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### REVIEW & OUTLOOK

## An Unhealthy Merger

May 17, 2008; Page A10

Hospitals are big business, even when the companies that run them are "not for profit." So it's not surprising that some of them would seek to restrict competition, assuming they can get away with it. That seems to be the case with Inova Health Systems of Northern Virginia, which was sued this week by the Federal Trade Commission.

Inova is far and away the biggest hospital chain in its region, and now it is attempting to merge with Prince William Hospital near Inova's heartland of Fairfax County. The FTC, together with Virginia's Attorney General, is seeking to block the merger on grounds that it would be anticompetitive. For a change, the FTC is right.

Inova enjoys a market share north of 60% in the Virginia suburbs, and over the years it has fought hard to keep it that way. When such for-profit competitors as Universal Health Services and HCA Inc. have tried to build new facilities, buy independent hospitals or expand operations, Inova has tried to stop them. It has used its political clout to challenge everything from zoning approvals to the "certificates of need" that the Virginia health board requires for hospitals.


In 1994, it paid \$35 million to settle a suit brought by the trustee of a hospital Inova had operated that claimed Inova had run Jefferson Memorial Hospital into the ground to eliminate a former competitor. And in 1998, Inova lobbied strongly against an HCA proposal to build a new hospital in Springfield, Virginia. Two years later, Inova announced plans to expand its own facilities in the area on grounds that they were so crowded that patients were turned away.

The company is currently fighting a proposed new HCA hospital in neighboring Loudoun County. HCA has acquired the certificate of need, but Inova has sought to block it anyway. Loudoun is one of the fastest-growing counties in the U.S., and it has less than one hospital bed per 1,000 residents, compared to a national average of three. Oh, and Loudoun now has only one full service acute-care hospital. The owner of that lone hospital? Inova, which claims that another hospital would "dilute" the care patients receive. Diluting Inova's market share is more like it.

At Prince William, Inova is seeking to woo regulators and the community with promises to invest \$200 million in upgrading the facility. But Inova is not the only potential source of investment. In 2001 Universal Health Systems attempted to buy the hospital but was thwarted by the hospital board and community activists. This time around, Prince William refused even to negotiate with Universal, which again expressed interest. The reasons for that snub are unclear, but it's not far-fetched to conclude that Inova demanded exclusivity to once more bar competitors.

Inova has typically received a pass from regulators because it wraps itself in its nonprofit mantle. This has allowed it to grow into a company with revenues of \$2 billion a year, with comfortable operating margins and a chokehold on the local market. As the FTC complaint notes, this control matters – both to patients and to the insurance companies that pay most

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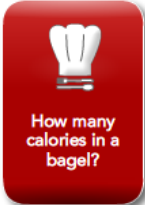

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of the bills. Inova's dominant position gives it the whip hand in rate negotiations. Private competitors would help bring down prices and give consumers and insurance plans a choice of providers.

We think the FTC often invents reasons to block mergers, and it has failed over the last decade in its attempts to block hospital mergers. But this is one case where it looks to be on solid ground. For a true market in health care to develop, we need competition in providers. When one hospital chain can use its political connections to limit competition, then there's a role for the antitrust laws in providing redress.

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