

The Effects of Increases in Supply and More Competition: Evidence from MABEL

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Outline

- Why is competition important?
- How might doctors respond?
- Evidence from MABEL

Why is competition important?

- Economics – competition is good
 - Lowers costs/prices and increases well-being (efficiency)
 - But depends on key assumptions:
 - Consumers know as much as suppliers about what they are buying
 - Easy for consumers to switch to get better deal
 - Suppliers only care about profit
 - No limit on entry or exit of suppliers
 - No behavioural biases

Why is competition important?

- Health economics: market failure in health care
 - Docs have more info than patients - can influence demand
 - Switching and choice still the exception – but continuity of care also a good thing
 - Limited entry (long training) and no exit (unemployed doctors? hospitals closing?)
 - Doctors/hospitals care less about profit and more about patients health
 - More competition? Outcomes uncertain

What increases competition?

- Reductions in revenue or increases in costs (↓profit)
 - Reduction in demand
 - Fewer patients (high prices/lower MBS rebates)
 - Will demand ever fall (technology, over-treatment, over-diagnosis, supplier induced demand)?
 - Increase in supply
 - Increases in docs (graduates, immigration, specialty training places), new practices/businesses/hospitals, new substitutes (e.g. other health professionals)
 - Increase in costs of providing services
 - tax, interest rates, technology, salaries, insurance
 - Improved consumer information and knowledge
 - price transparency, self-care/literacy, internet, expectations
 - shared decision making, increased choice, more switching



How might doctors respond to increases in competition?

- They might not – don't care about revenue/profit – care more about patient's health
- Increase revenue
 - More services/visits (FFS), more patients (capitation), more hours worked (salaried)
 - Attract new patients/keep existing patients – higher quality of care, meet patients' expectations, enrolment
 - Increase prices/less bulk-billing – how do patients respond to price?
 - Mobility – move to affluent area
- Reduce costs
 - Fewer nurses/admin staff, limit pay increases, less technology, move to lower cost area
 - Change services provided – some more profitable than others
 - Increase practice size, merge with other practices/corporates (economies of scale)

Evidence – competition and prices

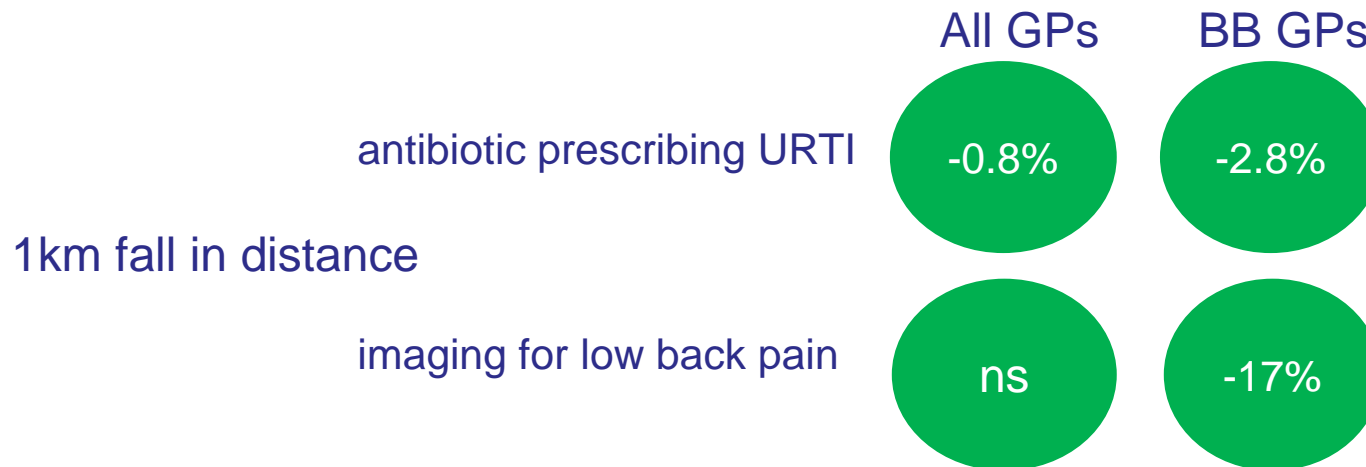
- Examined the effect of competition on prices charged and bulk-billing rates in major cities
- Competition: distance to other GPs
- Increases in distance (less competition) leads to higher prices and lower bulk-billing rates. These effects are stronger in more affluent areas



Gravelle H, Scott A, Sivey P, Yong J. Competition, prices, and quality in the market for physicians. *Journal of Industrial Economics* 2016; 64(1): 135–169.

Evidence – competition and quality

- Does more competition increase or reduce the provision of low value care?
 - Hypotheses/mechanisms?
- BEACH data to measure low value care
 - antibiotics for URTI
 - imaging for low back pain
- Measure of competition – distance between GPs



Summary

- Competition potentially important but little evidence and impact unclear
- Depends on how docs react to threats to revenue and/or increases in costs
- Evidence suggests that more competition can reduce prices and reduce low value care
 - doctors' location decisions matter
 - practice mergers and changes in practice size
- Ongoing work:
 - specialists prices and competition
 - location choices