

# Introduction

- The AEI and what it does
- A heavy sense of failure
  - Hearings
  - Results & failure to persuade
- John Kenneth Galbraith's new book may have relevance

# Overview

- Application of competition theory
- The state of the medical care industry
- Possible future directions
- The relevance of the report

# Classic Conditions for Competition

- Many small buyers and sellers
- Homogenous products
- Perfect information
- Free entry and exit

# Some Others

- Constant or diminishing returns to scale
- “Instantaneous” dynamic adjustment
- Alignment of preference and payment
- Absence of externalities
- Price signals quantity imbalances
- Consumer sovereignty

# Can There Be Competition Here?

- Health insurance
  - In theory (Prof. Pauly) there can be
- Hospitals
  - Many problems
- Physician services
  - Even more problems

# What Do We See?

- Massive health insurer consolidation
- Hospital consolidation
- Angry, confused, fragmented, powerless physicians
- Regulatory approvals that disregard clear violations of merger guidelines
- Huge health insurance entities operating in the diseconomy of scale range

# Facts

- Double digit health insurance premium increases
  - Nine firms increase premiums 13 to 19 B in five years
- Billions of dollars in health insurance company profits
  - 9 firms: 3.7 B to 9.7 B in five years
- Billions of dollars in health insurance company executive compensation
  - 9 firms CEO comp 55 M to 119 M
  - One CEO stock options \$500 M
- Billions of dollars in merger premiums to executives
  - Aetna US \$700 M
  - Wellpoint \$350 M

# Facts

- Double digit payment increases to hospitals
- Stagnant and diminishing payment to physicians
  - All professional wages 1993-2000 up by 90%
  - Physician wages up 10%
- Health insurer administrative cost percentages rise with size!
- Health insurer conduct
  - Marsh McClennan?
  - Schering Plough?
  - Aetna and CIGNA settlements / lawsuits?

# This is not skill foresight & industry

- United
  - Billions in profits
  - Billions in executive compensation
- How United grew
  - Two physician payment data bases
  - United bought them both
  - Health plan acquisitions that continue
- CEO – Annual Report – the system is broken!

# Antitrust on Its Head

- Multi-billion dollar insurers do not need protection against small physician groups

# The World We Face

- Health insurance payments > house payments
- Substantially reduced coverage
- Rationing of new technology
- Physicians as employees
- A nursing shortage
- A physician shortage
- Substantially reduced productivity

# In the Long Run the Markets Will Deal With This

- Unavailable at any cost?
- National health insurance
- Health insurers  $\approx$  Railway Express and Western Union
- Military medicine for all
- Physician labor movement & labor unrest
- Public education  $\approx$  public medical care

# Regulatory Relevance

- Avoiding the second best?
- Providing credibility to Galbraith.