

PAOC Meeting
Remarks of Peter Cramton
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Fact

- CMS Auction design is fatally flawed
 - Non-binding bids & median pricing
 - => low ball bids that are unrelated to costs
 - Near zero transparency
 - Arbitrary pricing through manipulation of quantity by CMS
- Complete consensus among auctions experts
 - No expert thinks that CMS is doing this right!*

Fact

- Modern auction methods apply to health care
- Auction theory and practice is a well-established discipline within science and industry involving:
 - Economists
 - Computer scientists
 - Operation researchers and other engineers

Market Design Process

- Engage auction experts to build auction markets, just as you would consult a bridge expert to build a bridge, or consult a dermatologist to address a skin disease
- Engage industry and government in a collaborative effort to design the auction market

Market Design Process

- Use auction theory to inform the basic design
- Use simulation to test the design
- Test critical features of design in experimental lab
- Test design in pilots in the field
- ***With each step refine the design to better achieve objectives***

Medicare auction conference

- Most materials are already on the web
Google “cramton” click “health care”
- All will be available by April 10
- The mock auction demonstrated the feasibility of my proposal as well as its excellent performance
 - Despite the complex bidding environment, the mock auction achieved extremely high levels of economic efficiency
 - Moreover, the participants were able to understand the auction format and auction platform, and successfully execute bidding strategies for 6 products in 9 regions, all in a matter of hours
 - The conference also demonstrated the advantages of advancing the Medicare auctions through a collaboration among industry, government, and auction experts
- ***To avoid program failure, the Medicare auctions must be reformed to take advantage of modern auction methods***

Medicare auction conference: highlights

- Tom Bradley
Chief, Medicare Cost Estimator, CBO
 - “Program will fail with near certainty”
 - “Program results in arbitrary pricing”

Medicare auction conference: highlights

- Nancy Lutz, Program Director, Economics, National Science Foundation
 - “If the auction design doesn’t work in theory, it won’t work in practice”
 - “If the auction design doesn’t work in the experimental lab, it won’t work in practice”
 - (These insights are established in countless scientific studies.)

Medicare auction conference: highlights

- Evan Kwerel, Senior Economic Advisor, Federal Communications Commission
 - Many of the reasons given by those opposing auctions because they believe auctions can't work apply equally well to the alternative of administrative pricing
 - At the very least, those who oppose auctions need to suggest an alternative that can be compared with the approach of fixing the current auctions

Independent market monitor

- An independent market monitor plays an important role in the development of well-functioning markets, especially complex markets
- Market monitor provides an independent voice and expertise to identify problems and identify solutions quickly
- Market monitors are used in many complex auction markets; for example following the 2000-2001 California Energy Crisis, all electricity markets in the US have independent market monitors; the approach has proven highly effective