



## Ideas Changing the World

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### The Costly Effects of Medicare

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As the largest U.S. purchaser of health care, Medicare may exert significant influence over private markets for physicians' services. Jeffrey Clemens and Joshua D. Gottlieb, researchers with the National Bureau of Economic Research, recently published a study that assesses Medicare's influence on fees for physicians' services, finding its influence to be substantial.

- A \$1 change in Medicare's payments leads to a \$1.30 change in private payments.
- When Medicare mistakenly pays generously for low-value services, the private sector follows its lead.
- Medicare similarly moves the level of private payments when it alters fees on an across-the-board basis.
- Medicare thus influences the relative valuation of, and aggregate expenditures on, physicians' services.

Medicare's influence derives from multiple sources.

- First, as a large public player, Medicare competes with private insurers for physicians' resources.
- Second, Medicare's payment menu provides the benchmarks from which bargaining begins. Bargaining costs and the expense of complex billing operations contribute to this role as an establisher of benchmarks and setter of defaults.
- Finally, health care payment systems have the essential properties of public goods; public payers may thus be essential participants in payment-system experimentation and reform.

Improvements in our understanding of these sources of influence should prove valuable as policy makers reckon with the high cost of health care in coming years.

Source: Jeffrey Clemens and Joshua D. Gottlieb, "[Bargaining in the Shadow of a Giant: Medicare's Influence on Private Payment Systems](#)," National Bureau of Economic Research, October 2013.

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