Supply, Demand, and Finance

Kevin Williamson follows in the footsteps of Henry Hazlitt in his clarity of economic and political issues. Like Hazlitt he is not a professionally trained economist, but brings a writer's clarity to the subject. I have probably excerpted him more than any other single writer.

From Kevin Williamson at National Review, Back to Reality

> *But health-insurance companies do not provide great health care to the American people. They do not provide health care to the American people at all. Doctors, nurses, pharmacists, physical therapists, drug researchers, and nerds who design superior artificial joints provide great health care to the American people. Insurance companies provide financial services. That's what insurance companies are: financial-services companies.*
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> *In the same way that Washington has tried to manage housing by regulating and subsidizing mortgages, politicians have long tried to manage health care by regulating and subsidizing health insurance. It does not work. It has not worked, and it is not going to work.*
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> *Government misunderstands insurance. Politicians believe that creating large pools of health-care consumers will make health care more affordable for individuals and families. It doesn't. If Smith can't afford his medical expenses and Jones can't afford his medical expenses and Brown can't afford his medical expenses, then Smith + Jones + Brown can't afford their collective medical expenses, either. The large pools built by insurance companies help with this by exploiting the fact that not everybody is going to get sick at the same time; the payment of benefits out of insurance premiums can reduce the amount of financial disruption illness or accident causes to an individual or family at any given time, but*

insurance does not make the medical services they consume less expensive. In fact, medical benefits may make those services more expensive, for instance by creating new record-keeping costs for medical practices, or by simply driving up demand by pumping money into the market through poorly managed, low-accountability entitlement programs such as Medicaid.

Easy mortgage money helps keep housing prices high. Easy medical money probably helps keep medical prices high.

Critics on the left, especially those who support British-style government monopolies on health care, insist that because demand for medical services is relatively inelastic — because you aren't comparison shopping after a traumatic car accident — ordinary market operations cannot handle health care. But demand for food is inelastic, too, at the hungry margin. It's just that we rarely get to that margin because food is plentiful, thanks to massive investment in its production, distribution, and improvement. Ultimately, that is what has to happen with health care, too.

But first we'll have to liberate ourselves from the superstition that we can trick or bully the financial-services sector into solving the problem for us.