

The Impact of Repealing Certificate of Need Laws on Healthcare Spending: A Causal Analysis



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Abstract

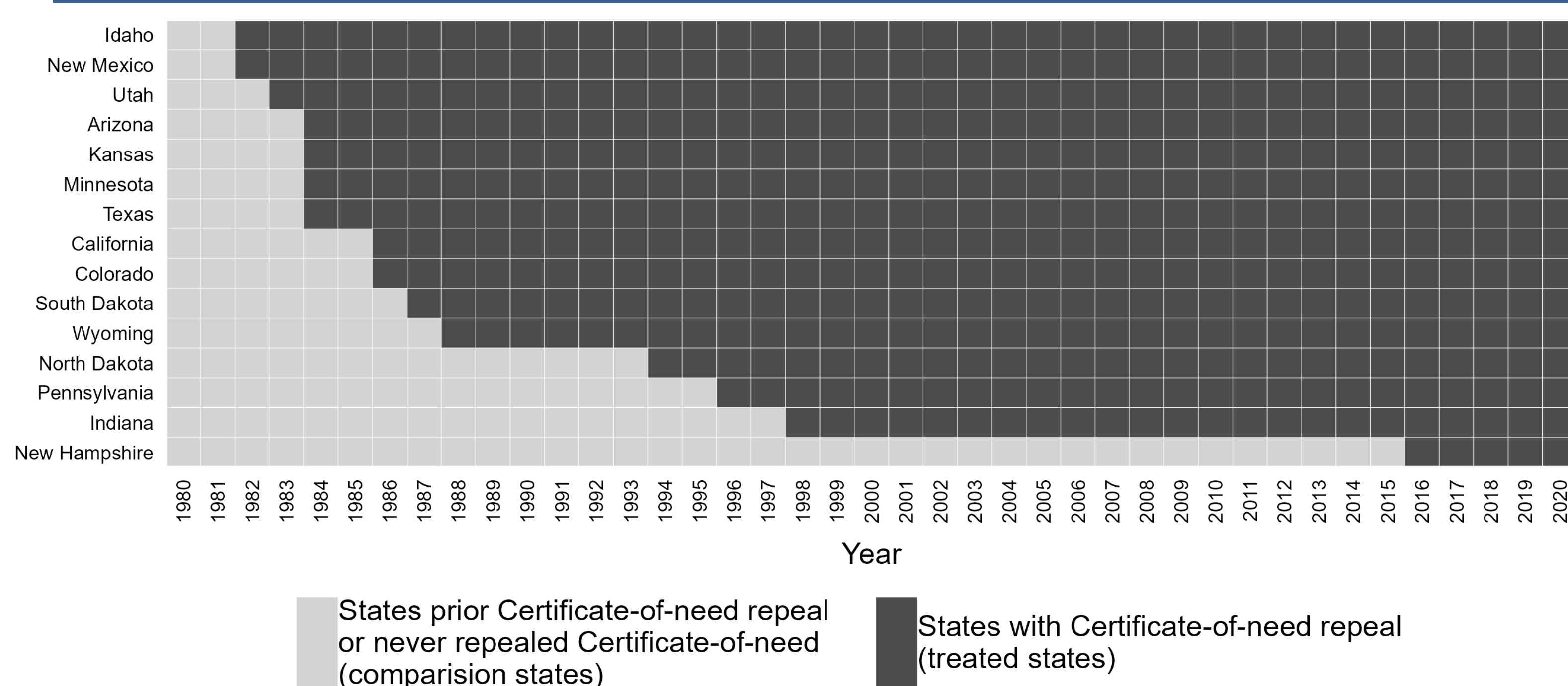
Certificate-of-Need laws in 35 US states require healthcare providers to obtain government approval before building new facilities or expanding services. Their stated goal is to ensure a genuine community need and avoid redundant services, with the aim of controlling healthcare costs and distributing resources fairly, although their effectiveness is debated. Our study differs from previous literature as we present the causal effects of repealing Certificate-of-Need laws on various healthcare expenses using modern difference-in-differences techniques. Our findings suggest that repealing Certificate-of-Need laws can reduce the burden of healthcare spending.

Background

Mitchell (2016) and Bailey (2018) make theoretical arguments for why we should expect Certificate-of-Need to increase spending: it restricts the supply of a good, leading to higher prices and less usage of care, but because of inelastic demand the effect of higher prices dominates, so total spending goes up. Other recent articles look to the data and find that Certificate-of-Need is associated with 3% higher overall health care spending in a state (Bailey, 2019; Bailey and Hamami, 2023). We improve on this recent literature on how Certificate-of-Need affects spending in three ways:

- 1) We use the most recent available data, which goes through 2020, while the most recent data used by previous work is 2016.
- 2) We measure how Certificate-of-Need affects spending as a share of GDP and as a share of personal income. Previous work measured how Certificate-of-Need affects spending in dollar terms, but this does not account for the fact that the same dollar amount of expenditure represents a higher burden in a poor state than in a rich state.
- 3) We implement an event study to examine the dynamic treatment effect of the Certificate-of-Need repeal, and use modern difference-in-differences estimators that fully account for the staggered repeal of Certificate-of-Need laws. Previous work used two-way fixed effects estimators, which can produce biased estimates in this context (Sun and Abraham, 2021).

CON Repeal Dates



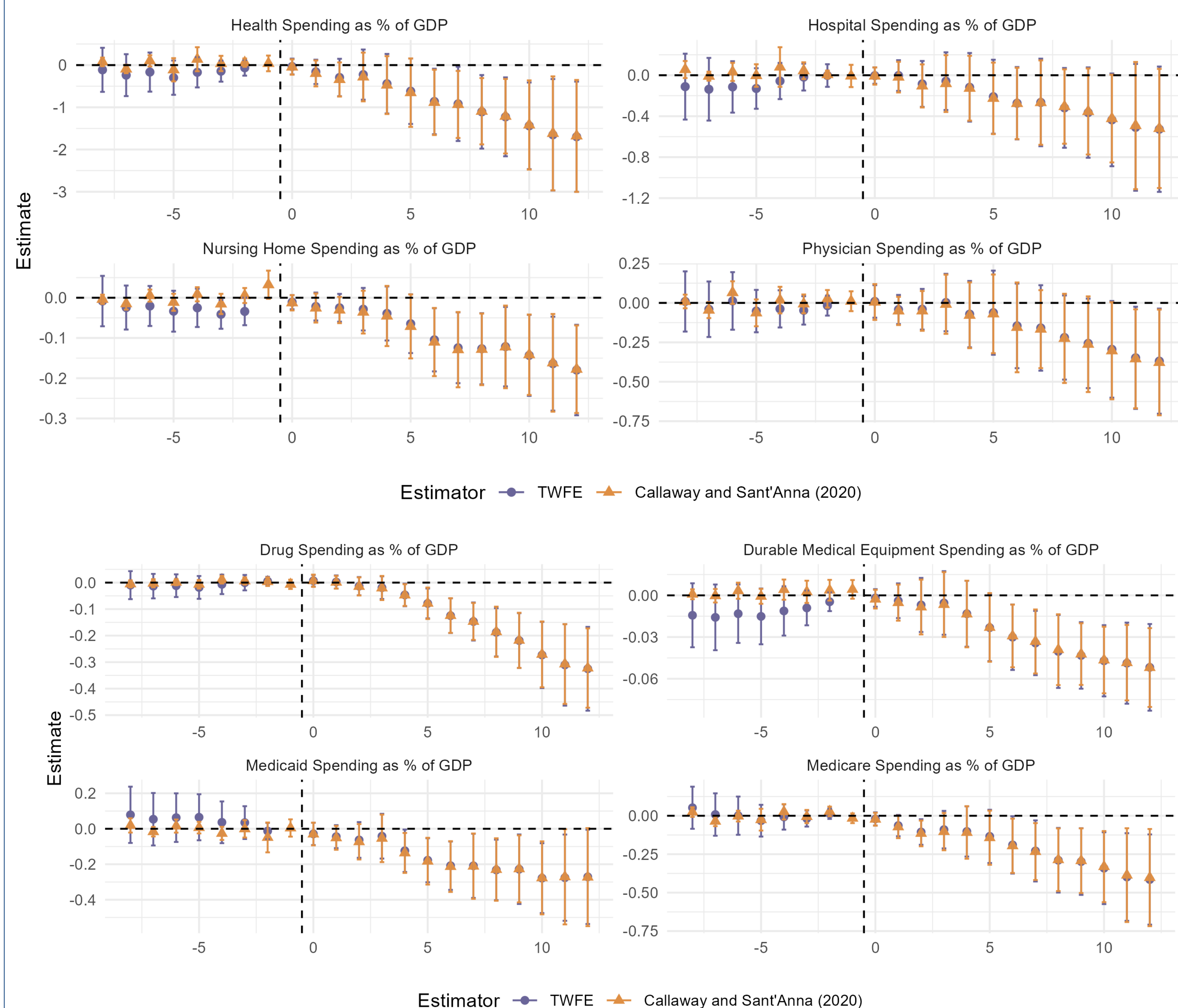
Methods

Mitchell and Koopman (2016) provide data on states repealing Certificate-of-Need Laws, and we use National Conference of State Legislatures (2024) to update the new repeals. Figure 1 above shows staggered adoption of Certificate-of-Need repeal by states.

We gathered historical state-level estimates of healthcare spending from 1980 to 2020 through The Center for Medicare and Medicaid Services' National Health Expenditure Data.

We analyze the data using generalized difference-in-difference regressions along with event studies.

Results of CON Repeal



Conclusion

We find that Certificate-of-Need repeal leads to a statistically significant ≈ 1 percentage point (7.6 percent) reduction in healthcare spending as a share of GDP.

Given that the 35 states with Certificate-of-Need laws had a collective GDP of \$12.6 trillion in 2020, our estimates suggest that if all states that maintain these laws were to repeal them, US healthcare spending would fall by \$123 billion relative to the counterfactual.

While we use estimators robust to the potentially heterogeneous effects of CON laws, future research could directly measure heterogeneity in what types of health facilities, equipment and services require CON in each state and year.

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