

TEACHING FREE MARKETS

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Is conservatism out of gas? One way to consider this question is to examine how deeply held some conservative ideas were in the first place. A basic economic understanding is necessary before one can have deep confidence in conservative thought. There is abundant evidence that economic understanding is not widespread among Wisconsin young people or adults.¹ That can sometimes make it

difficult for citizens to imagine how unfettered market forces may be successful in sectors about which they have grave worries such as health care, education, and the environment.

Milton Friedman spent much of his career teaching how unfettered markets result in markedly better outcomes than do command-and-control approaches. Friedman had considerable success in educating the American public who, for the most part, has confidence in markets. Americans notice that the sectors of the economy that succeed in producing large amounts of consumer satisfaction are marked by the aggressive operation of market forces. The retail industry, the tourist industry, the housing industry, most food production, legal services, most transportation, financial services and nearly all manufacturing are characterized by large

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doses of limited regulation, competition, and profit seeking. These sectors provide consumers with what they want, when they want it, and at prices many are willing and able to pay. The sectors of the economy that fail to produce large amounts of consumer satisfaction are marked by the exclusion of market forces and, instead, depend on government command and control. Examples include

urban public schools, failed environmental policies such as the Endangered Species Act and, soon, ethanol mandates, protectionist trade polices such as steel tariffs, and sugar quotas, and health care.

Why is it that many Americans trust markets in most cases but then distrust them in others? Does this unwillingness to apply market solutions across the board help explain why some conservative ideas are not currently in ascendancy?

Let's examine health care as a topic near the top of nearly everyone's agenda. Health care

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problems—including limited access, increasing costs, and increasing utilization—loom large in Wisconsin and across the nation. The *Wall Street Journal* recently reported that health care spending overall is expected to double to \$4.1 trillion in 2016 consuming 20 percent of GDP, up from the current 16 percent of GDP.²

Wisconsin stands now at a crossroads in health care policy formulation. It faces two distinct options. Option one would establish policies that strengthen the role of command-and-control governance in the health care sector, expanding the role of government and moving the state along on a path that may eventually lead to state-operated health care of the sort we see in nations such as Canada, the United Kingdom, France, Japan, and Germany. Option two would establish policies that increase competition in the health care sector, rely on free markets, and shift responsibilities increasingly toward individual consumers.

The market for health care is complex. It is marked by some peculiarities in demand and supply. For example, people are often willing to tolerate price increases when their health is at stake. But the fundamental problem in health care is not the operation of an imperfect market system but rather the lack of a vibrant free-market system. While health care consumers in Canada, Japan, and elsewhere are starting to move away from government-managed health care, Americans (and Wisconsinites) are moving toward it.

What is it that Americans are missing? It is the nearly invisible costs of government-managed health care. Free health care, it turns out, is very expensive. Once a single-payer, Canadian-style system is imposed, government has to restrict the supply of health care. Otherwise the costs to tax payers would be massive and politically impossible to fund through taxes. The result is massive shortages. Are these shortages benign? A practicing psychologist, David Gratzer³ doesn't think so. He reports on the all-too-human costs of shortages in Canada:

- A middle-aged man with sleep problems was booked for an appointment with a specialist in three years.
- A man with pain from a hernia repair was referred to a pain clinic with a two-year wait list.
- A woman with breast cancer was told to wait four more months before beginning radiation therapy.
- 1.2 million Canadians can't get a family doctor. In some rural areas, town councils hold lotteries for appointments with general practitioners.

Gratzer goes on to describe emergency rooms in Winnipeg and across Canada lined with sick people waiting days for treatment. As a result of his research, Gratzter helped launch the movement toward privatization of health care in Canada, where the Supreme Court ruled in 2005 that access to health care was not the same as having health care and that patients do die as the result of being on waiting lists.

Americans can choose a different path than did our neighbors to the north. We can apply the same elements that work so well in other sectors to health care. Perhaps the first step would be to change the tax code so that the responsibility for health care choices shifts to consumers rather than employers. People should be able to purchase their own coverage perhaps through health savings accounts or other innovations.

What would Milton Friedman say? David Gratzer⁴ quotes Mr. Friedman in an interview done for his book:

There is no more reason for an employer to provide his employees with medical care than there is for him to provide them with food or clothing or housing. The reason why employer provided medical care is so prevalent today is a result of a tax provision introduced during and following World War II which exempted employer financed medical care from taxes. This

loophole in the tax system has done tremendous harm. It has caused the medical care industry to develop in an inefficient and unnatural way.

The best reform would be to eliminate the tax deduction of any medical care expenses. There is no more reason for medical care expenses to be tax deductible than for food, clothing, and housing expenses to be tax deductible. A minimum deduction for all of them is provided through the personal exemption. (Page 186)

We suggest that conservatives and economists have failed to educate the public regarding the hidden monetary and human costs of state-dominated health care programs. But economic education for our youth is made all the more difficult when our political leaders deny basic economic principles and, instead, favor policies like imposing ethanol mandates to reduce global warming, raising the minimum wage to reduce poverty, and favoring one-payer systems to provide more health care. The assumptions upon which these programs depend defy the basic laws of supply and demand, principles that any middle school child can understand. Liberals depend on economic ignorance in order for their agenda to be embraced.

Notes

1. Mark C. Schug and Richard D. Western (2003) *Wisconsin's Public Schools: An Economics-Free Zone*. Thiensville, WI: Wisconsin Policy Research Institute.
2. Jane Zhang and Vanessa Fuhrmans "Government Role Widens in Paying for Health Care" *Wall Street Journal* February 2, 2007, page 1.
3. David Gratzer (2006) *The Cure: How Capitalism Can Save American Health Care* New York: Encounter Books.
4. David Gratzer (2006) *The Cure: How Capitalism Can Save American Health Care* New York: Encounter Books.