

## Freedom and Health

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Let's be absolutely clear: the health care system in the United States is excellent...just inefficient. No one lacks care. Stories of people being kicked out in the street have proven to be fabrications. Nonetheless, the system is politically untenable. It's a patchwork of third-party payers – both private and public – and the population is aging. The result is rapidly rising costs, surging anxiety, and a desire to do something.

People think the current system is unfair. Costs are shifted from those who pay for health care privately to those who don't, from the young to the old (via private insurance), from the old to the young (Medicare), from lower income to higher income (Medicaid), and from upper income to lower income (through the tax system). This pits one American against another in various ways, but when all this cost shifting is netted out, the unfairness of the current system is not so clear.

Nonetheless, all these issues and the political pressure that they create mean the US must move one way or another: either toward more government or less.

The magic of America, as seen by the Founders, was that we could try something new. The typical European way of dealing with problems – more government, more compulsion and more regulation – is a recipe for disaster, as European history continues to prove. The Founders believed, and fought for, freedom and free markets which as Larry Kudlow likes to say “are the best path to prosperity.”

America, originally a set of backwater colonies, rose to become the pre-eminent power on earth. This did not happen because we had better bureaucrats or more angelic leaders. It happened because our culture and Constitution allowed complicated market systems to operate on their own, while leaving to government what it can do best.

For the record, we are not anarchists. We see a role for limited government: building highways, going to the moon, national defense, public safety, police, fire, running a judicial system, and, yes, building a small, but sturdy social safety net (one which does not actually encourage sloth).

But, given human nature, government always tries to over-reach and involve itself in areas it shouldn't. For health care, this began in the 1940s, when insurance became a deductible corporate expense. Then, in 1965, Medicare and Medicaid started. Since then, free markets have gradually receded, giving way to our current “third-way” health-care system.

The results were predictable. As Milton Friedman said, when government gets involved, costs rise and quality falls. We will add that happiness does, too. One reason this happens is that all that cost shifting we talked about a few paragraphs ago creates frictions and involves bureaucracy.

Which inevitably leads to where we are today. Politically, the nation must go one way or another, either toward a European system of more compulsion – attempts to fix the system with more rules and regulations – or, toward a more free market system built on the American way.

Last Thursday's Supreme Court decision on health care reform was a punch in the gut to those hoping for a more free market approach. Essentially, Chief Justice Roberts took the position that the government cannot make you eat broccoli, but can tax you if you don't eat enough of it.

He ruled that, as the law was written, it was unconstitutional under the Commerce Clause. Some conservatives think this was a victory. They believe limiting the use of the Commerce Clause is important over the long run. But then, Justice Roberts said that if it was really a “tax” and not a “penalty,” the law was just fine.

So, the US now faces a very important election season. Liberals want to “move on,” and if we believed the US should look like Europe we would want to move on too. Conservatives want to stand and fight.

This is one of the most important political battles of our lifetimes. With a presidential election later this year, there is a significant possibility of a shift in power toward those who support a more free market approach. If that side wins, the vast majority of what was enacted two years ago will likely be repealed and replaced through the budget reconciliation process in the Senate, where no filibuster would be possible and a simple majority would rule.

It is also important to recognize that even if the law is implemented, it is not going to accomplish the popular goals its supporters claim it will achieve. This means we will eventually go back to the drawing board anyhow.

The new health care law will not reduce the deficit. Those numbers could only be generated by assuming massive cuts in Medicare payments that Congress has consistently reneged on in the past. Moreover, the budget score assumes companies will keep providing health insurance even when it makes financial sense to dump their employees into the public system.

Many people are still under the impression that the mandate to buy insurance will help because of all the people

who don't have insurance who impose costs on the rest of us when they get health care. But the kind of uninsured people affected by this particular mandate are not the ones imposing those costs. Instead, the law is an attempt to get younger and healthier people into the insurance system so costs can be shifted away from others.

It is true that all of today's uninsured combined, as a whole, impose costs on the rest of us, but those costs have been exaggerated relative to other cost-shifting. Remember, the insured don't have to pay taxes on health benefits, which is an enormous subsidy ultimately paid for by everyone else, too.

Although the law will expand insurance coverage (if we include insurance policies paid by the government), this will lead to an emphasis on cost control that threatens to stifle innovation, undermining health outcomes in the future. That doesn't mean health care will get worse, it just means the pace of improvement will slow compared to where it would otherwise be. Other countries, which have had lower costs

because they've been "drafting" behind the innovations developed in the US, will suffer as well. This also means economic activity, which is already subdued (the Plow Horse Economy) will remain that way.

The better approach, toward more free markets, would be to move away from an employer-based system, by treating health expenses the same regardless of who makes them. Back in World War II, allowing companies to deduct health benefits was a way of getting around wartime wage and price controls. Now, 70 years later, we're still stuck with a system in which almost no one pays directly for their own health care or insurance. As a result, no one has an incentive to reject high cost "defensive medicine" and many are willing to use high cost procedures that generate little to no benefit.

The Court's decision on Thursday makes these reforms tougher to achieve in the near term, but we remain confident that, in the end, markets will win out over government.

Have a Happy Fourth of July.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-2 / 9:00 am	Construction Spending - May	+0.2%	<b>+0.1%</b>	+0.9%	+0.3%
9:00 am	ISM Index – June	52.0	<b>53.0</b>	49.7	53.5
7-3 / 9:00 am	Factory Orders- May	+0.1%	<b>-0.3%</b>		-0.6%
Afternoon	Domestic Car/Truck Sales	10.9 Mil	<b>10.8 Mil</b>		10.6 Mil
7-5 / 7:30 am	Initial Claims – June 30	385K	<b>387K</b>		386K
9:00 am	ISM Non-Man – June	53.0	<b>52.8</b>		53.7
7-6 / 7:30 am	Non-Farm Payrolls – June	90K	<b>35K</b>		69K
7:30 am	Private Payrolls – June	100K	<b>45K</b>		82K
7:30 am	Manufacturing Payrolls – June	6K	<b>2K</b>		12K
7:30 am	Unemployment Rate – June	8.2%	<b>8.2%</b>		8.2%
7:30 am	Average Weekly Earnings - June	+0.1%	<b>+0.2%</b>		+0.1%
7:30 am	Average Weekly Hours - June	34.4	<b>34.5</b>		34.4