Do HMOs Have Monopsony Power?

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Roger Feldman[1] & Douglas Wholey[2]

Abstract

Objective: To determine whether health maintenance organizations (HMOs) have monopsony power in the markets for ambulatory care and inpatient hospital services.

Data Sources: A pooled time-series of data on all HMOs operating in the United States from 1985 through 1997. Information reported to InterStudy on HMO market areas and enrollment is linked to financial data reported to state regulators and county characteristics from the Area Resource File (ARF).

Study Design: We use a two-stage design to test for the existence of monopsony power. First, we estimate regression equations for the prices paid by HMOs for ambulatory visits and inpatient hospital days. The key independent variable is a measure of the importance of an individual HMO as a buyer of ambulatory care or

hospital services. Second, we estimate regressions for the utilization of ambulatory visits and inpatient hospital days per HMO enrollee, as a function of HMO buying power and other variables.

Principal Findings: Increased HMO buying power is associated with lower price and higher utilization of hospital services. Buying power is not related to ambulatory visit price or utilization per member.

Conclusions: Our findings are not consistent with the monopsony hypothesis. They suggest that managed care organizations have contributed to a welfare-increasing breakup of hospital monopoly power. The role of HMOs as buyers of ambulatory services is more complex. We discuss possible reasons why buying power may not affect price or utilization of ambulatory visits.

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Author information

Authors and Affiliations

Blue Cross Professor of Health Insurance, Division of Health Services Research and Policy, University of Minnesota, USA

Roger Feldman

Division of Health Services Research and Policy, University of Minnesota, USA

Douglas Wholey (Professor)

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