Irrational ME

by Dr Wong Chiang Yin

If there were no bacteria in this world, there would be no need for antibiotics. If there were no overcharging, or at least the prospect of it in this world, there would be no need to be concerned about how doctors charge.

There is one school of thought in economics which presupposes that man is a rational economic being; he makes rational decisions when he is given full and relevant information. This is one of the tenets of neo-classical economics and the concept of the "economic man" (homo economicus). A rational decision is described as one that yields maximum utility or value at minimal cost to oneself. Many Nobel Economics prizes have been given for bodies of work which are in no small way based on this neo-classical economics theory.

In fact, there is a paper by a Nobel Laureate[1] that explains why it is rational even for people to give to charity, when the act of giving may not appear to be an economically rational decision in the first instance.

Yet in the last two years, as a result of the global financial crisis, this theory has been under severe criticism. The bubble that was built up as a result of "irrational exuberance" and the crash and bloodbath that resulted on Wall Street and Main Street constitute strong evidence that man does not often make rational economic decisions. Even before the financial crisis, the limitations of considering man as homo economicus has come under criticism. Wasn't it another Nobel Laureate who also said that people who make rational choices are "rational fools".[2]?

I was reminded of this recently when I was invited to give a talk at a clinical department in a restructured hospital. This specialty was not a particularly well-paying one in the public sector. One would think that if medical graduates were all rational economic beings, then the smartest graduates with the best academic results would gravitate to the best-paying specialties and those with poor results would end up in the poorer-paying ones. I met two of my cleverest classmates there, who between the both of them, had at least ten distinctions in medical school (my highest grade in medical school was a pedestrian "C", enough said). I am also reminded of some classmates who did not do too well in school but ended up in some of the best-paying specialties.

One could argue that these people made such unwise economic decisions on what to

specialise in based on information asymmetry, but I think most of us already knew roughly what were and weren't the better paying jobs in the medical profession when we finished housemanship. For example, it is common knowledge that Prof Chee Yam Cheng had part 1s in MRCP, FRCS and MRCOG. He chose to become a physician, which obviously wasn't a very rational decision in economic terms, and we can all agree he is no fool. So if doctors often do not make rational decisions when they choose a specialty, can patients make rational economic decisions when they choose doctors?

The recent decision by the Competition Commission of Singapore (CCS) that the Guideline on Fees (GOF) contravened the Competition Act is predicated on the premise that people are rational economic beings. That is why it presupposes that more competition is good and that the public is better off without the GOF as long as more information such as bill sizes is made known to the consumers/ patients.

Now another branch of economics has taken prominence – behavioural economics. It is a branch of economics that examines how social, cognitive and emotional factors come into play when economic decisions are made. The recently concluded Academy of Medicine, Singapore's Public Health and Occupational Medicine (PHOM) Annual Conference featured an eminent professor[3] from SMU giving a plenary lecture on "behavioural sciences and public health". Both behavioural sciences and economics are developed from many similar concepts.

The GOF was withdrawn by the SMA when I was President. It was a reluctant, if not painful decision to make. Many criticised us for withdrawing the GOF and asked if we should have done so without a formal appeal to CCS. The question is now moot given that "CCS has therefore, on 18 August 2010, formally advised SMA that the GOF would contravene the Section 34 prohibition of the Competition Act. However, as no GOF has been issued since April 2007, no further action or direction by CCS is required in respect of this Statement of Decision." It is crystal clear now that the decision taken in April 2007 at the SMA AGM was the correct one in legal terms because it is the basis for CCS not taking further action now.

Since the CCS announcement that SMA's appeal was unsuccessful, a handful of SMA members have written to SMA expressing their disappointment. I share their feelings too. I am sure my feelings are shared by the rest of the SMA Council members who had wanted to get the GOF back, and hence personally funded the fees charged by CCS. But the GOF is not an end in itself. As far as we know from the records that the SMA has kept, the GOF was born out of concerns by the Ministry of Health, SMA and APMPS (Association of Private Medical Practitioners Singapore – an association that has since merged with SMA) of possible overcharging in the eighties.

The end really is still to address the issue of overcharging. Is the issue an insignificant or even a hypothetical one? If the issue is real, then it demands real solutions, not hypotheses or dogmas on market behavior and competition. To address the excessive, we must first define the normative. What is "normal" charging? If we cannot define what is normal, can we label something as excessive? Who will handle complaints of overcharging (for free, as SMA had in the past) to protect the public? Is overcharging by $50 insignificant while overcharging by $5000 demands action? $50 may seem trivial to the upper classes, but it may not be so to the blue-collar worker.

CCS has done the job it is supposed to do and the GOF is no more. SMA has little role left in the area of overcharging, but these are questions that still need to be answered by someone else.

What is interesting is that aside from the handful of feedback we have received since CCS announced its decision in August, the reaction from the profession has been very muted, even though there has been more than adequate coverage in the mass media. If we believe in neo-classical economics, that doctors are homo economicus, and have lots of information about charging and payment (at least more than the public), then we can perhaps strongly suspect that the withdrawal of the GOF is not a bad thing for doctors economically.

Central to this entire discussion is really the patient. What does the patient truly want? When there is suspected overcharging, does the patient want a schedule of fees to refer to when he wants to, or does he want to do other things like look at data on bill sizes?

And what about the patient-doctor relationship? Is this relationship based on both the doctor and the patient behaving as homo economicus, making "rational choices" and optimising utility for oneself, as described in neo-classical economics, or is the relationship based on morals, ethics, trust and reciprocity? Can the patient-doctor relationship co-exist peacefully with homo economicus?

I will end this column with two incidents in which I think I have been rather irrational.

The SMA office is currently undergoing much-needed renovations. I was in the office a few weeks back, while the secretariat was busy packing things and making preparations for the renovations, and chanced upon a booklet published by the Ministry of Health in 1984 – Schedule of Charges, Government Medical Services. In it was detailed information on a wide range of fees, from investigation charges to procedure costs and so on charged by government hospitals. I found it an informative read and I thought to myself, if I were a patient today, I would really appreciate having such a booklet to refer to, whether I was using government or private medical services. This probably flies in the face of conventional wisdom now.

On the other hand, arising from the effects of free market competition, I decided not to subscribe to cable TV's offering of the 2010 South Africa World Cup matches. I also no longer subscribe to watch English Premier League (EPL) matches in my home. I think life was simpler and better for me when we had one cable TV provider and I could watch the World Cup and EPL more cheaply. No doubt many will disagree with me on this because choice and competition are good.

There is a common Chinese saying that could perhaps explain my irrational behavior in these two instances – 难得糊涂[4]. SMA

1 Gary Becker, 1992 Nobel Economics Prize
2 Amartya Sen, 1998 Nobel Economics Prize
3 Prof David Chan, Deputy Provost and Director, Behavioural Sciences Institute, Singapore Management University
4 Contextual English Translation – it is difficult and a blessing to be foolish/irrational.

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