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How to choose your job, your oncologist, your fund manager and your real estate agent:  
Improving information flows in markets



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LateralEconomics

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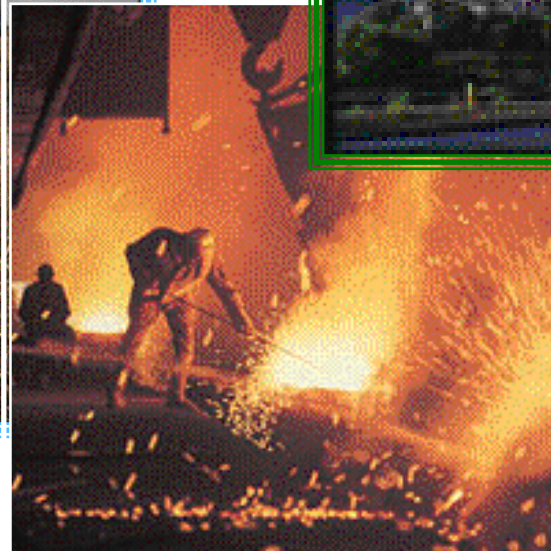
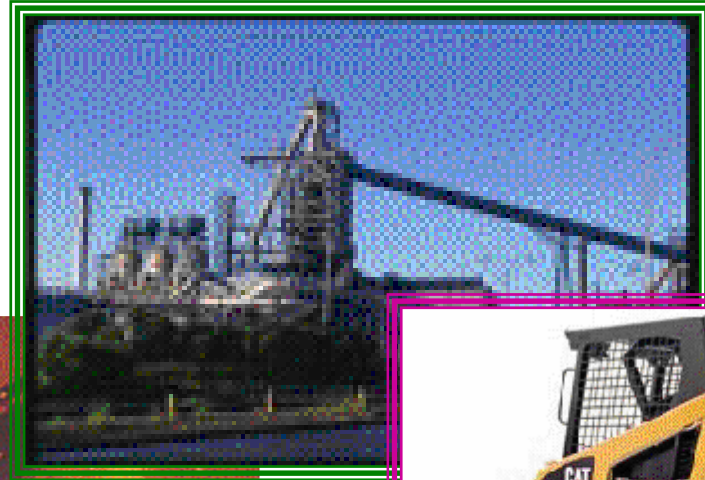
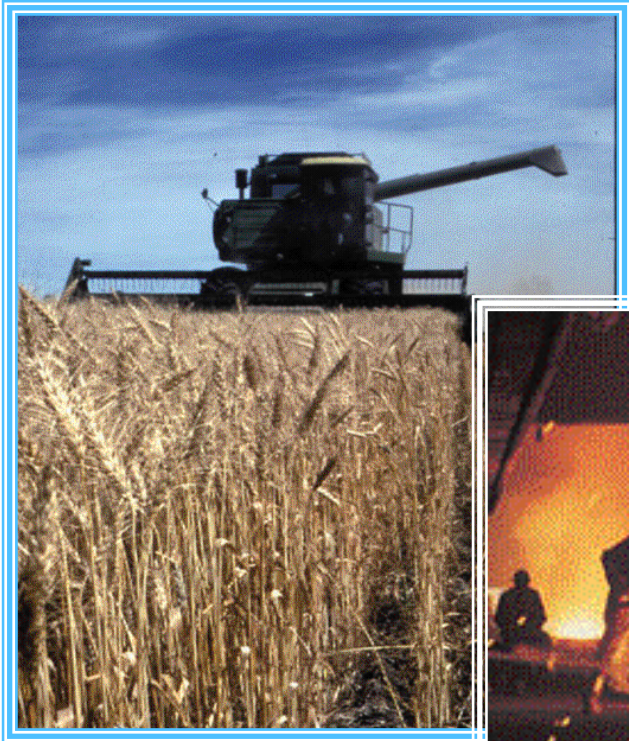
# Outline

- 1 Introduction: Conceptions of the economy and policy
- 2 Information in economics
- 3 Information in markets
  - Labour markets
  - consumer markets - particularly for professional services
- 4 Some ideas for improving information flows
- 5 A new kind of auction/tender
- 6 A National Information Policy?



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# Traditional ideas of the economy





Micro reform 1973, 1983-2000:  
Facilitating internal and external trade and competition

- In that context I proposed 'extended access'
- As part of Hilmer competition reforms
- Presumption of access to any government owned asset
  - Subject to full cost pricing





Micro reform 1973, 1983-2000:  
Facilitating internal and external trade and competition



Information: a new frontier



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# Information in economics: The Austrians

*The various ways in which the knowledge on which people base their plans is communicated to them is the crucial problem for any theory explaining the economic process, and the problem of what is the best way of utilising knowledge initially dispersed among all the people is at least one of the main problems of economic policy or of designing an efficient economic system.*

Friedrich Hayek, 1945.



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# Information in economics: the neoclassicals

Stigler, Arrow, Akerlof and Stiglitz have since brought information into economics

The new information economics substantiates Hayek's contention that central planning faces problems because it requires an impossible agglomeration of information. It agrees with Hayek that the virtue of markets is that they make use of the dispersed information held by different participants in the market. But information economics does not agree with Hayek's assertion that markets act efficiently.

Joseph Stiglitz



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# Disclosure: Poor regulation can be worse than nothing

BOTTLE SEALED FOR YOUR PROTECTION

DOSAGE: 3-4 times daily  
Adults & Children over 12 years 10ml  
Children 5-12 years 5ml

**CAUTION** S2

USE STRICTLY AS DIRECTED

## CONSUMER INFORMATION

This medicine is for the temporary relief of coughing and other symptoms of a chest cold in adults and children.

AINS.

DICHLORIDE 30mg  
BROMIDE 10mg  
ATE 2mg  
MISTER TO CHILDREN  
CEPT UNDER  
TH CAUTION IN HYPER-  
TENTS BEING TREATED  
RUGS  
N MAY CAUSE  
TED DO NOT DRIVE A  
MACHINERY. AVOID

IGHT  
°C.

## COFCOL

Normally safe for relieving  
★ chest coughs  
★ other chest cold symptoms

100ml • S2

Made by Cough-Cold Company  
Aust Ltd • 55 Berry St North  
Sydney NSW • Cough-Cold  
Company NZ Ltd • Auckland  
M7 • Aust Reg 012986 •  
trade-mark • Patd. No. UPE4A



### Do not use if...

- All ages → have high blood pressure
- take anti-depressants
- allergic to aspirin
- seal is missing or broken
- after October 1996.

Under 2 Not at all. See a doctor.

**Only if it's safe** → then select the correct dose below and swallow.

AGE	DOSE	IF NEEDED, REPEAT AFTER...
2-5	2.5ml	6 to 8 hours
6-12	5ml	6 to 8 hours
Over 12	10ml	6 to 8 hours

If the cough persists, see a doctor.

**After using** → If you feel drowsy, do not drive or operate machinery → Avoid alcohol → Keep in dark place below 30°C.

**Active ingredients** → Each 5ml contains Guaiphenesin (60mg), Pseudoephedrine Hydrochloride (30mg), Dextromethorphan Hydro-bromide (10mg), Chlorpheniramine Maleate (2mg).



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# Three themes

1 Useful information must be a correct answer to the right question.

➤ Vast regulatory compliance net requiring professionals to advise in a way that resembles their own current practice - but little measurement and dissemination of their performance.

➤ Form dominates substance.

2 “Reputation is the principal means through which a market economy deals with consumer ignorance”  
- John Kay

➤ regulation can improve outcomes if it improves the integrity of the process that makes reputations

3 Suasion before regulation

➤ ‘Market failure’ is lack of standard to compare information – this can emerge without regulation, not necessarily lack of disclosure



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# Disclosure regulation

Should we have 'full disclosure' for knee surgeons?

But that's what we do with investment products and advisors

Disclosure is not the answer to the question

Where can I find a good

- School?
- Hospital?
- Investment advisor?
- Employer

Reputations are built – in medicine, schools, investment advice, based on small samples, poor controls and word of mouth



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# The labour market

We've had a huge debate about improving labour market efficiency.  
But how much do job applicants know about workplaces?

- Safety
- Job satisfaction
- Family friendliness
- Availability of career paths
- Quality of management as perceived by employees

Some information on safety is already available, but not disseminated well

- Risk rated workers compensation premiums
  - Could be made available to all job applicants - together with inter and intra-industry comparisons

There's plenty of evidence that better employers are more productive employers

Better markets can reduce the need for regulation



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# Information in consumer markets

Much greater significance in services than goods. Some examples:

## ➤ Investment advice

- Transparent competition on performance is surprisingly rare
  - present in unit trusts - but only on growth
  - Not on ex-tax growth or volatility
  - Information on performance of investment advisors and share brokers is largely informal.
  - Yet Australians are now forced to make critical consumer choices in superannuation
- Could be greatly improved with sample portfolios managed in 'real time'.
- Where portfolios exist - there should be standard reporting against a range of criteria including
  - growth
  - volatility
  - in both raw and ex-tax forms

## ➤ Medical service providers

- very poor public information on quality of health care institutions and specialists.



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# Information drives innovation

## Improved information collection driving service improvements

- New York Cardiology pilot – as a result of data collection and analysis:
  - 27 surgeons were phased out of by-pass surgery.
  - One hospital with mysteriously high mortality rate with emergencies. Lost 11 of 42 patients.
  - The next year - 0 deaths.
  - 41 percent mortality decline over three years.
  - Press got hold of the data and resisting great professional pressure the system managers held firm.
  - It is now regularly published leading to 'report cards' for both hospitals and doctors.
  - The system exports to other states and countries – a 'destination' for cardiac patients.
- Similar benefits from similar approach at the Wimmera Base Hospital in Horsham Victoria.
  - But public disclosure of such data is prohibited to protect patient privacy'.



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# Information drives innovation

## Improved information on value added in UK schools

- Is transforming accountability
- Individual schools that are not performing well are targeted for change
- As are areas that are not performing well
- Schools which are performing well can be rewarded with recognition, resources and recruitment of expertise elsewhere where it may be needed

But need to be careful about incentives that open access can create

Hospital beds generated by removing wheels from trolleys



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# Information lets customers demand better

Los Angeles' restaurants



Leverages health inspections – with stronger, fairer incentives than penalties

Has reduced hospital admissions for food poisoning



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# A national information policy

## Along the lines of NCP

- In principle statement that information flows are critical to economic efficiency
  - Agreement to systematically review our economic institutions to optimise the generation and dissemination of information
  - Should we do something this comprehensive now?
  - Should at least have a vigorous program of pilot inquiries into information flows in specific markets.
- 
- How far could we get without regulation?
  - A fair way, with
    - Government control of many systems - eg Many health providers
    - Government suasion plus the competitive market
    - Where possible this is preferable, but ultimately well designed regulation should be considered where these strategies are unsuccessful.



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# A national (Victorian) information policy

## Along the lines of NCP

- In principle statement that information flows are a critical driver of innovation and so to productivity, economic efficiency and quality of life
- Agreement to systematically review economic institutions to optimise the generation and dissemination of information
- Should we do something this comprehensive now?
- A vigorous program of pilot inquiries in specific markets.



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# Does this require regulation?

Not where governments control systems

- Hospitals
- Schools
- What of private markets?



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# Does this require regulation?



Why isn't there more disclosure voluntarily?

- Hard for standards to emerge
- Firms 'cherry pick' information
- Poor performing firms report to different standard
- Bad money – bad information – drives out good
- So social leader (government?) can call for the best to set the standard
  - Employers
  - Investment advisors
  - Private hospitals
  - Private schools
- By setting an auditbale standard, the best get a market edge
- Pressure mounts on others to follow

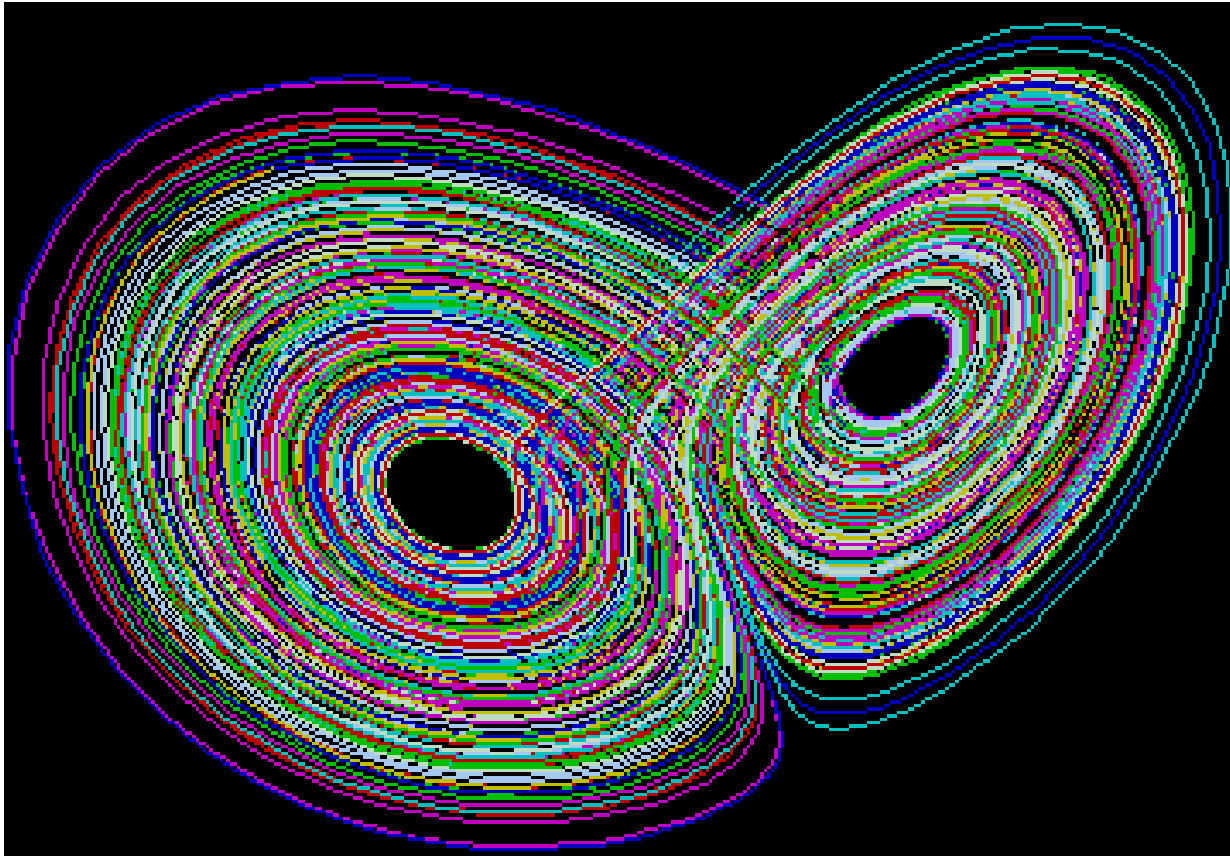
More informed markets can reduce the need for regulation

- and so facilitate innovation



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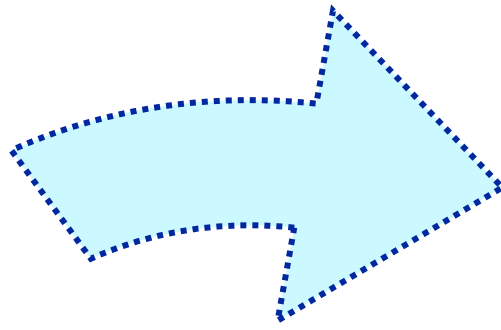
**Better information can move markets to a higher  
– more efficient and innovative – equilibrium**



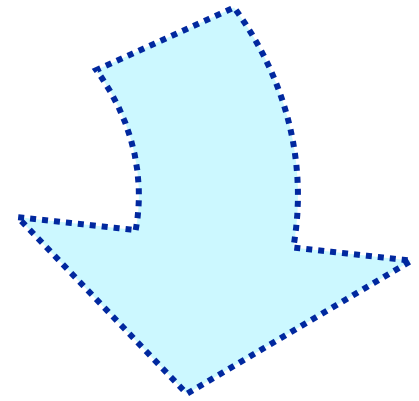
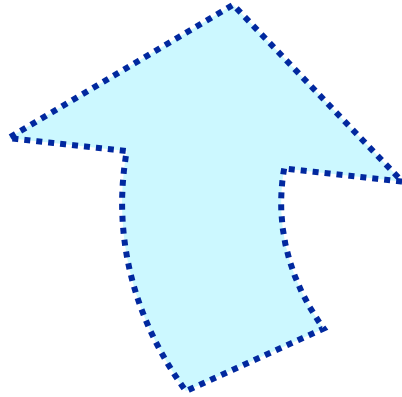
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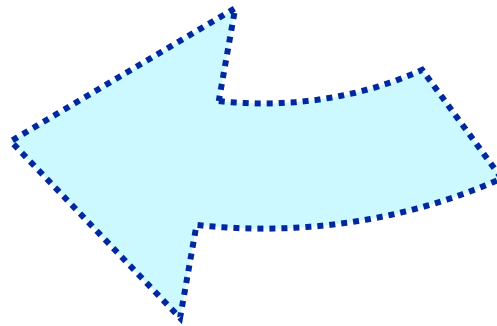
Information



Innovation



Quality of life  
and fairness



Efficiency



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