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