

Abstract:

Spending on physician services is rising faster than total medical spending in the U.S. while providers – encouraged to consolidate by national policies such as the Patient Protection and Affordable Care Act – have increasingly grouped together. This consolidation could increase efficiency in provision, reducing prices of services, or increase market power, raising prices and potentially driving up total spending. But the effect of consolidation on prices is difficult to measure because entrepreneurial physicians may choose to consolidate or separate their practices for a variety of reasons that may be correlated with the quality of services, the organization of other providers and insurers in the local market, the nature of demand, and ultimately with prices. We use new, more comprehensive variation in non-compete laws to instrument for the concentration of physician services. These laws – which govern the degree to which a state enforces agreements by employees not to compete with their employers and which vary on multiple dimensions across states and time – significantly affect the market concentration of physician practices. Suggestive of efficiency gains from consolidation, we estimate moderately sized service price reductions in response to increased concentration in localized and medically specialized markets for physician services.