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Monopsony Power.

Can we harness it to help control American medical expenses?



Medical expenditures make up nearly 18% of the United States GDP. Nearly \$3.5 trillion dollars is expended overall, and these figures, both the portion of the domestic product and the absolute dollar amount, continue to persistently rise. Although Americans, if they can access care, do have a high quality of care, sheer cost is an increasing concern. Costs continue to hit these heights even while 10% of the population is entirely excluded from care.

Monopsony power might offer some interesting ways to lower the cost of care in the United States. “Monopoly” refers to the power a single seller with significant control over the market exerts over purchasers, “monopsony” refers to the opposite--the power a single, market-controlling buyer exerts over sellers. Were the United States to have a single buyer that provided medical services to

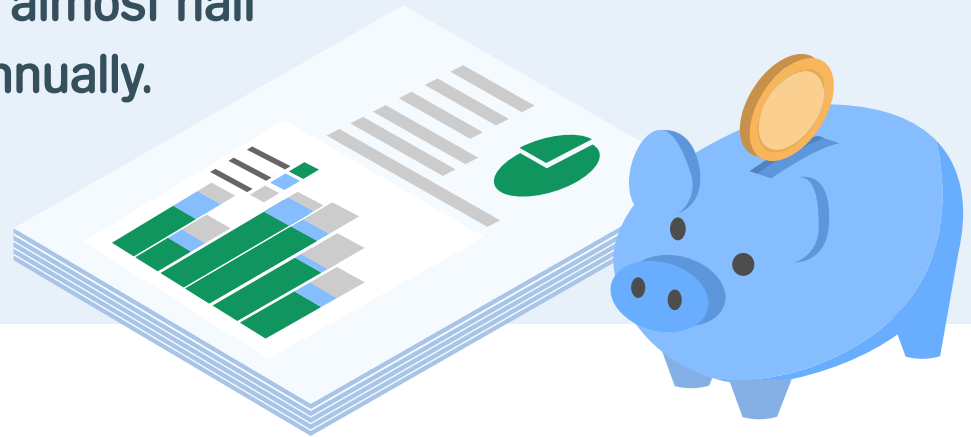
all citizens, would there be substantial cost benefits? What challenges might emerge to monopsony power in healthcare? What analogues might offer insights on this topic? Even abstracted from current policies like the ACA and proposals like Medicare for All, these questions yield interesting considerations.

First, a little background on “monopsony.” The term arose in the 1930s from the work of the Keynesian economist Joan Robinson, specifically in her book *The Economics of Imperfect Competition*. Robinson particularly examined the impact that a single buyer can have in driving labor costs to below normal market levels, as well as the associated negative impact on workers. Monopsony has recently re-emerged and was specifically mentioned in the



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Over time, a 15% cost savings overall seems possible – almost half a trillion dollars annually.



Supreme Court case *Apple Inv. v. Pepper* in reference to Apple's use of monopsony power to haul in a substantial portion of application revenue. [More on this here.](#)

Potential cost benefits

Were the government to assert monopsony power in healthcare, what cost benefits might result?

Speaking with a New England-based government healthcare official, three key areas of opportunity jump to the forefront:

1. Lower administrative costs in payment and reimbursement.
2. Lower pharmaceutical costs more aligned with international pricing levels.
3. Increased efficiency through a coherently developed value-based service model.

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annually. That's worth thinking about! [There is additional thinking on this topic here.](#)

Challenges that will likely emerge

As with any sweeping change, challenges are not difficult to identify. Perhaps the most relevant and interesting one comes from classic monopsony discussions: would the supply of service services be substantially reduced? Not enough doctors? Not enough hospitals? A senior strategy executive in a Maryland hospital system summed up a few issues:

- Establishing pricing levels would be critical
- Current Medicare reimbursement levels are too low to fund most hospital operations.
- Dealing with complex cases with a myriad points of service is a challenge.
- Sorting through the relationships with private and nonprofit providers or

large and small providers would require sophisticated negotiating skills on both sides.

The supply of doctors challenge raises, for me, another important concept: the fallacy of asking a new approach to solve all existing problems. Of course a poorly designed monopsonistic approach could cause a doctor shortage, but our current approach seems to cause similar issues, especially in rural areas. There are upsides in a government-run system where doctors could join a more directed organization that provided stable career paths and income in return for a doctor's locational flexibility.

and public ones—the IRS. In most cases, there are benefits and costs that offset in some manner. When the services are not performing well, alternatives develop (USPS, Fedex, and UPS). The iPhone is a stunning, even revolutionary, success. Cost are manageable in part due to Apple's monopsony power. Also, the iPhone offers a range of purchase options, thus abating one fear of monopsony. The IRS, which is dealt a tough hand in complex regulations and limited resources, still operates in a reasonably efficient manner. As one former executive put it: "the IRS may not get every dollar the regulations require, but it does gather each dollar it gets with high efficiency."

Interesting analogues

Where do we see monopsony (or near-monopsony) today? How well does it work? There are private examples—the iPhone—



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We appreciate your interest in our work and perspectives. Our services include long-term market analysis to uncover likely trends and their impact. We also focus on the less-likely but more meaningful trends. Please contact me for more information: john@brbradv.com.