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Are we paying artificially hiked prices for medicines and medical treatments?

Medicines and medical treatments are difficult for many to bear without health insurance. So are the prices hiked artificially? Let's get into the article to understand the scenario.

Medicines and Medical Treatments: The healthcare Sector

The healthcare industry is a collection and assimilation of sectors within an economy that provide Medicines and Medical Treatments to cure and rehabilitate patients.

But the crucial question is – Are the prices of medicines and medical treatments artificially hiked?

Most of you must be contemplating that the prices are artificially raised. That's the answer every consumer likes to believe. But how does this price hike work? Monopoly is the answer!

Market power of the Healthcare Industry

A monopoly is a market structure characterized by a single seller selling a unique product in the market. In a monopoly market, the seller faces no competition, as he is the sole seller of goods or services with no close substitutes. The monopolist enjoys the price-setting decision.

Nevertheless, things work a little differently in a real economy, especially in the healthcare sector. The smaller the geographical area, the higher is the monopoly power. As the geographical area increases, monopoly power decreases because of increased competition.

A CT scan or an MRI performed by the machines in Georgia will not give any different result compared to those in Florida. As the competition increases, the market structure changes to an oligopoly structure.

Oligopoly- a small group of dominating firms form an oligopoly market structure. The number of sellers is more than two and has price making powers. Oligopolies can result from various forms of collusions that reduce market competition. Collusions usually lead to higher prices for consumers. Some of the leading healthcare companies are UnitedHealth Group, Inc. (NYSE: UNH), Medtronic PLC (NYSE: MDT), Abbott Laboratories (NYSE: ABT) so on.

Acquisition of Market Power

The article has explained the market power of the health care sector. But how does oligopoly creep in when there are so many hospitals, pharmaceuticals, laboratories working around us? My friend, the answer is mergers and acquisitions.

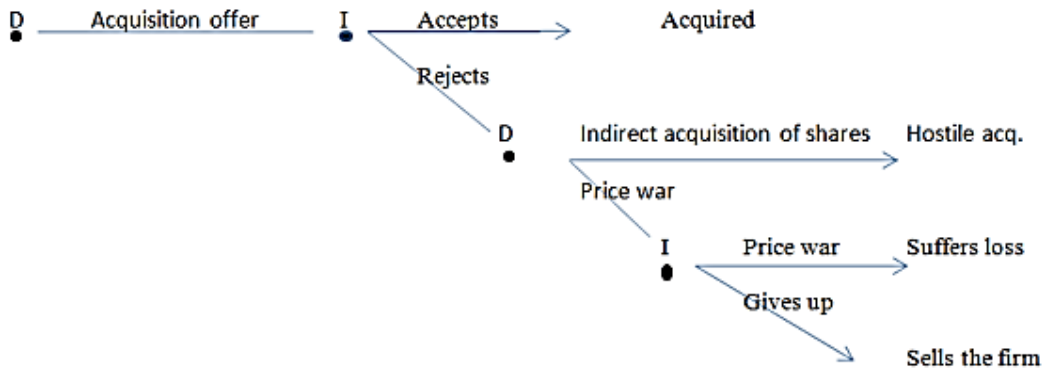
Financial and capable healthcare firms acquire small and independent healthcare firms. The dominant firm keeps acquiring smaller firms until they create their strong foothold over a geographical area. You must have heard or read *the acquisition will help the acquirer to strengthen its position in the healthcare sector*. The statement is the common motive behind every merger and business-acquisition across the globe.

Game Theory of the healthcare sector

Now, the question arises, ‘why doesn’t the independent healthcare firms resist such acquisitions?’ Here I would like to introduce a slight tint of Game theory (*if you are not acquainted with Game Theory, please directly move to the conclusion of the game*).

Let us consider the game:

Let, the independent healthcare firm be ‘I’ and the dominating or financially capable firm be ‘D’. The dominating firm (D) always starts the game with its first strategy.



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Let the independent healthcare firm be 'I' and the dominating or financially capable firm be D. The dominating firm (D) always starts the game with its first strategy.

The dominating firm strategically plays the game by offering an acquisition deal to the independent healthcare firm. The independent firm has two moves to play: either (i) accept the offer, or (ii) reject it. If the independent healthcare firm agrees, the game ends there itself. The reasons to accept a merger or acquisition offer may be:

- Financial crisis or insolvency
- Unforeseen situations
- Good business deals

However, if the independent firm chooses to play the other strategical option i.e. to reject the offer, 'D' plays his next move. He can play hostile acquisition of the weak firm or start a

price war against the independent company. Indirect, hostile-acquisition leaves the independent company with no option but to be acquired.

If the dominating firm plays the strategy of a price war, the independent firm needs to decide how to continue the game. It can start a price war or can give in.

A price war is not a safe option for a financially weak firm. A big dominating company always has a market edge of economies of scale:

1) mass-scale production or service provision
2) cheap cost inputs
3) easy availability of clients and customers

So, a price cut is affordable by a big firm but risky for a small growing company. Thus, severe loss suffering conditions would drive the small healthcare firm to its shut down point and out of the market entirely.

The small independent firm having the foresight of the losses and drawbacks can give up without going into a price war. Henceforth, management can prevent additional costs and losses.

Thus, no matter what strategy is taken up by the small healthcare firm, the saddle point reached will always be in favor of the dominating firm.

Role of Government in the healthcare sector

In 2015 $3.8 trillion worth of mergers and acquisitions occurred that made it the best year for corporate consolidation in the history of the U.S. Many monopolies restricting acts were passed to prevent the monopoly existence. Cartels have also been legally checked. Government institutions have already taken the necessary steps. However, profit-making organizations always find a way to increase their profits.

Merger and Acquisition

The big firm acquires smaller firms. Then these subsidiaries further acquire other firms to avoid legal controversies. For example, say A acquires B, B (which is now a subsidiary of A) then acquires C and D. Then C (which is an indirect subsidiary of 'A') acquires E. So, indirectly A owns B, C, D, and E.

Hence, A has the maximum controlling power in the market. In other words, even though in relative terms the dominating firm holds the maximum controlling power and price making decision in the healthcare sector, records will show the absolute controlling power of each firm in the market and not the relative.

6 Major Hospital Merger Deals Making Headlines in 2018 are:

- Advocate Health Care, Illinois, inked a deal with Wisconsin-based Aurora Health Care to create the tenth largest non-profit hospital system in the country.
- The Massachusetts Health Policy Commission announced hospital merger deal between Beth Israel Deaconess Medical Center and Lahey Health.
- Carolinas HealthCare System and UNC Health Care merged.
- California-based Dignity Health and Colorado-area Catholic Health initiated merger and operating under a new name in a new city.
- Care New England Health System of Rhode Island and Massachusetts-based Partners HealthCare sealed the deal.
- Non-profits Providence St. Joseph Health and Ascension Health made a potential hospital merger.

(source: Revcycle Intelligence)

Conclusion

We are indeed paying some extra cash for the medicines and medical treatments. However, we are paying those additional bucks out of our pocket with the hope to receive high-quality medicines and better medical treatments.

We cannot ignore the fact that our healthcare sector has improved over the years. The number of health care access points has expanded, including the availability of services to underserved, disadvantaged, and geographically isolated patients. I wouldn't be wrong if I made a statement on behalf of all stating that we are ready to pay slightly more if that money is used to help others.