

Setting economic priorities

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— We are now inundated with talk about jobs, deflation and economic-stimulus packages. Why is it that real-estate markets and health care have been interjected in the great public discussion?

After all, when times were good, there was no great concern about housing markets, and no legislative momentum on health care. What is different in these uncertain times?

Life is uncertain, especially now. Risk is a particular type of uncertainty, though. It is the downside uncertainty that can do us harm.

Our natural response to risk serves a purpose. When our economic security is threatened, our human nature makes us more cautious. Economic fear sets in and our attention is focused.

What does this have to do with homes and health care?

At times of economic stress and displacement, we need to innovate by shifting resources where they are needed most. Our labor force must be sufficiently mobile so we can move where the jobs are and leave where they are not. We discourage economic innovation if we do not overcome labor frictions.

Rigidities in health care or housing are the very frictions that frustrate our recovery.

Let's start with a dysfunctional housing market. If there is insufficient liquidity for people to obtain mortgages or for homes to sell at a reasonable price in a reasonable length of time, people balance job opportunity against difficulties in selling a home in one location and buying in another. This tipping of the balance toward staying put is a friction we can ill afford when change is necessary.

As a consequence, sound and well-functioning credit markets are essential. Without liquid credit and housing markets, labor is less mobile. Asset value of our home is also reduced. Difficulties in selling a home and the reduced value of homes experiencing housing deflation magnifies our economic fears.

A rigid health-care system also has the same effect. I will save for another day a debate over the merits of universal health care. I will instead observe that many people reject major career opportunities solely because they are afraid to give up their current health-care plan.

Health care is held rigid and not portable for many reasons. One, any voluntary move by an insured worker allows a health insurer to shed its risk. This risk may not be picked up by another company if the new company believes the insured has a pre-existing condition. In essence, the industry wins as one insurer sheds its liability and other insurers refuse to take on the liability. And the economy loses.

A second concern is that the majority of personal bankruptcies attributed to health bill issues. Ultimately, we

all pay for the risk shed by a health insurance company. Hospital costs for the rest of us rise when those who cannot pay nonetheless receive essential emergency care.

It is natural for insurance companies to pursue the less expensive customers that can yield them profits, and shed those customers that are costly. Yet, a well-functioning health care system should empower us rather than immobilize us. Society has broader interests.

It must preserve the health of those for whom society has made an investment in public education and preserve our ability to pay taxes. It must also ensure its human resources are employed in their best capacity, which also maximizes our capacity to pay taxes. Portable health care for society's human capital is in the national interest, even if it may not be in the interest of health insurance corporations.

The president has taken on these two goals of housing markets and health care so this country can ensure the best match between the needs of employers and the skills of citizens. No doubt there are also political and ideological reasons that motivate the policies. Even so, we cannot deny the competitive advantage that results when housing markets work and health care is less rigid, more portable and more universal.

Competitiveness also requires us to wring more efficiency from the health care system. An inefficient health care system that is expensive to administer is projected to drive Medicare up to the point that, by 2020, Medicare and Social Security alone will usurp an amount equal to our entire current federal budget. With that looming reality, complacency is a luxury we cannot afford.

It is regrettable that so much is on the economic plate at one time. The president has inherited some of these legacy problems of the past, and is perhaps too quick to address some of the emerging challenges of the future.

If Obama manages to solve these paradoxes at this time, while also finding resolution to wars and a global financial meltdown, he will be immortalized as the right person at just the right time.

If he does not, our fate will rest in the hands of his successor. I pity the poor person who would have to pick up the pieces.

Either way, these looming economic problems will not go away. Further inattention will only make them worse. The president is in the uncomfortable position of having to engage us all in discussion and sacrifice we would rather avoid. It would be much easier if we could keep our eyes wide shut. For the sake of us all, I hope we do not become fatigued over the challenges ahead.

I hope also that the developed nations of the First Economic World can remain competitive with the emerging nations of the Second Economic World. We have risen to every occasion in the past. Time will tell whether we can continue to innovate in most perilous times.

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