INFORMATION ASYMMETRIES & MORAL HAZARDS

Discretion creates grey areas—in more ways than one.

Rohan's story about Alexander Graham Bell reminded me of a wonderful tome by Bill Bryson, *A Short History of Nearly Everything*. In it, he outlined that when Bell announced the telephone he said to the audience that every city in the world will one day have a telephone — much to people's astonishment and disbelief.

I'm going to take you back to 1980: Carter is in the White House and U.S. spending has just hit 10% of GDP and everyone in Washington is panicking about this unsustainable health care spending and how it's going to bankrupt the country. Well, of course it didn't, and today the U.S. spends over $3 trillion on health care, about two times the size of our economy. Health care spending right across the entire OECD, if you believe McKinsey & Company, has been increasing by about GDP +2% very consistently.

Of course, we're seeing even greater acceleration in spending in the developing world. So I get slightly bemused about this rhetoric you hear from time to time that health care spending is unsustainable. Of course it's not. We might end up spending 98% of the economy on health care if that's what we choose as a civilised society (or uncivilised society) to spend. There are two real questions for policymakers and economists. First, what are we prepared to trade off and sacrifice to accommodate that spending, which is really an issue around allocative efficiency. How can we ensure that capital is allocated in a way that actually reflects the invisible hand, society's approximation of their overall welfare? Second, what level of inefficiency are we prepared to tolerate in this system? Which is really a discussion around the technical efficiency — what it is actually costing us to produce widgets rather than what is a reasonable level of demand. I will come back to those two issues in a moment.

The other thing I want to mention is actually a very happy problem. For anyone who is in the business of health care like I am, it's a rising sea we sail. It's also making the world a better place. People are living longer and healthier lives, particularly people in the developing nations. Also, it's good for the economy if it's productive spending and production.

There's a lot of hammering that goes on about health care: 'isn't it terrible' and 'it's going to blow up the economy one day.' Well, it's not. Not if we're sensible and we're smart about it. I've been in the job about 12 years now and I've been scratching my head all that time wondering, what is actually wrong here?

There is too much government reliance in the system. That always rings alarm bells for me in terms of innovation. There are so many barriers to entry, particularly in our private health care system. We have risk equalisation, and we have government regulation which scares off a lot of would-be competitors with things like pricing control.

Why is this market for health care by and large different from the market for cars or coffee tables or TVs? What is it about health care? When you think about it there are two fundamental issues at work here.

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The first is information asymmetries, which Rohan talked about briefly. How do you actually cure these information asymmetries, which are really at the heart of a lot of unwarranted demand and the over-servicing that is well evidenced in the system? We know that the chances of having a knee replacement can be vary between four to five times depending on where you live in the country. This is not based upon any clinical factor but purely where you live. It's a story of supply induction. So information asymmetries are very important to think about how we tackle the challenge. I can walk into Harvey Norman and when the salesman tries to sell me a brand new TV, I know if I need a brand new TV. But if my cardiologist says, 'Mark, you need three stents in your heart tomorrow and by the way they should be drug-eluting,' I say, 'What time, Doc?'

Tackling these information asymmetries is a big question and yet another big question is what to do about moral hazard. Moral hazard is implicit in the system, of course. Once upon a time it wasn't such a huge issue. You pretty much only ended up at doctors or hospitals if you were hit by a bus or had cancer, etc. Today we well know, people choose to have health care and there is a big grey area of discretion, which is just an invitation to moral hazard, because typically there aren't any pricings because of our social insurance system (which we call Medicare).

Moral hazard is a real issue that we need to think about tackling, and there are a raft of issues to be thought about there, including health savings accounts. Health savings accounts would give us an opportunity to create a pricing system without any detriment to the consumer. They would eliminate the risk of people going without care that would actually be worthwhile for their health and wellbeing.

Both those issues are at the heart of this other mismatch I've thought about for many years now: What do you do about managing demand in the system? What the system has sought to do — not only in Australia, but worldwide — is manage it on the supply side. They have rationed supply, and this is the essence of the national health system in the UK and even Medicare for that matter. That's been a control. They have sought to make the system more efficient through the application of technology. But as we know, technology, particularly in health care, has this unfortunate tendency to actually drive costs, with robotic surgery and so forth.

They have sought to redefine what is actually reasonable to be funded. There is no better example of that than the current review of the Medicare Benefits Schedule. It's important that we wipe out 5000 services if they have no clinical efficacy anymore. It's been about making sure we only pay for what has clinical efficacy and then making sure we don't pay any more than we have to.

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So it's been about cost and driving down the cost of Calvary hospitals, or doctor's fees, or whatever the case may be. It's about trying to redesign the system to produce a more integrated experience for people with, for example, a chronic illness. But when you think about it they are all supply side driven solutions and a market won't find equilibrium if you are just working on the supply side. There has been far too little attention applied to the demand side of the health care economy equation. It is time to start thinking about how we tackle some of the sources of market failure — the information asymmetries and moral hazard on the demand side.

All industry revolutions are pretty much led by consumers in the end. Just think about what's happening with the digital age: we are fundamentally seeing a shift of power from suppliers to consumers. So consumers are now able to exert their preferences through Airbnb, Uber etc. Therefore to tackle the problems which dog the system and which elevate the risk of allocative and technical inefficiency, we need consumers to behave in a way which improves health outcomes.

Think about 40 years ago when people were happily sucking on cigarettes at a rate of 30 in every hundred in the population. What was going on there? Was it information asymmetries at a behavioural level? Tobacco companies at some point knew exactly what was at stake, but consumers didn't. So how do we start to tackle some of those information asymmetries which lead to poor behaviour?

I think technology will go a long way to solving that. It's not too far away before we have little nano-capsules circulating in our bloodstreams and alerting us to any problems or even shooting out mutant cancer genes. This actually will happen. It's not too far away when I'll be able to look at my watch at any given time and know exactly about my blood sugar levels — way beyond the typical diagnosis we are familiar with — in a way which helps me manage my behaviour. 'Mark, do not eat that cake, your body has had enough sugar today. It's going to be detrimental to your health'. So those information asymmetries around our behaviour I'd like to think will gradually be taken care of.

How do we bring Trip Advisor to health care?

This means that when I need treatment, I am sick, or I have a crook knee, or crook hip, then I would have to look at my best treatment alternative. Is it a knee replacement, is it weight-loss, or is it 12 months of physio? And if it is one of these options, then who do I actually see? Who is the best doctor? Who is the best physio? Who is the best weight-loss coach? Somehow we need to put consumers in a position where a) they are behaving better; b) when the time comes for treatment they have a much greater understanding and knowledge of the best treatment option for them — because frankly, most people are clueless and just go with what the doctor says; and c) that they actually choose the doctor, hospital, dentist, etc., based upon some measurable criteria.

How do we bring Trip Advisor to health care? It is doable, and I don't want to turn this into a commercial but 18 months ago we launched a Trip Advisor style site called WhiteCoat and you can go on it now and find a dentist, physio, GP, and soon-to-be specialists and hospitals. On this site, the consumer can find out what other patients have said about their experience, see a satisfaction rating, and link to the provider's website to find out more about their practice and their thinking. Gradually we're building content on it to help you make better decisions around your choices of treatment.

So it's not as hard as it sounds, this idea of making consumers more informed and hopefully better consumers of health care. On the moral hazard side, as Jeremy touched upon, I'd like to believe somehow we need to create price signals to overcome an element of moral hazard. We need to be careful, just as Rohan mentioned with the GST, that we don't disadvantage those least equipped financially. There are ways and means for doing that and I think they are separate arguments.