PHYSICIANS TREATING PHYSICIANS: INFORMATION AND INCENTIVES IN CHILDBIRTH*

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Abstract

This paper provides new evidence on the interaction between patient information and physician financial incentives. Using rich microdata on childbirth, we compare the treatment of physicians when they are patients with that of comparable non-physicians. We also determine how the treatment gap varies with providers' financial incentives by exploiting the presence of HMO-owned hospitals. Consistent with induced demand, physicians are approximately 10 percent less likely to receive a C-section, with only a quarter of this effect attributable to differential sorting. While financial incentives affect the treatment of non-physicians, physician-patients are largely unaffected. Physician also have better health outcomes.

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I Introduction

As much as $210 billion, or nearly 10 cents of every health dollar, may be spent on "medically unnecessary" treatment (IOM 2012, Table S-1). Childbirth is the most common reason for hospitalization in the U.S, and Cesarean sections (C-sections) are the most common inpatient surgery. Four million babies are born each year, resulting in $50 billion in health care costs (Truven Health Analytics (2013)). The nature of decision-making in childbirth makes it particularly well-suited to testing for distortions to care. In addition, the large variation in C-section rates across time and place has led to concerns about their overuse. In 2012 C-section rates ranged from a low of 22.6% in Alaska to a high of 40.2% in Louisiana, and much of this variation is unexplained.

Given concerns about overuse, a natural question is whether physician-mothers choose the same treatment for themselves and their patients. They do not. We find that physicians are less likely to get C-sections and have better health outcomes than comparable non-physicians. In addition, non-physician-patients' treatment intensity covaries with their providers' financial incentives, while physician-patients appear unaffected. Our preferred explanation for these findings is that physician-patients are more informed about the appropriate level of care. Even among physicians, those in specialties with the most relevant medical knowledge receive the least intensive treatment.

This paper provides new evidence on the physician induced demand (PID) hypothesis and the role of patient information in treatment. PID posits that physicians can shift patient demand and move treatment quantity in the direction of their own interests, because patients do not have the necessary medical knowledge to make independent decisions. Many studies document physicians' responses to financial incentives, but only a few have directly tested for PID (see McClellan (2011) and McGuire (2000) for reviews) and even fewer have measured health impacts.[1] We do both. We provide direct evidence on PID by measuring the difference in informed and uninformed patients' treatment

[1] Notable exceptions are Jacobson, Chang, Newhouse, and Earle (2013) and Clemens and Gottlieb (2014).

across incentive environments and explore its consequences for patient health.

We present a simple model to illustrate the interaction between financial incentives and patient information in childbirth. Physicians can increase their income by recommending intensive treatment, but face a cost to patient satisfaction if they make an inappropriate recommendation to an informed patient. The model predicts OBs will recommend too many (few) C-sections when they are positively (negatively) reimbursed on the margin relative to vaginal deliveries. The model also predicts that the amount of overuse (or underuse) is decreasing in patient information.

To test these predictions, we use new micro-data on hospital births in California paired with confidential data from Texas. Together these states account for almost 25% of U.S. births. First, we compare the C-section rate of physician-mothers with that of comparable non-physicians. C-sections are typically more highly reimbursed than vaginal deliveries under fee-for-service (FFS), and physician-patients are more informed regarding their need for the procedure. Thus, in FFS the model predicts lower C-section rates for physician-mothers. We then examine how demand inducement differs across financial incentive environments. Specifically, we compare the gap in C-section rates between physician and non-physician mothers inside and outside of a large system of HMO-owned hospitals in California. In contrast with FFS, in HMO-owned hospitals C-sections are less financially favorable to physicians and to the hospital, because the hospital internalizes the costs of care and incentivizes the physicians it employs accordingly. This directly tests whether the intersection of patient information and physician financial incentives is responsible for the treatment differences. Finally, we compare the health outcomes of physician-mothers and their infants with those of non-physician-patients to ascertain whether they are consistent with receiving more optimal treatment.

We find that physician-mothers are 7-8% less likely to have a C-section than other highly educated patients. The C-section rate even varies among physician-patients with the relevance of their medical knowledge. Physician-patients in specialties with the most relevant expertise have lower C-section rates. Physicians' lower C-section rates stem not from different preferences for attempting labor, but instead come from C-sections performed after an attempt at labor (herein "unscheduled C-sections"). Differential sorting of patients to hospitals or physicians can explain only 20% of the treatment gap. Finally, measures of treatment intensity suggest physician-patients are not achieving fewer C-sections by utilitzing heroic measures.

We also find a stark difference in the impact of the incentive environment. It has a large effect on non-physicians' probability of receiving a C-section: they have a higher C-section rate in hospitals where there is a financial incentive to perform C-sections. However, physician-patients appear to be unaffected by the financial environment (they have the same risk-adjusted C-section rate inside and outside of HMO-owned hospitals). These results suggest that while financial incentives are an important determinant of treatment, patient information is an effective counterweight.

The consequences of these treatment differences are not only financial. Physician-mothers and their infants have lower morbidity than other patients. It also appears that physicians achieve these outcomes without using more hospital resources. Controlling for method of delivery, the hospital charges for physician-births are similar to those of non-physicians.

Physicians and non-physicians likely differ in many respects, including malpractice concerns, time costs, risk preferences, and selection of providers. Any of these might explain a single finding in isolation, but, as we discuss below, they do not fit the full pattern of results.

The remainder of the paper proceeds in five sections. Section II describes the clinical and institutional setting. In Section III we present the existing literature and theoretical framework. Section IV presents the data and empirical framework. Section V presents the results, VI discusses them, and VII concludes.

II Clinical and Institutional Setting

C-section rates have increased from one in five births in 1996 to nearly one in three. The states we study, California and Texas, have C-section rates of 33.2% and 35.3%, respectively (Martin et al. (2013)). Notable unexplained variation has been documented across hospitals and across physicians within geographic areas (Epstein and Nicholson (2009), Kozhimannil et al. (2013), Baicker, Buckles and Chandra (2006)). While the optimal rate is unknown, many experts believe C-sections are over-used. The United States Department of Health and Human Services repeatedly includes reducing C-section rates in its Healthy People goals. The 2020 goal is a 10 percent reduction. However, as the Chief OB for Sutter Health noted: "Cesarean birth ends up being a profit center in hospitals, so there's not a lot of incentive to reduce them" (LA Times, May 2009).

Medical decision-making during childbirth is especially well-suited to testing for inducement. Unlike most medical conditions, childbirth occurs for an unambiguous, pre-defined population (pregnant women) and treatment must occur within a narrow time frame. Thus, the scope for inducement exists only on the intensive margin. There is a well-documented payment wedge for C-sections relative to vaginal deliveries under FFS and an information asymmetry between OBs and patients. Less-informed patients typically cannot even reduce the asymmetry by seeking an independent second opinion during labor. Physician-patients, in contrast, are more likely to know which treatment is appropriate for them. They have direct medical knowledge of childbirth, as obstetric rotations are part of the core curriculum in U.S. medical schools and residency programs. Physicians' medical training may also equip them to better understand and evaluate treatment options and their implications. Bronnenberg et al. (2013) document large asymmetries between experts and the average consumer in understanding even the basic fact that generic and brand name drugs are equivalent. Medical care in childbirth requires far more nuanced knowledge, suggesting asymmetries in this context are likely large. Moreover, unlike treatment for many acute conditions, patients are conscious during labor and thus their information has the potential to affect treatment.

In childbirth the primary treatment decision is whether to perform a vaginal delivery or a C-section. There are several clinical situations in which a C-section is clearly indicated, and the medical guidelines recommend scheduling a C-section before labor begins for many of them.[2] In California 10 percent of first-time mothers have scheduled C-sections; the remaining 90 percent attempt vaginal delivery. An attempt at vaginal delivery begins with the natural onset of labor or medical induction of labor (15 percent of first births in California are induced). If at any point the OB believes the risks associated with continuing labor outweigh the benefits, she can recommend progressing to surgery. C-sections after a trial of labor are termed "unscheduled C-sections." Some of these are "emergency C-sections," in the sense that not immediately progressing to surgery would likely compromise health, but most unscheduled C-sections are are not emergent.

C-sections clearly improve maternal and infant outcomes in some clinical situations (e.g., uterine rupture), but guidelines regarding the decision to leave the delivery room for the operating room are often ambiguous.[3] The benefit of the C-section must be weighed against the risks of maternal mortality and morbidity associated with major abdominal surgery. While maternal mortality rates are very low, they are estimated to be two to four times higher in C-sections than in vaginal delivery (Hall and Bewley (1999)). Mothers are also more likely to be re-hospitalized for infection, for cardiopulmonary and thromboembolitic conditions, and for surgical wound complications after a C-section (Lydon-Rochelle et al. (2000)). In addition, recovery times and hospital stays

[2]American College of Obstetricians and Gynecologists (ACOG) recommends Cesarean delivery before a trial of labor in first births for: breech or transverse lie, placenta previa, triplets and higher order multiples, uterine rupture, certain rare maternal cardiac or neurologic conditions, or a history of certain uterine surgeries (Source: D. Carusi, M.D., Brigham and Women's Hospital Department of Maternal Fetal Medicine, personal e-mail communication).

[3]While guidelines for managing shoulder dystocia are quite clear, guidelines for cases when the first stage of labor fails to progress, or when the second stage of labor progresses past 1 or 2 hours are lacking. Even when guidelines are clear, as in cases of oxygen deprivation, monitoring typically provides only a noisy indicator of fetal distress (Prentice and Lind (1987)).

are twice as long for Cesarean deliveries, and C-sections may increase the risk of complications in future pregnancies as well as the ability to become pregnant (Alpay et al. (2008), Nielson et al. (1989), Ananth et al. (1997), Norberg & Pantano (2013), HCUP (2009)). C-sections also carry risks for infants; for example, 1.1 percent of infants delivered by Cesarean are injured in the procedure (Alexander et al. 2006). However, these risks must be traded off against the uncertain consequences of allowing labor to progress.

In FFS payment schemes, physicians are typically reimbursed more highly for C-sections than for vaginal delivery.[4] This difference in fees is not thought to be justified by increased costs incurred by the OB in a Cesarean delivery. C-sections require surgical training and may be a more complex procedure, but they take less time on average, and the timing is more predictable.[5] Thus, the raw payment differential may even understate the difference in effective wage rates across the procedures.

In California 15% of births take place in an HMO-owned hospital setting, where the HMO directly operates hospitals.[6] In this setting both physicians and hospitals have an incentive to perform vaginal deliveries in lieu of C-sections. According to the HMO, 95% of their physicians are paid by salary (as of 2006), and medical groups with costs under-budget are eligible for additional compensation. Furthermore, since the hospital is owned by the insurance company it internalizes the cost of care provided.

C-sections consume more hospital resources than vaginal deliveries. Hospital charges are $6,000 higher for a C-section on average (Baicker, Buckles and Chandra (2006)).[7] Hospital costs associated with C-sections are estimated to

[4]Gruber, Kim and Mayzlin (1999) report a difference of $500 on average. A more recent estimate from the Healthcare Blue Book is $380. This is close to the differential reported by Medicare (for patients eligible for SSDI): Medicare pays physicians $2,295 for a C-section vs. $1,926 for a vaginal delivery (on average).

[5]The Medicare Resource-Based Relative Value scale assigns a higher score to C-sections compared with vaginal deliveries (49.26 vs. 43.78), but there is some debate regarding whether this reflects the difference in true work or complexity between the two procedures. Source: www.physicianspractice.com/display/article/1462168/1589375.

[6]Another 37% of all births are to patients insured by an HMO, but delivering in a non-HMO-owned hospital.

[7]In California average charges for the mother differ by $8,472. According to Truven

be approximately $1000 higher for uncomplicated deliveries and $3000 higher for complicated deliveries (Podulka et al. (2011)). These numbers are conservative (they only include direct medical costs), yet even they suggest reducing C-sections to their 1996 levels could save between $1 and $3 billion per year.

III Literature and Theoretical Framework

III.I Literature

The concept of induced demand is first attributed to Evans (1974). McGuire (2000) defines PID as: "when the physician influences a patient's demand for care against the physician's interpretation of the best interests of the patient." Physicians can effect such a shift, because patients must rely on the physician to inform them of their treatment options and their expected risks and benefits.

In an ideal world, the econometrician would compare actual treatment quantity with the quantity the physician believes the patient would demand if she were perfectly informed. Because this is often not observable even ex-post, empirical tests for PID have followed one of two approaches. The first exploits variation in physicans' incentives to induce.[8] For example, Gruber and Owings (1996) exploit the shock to OB incomes resulting from the secular decline in fertility rates in the 1970s. They find that a 5% fall in incomes leads physicians to increase the C-section rate by 1 percentage point. A related test for inducement exploits changes in physician fees.[9] Physicians have been found to make up lost revenue by increasing volume (Nguyen and Derrick (1997), Yip (1998), Jacobson et al. (2010)). Gruber, Kim, and Mayzlin (1999) finds a response in the opposite direction: C-sections increased by 0.7 ppt in

Health Analytics, the average difference in hospital and physician payments made by commercial insurers was $6000 in California.

[8]Numerous authors have documented a positive cross-sectional correlation between physician supply and rates of surgery (Fuchs (1978), Cromwell and Mitchell (1986), Rossiter and Wilensky (1983)). Following Dranove and Wehner's (1994) critique, this empirical approach was superseded by studies exploiting exogenous shocks.

[9]The positive covariance of treatment with fees is consistent with PID, but it is also consistent with models without asymmetric information (McGuire (2000)).

response to a $100 increase in the Medicaid fee differential. In both of the above approaches, identification comes from the reaction of physicians to a shock; as a result they are not estimates of the overall level of PID.

The second broad approach to testing for PID uses variation in the information asymmetry necessary for physicians to induce demand. These studies typically compare the treatment physicians choose (or would choose) for themselves with the treatment non-physicians receive (Bunker and Brown (1973), Hay and Leahy (1982), Chou et al (2006), Grytten, Skau and Sorensen (2011), Ubel et al. (2011)). For example, in a Swiss survey Domenigetti et al. (1993) find that physicians report receiving one of seven major surgical interventions one-third less often than non-physicians. This empirical approach has also been employed more generally to test for agency problems when employing experts (Levitt and Syverson (2008)). This paper merges the two broad approaches in the existing literature by jointly varying the ability and the incentive to induce demand.

The above studies highlight the role of physicians' financial incentives in treatment decisions. Financial remuneration, however, is unlikely to be the only factor in the physicians' calculation of the marginal costs and benefits of treatment choices. For example, malpractice risk has received considerable attention. However, in childbirth even the largest empirical estimates are relatively small (Avraham, Dafny, and Schanzenbach (2012)). Dubay, Kaestner, and Waidman (1999) and Sloan et al. (1997) find small increases, Kim (2007) finds no effect of malpractice risk on C-sections, and Currie and MacLeod (2008) finds malpractice pressure leads to sizable decreases in C-sections.

III.II Theoretical Framework

In PID models treatment quantities are determined in equilibrium by physicians equating the marginal cost of inducing demand with its marginal benefit (McGuire (2000)). A key difference is how models incorporate the cost of inducement. Some incorporate the cost directly in the utility function (Ellis & McGuire (1986), McGuire & Pauly (1991), Gruber & Owings (1996)), while others model patients' refusal of unwarranted care (Dranove (1988)) or their future demand for that physician's services (Pauly (1980)).

In the spirit of McGuire & Pauly (1991), we model the cost of inducement as a direct argument in the physician's utility function. Our model differs in that it explicitly incorporates patient information in order to illustrate the relationship between financial incentives, information, and demand inducement. Assume each patient's need for a C-section is denoted by the index z, which is distributed across patients according to $f(z)$. Let $\overline{z}$ be the clinically optimal threshold for performing a C-section (a C-section maximizes patient health for all patients with $z_i \geq \overline{z}$). For simplicity, further assume that OBs perfectly observe z_i. Only a fraction of patients, p, observe z_i. The remainder of patients are uninformed.[10]

OBs are risk neutral and their utility functions equally weight profits and patient satisfaction as follows:[11]

$$u_i(c_i, r_i) = c_i\pi + \begin{cases} r_i(g(z_i - \overline{z})) + (1 - r_i)g(-(z_i - \overline{z})) & \text{informed} \\ 0 & \text{uninformed} \end{cases}$$

Where r_i and c_i are indicators equal to one when the OB recommends and performs a C-section, respectively. π is the profit differential between a C-section and a vaginal birth, and $g()$ is any monotonically increasing function that preserves origin symmetry.[12] The second and third terms of the utility from treating an informed patient represent patient satisfaction with her OB's advice. Dissatisfaction with a clinically inappropriate recommendation

[10] The comparative statics are robust to assuming that OBs only have a noisy signal of z, so long as the precision of the signal is independent of whether the patient is informed. One could also consider a model in which all patients have imprecise signals of their health and update their beliefs based on physician advice. Dranove (1988) solves the strategic game that results from this set-up. While closed form solutions are not possible in the general case, the model makes similar predictions. Specifically, it predicts demand inducement will be decreasing in patient information.

[11] Neither is necessary for the predictions that follow.

[12] If origin symmetry is not preserved, then the comparative statics below will still hold, but the optimal points will be shifted.

is increasing in the patient's distance from the optimal threshold.[13]

An informed patient will only consent to clinically appropriate treatment, while an uninformed patient will defer to her OB.

$$c_i = \begin{cases} I[z_i \geq \overline{z}] & \text{informed} \\ r_i & \text{uninformed} \end{cases}$$

When deciding whether to recommend treatment, the OB does not know whether an individual patient is informed. The OB observes patient characteristics, x_i, and forms an expectation that the patient is informed based on those characteristics: $E(p_i|x_i) = \hat{p}_i$. The OB then chooses r_i to maximize her expected utility:

$$\max_r EU = (1 - \hat{p}_i)r_i\pi + \hat{p}_i\big[I[z_i \geq \overline{z}]\pi + r_i g(z_i - \overline{z}) + (1 - r_i)g(-(z_i - \overline{z}))\big]$$

The OB will recommend a C-section to patients with:

$$z_i \geq \overline{z} + g^{-1}\left(\frac{-(1 - \hat{p}_i)\pi}{2\hat{p}_i}\right)$$

Let z_i^d dentoe the OB's cut-off for recommending a C-section. $z_i^d = \overline{z} + g^{-1}(\kappa_i)$ with $\kappa_i = \frac{-(1-\hat{p}_i)\pi}{2\hat{p}_i}$. The resulting C-section rate will negatively covary with z_i^d.[14]

The OB thus chooses the clinically optimal C-section threshold ($z_i^d = \overline{z}$) when $\pi = 0$ or when $\hat{p}_i = 1$, the cases of no financial incentive and perfectly informed patients, respectively. Note that if there are other frictions in the market, for example, insurance, the C-section rate of perfectly informed patients may not reflect the clinical optimum, but the comparative statics will

[13] Patient satisfaction could enter the OB's utility function either due to reputation concerns or due to the disutility of interacting with a disgruntled patient. One could also imagine an altruistic physician might care about patient welfare more generally. Allowing patient welfare to directly enter the physician's utility function affects the level of inducement, but does not affect the predictions below.

[14] Informed patients have a C-section rate of $1 - \Phi(\overline{z})$. Uninformed patients with $z_i > z_i^d$ receive a C-section. Thus as long as there are some uninformed patients, the C-section rate rises as z_i^d falls.

still hold. This model abstracts away from these factors to highlight the impact of information and financial incentives.

When π is greater (less) than 0, z_i^d is less (greater) than $\overline{z}$ and the OB performs too many (few) C-sections. The OB's treatment threshold also varies with $\hat{p}$, the expected probability the patient is informed:

$$\frac{dz_i^d}{d\hat{p}_i} = \left(\frac{\partial}{\partial \kappa_i} g^{-1}(\kappa_i)\right)\left(\frac{1}{\hat{p}_i} + \frac{1-\hat{p}_i}{\hat{p}_i^2}\right)\frac{\pi}{2} \tag{1}$$

The sign of π determines the sign of the derivative, as all other terms are positive. Thus in FFS where $\pi > 0$ z_i^d is increasing in $\hat{p}$, implying the C-section rate is decreasing in $\hat{p}_i$. The model's predictions reverse in HMO-owned hospitals where vaginal births are incentivized ($\pi < 0$). There z_i^d is decreasing in $\hat{p}_i$ and the resulting C-section rate is increasing in $\hat{p}_i$.

Figure 1 displays the OB's cutoff for recommending a C-section as a function of $\hat{p}_i$ for the case where $g(z_i - \overline{z})$ is simply $z_i - \overline{z}$. Note that even a modest probability that the patient is informed leads the OB to self-regulate and not recommend inappropriate care for the most clear-cut situations. Note also that OBs choose cut-offs that are further from the optimum when treating patients who are less likely to be informed. In FFS (HMO-owned hospitals) this results in a C-section rate that is higher (lower) for uninformed patients. For fully-informed patients the incentive environment does not affect the C-section rate.

If clinical standards are chosen to maximize patient outcomes, deviation from the clinical optimum results in worse outcomes for patients. Thus, the model also predicts that less informed patients should have worse outcomes.

IV Data and Methodology

IV.I Data

In order to test the above predictions, one needs to observe treatments and outcomes of patients who differ in their likelihood of being informed about the appropriateness of treatment. Physicians' medical training makes them much more likely than the average person to have clinical knowledge, and their profession is visible to OBs. We therefore use being a physician as a proxy for the patient's probability of being informed. We identified physician-patients by merging the confidential California Vital Statistics (VS) data, which includes mothers' full names, with licensure data on physicians practicing in the state.[15] Specifically, we merge the California confidential Linked Patient Discharge Data-Birth Cohort File (PDD-Birth) with the California Medical Board database of all licensed physicians in the state. In addition to the full name, the mother's zip code, approximate age and education were used in the merge process. A detailed description of the merge process is provided in the Data Appendix.

The linked data include the VS record for every birth registered in California from 1996-2005. Births taking place in hospitals are linked to the mother and infant's hospital discharge records. The VS record includes maternal and paternal demographic information, maternal pregnancy history, pregnancy risk factors, and delivery complications. The data also has information on the birth, including method of delivery. The linked patient discharge data adds up to 24 diagnoses and 20 procedure codes for the mother and the infant. The data also include patient insurance type and hospital charges. See Table 1 for the full list of resulting variables.

Due to the path dependence of treatment in second births, we focus on first births. There were 2,029,298 registered singleton first births over 20 weeks gestation in California hospitals in the sample period. Given the time needed to complete medical school, there are almost no physicians in their early twenties. We therefore restrict the sample to the 1,059,056 mothers between 24 and 45 years of age and exclude observations with missing maternal age, zipcode, gestational age, or birthweight.[16] Finally, to reduce concerns about comparability between physicians and non-physicians our preferred sample is the

[15]It was not possible to reliably identify physician fathers in the VS data because the confidential PDD-Birth file does not include the father's first name.

[16]There are 918,098 births to women under 24 and 142 births to women over 45.

582,528 births to parents with at least one college degree between them, although this choice of comparison group is not essential for the results that follow (See Supplementary Tables for other comparison groups). Of these, 3,286 mothers are identified as physicians in the probabilistic record linkage.

Table 1 summarizes the independent variables used in the analysis. 15.8% of physician-patients and 14.7% of non-physicians deliver in an HMO-owned hospital. The differences between physicians and non-physicians are substantively similar in these two settings. Physicians are older, less likely to be hispanic, and they live in zip codes with higher income per capita. By definition, physicians are all highly educated, but they also have spouses who are more highly educated than spouses of non-physician mothers.

Physicians give birth to infants with lower gestational ages and lower birth weights on average. In terms of clinical risk factors, physicians and non-physicians are fairly similar.[17] Outside of HMO-owned hospitals, 4 of 17 physician / non-physician differences are significant at the 5 percent level. Physicians have higher rates of oligohydramnios, growth restriction, thyroid conditions and pre-existing physicial factors. Inside HMO-owned hospitals, differences are slightly larger and the significant differences are placental / uterine rupture and hemorrhage, oligohydramnios, growth-restriction and pre-existing maternal factors.

We complement the California data with VS data on all births in Texas from 1996-2003 and 2005-2007 (summarized in Appendix Table A.1). The hospital identifier was not available in 2004 necessitating its exclusion. The Texas data come solely from the birth certificate and its associated survey. The data are less detailed and, most notably, it is not possible to reliably classify C-sections as scheduled or unscheduled. In addition, the following variables are not available: uterine rupture/ hemorrhage; ruptured membranes $\geq$ 24 hours; isoimmunity; oligohydramnios, polyhydramnios; growth restriction; thyroid condition; herpes, asthma, pre-existing maternal physical factors; and other

[17]We exclude failure of the labor to progress, obstruction, and non-reassuring fetal heart rate. These are subjective and potentially endogenous to the treatment decision, particularly when physicians need to justify a C-section with a diagnosis code.

maternal pre-existing conditions. However, the Texas data has some important variables that are unavailable in California. The name of the attending OB (after 2004) and the self-reported occupations of both parents are available in the confidential data. We identify 2,619 births to physician-mothers, 5,905 births to physician-fathers and 1,472 births in families with two physician-parents. We were also able to merge in the physician-patient's specialty for 77% of mothers and 75% of fathers. This allows us to further refine our proxy for patient information, as some specialties are more likely to be informed about the specifics of childbirth.

IV.II Econometric Model

We first estimate OLS regressions of a binary indicator for C-section on an indicator for whether the mother is a physician along with demographic and clinical controls. For the initial analysis, we focus on births occurring outside of HMO-owned hospitals. OLS regressions are of the following form:

$$y_{iht} = \alpha + D_{iht}\beta + x_{iht}\gamma + \delta_t + \epsilon_{iht} \tag{2}$$

where y_{iht} is a dummy variable indicating that patient i had a C-section in hospital h in time t, D_{iht} is a dummy indicating that the delivering mother is a physician, and x_{iht} is a vector of all the variables listed in Table 1 including maternal demographics, infant information, and clinical risk factors. x_{iht} also includes interactions between zip code income and race and clinical risk factors interacted with age, race and zip code.[18] δ_t is a vector of year-month interactions. Hospital fixed effects, ν_h, are included as indicated in tables. β is the coefficient of interest. It is the estimate of the difference in C-section rates for physicians and non-physicians outside of HMO-owned hospitals. As discussed above, if physician-patients are more likely be informed ($\hat{p}_{md} > \hat{p}_{non-md}$), the model predicts $\beta < 0$.[19]

[18]The results are not dependent on including interactions in the regression.

[19]$\hat{p}$ need not be zero for these predictions to hold, and in fact highly educated families are likely to have some information regarding childbirth.

The regressions above employ a fairly flexible functional form. However, there could be complex interactions between observed risk factors and demographics. For this reason, we also run nonparametric nearest neighbor matching regressions. This approach exploits the large size of the control group (non-physicians) relative to the treatment group (physicians). Specifically, we estimate the average treatment-on-treated (TOT) effect by matching each physician with the closest comparable non-physician on a rich vector of demographic and clinical variables. This vector includes a full set of 2-year age bins, education and race indicators, clinical risk factors, term length indicators, indicators for low and high birthweight, and 5-year time bins. The TOT estimator is calculated as the mean difference in C-section rates between treatment and control observations in the matched sample.[20]

To test whether physicians' treatment covaries with the treating physician's financial environment, we next turn to the full sample of patients (delivering inside and outside of HMO-owned hospitals). We estimate the following OLS regression:

$$y_{iat} = \alpha + D_{iat}\beta_1 + D_{iat} * HMO_{iat}\beta_2 + HMO_{iat}\beta_3 + x_{iat}\gamma + \delta_t + \epsilon_{iat} \qquad (3)$$

where HMO_{iat} is a variable indicating that the birth for patient i in hospital service area (HSA) a in time t took place in an HMO-owned hospital. Where indicated, fixed effects for the patient's HSA are also included. HSAs are used in lieu of hospital fixed effects, because the latter are collinear with the HMO-owned hospital indicator.[21] As before, we expect lower C-section rates for physicians relative to non-physicians outside of HMO-owned hospitals ($\beta_1 < 0$). We also expect lower C-section rates for non-physicians in HMO-owned hospitals, where there is a financial incentive to do fewer C-sections

[20] The Mahlanobis measure is used to determine closeness. In cases of multiple exact matches, a weighted average of exact matches is used as the control observation. Analytical standard errors are calculated following Equation 14 of Abadie & Imbens (2006).

[21] An HSA is as "a collection of zip codes whose residents receive most of their hospitalizations from the hospitals in that area" (Dartmouth Atlas). There are 3,436 HSAs in the U.S. HSA fixed effects, while not a perfect proxy for the hospital, will control for the socio-economic status of patients in the hospital's area.

on the margin, compared with non-physicians delivering elsewhere ($\beta_3 < 0$). Because informed patients should be unaffected by the incentive environment, the model predicts more intense treatment for informed patients relative to less-informed patients inside of HMO-owned hospitals. If informed patients are unaffected by the incentive environment, we expect ($\beta_2 + \beta_3 = 0$).

Finally, we examine how physicians' morbidity compares with that of non-physicians. Because the patient morbidity measures we observe are rare and the linear probability model performs poorly with low frequency events, we estimate logit regressions of the form:

$$logit\ (I_{iat}) = \alpha + D_{iat}\beta_1 + D_{iat} * HMO_{iat}\beta_2 + HMO_{iat}\beta_3 + x_{iat}\gamma + \delta_t \quad (4)$$

where I_{iat} is an indicator variable for a maternal or infant morbid condition for patient i in HSA a in time t. The remaining variables are defined as in equation (3). Informed patients should have fewer adverse outcomes both in and outside of HMO-owned hospitals if inappropriate levels of care affect morbidity. If instead the marginal treatment is in the "flat of the curve," then there would not expect differential morbidity for informed patients.

V Results

V.I Treatment Intensity

Table 2 summarizes raw C-section rates of physician and non-physician parents. Consistent with PID, in California physicians have lower C-section rates relative to non-physicians outside of HMO-owned hospitals (1.7 ppts) and higher rates inside them (4.9 ppts). Overall C-section rates in Texas are higher, but physician-parents in Texas also have lower raw C-section rates compared with non-physicians. Finally, in California non-physicians inside HMO-owned hospitals have much lower C-section rates than those outside of HMO-owned hospitals (3 ppts).

These raw comparisons are in line with the model's predictions. Next we turn to OLS regressions with the full set of controls for observed demographic and clinical factors described in Section IV. In all specifications, the comparison sample is non-physicians between 24 and 45 years of age in families with at least one college-educated parent.

OLS estimates of Equation (2) are in Table 3, Panel A. Consistent with PID, physician-mothers have C-section rates that are 2.14 percentage points (7 percent) lower than educated non-physicians. It is also clear that the reduced C-section rate is coming entirely from unscheduled C-sections: physicians have risk-adjusted unscheduled C-section rates that are 2.16 (11 percent) percentage points lower than non-physicians. Thus, the effect is among mothers who have expressed a revealed preference for vaginal delivery by attempting labor. It is not the result of differences in maternal preferences for elective C-sections. Instead, the difference arises from decisions made in the delivery room regarding when to stop laboring and progress to surgical delivery.[22] This is consistent with the model. While clinical guidelines are clear for scheduled C-sections, they are less clear for unscheduled, and there is little time to gather additional information once labor has begun.

C-section rates vary substantially across hospitals within California. We next ask whether this treatment difference arises from physician-mothers choosing different hospitals or receiving differential treatment within the same hospital. The addition of hospital fixed effects reduces the unscheduled C-section coefficient by only 20%. Physicians' unscheduled C-section rates remain 9% below rates of non-physicians (Table 3, Column 6). Thus, differential sorting does not appear to be the primary mechanism behind physicians' lower C-section rates.

The OLS regressions employ a fairly flexible functional form, however there could still be complex interactions in the relationship between observed risk factors and C-section incidence. To address this, we employ nearest neighbor matching estimators, which do not require such assumptions and implicitly allow for complex interactions. Table 3, Panel B presents TOT nearest neigh-

[22]The difference in C-section rates does not appear to be driven by differences in medical judgment regarding how any single complication should be handled. Instead, it appears as if a different threshold is being applied to physician and non-physician-patients across the board.

bor matching estimates. Even matching on a rich set of covariates, the exact match rate is 89% in the main specification (Table 3, panel B, Columns (1), (3), and (5)). Regressions that also match on hospital achieve 53% match rates (Columns (2), (4) and (6)).[23] Both sets of results are strikingly similar to the OLS.

These findings are not unique to California. Table 4 presents OLS regression results for Texas. The Texas specifications include indicators for both physician-mothers and physician-fathers.[24] As in California, the comparison sample is non-physicians in families with at least one college degree. Columns (1) and (2) display results for all years and Columns (3) and (4) for 2005-2007, the period in which the name of the attending physician is available. As in California, physician-mothers in Texas have significantly lower C-section rates. The difference is 2.79 percentage points overall, an 8.5% effect. Like in California, controlling for the hospital of delivery reduces the point estimate by 25%. Even after controlling for the attending OB, physician-mothers remain 6.5% less likely to get a C-section.[25] This suggests the treatment gap arises from physician-patients receiving different treatment rather than selecting different OBs.

One potential concern is that physicians differ from non-physicians on dimensions in addition to information. We therefore directly test whether treatment intensity varies with medical information. While all physicians are more likely than non-physicians to be informed, there is variance in information even among physicians. For example, gerentologists are less likely to have recent relevant clinical experience. The model predicts less informed physicians will have C-section rates further from the clinical optimum. In Panel B of Table 4 we interact the physician indicator with an indicator for whether

[23]Hospitals with less than 100 births are excluded due to low match rates (this excludes 0.12% of the sample of births and 1 physician-parent).

[24]They also include indicators for whether the parents are married and whether the mother and father each report an occupation other than homemaking (these are not available in California).

[25]Mothers treated by physicians delivering fewer than 20 babies are excluded from the attending fixed effect analysis. This specification does not include hospital fixed effects because the majority of attendings deliver at only 1 hospital.

the physician-patient specializes in an area of medicine without direct relevance to childbirth.[26] All else equal, physician-patients with the most relevant medical knowledge have the lowest C-section rates. The most informed physician-mothers have C-section rates that are 3-4 percentage points lower than non-physicians (Table 4, Panel B, Row 1); mothers in other specialties have C-section rates that are only slightly lower than non-physicians (Table 4, Panel B, sum of coefficients from rows 1 and 2).[27] This provides direct evidence on the impact of information and medical knowledge on treatment. It suggests that it is the relevance of the medical knowledge to childbirth, not general medical knowledge, that leads to lower C-section rates. Moreover, it is not consistent with the results being driven by differential treatment due to physicians' status in hospitals.

The analysis thus far has focused on physician-mothers. In Texas we are able to identify most births to physician fathers (the father's occupation is missing in 15% of births). The spouses of physician-fathers do not have lower C-section rates on average (Table 4, Panel A). However, this is at least partly due to the gender mix of medical specialties. The spouses of physician-fathers with the most relevant medical knowledge do in fact have lower C-section rates (Table 4, Panel B, row 3), although the magnitude is smaller than for physician-mothers. Even among the group of more informed physicians, physician-mothers could be overrepresented in the most informed specialties, for example, obstetrics and gynecology.

[26]Physician-patients are classifed as less informed if their specialty does not involve surgery (a C-section is abdominal surgery with all of the attendant risks and post-operative pain and recovery) or anesthesiology, and if it plays no direct role in treating mothers or infants during childbirth or immediately after (OBs, pediatricians and family medicine would therefore not be classified as less informed).

[27]Nurses are another natural group to study. They have more medical knowledge than the average person, but less than physicians. All else equal, mothers who are nurses have a marginally significant 1 percentage point lower C-section rate even after controlling for the attending physician. There is likely enormous variation in the medical knowledge of those who self-identify as nurses.

V.II Financial Incentives

Physician financial incentives are thought to be the primary impetus behind PID. We now directly test whether the gap between physician and non-physician-patients varies with their providers' financial incentives. Table 5 displays estimates of the coefficients in Equation (3). As discussed above, we expect HMO-owned hospitals to have lower C-section rates than non-HMO-owned hospitals. The model also predicts physician-patients will be less affected by the incentive environment, because they are more likely to be informed about appropriate treatment.

As expected, the coefficient on the HMO-owned hospital indicator is negative. Non-physician mothers delivering at HMO-owned hospitals have C-section rates that are approximately 5 percentage points lower than non-physicians delivering elsewhere (Columns (1) and (2)). Roughly half comes from lower scheduled and unscheduled C-sections, respectively. The coefficient on HMO-owned hospital (β_3) and the coefficient on the interaction between HMO-owned hospital and physician-patient (β_2) are close in magnitude and of opposite sign.[28] Thus, unlike other patients, physicians appear to be unaffected by the contract environment of their providers. They have the same risk-adjusted C-section rates in and outside of HMO-owned hospitals. This is exactly what the model predicts. When broken out into scheduled and unscheduled C-sections the same pattern holds, although the estimates are less precise.

Enrolling in an HMO that operates its own hospitals is a choice. One potential concern is that physicians and non-physicians could differentially sort into these hospitals.[29] Results are robust to restricting the comparison group to families with highly-educated mothers, who may be more similar to physicians (Table 6, Columns (1) and (2)). To further investigate socio-

[28] P-values from the test of the null that $\beta 2 + \beta 3 = 0$ are 0.79 and 0.92 for regressions displayed in Columns 1 and 2, respectively. For regressions in Columns (5) and (6), they are 0.90 and 0.80.

[29] Results are robust to including hospital fixed effects in lieu of the HMO-owned hospital indicator (Supplementary Table B.7). This suggests they are not due to physicians differentially sorting to hospitals within the HMO system.

economic differences Table 6, Columns (3) and (4), provide estimates with maternal zip code fixed effects in place of HSA fixed effects. If differential sorting based on socioeconomic status is driving results, one would expect the effect size to be diminished by this change. Estimates are virtually identical to those in Table 5.

For the pattern of results above to be due to sorting, the differences between physicians and non-physician patients would have to reverse across the financial incentive environment. Additionally, if physicians and non-physicians are differentially sorted, this would likely be reflected in the rates at which they choose to deliver at the closest hospital to their home and the distance they are willing to travel to their hospital of choice. Physician-patients and non-physician-patients both in and outside of HMO-owned hospitals are equally likely to deliver at the hospital closest and travel comparable distances to their delivery hospital (Table A.1). In addition, we get the same pattern of results for patients who chose to deliver at their closest hospital (Table 6, Columns (5) and (6)) and patients who bypassed the closest facility to get to their delivery hospital (Table 6, Columns (7) and (8)). Of course we cannot rule out that physician and non-physician-patients differentially sort into HMO-owned hospitals based on factors that are not reflected in hospital location. If these factors are not absorbed by observables, bias could result.

V.III Maternal and Infant Morbidity

The estimates above demonstrate that physician-mothers receive different treatment in birth than comparable non-physicians. However, are physicians receiving better care or just different care? Are they using their medical knowledge to get more clinically appropriate treatment or are they being permitted to choose higher risk treatment plans? The model predicts non-physicians' treatment will deviate from the clinical optimum, and they will therefore have higher incidence of morbidities. If, alternatively, physician-mothers were pursuing high risk treatment paths or placing more weight on their own health relative to their infants, one would expect them or their infants to have higher morbidity rates. We find neither.

Infant and maternal death in childbirth are incredibly rare in the United States. The overall maternal death rate in California is only 8 per 100,000 college educated women, and no physician-mothers died in our sample. Infant and maternal complications during and immediately following childbirth are more common. Table 7 includes the conditions we observe in at least 1% of births and their means (See Table A.1 for more detail). Almost 9% of mothers have 3rd or 4th degree perineal lacerations, which are serious tears sustained during labor. Post-partum hemorrhage, a more severe complication, is less common (3%) as is maternal infection (4.5%). For infants we observe the presence of meconium (4.1%), respiratory conditions, infection (2.0%), and delivery trauma (1.2%). We split respiratory conditions into the less serious conditions that require oxygen therapy or mechanical ventilation (2.7%) and the more severe cases that require intubation (2.5%).

Because even these conditions are relatively infrequent, we estimate logit regressions as in equation (4). Table 7 displays the average marginal effects (AMEs). Overall, physician-mothers have better outcomes. Outside of HMO-owned hospitals, physician-mothers have significantly lower rates of laceration (1.15 ppts) and infection (1.17 ppts) compared with non-physicians. These suggest that the marginal vaginal delivery does not require extended or difficult active labors. The laceration result is striking given physician mothers' higher rates of vaginal delivery. Lacerations result from vaginal deliveries, while infection and maternal hemorrhage can arise in women delivering either vaginally or by C-section. Thus, the reduced rate of infection could arise from physicians having fewer C-sections and associated surgical wounds at risk for infection or they could have lower infection rates even within delivery method categories. Additionally, while physician-mothers are unlikely to be able to reduce their rates of laceration or hemorrhage through self-care, they may be able to reduce their risk of infection after delivery.[30]

[30] Readmission to the hospital is even more subject to the physician self-care concern. That said, physician mothers and their babies are also less likely to be readmitted in the 14 days after delivery.

Infants born to physician-mothers have lower rates of meconium (0.65 ppts), trauma (0.31 ppts), and intubation (0.42 ppts).[31] While other estimates are less precise, they are all negative, suggesting that physician mothers are not achieving their lower C-Section rates by persisting in more perilous labors, nor are they improving their own morbidity by risking the health of their infants. Moreover, the results suggest overuse outside of HMO-owned hospitals adversely impacts patients.

Inside HMO-owned hospitals the health consequences of reduced C-sections are less clear cut. Non-physician mothers delivering in this setting experience significantly higher rates of laceration and post-partum hemorrhage (3.37 ppts and 1.77 ppts, respectively). However, mothers in this setting are after all avoiding major abdominal surgery (C-sections), and they may prefer an increased risk of complications to a guaranteed surgical incision. Physician-mothers appear to be able to avoid some but not all of the increased morbidity in HMO-owned hospitals. They are entirely available to avoid the increase in the most severe maternal complication, hemorrhage. The AMEs of the HMO-owned hospital indicator and interaction term are nearly equal and offsetting. Results for infants in the HMO-owned hospital setting are mixed. They have lower rates of meconium, infection and trauma, but higher rates of respiratory assistance. Being an informed patient offsets approximately half of the respiratory assistance effect.

V.IV Additional Treatment Margins

The estimates above strongly suggest that physician-patients are able to mitigate demand inducement on the C-section margin. However, there are several other key treatment decisions in childbirth. A question is whether the difference in C-section rates arises from differences on these other margins that then make a C-section less necessary. Two such margins are labor induction and the use of epidural anesthesia. Finally, as the second stage of labor progresses, the attending can attempt to aid in the delivery through the use of forceps or

[31]The Texas VS data includes 1 and 5-minute APGAR scores. While estimates are imprecise, we find no evidence of differential APGAR scores (See Supplementary Table B.11).

a vacuum extractor.

Table 8 presents estimates of equation (3) using indicators for induction, forceps and vacuum as dependent variables. Physician-mothers are significantly more likely to be induced, thus physicians are not avoiding C-sections through lower rates of induction (Table 8, Column (1)). They are also not substituting forceps or vacuum extractions for C-sections. Physician-mothers are significantly less likely to be delivered by vacuum extraction, and there is no measurable difference in the use of forceps. The use of epidural anesthesia is available on the Texas birth certificate after 2004. We find physician-parents are more likely to get epidurals, suggesting differential use of epidurals is not driving their lower C-section rate and that physicians are not opposed to medical interventions in birth more generally (see Supplementary Table B.11).

The treatment decisions investigated above constitute the major medical interventions in childbirth, but are not the only treatments provided. Moreover, while the average vaginal birth is cheaper than a C-section, safely performing the marginal vaginal birth could require more resources both during the birth and to treat any complications that arise. For example, if either physicians or their infants have adverse outcomes on margins not cataloged in the discharge data one would expect them to require additional medical care. Hospital charges provide a summary measure of total treatment provided. Though payers typically receive a large discount on hospital charges, multiplicative discount factors should cancel out in regressions with hospital fixed effects.[32]

Hospital charges are only available for births outside HMO-owned hospitals. Columns (4)-(6) of Table 8 therefore display estimates from regressions of the form of Equation (1) with log hospital charges as the dependent variable. Charges of physician mothers and their infants are nearly 2.6% lower than those of non-physician mothers delivering in the same hospitals (Column 5). If this reduction could be achieved in the broader U.S. population hospital charges would be reduced by two billion dollars per year.[33] Half of these sav-

[32]It is also important to note that hospital charges do not include physician charges or un-billed care, such as the amount of time a physician spends with the patient.

[33]This may overestimate the amount of hospital costs avoided. Percentages may be more

ings are attributable to the difference in delivery method in the two groups. However, even after accounting for differences in the use of C-Sections, physician mothers and their infants have hospital charges that are 1.5% lower than other comparable patients, a difference of \$497.

VI Discussion

We have shown that physician-patients receive different treatment in childbirth, appear to be more immune to their treating OB's financial incentives, and that they and their infants have better health outcomes. Our preferred explanation of these findings is that there is less of an information asymmetry between physician-patients and their OBs and that this makes them less susceptible to PID. Below we consider alternatives to patient information. Each may explain any one of our findings in isolation, but the full pattern of results suggests patient information is the key factor.

We observe treatments, but not the OB's recommendations. It is therefore possible that OBs recommend the same treatments to all their patients, but that physician-patients' preferences for C-sections differ from non-physicians' for reasons unrelated to their clinical knowledge. For example, even among highly educated women, physicians are relatively highly compensated and often work either as sole proprietors or in group practices where maternity leave is costly. The most informed physician mothers could be choosing a higher clinical threshold for C-sections due to their high cost of time away from work (although this would not explain why the spouses of the most informed physician fathers also have lower C-section rates). If this were driving results, one would expect women who are self-employed to also have lower-C-section rates. However, self-employed women and business owners have similar C-section rates to other educated women (Supplementary Table B.10). Furthermore we have shown that physician-patients do not appear to be opposed to medical

informative, as costs paid are typically a fixed fraction of charges. On the other hand, this estimate does not include any cost savings associated with reduced readmissions due to complications from C-sections.

intervention in general or even to interventions that may increase the need for a C-section. They are more likely to get epidural anesthesia and inductions. Moreover, for differences in preferences to explain the results, the difference would have to reverse with the financial incentive environment. This might be possible if physicians and non-physicians differentially sorted into HMO-owned hospitals. However, we have shown that physicians and non-physicians are equally likely to deliver at the closest hospital to their homes; and they drive similar distances to get to their delivery hospital.

Physician-patients could also differ in their risk preferences or in their ability to make decisions under uncertainty. To explain our pattern of results, one would need the relative processing deficiencies or risk preferences to shift across the financial incentive environment and across physician specialties. Even if you exclude surgeons, who may have more experience with high stakes decision-making, from the analysis, the most informed specialties still have lower C-section rates. In addition, if physicians were taking on more risk, one would expect them to have more adverse outcomes or to require more treatment. Neither appears to be the case.

Even if physician-patients have the same preferences for risk their OBs may be less risk-averse when treating them. Fear of malpractice lawsuits is often cited as a potential driver of C-sections. If OBs believe physician-patients will be less likely to sue in the event of a bad outcome, they might perform fewer C-sections on them. However, to explain the above results, OBs would need to believe that the risk of a lawsuit varies with patients' medical specialties. Moreover, we find similar results in California and Texas, states with very different malpractice environments. If anything, there is a larger effect in Texas, where the malpractice environment is relatively more favorable to OBs. Finally, if the results were due to OBs being less risk-averse in their treatment of physician-patients we would expect their infants to have equal or worse outcomes than non-physicians' infants. That is not the case.

An alternative to PID which we cannot entirely rule out is OBs treating physician-patients differently out of professional courtesy.[34] One might be con-

[34]If professional courtesy arises from the fact that a physician-patient will know if anything

cerned that the better outcomes of physician-patients and their infants are due not to the intensity of their treatment, but due differences in the unobserved quality or quantity of care they receive. However, if such a phenomenon were to exist, it would have to be driven entirely by a difference in attention and uncompensated effort, as charges and ancillary treatments are, if anything, lower for physician-patients. Results are also similar when teaching hospitals are excluded, further suggesting differential attention from attendings and residents in teaching hospitals is not driving results.

Finally, the effects we document may not be solely due to the treating OB's financial incentives. Physician and hospital incentives likely covary. HMO-owned hospitals internalize the costs of care and face an incentive to reduce C-sections. Non-HMO-owned hospitals are likely reimbursed more for C-sections than their higher costs justify. The physician ultimately makes treatment recommendations, but hospitals may be able to influence physicians in the direction of their interests. To the extent the hospital does incentivize physicians, it would still be a form of PID. If the hospital affects treatment directly through policies that constrain physician choice, then our estimates would encompass the effects of both the physician and hospital incentives. However, the lower C-section rates do not appear to result from differential treatment of any single condition. Also, it is not clear how much leverage non-HMO-owned hospitals have over OBs with privileges.

VII Conclusion

This paper presents an induced demand model, highlighting the interaction between patient information and provider financial incentives and tests its predictions using data on childbirth. Consistent with the model, physician-mothers are 7% percent less likely to have any C-section, and physician-mothers with the most relevant medical knowledge are 12% less likely to have a C-section. Outside of HMO-owned hospitals the difference in C-section rates comes en-

less than optimal care is provided, or related reputational concerns, then it is a manifestation of PID.

tirely from unscheduled C-sections; it arises from treatment decisions among mothers who chose to attempt labor. Sorting across hospitals and attendings explains only 20% of this difference. It also appears informed patients are able to avoid the impact of their treating physician's financial incentives. While patients in HMO-owned hospitals have significantly lower C-section rates (5 percentage points), physician-patients have similar C-section rates inside and outside of HMO-owned hospitals.

Physician-mothers are not avoiding C-sections by substituting other forms of resource-intensive care. Physicians have lower hospital charges and are less likely to have vacuum extractions. It appears physicians are able to achieve at least as good or better health outcomes while receiving less intensive treatment. This is consistent with our induced demand model - informed patients are able to prevent being moved away from their optimum. While the results taken together are strongly suggestive of PID as the primary driver, we of course cannot rule out that the true cause is some other unobserved dimension on which physician-patients differ.

Outside of HMO-owned hospitals, PID clearly lowers social welfare. C-section rates, morbidity and hospital costs are higher for the marginal patient, and the higher C-section rate means longer recovery times for mothers. It is important to note that the socially optimal C-section rate may be even lower than the rate of physician-patients. Physician-patients are likely targeting a private optimum, and, like all patients with insurance, they do not face the full marginal cost of their care. Inside HMO-owned hospitals the impact of PID on social welfare is less clear. OBs provide fewer C-sections, but there appear to be some tradeoffs in morbidity. The socially optimal level of risk is not zero, therefore lower C-section rates with higher morbidity could be welfare-improving. Considering only the financial costs borne by the hospital (and thus the HMO), this tradeoff appears to pass cost-benefit analysis: the increase in hospital costs associated with treating the additional morbid conditions are substantially lower than our estimates of savings due to eliminated C-sections.[35] This exercise, of course, does not take into account any non-hospital

[35]We regress hospital charges on indicators for observed morbidities using the specification

costs or benefits, including impacts on patient utility.

This paper demonstrates that approximately 10 percent of C-sections represent overuse of healthcare and that this overuse is not only costly but may adversely impact patients. This study also provides suggestive evidence that efforts to improve patient knowledge and information could improve outcomes while reducing health costs. Information interventions are clearly unlikely to provide patients with the same level of information that physicians have. However, if all patients could be treated the way physicians are treated, hospital and physician charges could be reduced by 3% or nearly $2B,[36] and we would nearly achieve the U.S. Government's Healthy People 2020 goal of reducing primary C-sections by 2.6 percentage points. If all patients could be treated like the most informed physician-patients, then the Healthy People 2020 goal would be exceeded. Over the period we study the C-section rate increased from 20 to 32 percent. Changes in patient information or physician financial incentives are unlikely to have been large enough to explain this dramatic increase. Future research will need to disentangle the other factors clearly at work. One candidate is hospital policies and standards of care. Even a physician-patient is limited in how far she can deviate from standard practice and norms.

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of Column (2) in Table 6 (coefficients are in Supplementary Table B.9). We then multiply these charges by estimates of the increase in morbidity for each measure (from Table 7). While the conditions are expensive to treat, they are so rare that, summing across all measures, the expected costs arising from differential morbidity is only $25 for the average patient ($155 if you ignore margins with improved morbidity). These are well below the cost of a C-section.

[36]Calculations are based on the California estimates. Back-of-the-envelope calculations suggest inducement on the C-section margin represents only approximately $30M in physician fees (1% of physician incomes). Physician fees average $1926 for vaginal deliveries and $2295 for C-sections (Medicare). Inducing demand increases OB's income from the average patient by .02 ($2295-$1926). This is compared with average fees of .292*2295+(1-.292)*1926.

267.

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Figure 1: Physician Threshold and Presence of Informed Patients

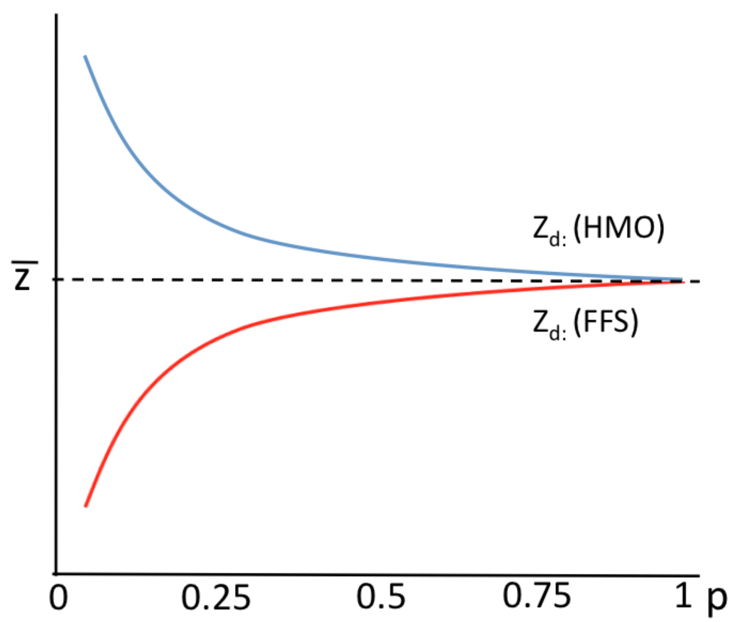

Table 1: Summary Statistics: California

	Non-HMO Hospitals				HMO Hospitals			
	Physicians		Non-Physicians		Physicians		Non-Physicians	
	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.	Mean	Std. Dev.
Demographics:								
Age	32.55*	[3.92]	31.11*	[4.25]	32.60*	[4.07]	30.67*	[4.26]
Mother's education (%):								
Some college	0	[0]	11.81*	[32.27]	0	[0]	12.51*	[33.08]
College graduate	0	[0]	44.69*	[49.72]	0	[0]	42.23*	[49.39]
High education	100	[0]	38.38*	[48.63]	100	[0]	40.08*	[49.01]
Father's education (%):								
Some college	4.99*	[21.78]	13.00*	[33.63]	4.81*	[21.41]	16.98*	[37.55]
College graduate	16.59*	[37.21]	39.67*	[48.92]	19.42*	[39.60]	37.20*	[48.34]
High education	71.69*	[45.06]	37.62*	[48.44]	71.35*	[45.26]	34.16*	[47.42]
Mother's race (%):								
Black	3.47	[18.31]	2.99	[17.02]	5.77	[23.34]	6.17	[24.05]
Hispanic	6.11*	[23.96]	13.79*	[34.48]	7.31*	[26.05]	17.80*	[38.25]
Other (non-White)	38.76*	[48.73]	26.04*	[43.89]	47.31*	[49.98]	28.93*	[45.34]
Zip code income ($)	34,567*	[15,538]	29,517*	[13,760]	33,882*	[13,914]	26,646*	[10,974]
Insurance (%):								
HMO	42.99	[49.51]	43.99	[49.64]	98.46	[12.32]	98.37	[12.65]
Government	3.58*	[18.58]	8.53*	[27.93]	0	[0]	0.31	[5.55]
Indigent	0	[0]	0.024	[1.55]	0	[0]	0.0035	[0.59]
Infant information (%):								
Female	48.34	[49.98]	48.57	[49.98]	50.00	[50.05]	48.74	[49.98]
Very early term (20-36 weeks)	8.10	[27.29]	7.71	[26.67]	9.62	[29.51]	8.59	[28.02]
Early term (37-39 weeks)	25.45*	[43.57]	21.78*	[41.28]	22.88	[42.05]	19.76	[39.82]
Post-dates ($\geq$ 42 weeks)	5.82*	[23.42]	6.87*	[25.29]	5.77*	[23.34]	8.26*	[27.53]
Very low birth weight	0.90	[9.47]	1.01	[9.98]	0.96	[9.77]	1.24	[11.07]
Low birth weight	5.10	[22.00]	4.41	[20.53]	8.65*	[28.14]	5.00*	[21.80]
High birth weight	5.82*	[23.42]	8.97*	[28.58]	6.35*	[24.40]	9.77*	[29.68]
Prenatal care	99.71	[5.37]	99.78	[4.73]	100.00	[0]	99.73	[5.22]
Risk factors (%):								
Malpositioned fetus	4.38	[20.46]	4.57	[20.89]	3.85	[19.25]	4.11	[19.84]
Gestational diabetes	4.41	[20.54]	4.69	[21.14]	5.77	[23.34]	7.07	[25.62]
Eclampsia	0.036	[1.90]	0.081	[2.84]	0.39	[6.20]	0.19	[4.40]
Smoking / substance abuse	0.15	[3.80]	0.19	[4.31]	1.54	[12.32]	1.43	[11.88]
Hypertension / pre-eclampsia	5.53	[22.86]	5.78	[23.34]	7.31	[26.05]	7.54	[26.40]
Congenital anomaly	0.15	[3.80]	0.081	[2.84]	0	[0]	0.12	[3.39]
Placental/uterine rupture/hemorrhage	1.41	[11.79]	1.18	[10.82]	2.11*	[14.40]	1.16*	[10.70]
Ruptured membranes $\geq$ 24 hours	2.24	[14.81]	2.27	[14.88]	3.85	[19.25]	4.22	[20.10]
Isoimmunity	1.81	[13.33]	1.89	[13.61]	0.39	[6.20]	1.07	[10.27]
Oligohydramnios	3.80*	[19.10]	3.10*	[17.30]	5.77*	[23.30]	3.90*	[19.40]
Polyhydramnios	0.43	[6.57]	0.32	[5.63]	0.39	[6.20]	0.26	[5.11]
Growth restriction	2.82*	[16.56]	1.51*	[12.21]	2.69*	[16.20]	1.21*	[10.91]
Thyroid condition	2.39*	[15.26]	1.49*	[12.13]	2.12	[14.40]	1.85	[13.46]
Herpes	0.47	[6.84]	0.51	[7.15]	0.96	[9.78]	1.43	[11.85]
Asthma	1.27	[11.18]	0.94	[9.63]	2.89	[16.75]	2.87	[16.69]
Pre-existing maternal physical factors	1.95*	[13.84]	1.46*	[12.00]	2.69*	[16.20]	1.18*	[10.81]
Other maternal pre-existing conditions	1.45	[11.94]	1.11	[10.48]	1.73	[13.05]	0.98	[9.82]
Observations	2,766		494,077		520		85,165	

Table contains means and standard deviations of independent variables used in the empirical analysis. "Pre-existing maternal physical factors" include previous uterine scar and physical anomalies. "Other maternal pre-existing conditions" includes heart disease, renal disease and liver disease. * denotes differences in Physician and non-Physician means that are significantly different from zero at the 5 percent level.

Table 2: Raw C-section Rates

	Non-HMO Hospitals		HMO Hospitals	
Panel A: California	Physicians	Non-Physicians	Physicians	Non-Physicians
Any C-section	27.4	29.1	31.0	26.1
	[44.6]	[45.4]	[46.3]	[43.9]
Scheduled C-section	10.9	10.0	12.5	8.1
	[31.1]	[30.0]	[33.1]	[27.3]
Unscheduled C-section	16.6	19.1	18.5	17.9
	[37.2]	[39.3]	[38.8]	[38.4]
Observations	2,766	494,077	520	85,165

	Physicians			
Panel B: Texas	Moms	Dads	Both	Non-Physicians
Any C-section	31.6	29.9	28.8	32.7
	[46.5]	[45.8]	[45.3]	[46.9]
Observations	2,619	5,905	1,472	362,349

Mean C-section rates for births to families in which at least one parent is a college graduate calculated from California and Texas VS data. Standard deviations are displayed in brackets. Details on sample and physician identification are provided in Section 4.1 and in the Data Appendix.

Table 3: C-sections and Physician Mothers: California

	Any C-section		Scheduled C		Unscheduled C	
Panel A: OLS	(1)	(2)	(3)	(4)	(5)	(6)
Physician	-2.14**	-1.68*	0.016	0.028	-2.16**	-1.71*
	[0.79]	[0.70]	[0.60]	[0.55]	[0.66]	[0.67]
Hospital Fixed Effects?		Yes		Yes		Yes
Observations	496,843	496,843	496,843	496,843	496,843	496,843
Adjusted R-squared	0.17	0.18	0.22	0.23	0.061	0.068

Panel B: Matching	(1)	(2)	(3)	(4)	(5)	(6)
Physician	-2.18**	-1.81+	-0.19	0.34	-1.99**	-1.84**
	[0.87]	[0.99]	[0.56]	[0.68]	[0.78]	[0.90]
Hospital Fixed Effects?		Yes		Yes		Yes
Observations	94,360	16,916	94,360	16,916	94,360	16,916
Exact match rate	89%	53%	89%	53%	89%	53%

The sample is deliveries in non-HMO hospitals. Effects are displayed in percentage points. Standard errors are in brackets. Physician is a dummy indicating the mother is a physician. Panel A displays results from OLS regressions, containing the controls summarized in Table 1 as well as their interactions as described in the paper, and year*month dummies. OLS standard errors are clustered by hospital. Panel B displays results from nearest neighbor matching regressions, with matching performed on variables as described in Section 4.2. The number of observations in Panel B refers to those receiving non-zero weights, and Abadie & Imbens (2006) analytical standard errors are displayed. The means of the dependent variables are 29.1% (Any C-section), 10.0% (Scheduled C-section) and 19.1% (Unscheduled C-section). (+ denotes significance at the .10 level, * at the .05, and ** at the .01).

Table 4: C-sections and Physician Parents: Texas

	Any C-section			
Panel A: All Physicians	(1)	(2)	(3)	(4)
Mother	-2.79**	-2.09**	-3.10*	-2.53+
	[0.84]	[0.62]	[1.58]	[1.53]
Physician Father	-0.38	0.40	-0.27	0.70
	[0.72]	[0.53]	[1.21]	[1.20]
Hospital Fixed Effects?		Yes		
Attending Fixed Effects?				Yes
Observations	372,691	372,691	101,839	101,839
Adjusted R-squared	0.12	0.14	0.09	0.16

Panel B: By information	(1)	(2)	(3)	(4)
Physician Mother	-4.13**	-3.26**	-4.65*	-4.18*
	[1.06]	[0.91]	[1.96]	[1.99]
Less Informed Physician Mother	3.07*	2.89+	3.82	4.12
	[1.50]	[1.50]	[3.13]	[3.12]
Physician Father	-1.92*	-1.39*	-1.90	-0.99
	[0.75]	[0.64]	[1.54]	[1.53]
Less Informed Physician Father	3.94**	4.07**	4.31	4.76
	[1.27]	[1.22]	[2.94]	[2.90]
Hospital Fixed Effects?		Yes		
Attending Fixed Effects?				Yes
Observations	372,345	372,345	101,702	101,702
Adjusted R-squared	0.12	0.14	0.09	0.16

Table displays results from OLS regressions. Columns (1) - (2) are for the full sample; Columns (3) and (4) are for the subsample with attending name (years 2005-2007). All regressions include maternal demographic controls, infant information, and clinical risk factors and year*month effects (see Appendix Table A.1). Panel B includes all the covariates in A, in addition to flags for being unable to identify the physician specialty. Effects are displayed in percentage points. The mean of the dependent variable is 32.6% (Columns (1) and (2)) and 38.8% (Columns (3) and (4)). Standard errors, clustered by hospital in Columns (1) and (2) and by attending in Columns (3) and (4), are in brackets (+ denotes significance at the .10 level, * at the .05, and ** at the .01).

Table 5: C-sections and Physician Mothers - HMO and non-HMO Hospitals

	Any C-section		Scheduled C		Unscheduled C	
	(1)	(2)	(3)	(4)	(5)	(6)
Physician	-2.04*	-1.89*	0.12	0.12	-2.16**	-2.01*
	[0.80]	[0.77]	[0.50]	[0.48]	[0.76]	[0.78]
HMOHosp*Physician	5.53*	4.75*	2.88+	2.44+	2.64	2.31
	[2.29]	[2.23]	[1.47]	[1.44]	[1.86]	[1.86]
HMOHosp	-4.94**	-4.58**	-2.05**	-1.74**	-2.89**	-2.84**
	[0.43]	[0.49]	[0.26]	[0.26]	[0.35]	[0.41]
HSA Fixed Effects?		Yes		Yes		Yes
Observations	580,719	580,719	580,719	580,719	580,719	580,719
Adjusted R-Squared	0.16	0.17	0.21	0.22	0.064	0.066

Table displays results from OLS regressions, including controls as in Panel A of Table 3, with the exception of HMO patient which is excluded. Physician is an indicator the mother is a physician and HMOHosp is an indicator that the birth took place in an HMO-owned hospital. Effects are displayed in percentage points. Standard errors, clustered by maternal HSA, in parentheses (+ denotes significance at the .10 level, * at the .05, and ** at the .01).

Table 6: Unscheduled C-sections - Additional Estimates

	High Education Moms		Zip Code FEs		Deliver at Closest Hospital		Deliver at Other Hospital	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Physician	-2.20**	-2.06**	-2.18**	-1.94**	-3.08+	-2.67	-1.89*	-1.80*
	[0.78]	[0.79]	[0.68]	[0.69]	[1.57]	[1.64]	[0.88]	[0.89]
HMOHosp*Physician	2.85	2.49	2.66	2.28	3.93	3.17	2.38	2.08
	[1.93]	[1.93]	[1.80]	[1.80]	[4.80]	[4.71]	[2.03]	[2.03]
HMOHosp	-3.03**	-2.86**	-2.89**	-2.87**	-3.60**	-3.30**	-2.71**	-2.65**
	[0.34]	[0.37]	[0.17]	[0.18]	[0.59]	[1.02]	[0.35]	[0.39]
Fixed Effects?	HSA	HSA	Zip	Zip	HSA	HSA	HSA	HSA
Observations	226,323	226,323	582,528	582,528	129,188	129,188	451,531	451,531
Adjusted R-Squared	0.063	0.065	0.064	0.066	0.062	0.068	0.064	0.066

Table displays results from OLS regressions, including controls as in Panel A of Table 3, with the exception of HMO patient which is excluded. Physician is an indicator the mother is a physician and HMOHosp is an indicator that the birth took place in an HMO-owned hospital. Effects are displayed in percentage points. Standard errors, clustered by maternal HSA, in parentheses (+ denotes significance at the .10 level, * at the .05, and ** at the .01).

Table 7: Maternal and Infant Outcomes - Average Marginal Effects

	Maternal Morbidity			Infant Morbidity				
	Laceration	Hemorrhage	Infection	Meconium	Respiratory assistance	Intubation	Infection	Trauma
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Physician[a]	-1.15**	-0.020	-1.17**	-0.65+	-0.041	-0.42+	-0.28	-0.31+
	[0.43]	[0.35]	[0.42]	[0.39]	[0.30]	[0.22]	[0.24]	[0.17]
HMOHosp*Physician	0.22	-1.74+	1.78+	-0.70	-0.75	-0.77	-0.25	-0.063
	[1.48]	[0.89]	[1.02]	[0.78]	[0.99]	[0.57]	[0.39]	[0.41]
HMOHosp[b]	3.37**	1.77**	0.32	-0.89+	1.60**	-0.023	-1.03**	-0.26**
	[0.54]	[0.43]	[0.45]	[0.52]	[0.53]	[0.29]	[0.11]	[0.088]
HSA Fixed Effects?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	580,690	580,614	579,810	580,399	580,188	580,080	578,579	578,579
Pseudo R-squared	0.038	0.037	0.038	0.072	0.14	0.16	0.11	0.050
Mean of depvar	8.9	3.1	4.5	4.1	2.7	2.5	2.0	1.2

Table displays average marginal effects from logit regressions including controls as detailed in Table 5. Effects are displayed in percentage points. The construction of the morbidity measures is described in Section 5.2. Sample sizes deviate from 581,310 when one or more HSAs is dropped during logit estimation. Standard errors, clustered by HSA, are in brackets (+ denotes significance at the .10 level, * at the .05, and ** at the .01). a: HMOHosp is set to zero in the AME integration. b: Physician is set to zero in the AME integration.

Table 8: Ancillary Procedures and Hospital Charges and Physician Mothers

	Ancillary Procedures			(Log) Hospital Charges		
	Labor Induction	Vacuum extraction	Forceps			
	(1)	(2)	(3)	(4)	(5)	(6)
Physician Mom	1.6*	-1.5+	0.20	-3.9*	-2.6**	-1.5+
	[0.76]	[0.81]	[0.23]	[1.7]	[0.94]	[0.82]
HMOHosp * Physician	3.4*	2.5	-0.10			
	[1.4]	[1.7]	[0.46]			
HMOHosp	-0.82	-4.9**	-1.0**			
	[1.1]	[1.0]	[0.38]			
Scheduled C						0.53**
						[0.01]
Unscheduled C						0.62**
						[0.008]
Fixed Effects?	HSA	HSA	HSA		Hospital	Hospital
Observations	581,554	581,554	581,554	482,333	482,333	482,333
Adjusted R-squared	0.057	0.026	0.010	0.40	0.57	0.68
Mean of depvar	15.8	16.0	2.0		19,124	

Table displays results from OLS regressions including the full set of controls described in Table 3, Panel A. In Columns (1) - (3) the sample includes all hospitals, and these regressions exclude the HMO insurance variable due to collinearity; in Columns (4) - (6) the sample is all non-HMO-owned hospitals. Standard errors, clustered by HSA in Columns (1) - (3) and by hospital in Columns (4) - (6), are in parentheses (+ denotes significance at the .10 level, * at the .05, and ** at the .01).