

# Who Pays for Rising Health Care Prices? Evidence from Hospital Mergers

Based on BFI Working Paper No. 2024-76, “[Who Pays for Rising Health Care Prices? Evidence from Hospital Mergers.](#)” by Zarek Brot-Goldberg, University of Chicago; Zack Cooper, Yale University; Stuart V. Craig, University of Wisconsin; Lev R. Klarnet, Harvard University; Ithai Lurie, U.S. Department of the Treasury; and Corbin L. Miller, Internal Revenue Service

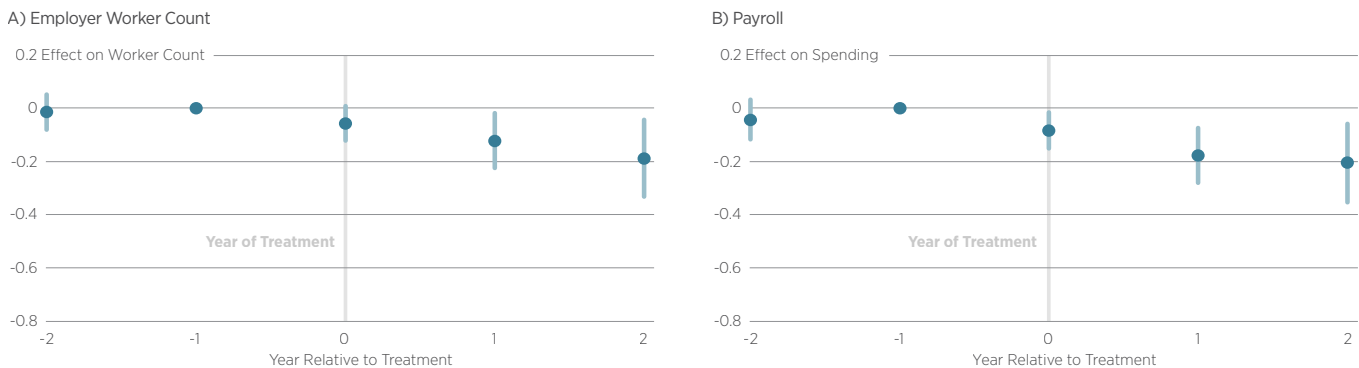
Rising health care prices are passed onto employers as higher insurance premiums, which decreases their demand for labor and reduces employment, leading to lost wages, reduced tax revenue, and increased suicide and overdose rates.

Since 2000, prices in the United States health care sector have increased more than prices in any other part of the economy. While in most markets consumers pay for price hikes directly, in the health care sector—where over half of Americans are covered by employer-sponsored health insurance—rising costs are passed through to employers, who often reduce wages when faced with rising costs.

As a result, changes in the health care industry affect workers across the whole economy.

In this paper, the authors document the economic consequences of rising health care prices. They use a range of data covering prices and utilization of health care services, insurance premiums, and labor market outcomes to measure how rising

**Figure 1** • Impact of Rising Health Care Prices on Employer Worker Count and Payroll



Note: This pair of graphs shows estimates (coefficients) of the effect of rising health care prices on employer-level worker counts and payrolls. The vertical bars show 95% confidence intervals.

prices affect health insurers, workers, employers, and the government. To isolate the effects of price increases, the authors study employers who are exposed to price increases caused by hospital mergers. The authors rely on several methods, detailed in their [working paper](#), to confirm that exposure to hospital mergers is unrelated to other factors that may affect employers' demand for labor. They find the following:

- Merger-driven increases in hospital prices are passed through close to dollar-for-dollar into health spending and, in turn, insurance premiums.
- A 1% increase in health care prices lowers both payroll and employment at firms outside the health sector by approximately 0.4%.
- To ensure that these employment reductions are not merely the result of workers reallocating to other employers, the authors also estimate regional effects at the county level. They find that a 1% increase in health care prices within a given county reduces per capita labor income by 0.27% and increases flows into unemployment by approximately 0.1 percentage points, or 1%.
- These labor market changes have substantial fiscal consequences for the federal and state governments: a 1% increase in health care prices reduces income tax withholdings by 0.4% and increases unemployment insurance payments by approximately 2.5%.

- Most of these unemployment increases are concentrated among workers earning between \$20,000 and \$100,000 annually.
- Finally, the authors show that 1% increase in health care prices leads to a 1 per 100,000 (2.7%) increase in deaths from suicides and overdoses. This implies that approximately 1 in 140 of the individuals who become unemployed after prices increase die from a suicide or drug overdose.

The upshot is that health care price growth generates severe macroeconomic and social consequences. The authors show that the average merger that raised prices by 5% or more leads to 203 job losses, about \$32 million in forgone wages, a \$6.8 million reduction in federal income tax revenue, and between one and two additional deaths from suicide and overdose. This implies that the aggregate economic harm from an individual merger that raises hospital prices by 5% or more is approximately \$42 million. In the absence of concrete steps to address health care price growth, rising health spending will raise labor costs and reduce business dynamism outside the health sector, put pressure on the federal budget, exacerbate income inequality, and precipitate suicides and overdoses.

## READ THE WORKING PAPER

NO. 2024-76 · JUNE 2024

### Who Pays for Rising Health Care Prices? Evidence from Hospital Mergers

[bfi.uchicago.edu/working-papers/who-pays-for-rising-health-care-prices-evidence-from-hospital-mergers](https://bfi.uchicago.edu/working-papers/who-pays-for-rising-health-care-prices-evidence-from-hospital-mergers)

## ABOUT OUR SCHOLAR



### **Zarek Brot-Goldberg**

*Assistant Professor,  
Harris School of Public Policy*



THE UNIVERSITY OF CHICAGO  
**HARRIS SCHOOL  
OF PUBLIC POLICY**