas about institutions and mechanisms for innovative ways to deliver care that can increase both quality and efficiency.

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- Market competition is often the best way to motivate providers to increase efficiency, improve quality, and ensure that health care prices reflect the value of services provided to consumers. Where unfettered market competition is ineffective, public policy can enhance market competition or, if that is not likely to be successful, regulate prices directly.

    - When they work well, competitive markets weed out providers that fail to efficiently deliver services that are valued by consumers. While some inefficient providers may lose business or even exit the market, consumers benefit from the overall improvements in efficiency and quality that emerge from competition.

    - Competitive markets generate prices that reflect the cost and value of services and promote innovations in health care delivery, including the development of new institutional mechanisms for the delivery and organization of care. In the long run, these innovations may provide substantial benefits to patients.

    - Health care markets are local, and policy interventions that address market failures should be tailored to local markets. In many markets, there has been significant hospital consolidation to the degree that unregulated markets are unlikely to generate competition that will lead to efficient prices or innovation.

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- There is a broad scope of regulatory interventions to foster competition, including targeting more aggressive antitrust enforcement, prohibiting providers from demanding favorable treatment as a condition of contracting, and directly limiting prices through administrative means.

- However, all regulation risks so-called capture — or undue influence — by regulated entities. Just as markets may not work in every situation, regulation has costs and benefits that vary by context. Regulatory capture has in some situations led price regulation to be only marginally effective, if at all.

- Along with care for patients, hospitals and physicians often provide additional services with significant social value, including research, medical training, and uncompensated care. In a competitive market, prices are unlikely to support these public goods. Increased competition leads to the additional need for specific policies to support such activities.

- Greater transparency that provides consumers with accurate and timely information about price, quality, costs, and provider networks likely can help them make better choices and, in some cases, make markets more competitive. Greater transparency also may improve the functioning of markets by exposing market conditions and market behavior to public scrutiny. At the same time, policymakers must guard against providers or plans using price information for collusive purposes.

    - The benefits of emerging payment reforms and delivery systems, such as ACOs and other provider configurations, may improve quality but also can contribute to excessive market consolidation. Policymakers should carefully evaluate known costs and benefits before making exceptions to competition laws to encourage new but unproved payment and delivery systems. Forcing highly integrated systems to divest if they do not deliver value is a formidable challenge.

    - Significant variations in provider prices should reflect real differences in costs related to their missions or to consumer preferences in well-functioning markets, not vagaries of negotiating leverage that might produce inequitable prices of services, placing providers in very different financial circumstances unrelated to their own performance.

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