The Use of the Nonprofit "Defense" Under Section 7 of the Clayton Act

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I. INTRODUCTION

Since the early 1980s, for-profit and nonprofit hospitals have undergone an unprecedented number of mergers,\(^1\) reflecting the dramatic changes in the health care industry.\(^2\) The Federal Trade Commission (“FTC”) and Department of Justice (“DOJ”) have challenged mergers of both types of hospitals.\(^3\) Recently, however, a hand-

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2. During the last decade, significant changes have occurred in the hospital industry. The switch from a cost-based to a fixed price system of reimbursement has contributed to excess capacity. After World War II, the government passed the Hill-Burton Act, which subsidized hospital construction and thus encouraged rapid growth. See James E. Magleby, Hospital Mergers and Antitrust Policy: Arguments Against a Modification of Current Antitrust Law, 41 ANTITRUST BULL. 137, 138 (1986). In addition, the creation of Medicare/Medicaid gave hospitals little incentive to reduce spending. See id. The government's cost-based payment method further contributed to the creation of additional services and facilities. See id. at 138-39. Unlike the cost-based payment system, the current prospective payment system (PPS) sets the price that the government will pay for a particular diagnosis regardless of the actual cost to the hospital, making the hospital responsible for any costs that exceed the fixed amount. See 42 U.S.C. § 1395ww(d)(5) (1994). Private insurers have established similar payment plans. See Magleby, supra, at 139. Cost-containment measures have contributed to a decline in hospital admissions, resulting in excess capacity and declining revenue. See Federal Antitrust Policy in the Health Care Marketplace: Hearing Before the Committee on the Judiciary of the U.S. Senate, 105th Cong. 71, 73 (1997) (statement of Joe Sims, partner, Jones, Day, Reavis & Pogue) [hereinafter Sims Testimony]. Further, improved medical technology allows many procedures to be performed on an out-patient basis and thus contributes to a reduction in inpatient services. See Magleby, supra, at 139-40.

3. Organizational form usually does not matter under antitrust law. See 1A PHILLIP AREEDA & HERBERT HOVENKAMP, ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND
ful of nonprofit hospitals have offered nonprofit status as a “defense” to federal challenges to nonprofit hospital mergers. Although not a complete defense—nonprofit status alone does not remove the entity from antitrust scrutiny—a limited “defense” has evolved as nonprofit hospitals claim that a nonprofit merger is less likely to have anticompetitive effects than an equivalent for-profit merger.


5. See Mary Lou Steptoe & Francis M. Fryscak, Review of Traditional Defenses, Noerr-Pennington, Efficiencies, and Not-For-Profit Status, American Health Lawyers Association Annual Antitrust in the Health Care Field Meeting, 1, 3 (Feb. 1998) [on file with the author].

Both courts and commentators have debated the significance of nonprofit status under federal antitrust law. Some commentators contend that nonprofit status may prevent anti-competitive behavior. They argue that because nonprofit hospitals are not organized to distribute profits, these entities lack incentive to maximize revenue, see generally William J. Lynk, Property Rights and the Presumptions of Merger Analysis, 39 ANTITRUST BULL. 363 (1994) [hereinafter Lynk, Property Rights], and when in possession of market power will not engage in anti-competitive behavior. See William G. Kopit & Robert W. McCann, Toward a Definitive Antitrust Standard for Nonprofit Hospital Mergers, 13 J. HEALTH POLY., POLy & L. 635, 649-44 (1988). Specifically, a board of directors composed of local community leaders and employers has no incentive to raise prices, which virtually guarantees that the entity will not engage in anti-competitive behavior. See William J. Lynk, Nonprofit Hospital Mergers and the Exercise of Market Power, 38 J.L. & ECON. 437, 440-42 (1995) [hereinafter Lynk, Nonprofit Hospital Mergers]; see also William G. Kopit & Tanya B. Vanderhilt, Unique Issues in the Analysis of Non-Profit Hospital Mergers, 35 WASHBURN L.J. 254, 269-70 (1996). These commentators claim that nonprofit hospitals respond differently to highly concentrated markets, and because a nonprofit entity has different incentives than a for-profit one, courts and federal antitrust agencies should consider nonprofit status in evaluating a proposed merger’s effect. See Fredric J. Entin et al., Hospital Collaboration: The Need for an Appropriate Antitrust Policy, 29 WAKE FOREST L. REV. 107, 123-26 (1994); see generally William G. Kopit & Neil N. Rosenbaum, Rethinking the Significance of Merging Hospitals, American Health Lawyers Association Annual Antitrust in the Health Care Field Meeting (Feb. 1998) (on file with author). See also Lynk, Nonprofit Hospital Mergers, supra, at 438-49, 458-59.

In response to these arguments, the federal antitrust agencies along with numerous antitrust scholars emphasize the lack of evidence demonstrating that nonprofits act differently than for-profits and warrant different treatment under the antitrust laws. They argue that nonprofit entities will exercise market power and should be treated like for-profits for the purposes of antitrust analysis. According to Robert Bloch, former chief of the Department of Justice’s Antitrust Division that had responsibility for the health care industry, “[i]t is common sense and economic theory demonstrate that competitive behavior and financial performance of nonprofit hospitals—including the incentive to raise prices when faced with less competition—will not differ materially from investor-owned hospitals.” See Lynk, Property Rights, supra, at 383. Similarly, commentators have suggested that the antitrust laws appropriately apply to nonprofits because these entities share incentives to act anti-competitively and often compete with for-profits. See 1A AREEDA & HOVENKAMP, supra note 3, ¶ 261a, at 261-62. For a discussion of how federal courts have analyzed this issue, see infra notes 123-43 and accompanying text.
Under Section 7 of the Clayton Act, the FTC and DOJ review proposed mergers to determine whether the merger will have any significant anti-competitive effects. Congressional policy underlying these statutes seeks to protect consumer welfare by preserving competition in the market. Consumers benefit from competition because it encourages producers to offer the best quality at the lowest price.

Although the Supreme Court has established that the nonprofit sector is subject to the antitrust laws and numerous appellate courts have held that nonprofit status alone cannot rebut a presumption of illegality, courts are split on the extent to which nonprofit status can be considered in predicting the competitive effects of a merger. Four district courts have recently determined that nonprofit status deserves consideration when evaluating whether a proposed merger will lessen competition. In contrast, other courts, including the Seventh and Eleventh Circuits, have rejected the view that nonprofits are less likely to act anti-competitively and have refused to treat nonprofits differently when determining the potential merger's anti-competitive effects.

Federal Trade Commission v. Butterworth Health Corp., which involved the proposed merger of two nonprofit hospitals in Grand Rapids, Michigan, dramatically increased the significance of nonprofit status to antitrust analysis. Although the district court agreed that the FTC had shown that the proposed merger would result in a significant concentration of power in the relevant markets and give the

8. See id. at 178.
10. See United States v. Brown Univ., 5 F.3d 658, 665 (3d Cir. 1993); FTC v. University Health, Inc., 938 F.2d 1206, 1224 (11th Cir. 1991); United States v. Rockford Memorial Corp., 898 F.2d 1278, 1285 (7th Cir. 1990); Hospital Corp. of America v. FTC, 807 F.2d 1381, 1390 (7th Cir. 1986).
12. See, e.g., University Health, 938 F.2d at 1224; Rockford, 898 F.2d at 1285; Hospital Corp. of America, 807 F.2d at 1390.
merged entity an “undue percentage share” of those markets, the *Butterworth* court allowed the merger to proceed. Previous courts have given some weight to nonprofit status, but the district court decision in *Butterworth* marks the first time a court has embraced the notion that nonprofit hospitals act differently in the marketplace and therefore require different treatment under the antitrust laws.

The FTC appealed the district court decision to the Sixth Circuit which issued a per curiam opinion holding that the district court decision was “not legally erroneous.” Although the circuit court only summarized the district court’s opinion and provided little of its own analysis, it did not challenge the district court’s reliance on nonprofit status in determining that the merger would not have anti-competitive effects. This affirmance by the circuit court marks the first time an appellate court has permitted consideration of nonprofit status.

This Note uses the *Butterworth* case to consider how nonprofits should be treated in determining whether a merger is likely to have anti-competitive effects. It challenges the factors recognized by the *Butterworth* court, examines the arguments regarding whether nonprofits behave differently than for-profits, and analyzes whether nonprofits should enjoy different treatment under the antitrust laws. The Note suggests that the market behavior of nonprofit hospitals is materially similar to that of for-profits, and that, therefore, a less stringent application of the antitrust laws is not justified.

Part II discusses the organizational differences between the nonprofit and for-profit sector generally and then surveys the empirical studies on the behavior of nonprofit and for-profit hospitals. Part III outlines the analysis of a merger under Section 7 of the Clayton Act, reviews the legal treatment of nonprofit status itself as well as of nonprofit hospitals specifically, and discusses the important role of competition in the health care industry. Part IV compares case law

14. *Butterworth*, 946 F. Supp. at 1294. The court accepted the agency’s market definition and concentration figures. See id. The court then concluded that the FTC had established its prima facie case showing that the proposed merger would violate Section 7. See id.
15. See id. at 1302.
18. See id. at *2.
19. Although the district court opinions in *Freeman* and *Carillon* were also affirmed by appellate courts, these courts did not address the nonprofit issue. See, e.g., FTC v. Freeman Hosp., 69 F.3d 260 (8th Cir. 1995) (affirming without published opinion); United States v. Carillon Health Sys., 892 F.2d 1042 (4th Cir. 1989).
treatment of nonprofit status. Part V critiques the district court opinion in *Butterworth* and advocates that traditional antitrust analysis should be applied regardless of ownership status because competition is the best guarantor of consumer welfare. In Part VI, the Note suggests that emphasis on nonprofit status, especially confidence in the good motives of a nonprofit entity in light of competitive harm, does not fit within the legal framework of antitrust law. In conclusion, Part VII summarizes why courts should not rely on nonprofit status in evaluating whether a merger will have anti-competitive effects.

II. DISCUSSION OF THE NONPROFIT SECTOR AND EMPIRICAL STUDIES OF THE BEHAVIOR OF NONPROFIT HOSPITALS

When considering whether nonprofits should be treated differently than for-profits, it is important to first look at whether nonprofits in fact act differently and whether any differences that exist justify different treatment under the antitrust laws.

There are legal and economic differences in the organizational structure of the two sectors. Nonprofits are prohibited from distributing surplus revenue to individuals; are generally exempt from federal and state corporate income tax, property tax, and sales tax; do not have access to equity capital; and often receive donations and grants. Nonprofit organizations, moreover, are frequently directed by a volunteer board of directors.

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20. See Henry Hansmann, *The Role of Nonprofit Enterprises*, 89 YALE L.J. 835, 838 (1981). A nonprofit can generate surplus revenue, but the organization must keep net earnings or use the amount for activities consistent with the organization's purpose. See DENNIS R. YOUNG, IF NOT FOR PROFIT, FOR WHAT? 11 (1983). Henry Hansmann has coined the term "nondistribution constraint" to refer to this limitation. See Hansmann, supra, at 838. Although dividends are distributed differently under the nonprofit form, profit can also be seen in "salaries and perquisites." See 1A AREEDA & HOVENKAMP, supra note 3, ¶ 261a, at 261.


23. See id. This source of funding is particularly important for donative nonprofits. See Young, supra note 20, at 12. Hospitals are usually considered commercial nonprofits as they rely on the sale of services for profit. See id.

Whether nonprofit hospitals behave differently than for-profits has been the subject of debate and study. Results of these studies are in conflict regarding costs, efficiency, prices charged, and profits. Despite the inconsistency of these findings, experts agree that any differences between nonprofits and for-profits are disappearing as competition from third-party payers increases. As the market becomes

25. See Robert Charles Clark, Does the Nonprofit Form Fit the Hospital Industry?, 93 HARV. L. REV. 1417, 1435 (1980) (discussing studies that have concluded for-profits have lower costs than nonprofits); see also Stuart H. Altman & David Shactman, Should We Worry About Hospitals' High Administrative Costs?, 336 NEW ENG. J. MED. 788 (1997) (stating that one study has found for-profits have lower costs per patient); Steinberg, supra note 22, at 123-30 (noting that there is little difference in costs between hospitals in general, but that for-profit chain hospitals are much less costly). But see, Bradford H. Gray & Walter J. McNerney, For-Profit Enterprise in Health Care, 314 NEW ENG. J. MED. 1523, 1524 (1986) (stating that studies show that for-profit hospitals are not less costly than nonprofits). One 1996 study showed that for-profits have higher total costs per patient. See Steffie Woolhandler & David U. Himmelstein, Costs of Care and Administration at For-Profit and Other Hospitals in the United States, 336 NEW ENG. J. MED. 769, 772 (1997). This study found that for-profits have higher administrative costs than nonprofits. See id. However, it may be difficult to compare the administrative costs of the two sectors because for example, these costs may be reported differently for tax purposes.

26. See Regina E. Herzlinger & William S. Krasker, Who Profits From Nonprofits?, HARV. BUS. REV., Jan.-Feb. 1987, at 83, 103 (stating that for-profits use labor more efficiently and generate more patient days per bed than nonprofits); see also Clark, supra note 25, at 1462. One study stated that the efficiency of for-profits and nonprofits appears similar. See Edmund R. Becker & Frank A. Sloan, Hospital Ownership and Performance, 23 ECON. INQUIRY 21, 31 (1985). But see Paul Feldstein, Health Care Economics 247 (1988) (arguing that for-profits are more profitable because of higher prices not because of greater efficiency); Robert V. Patterson & Hallie M. Katz, Investor-Owned And Not-For-Profit Hospitals, 309 NEW ENG. J. MED. 347, 353 (1983) (stating that data does not support the proposition that a for-profit chain is more efficient than a nonprofit one).

27. Some studies have not found any pricing differences between the nonprofits and for-profits. See Herzlinger & Krasker, supra note 26, at 93. Those studies that have found higher prices associated with for-profit hospitals may be explained by their location, as many for-profits locate in areas where they can charge higher prices. See Mark V. Pauly, Nonprofit Firms in Medical Markets, 77 AM. ECON. REV. 267, 261 (1987). Some studies have shown nonprofit hospitals charge lower prices than for-profit ones. See Lynk, Nonprofit Hospital Mergers, supra note 5, at 439. One study reports that for-profits charge higher prices for ancillary services. See Patterson & Katz, supra note 26, at 349.

28. See Herzlinger & Krasker, supra note 26, at 101 (discussing that for-profits do not have higher returns than nonprofits); see also Frank A. Sloan & Robert A. Vraciu, Investor-Owned and Not-For-Profit Hospitals: Addressing Some Issues, 2 HEALTH AFF. 25, 31 (1983) (stating that their study "showed no statistically significant difference" between the after tax profit of nonprofits and for-profits). But see Thomas J. Hoerger, Profit Variability in For-Profit and Not-for-Profit Hospitals, 10 J. HEALTH ECON. 259, 260, 266-87 (1991) (stating that private nonprofit hospitals experience less variation in their profits than for-profits, which suggests the two operate differently); Patterson & Katz, supra note 26, at 349 (stating that for-profits earn higher profits from ancillary services than nonprofits). Note that nonprofits cannot technically earn a profit but can use surplus to benefit the entity. See I.R.C. § 501(c)(3) (1994); see also supra note 20 and accompanying text.

29. See David S. Salkever & Richard G. Frank, Health Services, in WHO BENEFITS FROM THE NONPROFIT SECTOR?, 24, 35-39 (Charles T. Clotfelter ed., 1992); see also Sims Testimony,
more competitive, the prices charged by both types of hospitals will likely be closer to marginal costs.\(^3\)0

Furthermore, studies show numerous similarities in the behavior of for-profit and nonprofit hospitals.\(^3\)1 First, despite different organizational structures, the management of both sectors are concerned about costs and recognize that profits (or surplus revenues) are essential for operation.\(^3\)2 Nonprofits have responded to competition by establishing for-profit subsidiaries, selling services to for-profits, and participating in joint ventures with for-profit hospitals.\(^3\)3 Both for-profits and nonprofits advertise and market themselves in efforts to increase patient flow.\(^3\)4 and both have been accused of abusing the Medicare system.\(^3\)5 Due to these similarities, consumers may have difficulty distinguishing between the two sectors.\(^3\)6 These examples

\(^{30}\) See David Dranove, Pricing By Non-Profit Institutions: The Case of Hospital Cost-Shifting, 7 J. HEALTH ECON. 47, 56 (1988).

\(^{31}\) Ownership differences matter very little in market behavior. See Paul, supra note 27, at 261-62; see also Becker & Sloan, supra note 26, at 31 (noting that the two ownership forms operate very similarly); Theodore R. Marmor et al., Nonprofit Organizations and Health Care, in THE NONPROFIT SECTOR: A RESEARCH HANDBOOK 221, 234-36 (Walter W. Powell, ed., 1987) (stating that today, few differences exist between nonprofit and for-profit hospitals); Sloan & Vraciu, supra note 28, at 34.

\(^{32}\) See Erwin A. Blackstone & Joseph P. Fuhr, Jr., An Antitrust Analysis of Non-Profit Hospital Mergers, 8 REV. OF INDUS. ORG. 473, 474 (1992) (stating that both for-profits and nonprofits are under greater pressure to reduce costs); see also David B. Starkweather, Profit Making by Nonprofit Hospitals, in NONPROFIT ORGANIZATIONS IN A MARKET ECONOMY 105, 106 (David C. Hammond & Dennis R. Young eds., 1993) (noting that nonprofits make a profit in order to continue operations). For both hospital types, "business acumen [and] coordination" are required for success. See Woolhandler & Himmelstein, supra note 25, at 773-74. Furthermore, nonprofits must compete for financial capital. See Cyril F. Chang & Howard P. Tuckman, The Profits of Not-For-Profit Hospitals, 13 J. HEALTH POL., POLICY & L. 547, 549 (1988). Nonprofit managers, like their for-profit counterparts, dislike increased competition. See Lynk, Nonprofit Hospital Mergers, supra note 5, at 458.

\(^{33}\) See Paul Starr, THE SOCIAL TRANSFORMATION OF AMERICAN MEDICINE 436-38 (1982) (noting that many nonprofit hospitals have established for-profit subsidiaries and have entered into joint ventures with for-profit entities); see also Marmor et al., supra note 31, at 229.


\(^{36}\) See Susan Rose-Ackerman, Altruism, Nonprofits, and Economic Theory, 34 J. ECON. LIT. 701, 718 (1996) (noting that for-profits operate in most of the same areas as nonprofits). Changes in health care industry have resulted in "blurred" lines between the conduct of nonprofit and for-profit hospitals. See Starkweather, supra note 32, at 107. Nonprofit hospitals account for the majority of all hospitals as about 85 percent of hospitals are nonprofits. See
indicate that despite differences in financing and dividend distribution, nonprofit and for-profit hospitals share many of the same incentives to act anti-competitively.\textsuperscript{37}

Second, studies have found that ownership status does not determine the type of patient treated.\textsuperscript{38} Nonprofit and for-profit hospitals provide care for the same types of patients.\textsuperscript{39} Third, both types of hospitals are equally accessible to the uninsured and indigent, and both screen patients based on their ability to pay.\textsuperscript{40}


\textsuperscript{37} See United States v. Rockford Memorial Corp., 717 F. Supp. 1251, 1285 (N.D. Ill. 1989) aff'd, 898 F.2d 1278 (7th Cir. 1989) (stating that when a nonprofit's objectives are inconsistent with "the objectives of a competitive market place, the not-for-profit hospital has incentive to act anti-competitively"); see also Herzlinger & Krasker, supra note 26, at 94 (suggesting that nonprofits have the same motives to act anti-competitively as for-profits by stating that nonprofit managers are just as likely to use funds to pay for "larger salaries, organizational perquisites, and excessively large staffs"); Lynk, \textit{Property Rights}, supra note 5, at 377 (recognizing that nonprofits have the same motives as for-profits to act anti-competitively).

\textsuperscript{38} Ownership status may not determine the type of patient served. See Herzlinger & Krasker, supra note 26, at 103; see also Henry Hansmann, \textit{The Changing Roles of Public, Private, and Nonprofit Enterprise in Education, Health Care, and Other Human Services, in Individual and Social Responsibility: Child Care, Education, Medical Care, and Long-Term Care in America} 245, 264 (Victor R. Fuchs ed., 1996); Sloan & Vraciu, supra note 28, at 33 (discussing a study of Florida hospitals finding little difference in the type of patient treated).

\textsuperscript{39} See Salkever & Frank, supra note 29, at 38-39 (stating that studies have found payer mixes of nonprofits and for-profits are similar with both treating charity or self-paying patients and Medicaid patients). Studies have found that public hospitals do care for more uninsured and poor patients than private nonprofits and for-profits. See \textit{id.} at 39. One study of Virginia hospitals found that for-profit hospitals provided more of their operating expenses to charity care than nonprofits. See David Burda, \textit{For-Profits, Not-For-Profits Reignite Battle}, MOD. HEALTHCARE, May 8, 1995, at 28. \textit{But see} Barbara Arrington & Cynthia Haddock, \textit{Who Really Profits from Not-For-Profits?}, 25 HEALTHCARE RES. 291, 300-02 (1990) (finding that nonprofits treat more poor patients than for-profits). Whether studies of charity care should include taxes paid by for-profits is the subject of debate as the use of this data may change a study's results. See Burda, supra.

Although some studies have found nonprofits provide slightly more care to indigents, locational differences may account for these results. See Richard G. Frank & David S. Salkever, \textit{Nonprofit Organizations in the Health Sector}, J. ECON. PERSP., Fall 1994, at 129, 138. Location and selection of medical staff are better predictors of a hospital's patient mix than ownership. See Pattison & Katz, supra note 26, at 350-51.

\textsuperscript{40} See Krause, supra note 34, at 510 (stating that "there is evidence to suggest the two organizational forms provide the same access to care"); see also Herzinger & Krasker, supra note 26, at 103 (finding that for-profit hospitals provide slightly more access to uninsured than nonprofits). For-profit and nonprofit hospitals are concerned with patients' ability to pay. See Maria O'Brien Hylton, \textit{The Economics and Politics of Emergency Health Care for the Poor: The Patient Dumping Dilemma}, 1992 BYU L. REV. 971, 975 (noting that private hospitals have a tradition of avoiding economically undesirable patients); see also Marmor et al., supra note 31, at 239 (discussing evidence that private nonprofits also carefully screen patients for ability to pay).
Fourth, nonprofits and for-profits now provide similar services since many nonprofits have eliminated unprofitable services. In addition, for-profit and nonprofit hospitals also generally provide the same quality of care to their patients. The competence of staff physicians and post-operative mortality rates are comparable for the two types of hospitals. Both types of hospitals also have to meet the same licensing and accreditation requirements.

Strong evidence suggests that nonprofit and for-profit hospitals operate similarly in important competitive dimensions. In general, an entity’s organizational structure does not affect the basic motivations of “stable growth, autonomy, and control.” Regardless of ownership structure, an organization seeks to maintain its existence and meet its goals. The forces of competition and government regulation are “paramount” for the functioning of both nonprofit and for-profit hospitals. Given evidence that nonprofits have the same incentives as for-profits to act anti-competitively, it should not be inferred that nonprofit hospitals are less likely to exercise market

41. See David A. Hyman, Hospital Conversions: Fact, Fantasy, and Regulatory Follies, J. Corp. L. 741, 747 (1998) (noting that for-profits offer the same “range and quality of services” as nonprofits); Starkweather, supra note 32, at 112 (stating that many have noted that there is little distinction between the two types of hospitals). But see Arrington & Haddock, supra note 39, at 300 (stating that nonprofits are more accessible to these types of patients). In addition, a 1990 GAO report found that many service activities of nonprofit and for-profit hospitals are the same. See Starkweather, supra note 32, at 130. This finding suggests that the service activities of the two forms are becoming increasingly similar. See id.

42. See Marmor et al., supra note 31, at 235 (noting that there are not “appreciable differences” in the care provided to most patients by nonprofit and for-profit hospitals); see also Clark, supra note 25, at 1455; Gray & McNerney, supra note 25, at 1526 (stating that there is no clear difference between for-profits and nonprofits in the quality of care provided). But see Salkever & Frank, supra note 29, at 37 (noting that one study found the expected length stay for charity patients was shortest at for-profit hospitals, however for Medicaid patients there was less of a differential). According to some experts, the growth of monitoring quality in the health care system by managed care organizations as well as increasing information provided to consumers will diminish any differences in quality that presently exist. See Frank & Salkever, supra note 39, at 132-34.

43. See Frank & Salkever, Nonprofit Organizations, supra note 39, at 131.

44. See Krause, supra note 34, at 508 & n.34.

45. Brody, supra note 24, at 505. Brody quotes Barry Bozeman who stated that these motivations are “only minimally affected by... profit motive.” Id. (quoting BARRY BOZEMAN, ALL ORGANIZATIONS ARE PUBLIC: BRIDGING PUBLIC AND PRIVATE ORGANIZATIONAL THEORIES 149 (1987)). See also Pauly, supra note 27, at 262 (discussing that organizational form is much less significant in behavior than economic incentive).

46. See Brody, supra note 24, at 468. These similarities have prompted debate about whether nonprofits should continue to receive federal tax exemption. See id. at 457; see generally Charles B. Gilbert, Health-Care Reform and the Nonprofit Hospital: Is Tax-Exempt Status Warranted?, 26 Urb. Law. 143 (1994).

47. Steinberg, supra note 22, at 134. Evidence exists that nonprofits respond to competition in the same manner as for-profits. See Blackstone & Fuhr, supra note 32, at 437.
power. The same antitrust concerns arise for nonprofit mergers as for equivalent for-profits and thus, less stringent antitrust standards are not justified.

III. LEGAL FRAMEWORK OF ANTITRUST ANALYSIS OF MERGERS

A. Mechanics of Merger Analysis

Section 7 of the Clayton Act prohibits mergers in which the effect “may be substantially to lessen competition.”48 Under the Merger Guidelines and the case law, this statute prevents mergers that create or enhance market power or facilitate its exercise.49 Market power is usually defined as the ability to maintain prices over a competitive level for an extended period of time.50 Congress enacted Section 7 to prevent transactions that are likely to substantially reduce competition.51

The FTC and DOJ use the Merger Guidelines to analyze the competitive effects of proposed mergers.52 The steps outlined in the Merger Guidelines are: defining the relevant product and geographic market; identifying actual and potential participants in the market; and determining how the merger will affect market concentration, which includes assessing the likely competitive effects of the merger based on characteristics of the market and its participants, particularly ease of entry and market conditions.53 These factors are evaluated on a case by case basis.54

The Guidelines, like the case law, consider a significant increase in concentration within a relevant market as the primary indi-

48. 15 U.S.C. § 18 (1994). Section 7 only requires a reasonable probability that the merger will substantially lessen competition. See FTC v. Elders Grain, Inc., 868 F.2d 901, 906 (7th Cir. 1989); see also Hospital Corp. of America v. FTC, 807 F.2d 1381, 1389 (7th Cir. 1986).
49. See U.S. DEPT. OF JUSTICE & FTC, HORIZONTAL MERGER GUIDELINES § 1.0. (1992) [hereinafter MERGER GUIDELINES].
50. See 2A PHILLIP E. AREEDA ET AL., ANTITRUST LAW: AN ANALYSIS OF ANTITRUST PRINCIPLES AND THEIR APPLICATION ¶ 501, at 85 (1995). Market power is the ability to raise prices above the competitive level without “losing so much business to other suppliers” as to make the supracompetitive price unprofitable. United States v. Rockford Memorial Corp., 898 F.2d 1278, 1283 (7th Cir. 1990).
51. See Rockford, 898 F.2d at 1283.
53. See MERGER GUIDELINES, supra note 49, ¶ 0.2.
54. See id. ¶ 0.
The Guidelines conduct the concentration inquiry in terms of the Herfindahl-Hirschman Index ("HHI"), which has been widely adopted by courts. The significance of this data can be discounted or enhanced by considerations of market characteristics such as entry conditions and efficiencies.

Under the case law, a significant increase in market concentration and an "undue percentage share" of the relevant market establishes a prima facie case. Courts have determined that once a prima facie case is created, a presumption of illegality arises and the burden of production shifts to the merging party. To successfully rebut a prima facie case, the challenged party must show that market share and concentration statistics inaccurately predict the effect on competition in the relevant market. If the party effectively challenges the predictive value of the market share and concentration evidence, the FTC must provide additional evidence of the merger's anti-competitive effects. The burden of persuasion remains with the government at all times.

55. See e.g., id. § 1.0; Rockford at 1282-83.
56. See MERGER GUIDELINES, supra note 49, § 1.5. The HHI index squares the market shares of each participant in the relevant market. The antitrust agency must show that a significant increase in concentration would allow a firm to raise prices to an anti-competitive level. The DOJ/FTC Merger Guidelines state that a post-merger HHI above 1800 is evidence of a high market concentration, and if the HHI exceeds 1800 an increase in the HHI of over 100 points is deemed likely to create or enhance market power or facilitate its exercise. See id. § 1.51.
58. See MERGER GUIDELINES, supra note 49, § 3.0. (entry) & 4.0. (efficiencies). Courts have adopted similar analyses. See, e.g., Butterworth, 946 F. Supp. at 1289; University Health, 938 F.2d at 1218.
60. See Steven C. Sunshine, Non-Profits Use Intent as Defense, NAT'L L.J., Mar. 31, 1997, at C1, C15. The premise behind the presumption of illegality is increases in market concentration will likely increase market power, giving firms the ability to raise prices farther above a competitive level than they could before the merger. See id.
61. See University Health, 938 F.2d at 1218. Note that the Guidelines presumption focuses on high levels of concentration and a large increase in concentration rather than burden shifting. See MERGER GUIDELINES, supra note 49, § 1.5.
64. See id. at 983.
B. Discussion of Countervailing Factors and Affirmative Defenses Recognized by the Merger Guidelines and Case Law

The Merger Guidelines and the case law analyze elements that suggest that market share and concentration statistics do not accurately predict the merger's effect on competition. These factors, including ease of entry, the imminent exit of a failing firm from the market, and efficiencies, show that a proposed merger will not lessen competition.

As stated in the Merger Guidelines, the DOJ and FTC must consider the entry conditions of the market. When entry into the market would be "timely, likely, and sufficient in its magnitude, character and scope" to prevent any attempt to increase prices significantly above the competitive level, the merger will pose little antitrust concern. New competitors deter the merged entity from abusing market power by making anti-competitive practices unprofitable.

Under the Guidelines, the failing-firm defense can negate an inference of lessened competition. The Guidelines require a showing that absent the merger, the assets of the firm will leave the market. Therefore, the merger does not raise antitrust concern because the proposed merger will not decrease competition in the market.

Efficiencies are also considered under the Merger Guidelines because efficiencies are likely to result in lower costs and higher quality for the consumer. If there are "cognizable efficiencies" that would not be accomplished absent the merger, the federal agencies may decide not to challenge the proposed merger.

Courts also consider the above factors. Because market power is the ability to charge supra-competitive prices unchecked by new entrants or other mitigating factors, courts have allowed defendants to offer evidence of ease of market entry to show that competitors

65. Both the failing firm and efficiencies defenses are "strictly construed." Jonathan B. Baker, The Antitrust Analysis of Hospital Mergers and the Transformation of the Hospital Industry, LAW & CONTEMP. PROBS., Spring 1988, at 93, 161-63. The Merger Guidelines Section 1.2, which evaluates the likely competitive effects of the merger, is analytically equivalent to these factors. See MERGER GUIDELINES, supra note 49, § 1.2.
66. See MERGER GUIDELINES, supra note 49, at § 3.0.
67. Id.
68. See 2A AREEDA ET AL., supra note 50, ¶ 420A, at 56.
69. See MERGER GUIDELINES, supra note 49, at ¶ 5.0.
70. See id.
71. Id. ¶ 4.0 (Revised Apr. 8, 1997).
72. See 2A AREEDA ET AL., supra note 50, ¶ 501, at 85-86.
could prevent the merger's potential anti-competitive effects. A defendant may use ease of entry to rebut a presumption of illegality. Courts have accepted evidence of efficiencies as rebuttal evidence or as an affirmative defense. Finally, courts have considered evidence of a failing firm as an affirmative defense.

C. Application of the Antitrust Laws to the Nonprofit Sector

Congress has ordained competition as the guiding principle for antitrust analysis. Competition will produce "the best allocation of our economic resources, the lowest prices, the highest quality and the greatest material progress." Following this rationale, the Court in *United States v. Philadelphia National Bank* emphasized that a court can only consider competitive factors when determining whether a merger will have anti-competitive effects—that is, a court cannot determine that a noncompetitive solution would be more beneficial to society than the competitive one, or that special characteristics of an industry makes it unsuited to strict application of the antitrust laws.

Neither the Clayton Act nor the Sherman Act include a statutory exemption for nonprofits. The Supreme Court has held that

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73. See e.g., FTC v. University Health, Inc., 938 F.2d 1206, 1218 (11th Cir. 1991); see Baker, supra note 65, at 152 (noting that examination of entry conditions and other factors indicating an ability to collude may be enough to rebut an inference of the anti-competitive result of a high level of concentration).

74. See FTC v. University Health, Inc., 938 F.2d 1206, 1218 (11th Cir. 1991); see also Ball Memorial Hosp. v. Mutual Hosp. Ins., Inc., 784 F.2d 1325, 1336 (7th Cir. 1986) (discussing the significance of ease of entry in merger analysis).


76. See, e.g., United States v. Mercy Health Services, 902 F. Supp. 968 (N.D. Iowa 1995) vacated by 107 F.3d 632, 634 (8th Cir. 1997) (vacating for mootness because the merger at issue was abandoned).

77. See, e.g., E. THOMAS SULLIVAN & HERBERT HOVENKAMP, ANTITRUST LAW, POLICY, & PROCEDURE 866-69 (1994).


80. See id. at 371 (stating that "[w]e are clear . . . that a merger the effect of which may be te substantially lessen competition, is not saved because, on some ultimate reckoning of social and economic debts or credits, it may be deemed beneficial").

81. See id.

82. See National Soc'y of Prof. Eng'rs v. United States, 435 U.S. 679, 693-95 (1978). That Court held that antitrust law does not permit a challenge to competition itself. See id. at 695. See also Catherine C. Eckel & Richard Steinberg, *Competition, Performance, and Public Policy Toward Nonprofits*, in *NONPROFIT ORGANIZATIONS IN A MARKET ECONOMY* 57, 58 (David C. Hammack & Dennis R. Young eds., 1993).

83. See Professional Eng'rs, 435 U.S. at 689.

nonprofit organizations must comply with the antitrust laws. In *NCAA v. Board of Regents of the University of Oklahoma*, the Court rejected the idea that an implicit exemption exists for nonprofits. Similarly, in *Goldfarb v. Virginia State Bar*, the Court held that the Sherman Act applied to nonprofit entities. The antitrust laws apply to the nonprofit sector because the inability to earn a profit does not ensure that an entity will act in the consumer's best interests. In particular, it is difficult to prevent nonprofit organizations from violating the nondistribution constraint by distributing surplus to those in control. Also, personal financial gain is not the sole motivator for anti-competitive conduct.

In the health care context, courts have also recognized that nonprofit status alone will not rebut a presumption of illegality created by the government's prima facie case. In *Hospital Corporation of America v. FTC*, the Seventh Circuit emphasized that nonprofit structure "does not change human nature." The court explained that most enterprises dislike competition, and suggested that the rift between nonprofit and for-profit hospitals might encourage the nonprofit to engage in anti-competitive behavior. Specifically, nonprofit ideological objectives may offer additional incentives to reduce competition. Following the rationale of the HCA decision, the *Rockford* court stressed that nonprofit status did not remove the risk that an

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85. See American Soc'y of Mechanical Eng'rs, Inc. v. Hydrolevel Corp., 456 U.S. 556, 576 (1982) (stating that "it is beyond debate that nonprofit organizations can be held liable under antitrust laws.").


87. See id. at 100 n.22. The Court suggests that a nonprofit entity must follow the antitrust laws absent a legislative exemption in stating that "[t]here is no doubt that the sweeping language of § 1 applies to nonprofit entities... ."


89. See *United States v. Brown Univ.*, 5 F.3d 658, 665 (3d Cir. 1993); see also 1A AREEDA & HOVENKAMP, supra note 3, ¶ 261a, at 260-61.

90. See Richard Steinberg, *How Should Antitrust Laws Apply to Nonprofit Organizations? in Governing, Leading, and Managing Nonprofit Organizations* 279, 287 (Dennis R. Young et al. eds., 1993) (arguing that managers and board members could obtain private benefits through excessive salaries and managerial perks and that better enforcement of the nondistribution constraint would be difficult).

91. See id. Rather, for-profits and nonprofit managers share incentives to act anti-competitively. See 1A AREEDA & HOVENKAMP, supra note 3, ¶ 261a, at 261. See also supra note 47 and accompanying text.

92. *Hospital Corp. of America v. FTC*, 807 F.2d 1381, 1390 (7th Cir. 1986).

93. See id. at 1391.

94. See id. (discussing the "antipathy" toward for-profit hospitals because of some nonprofits' view that for-profits take the most affluent patients reducing greatly the nonprofits' ability to cost-shift in order to defray the costs of charitable care).

95. See id. The court suggested that a nonprofit hospital may collude in order to obtain higher profits that can fund charity care. See id.
entity would exploit market power. Similarly, the court in *University Health* noted that once a nonprofit has market power, no checks exist to prevent it from acting anti-competitively.96

State legislation also does not provide an exemption for nonprofits. Because of federalism, the state action doctrine permits states to use regulation in place of federal antitrust laws.97 For an activity to qualify for state action immunity, a state must satisfy a two part test: the state must clearly articulate its policy and actively supervise the policy’s implementation.98 Under this doctrine, some states have enacted statutes that protect health care mergers and joint ventures from federal enforcement of the antitrust laws. Notably, these exemptions do not distinguish between nonprofits and for-profits.100

In sum, nonprofits are not exempted from antitrust provisions. Courts have reasoned that the nonprofit form does not justify less stringent application of the antitrust laws. Thus, mergers between nonprofit hospitals must be analyzed in the same way as for-profit hospitals, with the preservation of competition guiding judicial decision making regarding the merger’s likely effects.

D. Application of Traditional Antitrust Analysis to the Hospital Industry

Antitrust law is based on the premise that competition benefits consumers by offering the best quality at the lowest price.101 The application of antitrust doctrine to the health care industry has been debated.102 For instance, it has been suggested that the traditional presumption that high market concentration yields higher prices is inapplicable to the hospital industry. According to some health care experts, the traditional model does not apply because, unlike other in-

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96. *See United States v. Rockford Memorial Corp.*, 898 F.2d 1278, 1285 (7th Cir. 1990).
102. *See id.* at 180-81.
and competition for physician and patients based on quality, services, and other amenities has resulted in duplication of hospital services. These commentators argue that hospital mergers achieve efficiencies by eliminating duplication created by the "medical arms race" and thus result in hospitals located in less concentrated markets charging lower prices.

Numerous studies indicate, however, that the traditional paradigm of lower prices in more competitive markets applies to the health care industry. A review of changes in the health care industry help explain why hospital competition benefits consumers. Prior to health care cost-containment measures, traditional insurers retroactively reimbursed hospitals for most costs. Hospitals competed for patients based on quality of care, facilities, and services, and patients and their physicians selected hospitals based on these same factors. Under this paradigm, insured patients are not concerned

103. See Entin et al., supra note 5, at 122-25 (arguing hospitals do not follow this competitive paradigm and that instead, prices increase as competition increases); see also Gloria J. Bazzoli et al., Federal Antitrust Merger Enforcement Standards: A Good Fit for the Hospital Industry?, 20 J. HEALTH POL'Y., POL'T & L., 137, 142 (1995) (stating that consumer-driven competition still exists in many areas making the traditional economic theories inapplicable to health care markets). According to Bazzoli and her colleagues, patients do not chose a hospital based on price because insurance covers the majority of patient expenses. See id. at 142-44; see also Kopit & Vanderbilt, supra note 5, at 254-56 (discussing that the traditional model does not apply because competition about price is less important in the health care industry).

104. See Entin et al., supra note 5, at 124-25; see also Kopit & Vanderbilt, supra note 5, at 257-58.

105. Some commentators believe that there is an absence of price-concentration correlation in the hospital industry because of the "medical arms race." See Entin et al., supra note 5, at 123-25. See also James C. Robinson & Harold S. Luft, The Impact of Hospital Market Structure on Patient Volume, Average Length of Stay, and the Cost of Care, 4 J. HEALTH ECON. 333, 353-54 (1985) (arguing that competition may increase price by affecting the quality of services provided and efficiency of the delivery of these services). For example, hospitals buy expensive equipment in an effort to attract patients. See Entin et al., supra note 5, at 124. Mergers may avoid duplication and reduce prices. See id. at 125. But see David Dranove et al., Is Hospital Competition Wasteful?, 23 RAND J. ECON. 247, 261 (1992) (challenging the argument that competition in the hospital industry is "inefficient").

106. See infra notes 112-14 and accompanying text.

107. See Magleby, supra note 2, at 138-39.

108. See Jack Zwanziger & Glenn A. Melnick, Effects of Competition on the Hospital Industry: Evidence From California, in COMPETITIVE APPROACHES TO HEALTH CARE REFORM 111, 113-114 (Richard J. Arnould et al. eds., 1993) (outlining the differences between this type of competition and price-driven competition). The authors also note that payer-driven competition is a result of the growth of managed care. See id. at 111-12, 114. See also United States v. Mercy Health Services, 902 F. Supp. 973-74 (N.D. Iowa 1995), vacated by 107 F.3d 632, 634 (8th Cir. 1997) (noting that traditionally hospitals competed based on "perceptions of quality" and amenities).

about prices and they lack incentive to obtain information about their care.110

Studies show, however, that the hospital market has shifted from competition based upon services and amenities to competition based on price,111 such that the standard economic assumption that competition yields lower prices applies.112 The growth of third-party payers who selectively contract to obtain discounted prices has in part motivated this trend.113 For example, studies of the California health care industry, an area with a high level of managed care penetration, have found that managed care contributes to payer-driven competition.114 Managed care encourages this type of competition because through selective contracting, managed care organizations

110. See David Dranove, The Case for Competitive Reform in Health Care, in COMPETITIVE APPROACHES TO HEALTH CARE REFORM 67, 71 (Richard J. Arnould et al. eds., 1993).

111. See Dranove et al., supra note 109, at 179-83 (discussing “patient-driven” and “payer-driven” competition and explaining that patient-driven competition existed when hospitals competed for patients who selected hospitals based on quality and amenities while payer-driven competition is based upon price spurred by the current use of selective contracting).

112. See id. at 201; see also Dranove, supra note 110, at 73-74 (stating that in a payer-driven system, lower prices result from increased competition and earlier studies with contrary results used a measure of price that is irrelevant under payer-driven competition). Today, price plays a “significant role” in hospital competition and market concentration affects pricing behavior. Emmitt B. Keeler et al., The Changing Effects of Competition on Non-Profit and For-Profit Hospital Pricing Behavior, 18 J. HEALTH ECON. 69, 71, 82-83 (1999). Further, nonprofit hospitals in areas with fewer competitors charged higher prices than those in more competitive areas. See id. at 71.

113. See Zwanziger & Melnick, supra note 108, at 112-14 (emphasizing that these payers differ from patients because they have incentive to obtain pricing discounts and information about price and quality). The prospective payment system also used by some third party payers has contributed to price competition. See id. at 114; see also Sims Testimony, supra note 2, at 73-74.

114. Numerous studies of the health care industry have concluded that third-party payers provide incentives for hospitals to compete on price. See Dranove et al., supra note 109, at 201; see also Jonathan Gruber, The Effect of Competitive Pressure on Charity: Hospital Responses to Price Shopping in California, 13 J. HEALTH ECON. 183, 204 (1994); Glenn A. Melnick et al., The Effects of Market Structure and Bargaining Position on Hospital Prices, 11 J. HEALTH ECON. 217, 231-32 (1992); James C. Robinson, Decline in Hospital Utilization and Cost Inflation Under Managed Care in California, J. AM. MED. ASS'N, 1060, 1062-63 (Oct. 2, 1996) (reporting that a study of California hospitals found that managed care penetration is associated with lower costs); Jack Zwanziger & Glenn A. Melnick, The Effects of Hospital Competition and the Medicare PPS Program on Hospital Cost Behavior in California, 7 J. HEALTH ECON. 301, 317 (1988) (finding that selective contracting affects hospital behavior and that hospitals are competing on price). Managed care growth has had similar effects in other areas of the country. See generally Michael Staten et al., Market Share/Market Power Revisited: A New Test for an Old Theory, 7 J. HEALTH ECON. 73 (1988) (looking at the effect of managed care payers in Indiana). But see Bazoli et al., supra note 103, at 144 (discussing studies concluding that patient-driven competition still exists in many health care markets without a high level of managed care penetration and even with the growth of managed care, hospitals continue to compete based on quality); Entin et al., supra note 5, at 128-30 (arguing that managed care penetration will not necessarily result in competition based on price).
are able to obtain lower prices and thus allow consumers to pay lower prices for health care.\textsuperscript{115}

Price-based competition benefits consumers. Although such competition does not necessarily generate the lowest costs,\textsuperscript{116} it produces the best quality product at the lowest price.\textsuperscript{117} Because third-party payers create incentives for the hospital industry to compete on price and these payers can only operate when alternative providers exist,\textsuperscript{118} a competitive market should be maintained.\textsuperscript{119} Even if a particular market has not yet shifted to price competition, mergers may inhibit entry of managed care organizations and therefore deprive consumers of future price reductions.\textsuperscript{120}

In the hospital industry, price-based competition has benefited consumers by lowering prices and increasing efficiency.\textsuperscript{121} Competitive markets protect consumer choice while optimizing quality and price.\textsuperscript{122} Therefore, preserving competition in the health care industry is as important as in other industries.

IV. CASE LAW TREATMENT OF MERGING HOSPITALS' NONPROFIT STATUS

Prior to \textit{Butterworth}, numerous courts discussed the importance of nonprofit status in antitrust analysis. Although nonprofit status itself does not immunize an entity from antitrust scrutiny, a few courts have considered nonprofit status relevant in

\begin{itemize}
  \item \textsuperscript{115} See Zwanziger & Melnick, supra note 108, at 131-32.
  \item \textsuperscript{116} See Meyer & Rule, supra note 7, at 181.
  \item \textsuperscript{117} See id.
  \item \textsuperscript{118} See Zwanziger & Melnick, supra note 108, at 132; see also Sunshine, supra note 60, at C16; Post-Trial Brief of Plaintiff Federal Trade Commission in Support of Motion for Preliminary Injunction Public Version (Confidential Material Deleted) at 86-87, FTC v. Butterworth Health Corp., 946 F. Supp. 1285 (W.D. Mich. 1996) (No. 1:96-CV-49) [hereinafter FTC Post-Trial Brief]; Proof Brief for Plaintiff-Appellant Federal Trade Commission at 9-10, FTC v. Butterworth Health Corp., 121 F.3d 708 (6th Cir. 1997) (per curiam) (No. 96-2440) [hereinafter FTC Proof Brief] (stating that without the market power created by the merger, the hospitals would not be able to reduce the discounts offered to managed care organizations because the purchasers could always choose the other hospital).
  \item \textsuperscript{119} See James F. Blumstein, \textit{The Application of Antitrust Doctrine to the Healthcare Industry: The Interweaving of Empirical and Normative Issues}, 31 IND. L. REV. 91, 107 (1998); see also Meyer & Rule, supra note 7, at 177 (stating that "[c]ompetition belongs in the healthcare field").
  \item \textsuperscript{120} See Dranove et al., supra note 109, at 202 (stating that mergers may discourage managed care penetration and therefore may prevent price reductions for the consumer).
  \item \textsuperscript{121} See Meyer & Rule, supra note 7, at 177-78 (noting that competition adapts to the field in which it operates and has adapted to health care as it has with other industries).
  \item \textsuperscript{122} See id.
\end{itemize}
evaluating the likelihood of a merger causing competitive harm. These courts have questioned whether nonprofit hospitals will exercise market power since they are not motivated by monetary goals. Even these courts, however, have not relied solely on this factor for holding that a merger will not have anti-competitive effects.

Other courts have refused to consider nonprofit status in the analysis of a merger’s likely effects on competition. These courts have determined that nonprofit entities have the same incentives to act anti-competitively as for-profits.

Not surprisingly, courts have responded differently to issues such as: whether the membership of a nonprofit hospital’s board of directors ensures that the merged hospital will not exploit market power; whether the merging hospitals’ previous public service suggests that the merged hospital will not act anti-competitively in the future; and whether the hospital’s nonprofit status ensures that any efficiencies from the proposed merger will be passed on to the consumers.

A. Composition of the Board of Directors

According to the district courts in United States v. Carilion Health System and FTC v. Freeman Hospital, the membership of a nonprofit’s board of directors may indicate that a nonprofit merger is less likely to raise antitrust concern than an equivalent for-profit merger. These courts found that the composition of the nonprofit hospitals’ board of directors weighed in favor of finding the merger reasonable. Each stated that a board’s membership is a factor when determining whether to enjoin a merger, yet these courts ultimately concluded that the merger was not anti-competitive on other grounds. According to the Freeman and Carilion courts, a board

125. See Carilion, 707 F. Supp. at 849 (stating that the community board consisting of numerous local business leaders has an incentive to keep prices low). See also Freeman, 911 F. Supp. at 1222-23. The Seventh Circuit rejected the analysis of the Carilion court. See United States v. Rockford Memorial Corp., 898 F.2d 1278, 1286 (7th Cir. 1990). Post-Butterworth, the court in Long Island Jewish Medical Center noted that the hospital trustees are volunteers, who are community and business leaders. See United States v. Long Island Jewish Med. Ctr., 933 F. Supp. 121, 126 (E.D.N.Y. 1997). In addition, the hospitals offer a large amount of free care. These factors suggest that “community service not profit maximization, is the hospitals’ mission.” Id. at 145-46.
126. In Freeman, the court held that the government had not established the geographic market. See Freeman, 911 F. Supp. at 1226-27. Likewise, in Carilion, the court found that the
consisting of community leaders prevents anti-competitive behavior and ensures that a merger's benefits are passed on to consumers. These courts reasoned that even if an entity has market power, business and community leaders do not have an incentive to raise prices above a competitive level. Indeed, the Freeman court accepted the theory that nonprofit hospitals act like a consumer cooperative when the board of directors has a stake as consumers in the hospital's operations. Therefore, in both Freeman and Carilion the notion that nonprofits operate differently than for-profits because of their unique concern for the community and its needs underlies the courts' confidence in the community boards.

Numerous courts have questioned the assumption that nonprofit hospitals lack economic incentives to act anti-competitively and

actual geographic market was much broader than the definition offered by DOJ. See Carilion, 707 F. Supp. at 847-48. Therefore, the government did not establish that the hospitals would have market power in the geographic market. See id. The court in Carilion only briefly discussed the significance of nonprofit status, stating only that nonprofit status "militates in favor of finding their combination reasonable." Id. at 849. Similarly, while the post-Butterworth decision of the Long Island Jewish Medical Center court agreed that board composition suggests that profit maximization may not be the hospital's primary motivator, it still made clear that not-for-profit status should receive "only limited and non-determinative effect." Long Island Jewish Med. Ctr., 983 F. Supp. at 148. Instead, the decision relied on analysis of the merger's competitive impact. See id. at 140; see also Blumstein, supra note 119, at 117. Unlike Butterworth, the Long Island Jewish Medical Center court determined that the merger would not result in the hospital having an undue share of the market as at least one existing hospital could constrain the merged hospital's ability to raise prices above a competitive level. See Long Island Jewish Med. Ctr., 983 F. Supp. at 145.

127. See Carilion, 707 F. Supp. at 846; see also Freeman, 911 F. Supp. at 1222-23.
128. See Carilion, 707 F. Supp. at 849; see also Freeman, 911 F. Supp. at 1222-23 (emphasizing that business and community leaders served on the board of directors).
129. The court in Freeman determined that community boards operate like a consumer cooperative and cited both Lynk and Hansmann. Freeman, 911 F. Supp. at 1222-23; see Lynk, Nonprofit Hospital Mergers, supra note 5, at 458 (stating that a board of directors that effectively represents the community likely operates more like a cooperative); see also Lynk, Property Rights, supra note 5, at 377 (noting that in cases involving nonprofit hospitals governed by a board of directors the "property rights" of the hospital "turn it essentially into a consumer cooperative"); Hansmann, supra note 20, at 889 (discussing that when owners of an organization have a stake in it as consumers, it is unlikely that prices will be raised above a normal competitive level). Outside of the hospital industry, the district court in Fuchs v. Rural Electric Convenience Cooperative, Inc. accepted this argument. See Fuchs v. Rural Elec. Convenience Cooperative, Inc., 672 F. Supp. at 1111, 1114 (C.D. Ill. 1987).
130. See Freeman, 911 F. Supp. at 1222-23; see also FTC v. Freeman Hospital, 69 F.3d 260, 263 (8th Cir. 1995) (quoting the district court judge during a temporary restraining order hearing: "It looks to me like Washington, D.C. once again think they know better what's going on in southwest Missouri. I think they ought to stay in D.C."). There is a perception that the governance of a hospital is a local issue and the federal antitrust laws should not apply. See Entin et al., supra note 5, at 127-28. But see William J. Baer, Director of Bureau of Competition, Antitrust and Health Care: New Approaches and Challenges, Address Before the American Bar Association (Oct. 24, 1996), available in 1996 WL 613763 (F.T.C.) at *6-10 [hereinafter Baer Speech].
have rejected reliance on a board's ability to prevent anti-competitive behavior. In *HCA*, the court emphasized that nonprofit hospitals possess incentives to collude, noting fear of competition from for-profits and cost-containment policies of third-party payers.\(^1\) Similarly, in *FTC v. University Health, Inc.*, the court was unconvinced that nonprofit status indicated that the merger would not have anti-competitive effects.\(^2\) The court in *United States v. Rockford Memorial Corp.*\(^3\) rejected the defendant's argument that a decisionmaker only acts anti-competitively when motivated by personal gain.\(^4\) Instead, the court reasoned that other motivations, such as a higher salary, a better office or title, or new equipment may spur anti-competitive behavior.\(^5\) In *Rockford*, the district court was skeptical that a community-oriented board could prevent the hospital from engaging in anti-competitive conduct.\(^6\) The district court in *United States v. Mercy Health Services*\(^7\) emphasized that "there is nothing inherent in the structure of the corporate board or the nonprofit status of the hospitals which would operate to stop any anti-competitive behavior."\(^8\) Even if the current board intends to act in the public interest, this provides no assurance that its membership will not change and raise prices to an anti-competitive level.\(^9\)

\(^{121}\) See Hospital Corp. of America v. FTC, 807 F.2d 1381, 1390 (7th Cir. 1986); see also Magleby, supra note 2, at 168-69 (discussing that courts such as *HCA* and *Rockford* did not accept the argument that nonprofit hospital mergers are anti-competitive).

\(^{122}\) *FTC v. University Health, Inc.*, 938 F.2d 1206, 1223 (11th Cir. 1991).


\(^{124}\) See *Rockford*, 717 F. Supp. at 1284.

\(^{125}\) See id. at 1284. On appeal, the circuit court stated that nonprofit hospitals were just as likely to act anti-competitively as for-profit hospitals. See *United States v. Rockford Memorial Corp.*, 898 F.2d 1278, 1285 (7th Cir. 1990).

\(^{126}\) See *Rockford*, 717 F. Supp. at 1286-87 (stating that the board's composition and non-profit status had not prevented anti-competitive behavior).


\(^{128}\) Id. at 989. Notably, the court in *Mercy Health* concluded that the merger was not anti-competitive, however, it did not accept non-profit status as a consideration. See id.

\(^{129}\) See id. (emphasizing that although the court believed the current board members did not intend to raise prices, if the board was replaced there remains potential for anti-competitive behavior unchecked by the structure of a nonprofit). In the most recent challenge to a merger of nonprofit hospitals, the court in *Long Island Jewish Medical Center* stated that it gave limited effect to the structure of the board for purposes of antitrust analysis and quoted *Mercy Health* for this proposition. *United States v. Long Island Jewish Med. Ctr.*, 983 F. Supp. 121, 146 (E.D.N.Y. 1997).
B. Past Behavior of Merging Hospitals

In addition to the board’s composition, the past behavior of the merging hospitals has also factored into the analysis of some of the courts that have considered nonprofit status. Specifically, these courts have looked at whether the merging parties have previously acted anti-competitively or whether the entities have acted in the community’s best interests. In Freeman, the court looked at the hospitals’ past behavior and found collusion was unlikely to result from the merger. In University Health, however, the court found the merger would have anti-competitive effects despite evidence of past public service. The court explained that a well-intentioned board of directors, which had previously acted for the community’s benefit, could always change its behavior.

C. Consideration of Efficiencies

Prior to Butterworth, the two district courts that had considered nonprofit status relevant stressed that the claimed efficiencies produced by a merger would benefit consumers. The district court in Carilion accepted the defendant’s argument that the efficiencies would be realized by the merger and passed on to consumers. The court believed that the nonprofit hospital’s board of directors would ensure that consumers benefited from these savings.

In contrast, the district court in Rockford and the circuit court in University Health were unconvinced that the respective mergers would produce efficiencies that would benefit the consumer. These courts made clear that efficiencies must be adequately proven and specific. Significantly, these courts required a high level of

141. See Freeman, 911 F. Supp. at 1224.
143 See id. at 1225-26.
144. See e.g., Freeman, 911 F. Supp. at 1224; Carilion 707 F. Supp. at 846.
146. See id. at 846.
148. See University Health, 938 F.2d at 1223 (stating that a defendant must show the efficiencies will benefit consumers).
149. See id. at 1223; Rockford, 717 F. Supp. at 1291.
evidence to find that efficiencies outweigh anti-competitive effects.\textsuperscript{150} The savings achieved must outweigh the risks of a highly concentrated market.\textsuperscript{151} Ultimately, these opinions emphasize that the effect of the efficiencies on competition is a significant consideration in antitrust analysis.\textsuperscript{152}

V. ANALYSIS OF BUTTERWORTH AND THE ISSUES IT RAISES

A. District Court Decision

The district court in \textit{Butterworth} refused to enjoin the merger between Blodgett and Butterworth, although it acknowledged that the merger would create high market concentration and bestow an undue market share on the merged entity.\textsuperscript{153} The court emphasized that nonprofit status should be taken into consideration in evaluating the anti-competitive effects of the merger.\textsuperscript{154}

The district court relied on a number of factors relating to nonprofit status in determining that the merger was unlikely to have anti-competitive effects. Although a few courts have given some weight to board composition and efficiencies, these courts paid much less attention to these factors than the \textit{Butterworth} court.

\textsuperscript{150} See \textit{University Health}, 938 F.2d at 1222-23; see also \textit{Rockford}, 717 F. Supp. at 1291 (requiring clear and convincing evidence).

\textsuperscript{151} See \textit{Rockford}, 717 F. Supp. at 1291.

\textsuperscript{152} See \textit{University Health}, 938 F.2d at 1222; see also id. at 1224; Baer Speech, supra note 130, at *10.

\textsuperscript{153} See \textit{FTC v. Butterworth Health Corp.}, 946 F. Supp. 1285, 1293-94 (W.D. Mich. 1996) aff'd, 121 F.3d 708 (6th Cir. 1997) (per curiam). In \textit{Butterworth}, the HHI calculations made by the FTC's expert established that the relevant markets would be highly concentrated after the merger. \textit{See Butterworth}, 946 F. Supp. at 1294. The merged entity would have 47 to 65 percent share of the market for general acute care inpatient hospital services. \textit{See id.} As a result, the post-merger HHI in this market would be 2767 to 4521, an increase of 1064 to 1889 points. \textit{See id.} Further, the merged facility would control between 65 to 70 percent of the primary care inpatient hospital services market, resulting in a HHI of between 4506 and 5079, an increase of 1675 to 2001 points. \textit{See id.} The court also accepted the government's product and geographic market definitions and its entry analysis—that high barriers to entry existed. \textit{See id.} at 1294, 1297-98. It is also notable that more evidence of competitive restraint existed in this case than in others that enjoined the proposed merger. \textit{See University Health}, 938 F.2d at 1218-19; see also United States v. \textit{Rockford Memorial Corp.}, 898 F.2d 1278, 1283-84 (7th Cir. 1990).

First, according to the district court, the defense expert's findings demonstrated that nonprofits act differently than for-profits.\textsuperscript{155} In the court's view, this evidence suggested that the market share and concentration statistics did not accurately predict the merger's competitive effects.\textsuperscript{156} The court accepted the defendant's argument that the traditional correlation between high prices and high concentration did not apply to nonprofits.\textsuperscript{157} At least one expert, however, has suggested that the \textit{Butterworth} decision was based more on the benevolent nature of the nonprofit board than a reasoned economic analysis.\textsuperscript{158}

Second, the district court accepted the composition of the merging hospitals' boards as assurance that the merger would benefit the community.\textsuperscript{159} Here, the court cited testimony of the chairmen of the \textit{Butterworth} and \textit{Blodgett} boards to demonstrate the boards' good intentions.\textsuperscript{160} The court believed that the boards' structures, coupled with evidence that the price-concentration correlation did not apply to nonprofit hospitals, demonstrated that nonprofit hospitals do not share the incentive to maximize profits.\textsuperscript{161}

According to the FTC, the merged hospital was just as likely to exercise its market power as a for-profit one. Both of the hospitals had previously attempted to reduce competition,\textsuperscript{162} and one of the

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\item \textsuperscript{155} See \textit{Butterworth}, 946 F. Supp. at 1295 (stating that Dr. Lynk first studied the California hospital industry and then used the same methods to look at the industry in Michigan). The court in \textit{Butterworth} stated that Dr. Lynk's findings were "undisputed," citing to Dr. Lynk's law review article. \textit{Id.} at 1297.
\item \textsuperscript{156} See \textit{id.} at 1295-96. The defendants claimed to offer the type of empirical evidence discussed in \textit{Rockford}. See \textit{id.} at 1295. In that case, Judge Posner noted that evidence of price-concentration correlation for the hospital industry would be helpful in evaluating competitive effects. See United States v. Rockford Memorial Corp., 898 F.2d 1278, 1286 (7th Cir. 1990).
\item \textsuperscript{157} See \textit{Butterworth}, 946 F. Supp. at 1295-96. But evidence indicates that the hospitals competed in the same manner as for-profits prior to the merger. See FTC Proof Brief, supra note 118, at 28-31 (discussing evidence that the two hospitals competed with each other on price which suggests that the traditional correlation applies and competition results in lower prices for managed care organizations and more efficient operations).
\item \textsuperscript{158} See Blumstein, supra note 119, at 110-11.
\item \textsuperscript{159} Other courts have explicitly rejected this argument. See supra notes 136-39 and accompanying text.
\item \textsuperscript{160} The Chairmen of the \textit{Blodgett} and \textit{Butterworth} boards testified that the two had decided to merge because of "a common desire to lower health care costs and improve the quality of care." \textit{Butterworth}, 946 F. Supp. at 1297. The court mentioned the board chairmen by name. See \textit{id.} One commentator has suggested the district court in \textit{Butterworth} pointed out these individuals in an effort to hold them accountable for the future decisions of the merged hospital. See Miller, supra note 154, at 7-8.
\item \textsuperscript{161} See \textit{Butterworth}, 946 F. Supp. at 1296-97.
\item \textsuperscript{162} See FTC Post-Trial Brief, supra note 118, at 71-72 The FTC stated the hospital had refused to give discounts to managed care organizations in services in which either institution had a monopoly. See \textit{id.} at 71. According to the FTC, the two parties intended to merge so the
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hospitals had achieved double digit profit margins. Absent the merger, Blodgett planned to spend $200 million on a replacement facility although this amount was considered excessive. The hospitals' actions suggested that the boards of directors, however well-intentioned, had little influence over hospital administrators and operations. Alternatively, the hospital boards may have aligned themselves with the institution, potentially preventing them from acting in the community's best interests.

Third, the district court credited the Community Commitment as additional evidence of the merging hospitals' good intentions and that the merged hospital would not act anti-competitively in the future. According to the district court, the Commitment "corroborates other evidence that nonprofit hospitals may be treated differently under the antitrust laws," and further suggests that the FTC's prima facie case inaccurately predicts the future conduct of the merged entity. This decision appears to be the first time a federal court has accepted this type of price promise.

In Butterworth, the Community Commitment had five parts in which the merged entity promised: (1) to freeze hospital charges for three years; (2) to freeze prices to managed care organizations; (3) to
limit profit margins; (4) to serve the medically needy; and, (5) to govern the merged entity in the best interests of the community.169

The FTC challenged the Community Commitment on numerous grounds.170 The FTC argued that the prices resulting from a freeze on charges would likely be higher than those in a competitive market.171 It also expressed concern about the hospital equalizing rates to managed care because this practice limited these purchasers’ ability to compete among themselves to obtain lower prices from the hospitals.172 The FTC further argued that the profit margin commitment would permit the merged hospital to earn above what it would in a competitive market in which operating margins are expected to decline because of managed care and other third-party payers.173 Moreover, it noted that an entity can get around the price limitations by reducing the quality of care provided.174 Finally, the FTC noted that even though the parties agreed to make the Commitment legally binding,175 it is unclear how this agreement will be enforced.176

169. See Butterworth, 946 F. Supp. at 1298. The FTC only challenged the first three factors. See id.

170. See id. While the federal antitrust enforcement agencies have not accepted price promises, some state attorneys general have permitted mergers that have offered price commitments. See David Burda & Mary Chris Jaklevic, Promises, Promises: Hospitals Are Using Price-Control Pledges to Win Antitrust Clearance from States, But the Feds Are Wary. MOD. HEALTHCARE, Feb. 19, 1996, at 26, 27-32.

171. See Butterworth, 946 F. Supp. at 1298 (noting the FTC challenged the “charge commitment” as illusory because hospital price increases have been decelerating and prices might decrease); see also Baer Speech, supra note 130, at *9-*10.

172. See Butterworth, 946 F. Supp. at 1298 (stating the FTC claims this part of the Commitment is “deliberately anticompetitive”). If the merged hospital equalized prices for the managed care organizations this would raise the prices charged to some organizations and as a result, eliminate discounts. See FTC Post-Trial Brief, supra note 118, at 62. The district court in Butterworth believed that discounts to managed care organizations did not benefit consumers as a whole and were “hardly the sort of benefit the antitrust laws are designed to protect.” Butterworth, 946 F. Supp. at 1299.

173. See FTC Post-Trial Brief, supra note 118, at 74-75.


175. See Butterworth, 946 F. Supp. at 1298 (stating that the defendants were willing to enter into a consent decree making the Community Commitment legally binding).

176. See id. (stating that the FTC challenges the plan in part because it is unenforceable). The FTC did not agree to the consent decree, leaving the district court judge to enforce it. The FTC does not have resources to regulate this type of written assurance. See Burda & Jaklevic, supra note 170, at 28. The district judge, however, did not agree to have jurisdiction over enforcement of the Community Commitment. See Deanna Bellandi, Being Not-For-Profit Helps: In Antitrust Cases, Judges Have Been Giving Hospitals Credit for Tax-Exempt Status, MOD. HEALTHCARE, Nov. 10, 1997, at 17.
Finally, the district court was convinced that the merger would result in substantial efficiencies.177 This decision appears to be based, in part, on the court’s belief that competition in the hospital industry does not result in lower costs.178 According to the hospitals’ expert, the efficiencies achieved by a merger between two nonprofit hospitals may, in part, explain the absence of price-concentration correlation in nonprofits.179 Because of the parties’ nonprofit status and Community Commitment, the district court concluded that these savings would be passed on to consumers.180

B. Critique of District Court Decision

The district court in Butterworth accepted the defendant’s argument that nonprofit hospitals operate differently than for-profits, and found that the merger would not have anti-competitive effects. In so doing, Butterworth departed from traditional antitrust analysis and prior case law. Contrary to antitrust doctrine, the court allowed governance by the board of directors and the Community Commitment to replace competition. Consideration of the hospital’s nonprofit status does not fit into the antitrust framework because it does not justify lessened concern about the merger’s anti-competitive effects. Furthermore, the previous cases that considered nonprofit status a relevant factor in their evaluation of the proposed merger ultimately allowed the merger to proceed based on other grounds. In contrast, the Butterworth court relied on the merging hospitals’ nonprofit structure to ensure that the merged entity would not act anti-competitively in the future.

1. Departure from Traditional Antitrust Policy

Butterworth departs from prevailing antitrust doctrine by finding that a merger among nonprofit hospitals requires different treatment than one among for-profits. The Clayton Act is intended to prevent mergers whose effect “may be substantially to lessen competi-

177. See Butterworth, 946 F. Supp. at 1300-01. The court, however, did not adequately evaluate the claimed efficiencies especially in light of the fact that it considered efficiencies as part of the defendant’s rebuttal evidence. See Greaney, supra note 16, at 219.
178. See Butterworth, 946 F. Supp. at 1301 (stating that absent the merger, the “medical arms race” will continue).
179. See Butterworth, 946 F. Supp. at 1296 (quoting Lynk, Nonprofit Hospital Mergers, supra note 5, at 458).
180. See Butterworth, 946 F. Supp. at 1301.
tion,"\(^{181}\) because undue increases in market power will allow an entity to raise prices above a competitive level and thus injure consumers.\(^ {182}\) Since Congress has determined that reduced competition hurts consumers, a court should only determine whether competition is lessened.\(^ {183}\) Once a court determines that the merger will cause competitive harm, specific characteristics of an industry,\(^ {184}\) motives,\(^ {185}\) or organizational structure\(^ {186}\) become irrelevant. A court may not replace competition with another method of allocating goods and services.\(^ {187}\)

The district court declined to enjoin the merger, even though it recognized that the merged hospital would have substantial market power, unchallenged by the remaining hospitals or potential entrants.\(^ {188}\) The court made its own determination about how the merger would affect the community and relied on the alleged good motives of the merging hospitals to find that the merger would not have anti-competitive effects. In its view, the governing body of the merged hospital would act in the best interests of the community. Even if the board of the merged entity was well-intentioned, the court's decision was contrary to antitrust doctrine because it allowed the board to make decisions about allocation, rather than allowing market forces to operate.\(^ {189}\)

\textit{a. Consideration of Motive}

In both \textit{Philadelphia National Bank} and \textit{NCAA}, the Supreme Court held that good motives cannot validate a practice which violates the antitrust laws.\(^ {190}\) These decisions establish that when market power is abused, good intentions are irrelevant to antitrust analy-
sis. Thus, if a merger is potentially anti-competitive, a court cannot rely on the claimed good intentions of a board of directors to rebut the presumption of illegality. Appellate courts have also rejected the argument that good motives can validate a merger that otherwise violates the antitrust laws. Abuse of market power, even if motivated by good intentions, still causes consumer injury and violates the antitrust laws.

b. The District Court Allowed Community Governance to Replace Competition

Moreover, through the federal antitrust statutes, Congress has mandated that competition is the best guarantor of consumer welfare. The Supreme Court has stated that a court may not substitute another method of allocating goods and services for competition. In Professional Engineers, the Court made clear that defendants may not question the benefits of competition. The Court held that if unique characteristics of an industry suggest competition is inapplicable, only Congress can exempt the industry from antitrust scrutiny. In Butterworth, however, the court did not rely on competitive forces, finding instead that a board of directors consisting of community leaders and the Community Commitment sufficiently protected consumers. The court allowed these factors to replace competition.

191. Although motive is irrelevant for anti-competitive conduct, the actors' subjective intent can help a court evaluate the anti-competitive potential of the conduct. See 1A Areeda & Hovenkamp, supra note 3, § 261c, at 265-66.

192. See FTC v. University Health, Inc., 938 F.2d 1206, 1213 (11th Cir. 1991) (rejecting the argument that a merged hospital will not act anti-competitively because of its nonprofit structure); see also United States v. Rockford Memorial Corp., 898 F.2d 1278, 1285 (7th Cir. 1990).

193. See 1A Areeda & Hovenkamp, supra note 3, § 261c, at 267. Nonprofits must still make decisions about the allocation of profits, and if a nonprofit entity is using market power to charge anti-competitive prices this violates the antitrust laws. See id. Further, even if a board has good intentions, the consumer coop analogy will not work if the hospital is part of a chain or if the board only represents a limited segment of the community. See Lynk, Property Rights, supra note 5, at 377.


195. In Professional Engineers, the Court rejected the association's argument that competition in its industry was detrimental to consumer welfare. See id. at 689-90; see also FTC v. Superior Court Trial Lawyers Ass'n, 493 U.S. 411, 423-24 (1990).

196. See Professional Eng'rs, 435 U.S. at 689-90 (stating that a court cannot determine if competition is good or bad for a particular industry because this choice must be addressed by the legislature). Congress has determined that certain industries, such as agricultural cooperatives and insurance, are exempt from all Sherman Act requirements. See id. at 690 n.14.

197. See FTC v. Butterworth Health Corp., 946 F. Supp. 1285, 1302 (W.D. Mich. 1996) aff'd, 121 F.3d 708 (6th Cir. 1997) (per curiam) (stating that “the interests of consumers are . . . likely to be advanced rather than hurt” by the merger). Compare the type of regulation the court allows here to the strict requirements for regulation by the state as discussed supra notes 95-97 and accompanying text.
In short, instead of accepting the value of competitive markets as required by Supreme Court precedent, the court made its own determination about what method best protects consumer welfare in the nonprofit hospital industry.

2. Contrary to Prior Case Law

The Butterworth district court claimed to follow previous case law by stating that it did not rely on nonprofit status itself. It also argued that earlier cases suggested that status, along with other evidence demonstrating that the merger will not have anti-competitive effects, can be relevant when determining whether to enjoin a merger.\textsuperscript{198}

Although the court stated nonprofit status was not a "dispositive consideration,"\textsuperscript{199} all of the evidence relied upon by the district court suggests the hospitals' status was indeed dispositive. Arguably, this case is inconsistent with prior case law, which holds that a court cannot consider nonprofit status alone to rebut the presumption of illegality.\textsuperscript{200}

Even if the court treated nonprofit status as a "material" factor,\textsuperscript{201} the Butterworth case marks a significant shift from prior case law.\textsuperscript{202} In the hospital context, the Seventh and Eleventh Circuits and one district court have held that nonprofit mergers in concentrated markets raise the same antitrust concerns as equivalent for-profit mergers. In contrast, the district court in Butterworth presumed that a nonprofit merger was less likely than a for-profit one to have anti-competitive effects. The court made this determination absent evidence that justified lessened concern and instead relied on the claimed good intentions of the merging hospitals to prevent anti-competitive behavior. Although two other district courts had considered nonprofit status relevant, these courts ultimately permitted the

\textsuperscript{198} See \textit{id.} at 1297.

\textsuperscript{199} See \textit{id.}

\textsuperscript{200} See Hospital Corp. of America v. FTC, 807 F.2d 1381, 1390 (7th Cir. 1986); see also FTC v. University Health, Inc., 938 F.2d 1206, 1224 (11th Cir. 1991); United States v. Rockford Memorial Corp., 898 F.2d 1278, 1285 (7th Cir. 1990).

\textsuperscript{201} See \textit{Butterworth}, 946 F. Supp. at 1297.

\textsuperscript{202} See Greaney, \textit{supra} note 16, at 211-12 (stating that \textit{Butterworth} is in "stark contrast" to the holding of \textit{Freeman} which is consistent with prior case law).

\textsuperscript{203} See, e.g., \textit{University Health}, 938 F.2d at 1224; Rockford, 988 F.2d at 1285; \textit{Hospital Corp. of America}, 807 F.2d at 1390-91.

\textsuperscript{204} See United States v. Mercy Health Services, 902 F. Supp. 968, 989 (N.D. Iowa 1996) \textit{vacated by} 107 F.3d 632, 634 (8th Cir. 1997).
mergers for other reasons and placed much less significance on non-profit status.205

3. General Dynamics Merger Inquiry

Market share and concentration data may not always indicate market power will result from the merger. At first glance, the district court's reliance on nonprofit status is consistent with the Supreme Court's decision in United States v. General Dynamics. There the Court held that a court can consider evidence that indicates the proposed merger is unlikely to have anti-competitive effects despite statistical evidence to the contrary.206 In General Dynamics, one of the merging firms had experienced severe reductions in its coal reserves and was unable to compete in the future.207 The one party's reduction in resources and its limited ability to compete prospectively prevented the market share data from adequately predicting the defendant's future competitive strength.208

In contrast, in Butterworth, evidence indicated that the defendants had competed in the past.209 The parties simply claimed that the merged facility would not take advantage of its market power because of its nonprofit status,210 an argument that differs from the one accepted by the Court in General Dynamics.211 First, in Butterworth, the court recognized that the merger would lessen competition in the marketplace.212 Unlike General Dynamics, the merged hospital would maintain competitive strength. Second, because Butterworth and Blodgett competed like for-profits in the market prior to the merger, they could not argue that the merged entity would cease to act like a for-profit and exploit its market power. Therefore, the market share

205. Note that post-Butterworth, the Long Island Jewish Medical Center court considered nonprofit status a factor in its overall analysis but ultimately determined that the government had not proved that the merger would have anti-competitive effects, finding, unlike Butterworth, that the merged entity would not have an undue market share in the relevant markets and remaining hospitals could constrain prices. See supra note 139 and accompanying text.
207. See id. at 493.
208. See id. at 501. Because current merger analysis looks at how much the merger will reduce competition, the consideration of this type of evidence is consistent with the Merger Guidelines. See MERGER GUIDELINES, supra note 49, § 0.2, 2.2.
209. See FTC Post-Trial Brief, supra note 118, at 94; see also Another Look at the Hospital Plan, supra note 163, at A6.
211. But see Greaney, supra note 16, at 215-16 (arguing that the Butterworth decision adhered to the General Dynamics framework).
212. See Butterworth, 946 F. Supp. at 1294.
statistics painted an accurate picture of the merged entity's market power and raised antitrust concerns. Third, while the Court in General Dynamics relied on objective economic data to adjust the economic model's predictions of how much a profit-maximizing firm can influence the market, the Butterworth court predicted behavior based on subjective intent that led the court to reject the basic postulate of the economic model underlying antitrust law: that firms operate to maximize profits. The court made a determination about what the entity would do with market power rather than focusing on what the entity was capable of doing with this power.

In sum, the General Dynamics Court held that the government did not prove its prima facie case that the merger would produce anticompetitive effects. Because the proposed merger would not lessen future competition, no antitrust concern resulted.213 Although the FTC proved its prima facie case in Butterworth, the court concluded nonprofit status would prevent anti-competitive results and consumers would not be harmed.214

C. Competition Guarantees Consumer Welfare

The Butterworth decision raises some interesting issues regarding merger analysis. The court held that "even though competition may be lessened, the interests of consumers are . . . likely to be advanced rather than hurt."215 Congress, however, intended to protect consumers by maintaining competition216 and the Supreme Court has stated that Congress has mandated competition as the guiding principle for judicial decision making.217 The antitrust laws protect the competitive process, as competition produces the optimum outcome for consumers.218

Community governance is not an adequate replacement for competition for several reasons. First, competition is a more reliable safeguard of an efficient market and consumer welfare than commu-

215. See id. at 1301.
216. See National Soc'y of Prof. Eng'rs v. United States, 435 U.S. 679, 695 (1978). As recognized in current case law, Section 7 proscribes mergers that are likely to "hurt consumers, as by making it easier for the firms in the market to collude . . . and thereby force price above or farther above the competitive level." Hospital Corp. of America v. FTC, 807 F.2d 1381, 1386 (7th Cir. 1986); see also United States v. Rockford Memorial Corp., 898 F.2d 1278, 1282-83 (7th Cir. 1990) (quoting Hospital Corp. of America, 807 F.2d at 1386).
217. See Professional Eng'rs, 435 U.S. at 695.
218. See Meyer & Rule, supra note 7, at 181. See also Blumstein, supra note 119, at 111.
nity governance.\textsuperscript{219} Competition encourages producers to offer the best quality at the lowest price.\textsuperscript{220} It is also the most efficient method of allocating goods and services, and the best indicator of consumer demand.\textsuperscript{221} Antitrust law, moreover, focuses on whether the merged entity will be able to exercise market power without restraint. The law seeks to protect the competitive process rather than mandate a particular outcome.\textsuperscript{222}

Studies indicate that regulation has not effectively reduced hospital costs or promoted efficient behavior.\textsuperscript{223} A number of states that have regulated hospital prices are eliminating this practice and replacing regulation with a competitive market.\textsuperscript{224} In other industries, courts have also recognized that regulation is not an adequate substitute for competitive free markets.\textsuperscript{225}

Second, competition provides incentives for entities to provide information to consumers, allowing consumers to make choices about quality and price.\textsuperscript{226} The subjective judgment of a board of directors or the court removes the consumers’ freedom to choose. Furthermore, because Congress has determined that competition ensures consumer welfare by providing incentives for optimal quality at the lowest price, regulation may only replace competition if a federal or state immunity exists.\textsuperscript{227}

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\item \textsuperscript{219} See Meyer & Rule, supra note 7, at 171 \textit{(stating the competition is the best method for ensuring consumer welfare)}; see also Baer Speech, supra note 130, at *9. In addition, nonprofit hospitals that do not face competition will provide unnecessary resources and equipment to their staff physicians. See John Simpson & Richard Shin, Do Nonprofit Hospitals Exercise Market Power? 2-3 (unpublished manuscript, on file with author). Competition serves an important role in preventing inefficient expenditures “for which good intentions are rarely a sufficient substitute.” See 1A AREEDA & HOVENKAMP, supra note 3, ¶ 261c, at 267.

\item \textsuperscript{220} See Professional Eng’rs, 435 U.S. at 695 \textit{(explaining that the Sherman Act indicates a judgment by the legislature that competition produces lower prices and better goods and services)}.

\item \textsuperscript{221} See ELBERT V. BOWDEN, ECONOMICS: THE SCIENCE OF COMMON SENSE 138-39 (1974). The failure of central planning in the USSR demonstrates the superiority of competitive free markets. See FTC Proof Brief, supra note 118, at 22; see also, LEONARD SILK & MARK SILK, MAKING CAPITALISM WORK 12, 15 (1996).

\item \textsuperscript{222} See Blumstein, supra note 119, at 111.

\item \textsuperscript{223} See Baer Speech, supra note 130, at *9.

\item \textsuperscript{224} See id.

\item \textsuperscript{225} See FTC v. Alliant Techsystems Inc., 808 F. Supp. 9, 16 (1992) (responding to defendants claim the Department of Defense’s cost monitoring and auditing would prevent the exercise of market power). The court stated, “[there is persuasive opinion in the record that Army oversight, while effective, is an imperfect substitute for the action of the competitive market.” Id.

\item \textsuperscript{226} See Simpson & Shin, supra note 219, at 24 \textit{(finding that nonprofits exercise market power against privately insured patients)}.

\item \textsuperscript{227} See Meyer & Rule, supra note 7, at 175; see also NCAA v. Board of Regents, 468 U.S. 104 n.27 (1984) \textit{(suggesting that with the passage of the Sherman Act, Congress intended to pro-}
Analysis of the factors accepted by the *Butterworth* court demonstrates that enforcement by a community board or a price commitment is an inadequate substitute for a competitive market. First, the evidence accepted by the *Butterworth* court does not provide permanent assurance that the entity will not act anti-competitively. For example, even if the board of directors is community-minded, the risk of change in membership of community board exists. Second, there is no guarantee that a nonprofit board will act in the best interests of the community or have adequate control over management to prevent the merged entity from raising prices above a competitive level.

The danger is exacerbated by the fact that reduced competition flowing from the merger would give the board nearly unfettered discretion to behave anti-competitively. Third, even assuming the hospital believes it is acting in the consumers’ best interests, it is unlikely to produce the same efficient results of a competitive market. For instance, prices might fall if the market was left to operate. No matter how well-intentioned, externally-imposed protections are inherently inferior to market outcomes. Market pressures create incentives for the entity to benefit consumers through innovation, reduction of costs or improved quality.

The price promises accepted in *Butterworth*, like community governance, are similarly less efficient than the free market in allocating goods and services. The protection provided by the Community Commitment is also questionable. As acknowledged by the *Butterworth* court, this type of commitment does not “provide failsafe assurances to the community.” Even if the commitment does protect consumers, a price assurance is a temporary safeguard.

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228. See NCAA, 468 U.S. at 101 n.23 (stating that good intentions do not provide adequate protection for consumers); see also FTC v. University Health, Inc., 938 F.2d 1206, 1224 (11th Cir. 1991).
229. See infra Part VI.B.1.
230. See Blackstone & Fuhr, supra note 32, at 474.
231. See 1A AREEDA & HOVENKAMP, supra note 3, ¶ 261c, at 297.
232. See Blumstein, supra note 119, at 110-11.
233. See Meyer & Rule, supra note 7, at 171.
235. The Community Commitment only limits hospital charges for three years and profit margins for four years. See id.; see also Burda & Jaklevic, *Promises, Promises*, supra note 170, at 30 (explaining that term lengths are a negotiating point in these types of agreements).
VI. NONPROFIT STATUS IS NOT AN ACCURATE PREDICTOR OF A MERGER'S ANTI-COMPETITIVE EFFECTS

Nonprofit status is distinguishable from characteristics that may challenge the accuracy of the analysis of the merger's competitive harm. Moreover, concerns exist about the ability or desire of a nonprofit hospital board to guarantee that the nonprofit entity does not exploit market power. These issues, along with evidence that price-concentration applies to nonprofits because nonprofits and for-profits operate similarly in highly concentrated markets, indicate that a court should not consider nonprofit status as equivalent to those factors that may successfully rebut a prima facie case.

A. Application of the Antitrust Framework to Nonprofit Status

As discussed above, courts have considered factors such as ease of entry, the imminent exit of a firm from the market, and efficiencies as evidence that a proposed merger will not lessen competition despite market share and concentration statistics that suggest otherwise. First, if entry into a market is "easy," the anti-competitive effects that normally flow from high market share and concentration will not result. If other competitors can easily enter the market and challenge the existing entities' ability to reduce output and raise prices, the existing firms will not be able to exercise market power. Unlike ease of entry, nonprofit status does not ensure that the entity will not abuse market power. Instead, a court which allows nonprofit status to rebut the presumption of illegality assumes that nonprofits will refrain from exploiting market power because of good motives and thus depends on the future benevolence of the merged firm, rather than market analysis. The amount of power a firm possesses becomes irrelevant because the court trusts the entity to use it wisely. In contrast to nonprofit status, ease of entry speaks directly to the merged entity's ability to exercise market power.

If a firm will fail absent the proposed merger and that firm's assets will leave the relevant market, the merger will not create or enhance market power. Nonprofit status, however, does not indi-

236. See Ball Memorial Hosp., Inc. v. Mutual Hosp. Ins. Inc., 784 F.2d 1325, 1336 (7th Cir. 1986). Analysis of entry conditions is a fact-intensive inquiry that looks at whether the merged entity will be able to exercise market power. See MERGER GUIDELINES, supra note 49, § 3.0-3.4. The most reliable evidence of ease of entry is past entry in a context similar to the current one. See 2A AREEDA & ET AL., supra note 50, ¶ 420b, at 58.

237. See Ball Memorial, 784 F.2d at 1335.

238. See MERGER GUIDELINES, supra note 49, § 5.0.
cate that the same level of competition will exist post-merger.\textsuperscript{239}
Furthermore, courts have rejected the argument that a nonprofit hospital’s past behavior ensures anti-competitive conduct will not occur in the future.\textsuperscript{240}

Efficiencies that generate increased competition or more effective competition benefit consumers.\textsuperscript{241} In some cases, efficiencies outweigh the risk of increased market concentration.\textsuperscript{242} Unlike the pro-competitive benefits of efficiencies, which counterbalance the risks of increased concentration, nonprofit status does not advance competition and is not an inherently pro-competitive factor.

In sum, current evidence regarding nonprofit status does not suggest that it is equivalent to those factors which show that the statistical market share and concentration data presents an inaccurate picture of a merger’s competitive effects.\textsuperscript{243} Reliance on nonprofit status negates the economic analysis underlying antitrust law. A court which allows nonprofit status to rebut the presumption of ille-

\textsuperscript{239} Arguably, if the nonprofit parties can show that they did not compete like for-profits prior to the merger and, therefore, that the merger would not lessen competition, the parties could establish something akin to the failing firm defense. This scenario is, at best, unlikely, given the studies which suggest nonprofit hospitals behave like for-profits.

\textsuperscript{240} See supra notes 142-43 and accompanying text.

\textsuperscript{241} See Baer Speech, supra note 130, at *10; see also MERGER GUIDELINES, supra note 49, § 4 (Revised Apr. 8, 1997).

\textsuperscript{242} The Merger Guidelines explains that efficiencies must be substantial “to reverse the merger’s potential to harm consumers in the relevant market.” See MERGER GUIDELINES, supra note 49, § 4.0 (Revised, Apr. 8, 1997). The higher the concentration resulting from the merger, the more substantial efficiencies the defendant must show. See id. Courts weigh the efficiencies evidence against the risk of a highly concentrated market. See FTC v. University Health, Inc., 938 F.2d 1206, 1222-23 (11th Cir. 1991); see also United States v. Rockford Memorial Corp., 717 F. Supp. 1251, 1291 (N.D. Ill. 1989) aff’d, 898 F.2d 1278 (7th Cir. 1990).

\textsuperscript{243} The illegitimacy of reliance on nonprofit status in antitrust analysis is evidenced by the possibilities it creates. First, a conversion of a hospital from nonprofit status to for-profit status could be challenged despite no increase in concentration. Because conversion of nonprofit hospitals has become increasingly common, it is not unlikely that a nonprofit will be purchased by a for-profit hospital. See Krause, supra note 34, at 506. If a court relied on nonprofit status to prevent anti-competitive behavior, a conversion to for-profit form removes any existing restraints on the exercise of market power. An integral part of antitrust doctrine, however, is consideration of the merger’s effect on market concentration in order to challenge a merger. If a federal antitrust enforcement agency challenged this type of merger it would conflict with traditional antitrust doctrine which requires increased concentration and does not consider ownership status relevant to antitrust analysis.

On the other hand, if ownership was transferred from a nonprofit to a for-profit and the merger was not challenged, a for-profit would achieve market power. Traditional antitrust doctrine assumes that a for-profit will abuse this power and thus injure consumers. The economic analysis underlying antitrust law is based on a profit-maximizing model. See MERGER GUIDELINES, supra note 49, § 1.0.

Another possibility is that a nonprofit hospital outsources some of its health care services to a for-profit. Even assuming the nonprofit governance does not possess the economic incentives to act anti-competitively, whether a nonprofit board would be able to prevent a for-profit from exercising market power is questionable at best.
gality assumes that the public can rely on a firm's self-restraint. This assumption makes market analysis irrelevant; the court does not focus on the amount of market power possessed because the court trusts the firm to use it benevolently.

B. Concerns Which Further Demonstrate Nonprofit Status is Unlike the Factors That Fall Within the Antitrust Framework

1. Board of Directors

Courts that have given any consideration to nonprofit status have concluded that a nonprofit hospital board ensures that the merged entity will not exercise market power. These courts assume that a nonprofit board has good motives and will benefit consumers. This confidence may be misplaced because arguably a board consisting of community members is not analogous to a consumer co-operative, thus removing any incentive to refrain from anti-competitive behavior. Even a well-intentioned board may not act competitively or be able to prevent hospital management from acting anti-competitively. First, the board members have a fiduciary duty of care and loyalty to the nonprofit hospital and will likely align with the institution. These duties to the hospital may prevent the board from acting in the community's best interests. Second, the board

244. This confidence is based, in part, on the theory that a community board does not have the incentive to act anti-competitively. See Entin et al., supra note 5, at 127-28.

245. See 1A Areeda & Hovenkamp, supra note 3, ¶ 261c, at 266 (discussing the divided loyalty of a member to the public and the entity that appointed him); Bozeman, supra note 45, at 149. Note that Lynk states that the consumer cooperative analogy does not work if the hospital board is subject to pressure from interests outside of the patient population or if the board only represents the interests of a limited group of patients. See Lynk, Nonprofit Hospital Mergers, supra note 5, at 458.

246. The federal antitrust agencies reject consideration of the board's makeup. See Baer Speech, supra note 130, at *9. Some antitrust scholars maintain that reliance on a nonprofit hospital's board does not guarantee that the community will not be harmed. See 1A Areeda & Hovenkamp, supra note 3, ¶ 261c, at 266. The FTC used University Health, Rockford and Mercy Health Services to reject the defendant's argument in Butterworth. See FTC v. Butterworth Health Corp., 946 F. Supp. 1285, 1296 (W.D. Mich. 1996) aff'd, 121 F.3d 708 (6th Cir. 1997) (per curiam).

247. See FTC Post-Trial Brief, supra note 118, at 96-98. The FTC also notes that alignment with the institution is a result of fiduciary duty. Trustees may also want to promote the status of the institution because it reflects well on them. Thus they may be less concerned about controlling health care costs. See id.

248. In Butterworth, the FTC argued that board members may develop institutional loyalty that could overcome the board's community interests. See Butterworth, 946 F. Supp. at 1297. For example, low consumer prices may in some cases be contrary to a director's fiduciary duty to the institution. See Greaney, supra note 16, at 217. The duty to the community may also not guarantee that the board acts in the public interest. See 1A Areeda & Hovenkamp, supra note
may not act on behalf of consumers if its members have conflicts of interest\textsuperscript{249} or if the board is not representative of the community as a whole.\textsuperscript{250} Furthermore, because directors are not responsible for the day-to-day operations of the hospital, they may have limited information about pricing practices and often rubber-stamp the decisions of management.\textsuperscript{251} Studies indicate that the board members depend on management for information and follow their instructions.\textsuperscript{252} Board members also often do not have technical expertise in the nonprofit's operations.\textsuperscript{253} Therefore, the board is also likely to have inadequate oversight over the management's decisions.\textsuperscript{254} Thus it seems that even the most well-intentioned board will not act as efficiently as it would if subject to competitive forces.\textsuperscript{255}

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\item \textsuperscript{249} See Joseph Berger, Hospital is Haunted by History of Deals with Board Members, N.Y. Times, Mar. 14, 1989, at 37.
\item \textsuperscript{250} See Another Look at the Hospital Plan, supra note 163 (stating that the community had no assurance post-merger that community interests would be represented on the board); see also Lynk, Nonprofit Hospital Mergers, supra note 5, at 440-41, 448; Karla Schuster, Boca Raton Residents Don't Trust Trustees, SUN-SENTINEL, Sept. 26, 1997, at 1B, available in 1997 WL 11404090.
\item \textsuperscript{251} See Deborah A. DeMott, Self-Dealing Transactions in Nonprofit Corporations, 59 BROOK. L. REV. 131, 140 (1993) (stating that nonprofit boards may rely on management for information); Greaney, supra note 16, at 217 (explaining that outside members of boards of nonprofit corporations rarely involve themselves in everyday business decisions); Ceding Local Control Is the Price To Be Paid For System Advantages, MOD. HEALTHCARE, June 5, 1995, at 36 (stating that local boards often feel that they are rubber-stamping decisions).
\item \textsuperscript{252} See Melissa Middleton, Nonprofit Boards of Directors: Beyond the Governance Function, in THE NONPROFIT SECTOR: A RESEARCH HANDBOOK 141, 143, 152 (Walter W. Powell ed., 1987) (concluding that studies show board members acquire most information from management and follow instructions of management).
\item \textsuperscript{253} See Brody, supra note 24, at 467, 500-01 (stating that nonprofit directors usually lack technical expertise in the nonprofit hospitals' operations).
\item \textsuperscript{254} See Monica Langley, Trauma Center: A Nonprofit Hospital Finds Its Executives Were Making the Profit, WALL ST. J., Nov. 20, 1996, at A1 (quoting numerous sources stating that nonprofit hospital boards lack supervision over hospital management); see also Brody, supra note 24, at 499 (discussing that nonprofit outside directors often lack the time and expertise to have control over management); Sally Covington, Who Governs The Non-Profit Sector?, FUND RAISING MGMT., July 1, 1994, at 33, available in 1994 WL 2810915; Gilbert, supra note 46, at 155 (1994) (noting that the IRS is concerned about a nonprofit board's lack of oversight).
\item \textsuperscript{255} See supra notes 228-33 and accompanying text; see also Baer Speech, supra note 130, at *9.
\end{enumerate}
2. Evidence Suggesting the Traditional Price-Concentration Correlation Applies to Nonprofit Hospitals

The district court in *Butterworth* relied on one empirical study conducted by the hospital's expert in determining that the traditional presumption does not apply to nonprofit hospitals. According to numerous economists, however, this expert failed to control significant variables that would affect his study's conclusion.\(^{256}\) Moreover, many experts have found that the traditional correlation between high market concentration and high prices applies to nonprofit hospitals.\(^{257}\) These studies support the argument that antitrust agencies should challenge nonprofit mergers in concentrated markets because these mergers are just as likely to raise antitrust concerns as similar for-profit mergers.\(^{258}\)

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256. Lynk's methods and conclusions have been criticized. See Mary Chris Jaklevic, *Ownership and Pricing: Economists Knock Key Study in Grand Rapids Case* MOD. HEALTHCARE, Oct. 6, 1997, at 2; see, e.g., David Dranove & Richard Ludwick, *Competition and Pricing by Nonprofit Hospitals: A Reassessment of Lynk's Analysis*, 18 J. HEALTH ECON. 87, 88 (1999) (listing two methodical choices that generate bias); Keeler et al., *supra* note 112, at 83; Simpson & Shin, *supra* note 219, at 22; FTC Proof Brief, *supra* note 118, at 32 (arguing that Dr. Lynk's study does not account for numerous significant factors such as cost which may be lower in rural areas where the hospital market is more concentrated). In addition, Lynk used list prices instead of the transaction prices. See FTC Post-Trial Brief, *supra* note 118, at 72. The use of list prices may affect a study's conclusion regarding traditional assumptions about high market concentration. See Dranove et al., *supra* note 109, at 181, 188. Absent from the study relied upon by the *Butterworth* court is a discussion of the quality of care provided. See Sunshine, *supra* note 60, at C15-C16. Looking only at price does not take into account the quality of care given. See Paul A. Pautler & Michael G. Vita, *Hospital Market Structure, Hospital Competition, and Consumer Welfare: What Can the Evidence Tell Us?* 10 J. CONTEMP. HEALTH L. & POLY 117, 133, 140 (1994). Note that Lynk has responded to these challenges. See generally William J. Lynk & Lynette R. Neuman, *Price and Profit*, 18 J. HEALTH ECON. 99 (1999).


258. See Dranove & Ludwick, *supra* note 256, at 19; see also Gruber, *supra* note 114, at 208 (suggesting that nonprofit hospitals exploit market power to fund indigent care); see also Simpson & Shin, *supra* note 219, at 24. Evidence exists that nonprofits exercise market power. See *id.* at 18 (finding nonprofits exercise market power against private insurers).
VII. CONCLUSION

The district court in *Butterworth* held, and the Sixth Circuit affirmed, that a merger between two nonprofit hospitals would not have anti-competitive effects. Although the FTC's prima facie case demonstrated that the merger would reduce competition, the district court presumed that the nonprofit nature of the merged hospital would ensure the merger would not harm consumers.

Reliance on the good intentions of a nonprofit board in evaluating whether a merger will have anti-competitive effects, however, departs from traditional antitrust analysis and prior case law. Congress has determined that preserving competition, instead of relying on regulation and monitoring, is the best way to protect consumers. Congress can make a legislative judgment that competition is not effective in a specific industry, and states can use the state-action doctrine to replace competition. The role of the courts in antitrust cases, however, is to focus on the merger's likely competitive effects. Nonprofit status is distinguishable from the factors which demonstrate that market share and concentration statistics inaccurately predict the merger's effects. These factors fit within traditional antitrust analysis because they demonstrate that a proposed merger will not lessen competition. In contrast, nonprofit status does not indicate that the proposed merger will not have anti-competitive effects. Thus, reliance on the future benevolence of the merged entity does not fit into the legal framework of merger analysis.

A merger among nonprofit hospitals in a concentrated market raises the same antitrust concerns as a merger among for-profit hospitals in similar circumstances. Studies have found that nonprofit and for-profit hospitals share critical similarities in their conduct, and that the price-concentration correlation does apply to nonprofit hospitals. Furthermore, because market power allows an entity to raise prices and restrict output, confidence in the benevolence of nonprofits is likely to backfire, leaving communities across the country with a large profitable hospital that acts contrary to the best interests of consumers. Because most hospitals in the United States are
organized as nonprofits, if this decision's treatment of nonprofit status is followed by future courts, the consumer may be harmed.

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