

RESEARCH SUMMARY

The Results of Making Healthcare Costs More Transparent: Lower Prices, No Change in Prices, or Higher Prices?

There is a widespread perception that healthcare price transparency would result in lower prices for consumers. While more information about the costs of services may make a difference in certain markets, in many others it would likely have little effect on prices. Indeed, in a substantial number of healthcare markets, price transparency could even have the undesirable result of raising prices rather than lowering them.

In “[Price Transparency in Healthcare: Apply with Caution](#),” Robert F. Graboyes and Jessica McBirney show that price information can empower consumers to shop—but, under certain conditions, can also enable sellers to collude (or act as if they are colluding). So, while greater knowledge about prices charged is usually a good thing, in the healthcare sector, transparency mandates can help consumers only in specific markets and can actually do harm. Hence, such mandates should be applied with caution.

PRICE TRANSPARENCY CAN ENCOURAGE “TACIT COLLUSION” AMONG PROVIDERS

- In many healthcare markets, the number of sellers is small, and the barriers to entry by new sellers are high.
- In such markets, mutual knowledge of prices among competitors can lead to tacit collusion—strategic behavior wherein sellers individually restrict supply and raise prices.
- Tacit collusion does not require any actual coordination or conspiracy on the part of sellers (hence the descriptor “tacit”). When this occurs, even active price-shopping by consumers is unlikely to push prices down to competitive levels.

PATIENTS REGULARLY FAIL TO ENGAGE IN PRICE COMPARISONS

- There are other circumstances besides tacit collusion where access to price information will have limited influence on consumer decisions. For example, consumers probably won’t engage in price comparisons when hiring an ambulance provider during an emergency. Patients are also unlikely to shop for cheaper MRI providers just to save their insurance companies \$200 and themselves \$10.
- Price isn’t all that matters in healthcare. Consumers would probably rather spend more money on a doctor they like, or a hospital that’s close by, than less money on a lower-quality doctor or farther-away hospital.
- In general, price information helps consumers only when they have the ability and incentive to *use* that information: They must be able to shop around for the goods in question and must have enough “skin in the game” to make shopping worth their effort.

KEY TAKEAWAY

Price transparency mandates ought to be applied with care and only in those markets where they are likely to yield lower prices. In markets characterized by consumer indifference to prices, transparency mandates will have minimal impact. In markets poised for tacit collusion, counterintuitively, transparent prices can actually harm consumers.