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# How Medicare influences private payment systems (model this)

by [Tyler Cowen](#) on October 17, 2013 at 2:02 am in [Economics](#), [Medicine](#) | [Permalink](#)

There is [a new paper](#) by Jeffrey Clemens and Joshua D. Gottlieb on this topic, the abstract is here:

We analyze Medicare's influence on private payments for physicians' services. Using a large administrative change in payments for surgical procedures relative to other medical services, we find that private payments follow Medicare's lead. On average, a \$1 change in Medicare's relative payments results in a \$1.30 change in private payments. We find that Medicare similarly moves the level of private payments when it alters fees across the board. Medicare thus strongly influences both relative valuations and aggregate expenditures on physicians' services. We show further that Medicare's price transmission is strongest in markets with large numbers of physicians and low provider consolidation. Transaction and bargaining costs may lead the development of payment systems to suffer from a classic coordination problem. By extension, improvements in Medicare's payment models may have the qualities of public goods.

This paper, which seems quite sound to me, has a few implications.

First, if you are unhappy with the American health care system, government is more at fault for the problems of the private sector than it may at first appear. We have a much more governmental system than most of its critics care to admit and that goes even beyond government health care spending as a percentage of total health care spending.

Second, we could cut Medicare reimbursement rates, by limiting the doc fix, without old people all very rapidly going to the back of the health care queue.

Third, the authors find that the larger Medicare becomes, the stronger this "pass through" effect generally will be. In other words, this result will be all the more true in our future.

Fourth, the cross-sectoral price transmission result implies that long-run supply elasticities in the sector are not large, which also does not bode well for the future of health care access in an aging society.

Overall this is a depressing paper, although it implies that successful Medicare cost control could have significant cross-sectoral benefits, beyond Medicare itself.



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8 October 17, 2013 at 4:57 am

Arnold Kling wrote about this in Crisis of Abundance.

There is no real private sector in healthcare to speak of. There are some private firms, but the system is almost wholly controlled by government via the pricing. If you want to talk about private sector