Four Corners Economic Quarterly

2007Q1

Office of Business and Economic Research, School of Business
Fort Lewis College, Durango Colorado

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Health, What a Mess

By: Dr. Robert Sonora

Where we are

> "I mean, people have access to health care in America. After all, you just go to an emergency room."
> -GW Bush

Well, I've avoided the health care discussion like, well, a plague of congressmen. But now I've taken the bite and I might as well start chewing – and many, I suspect, will have trouble swallowing.

But before we begin, let's consider, in no particular order, some facts:

- Over the past 20 years or so, medical service price growth has been about 2.4 percent higher than inflation, and during the period 2005 – 2006 health insurance prices have grown an annual average of nine percent whereas inflation has been running about 3.1 percent;
- Over the past 20 years, insurance premiums prices have outpaced personal income an average of 6.5 percent;
- According to the Kaiser Foundation, the total premium for a single adult in an HMO is $4,299, with the employer picking $3,588 of the tab; for a family the annual price tag rises to $11,879 with the employer paying about 72 percent of that price tag, and costs are higher for those participating in PPOs;
- In 2005, overall US spending on health care was over $2 trillion (that's a "two" with twelve zeros after it), or $6,700 per person, about 16% of US Gross Domestic Product;
- Doctors must be "familiar" with a growing number of health insurance forms, codes, idiosyncrasies, etc. In Seattle alone there are 755 different insurance products;
- According to a study in the New England Journal of Medicine, in 1999 heath administration costs were about $1,034 per person; an updated version found that this price had risen to $1,373 per person by 2003. Compare this with Canada, with administration costs of less than $500 per person;
- In 2005 over 46 million Americans, about 15.9%, were uninsured (granted some, chose to opt out) with the number of uninsured children reaching 11.2 percent;
- A study by the Kaiser Foundation found that an uninsured person will have a 72% higher chance of not seeking medical care than an insured one if they couldn't afford it;
- In 2005 the US spent about 86% more on health care than the overall average of OECD (the 25 or so richest) countries, with somewhat lackluster results – infant mortality rates are 26% higher (on par with Poland) and life expectancy is 0.35% lower compared to the average of the OECD;
- Recently La Plata County lost it largest provider of low income health care when Valley-Wide closed its doors due to rising costs and falling revenues; and in Colorado an average of 562 thousand Coloradans didn't have coverage for the period 2006 – 2007.

To be sure, there have been considerable improvements in the overall quality of health care, new medicines, surgical techniques, joint replacements, etc. are all vastly better than they were, and we should be expected to pay for those developments.

But the rising cost of health care and insurance are problems not simply for households, but firms as well. The increasing cost of providing health insurance is drag on the macro economy and many firms, particularly smaller firms, may choose to stop providing health insurance altogether. Indeed, the cost of providing health care almost brought GM to its knees.

The solution to the health care problem can be found in understanding the benefits "good health" has on the overall economy, and that will be covered in my next column.

Solutions to Health Care?

> "First of all, whenever I hear anything described as a heartless assault on our children, I tend to think it's a good idea. I'm happy that the President's willing to do something bad for the kids."
> - Bill Kristol, editor of The Weekly Standard on Fox News regarding the S-CHIP program

Now we've had four weeks to chew on our basic facts. Since then GM and Chrysler have renegotiated their labor contracts with the companies handing over billions of dollars towards union run health trust funds – rescuing the companies and automotive jobs.

And the quest for a Panacea to solve the health care crisis trundles on.

Let's begin with a simple question: how many goods and services do you consume daily which can be described as produced in a competitive market? You know, one with many buyers and sellers, none of whom can influence the price. I'll give you a hint, strictly less than one.

"Well, I've avoided the health care discussion like, well, a plague of congressmen. But now I've taken the bite and I might as well start chewing … One thing we must insure is that the quality of health care doesn't change, only how we pay for it."

Next consider two types of goods: Private goods are goods, or services, which can only be consumed by one consumer, say a hot dog, you consume it, I can't. Public goods, on the other hand, are consumed by many people more or less simultaneously, like a dam.

Unfortunately, public goods cannot be efficiently produced in competitive markets, for a number of reasons: they are overly costly to produce for a single firm, the price charged to the consumer of these goods does not accurately reflect the benefits they provide; imperfect information; and people tend to "free-ride".

Just ask recent Nobel Prize winning Princeton economist Eric Maskin.

Now consider education, particularly K-12. Why are households asked to pay for public education whether or not they have kids? Because there is a public good aspect to it: less crime, higher incomes, more productivity. I gain by sending your kids to school and I pay for it through property taxes.

That is universal education is a publicly funded good because it's expensive, difficult to pin down the value to households without children, and it provides benefits to all with some (imperfect) pricing paradigm.

And universal health insurance? An individual's health is a public good. Consider this simple tale about a family of four. If one kid comes home sick, there is a chance whole family becomes ill; a corresponding loss of income (if the parents can't go to work); loss of education; loss of productivity to the employer; other employees have to make up the work; etc. Wouldn't it be better if the kid didn't get sick in the first place?

According to the Congressional Budget Office, the macroeconomic costs of a flu epidemic in the US are about a 2.5% decline in GDP: the costs are real, especially if the whole debacle could be avoided by a simple injection.

Thus, health is a public good, which competitive markets are incapable of handling, a fact that Adam Smith, the father of the "invisible hand", recognized.

And health care is far from competitive, at all levels. Health insurance is ruled by monopolistic firms ensuring higher premiums and lower service; doctors are artificially restricted from entering the industry; managed health care only allows participants to choose from a truncated menu of services and providers, etc.

How do we ensure we can finance this public good? Public provision, universal, of *basic* health insurance (there's no reason to prevent some from buying additional insurance if they want). Moreover, with more people participating, premiums will fall as the "insurance company" further spreads risk. Oh!, people moan, taxes will rise. Sure, but health insurance premiums (isn't that a tax?) will be zero, and Medicare and Medicaid taxes will fall as well.

One thing we must insure is that the quality of health care doesn't change, only how we pay for it.

Fed Policy, and No Surprises

By: Dr. Robert Sonora

I decided to read all the statements made by the Federal Reserve Banking System over the course of the past year to get a pulse of the overall state of the US economy and glean some hints over what the future may hold.

But before I do, let me review the two primary overarching concerns of the Fed. The Charter which established the Federal Reserve System charged the central bank with three primary goals: low and stable inflation; sustained economic growth; and low unemployment.

Of the three, most believe the most important of the three is inflation, targeted about two percent. Unfortunately, achieving this goal has a short run impact on one its other goals, unemployment.

That is, the economy may not be able to sustain both low inflation and unemployment, at least in the short run – and the Fed is usually willing to give up low unemployment in favor of low inflation. But this usually isn't a problem, as the two generally don't coincide

And what is the Fed currently worried about? High inflation and unemployment:

> "…recent increases in energy and commodity prices, among other factors, may put renewed upward pressure on inflation."
> - (10-31-2007)

And the Fed, if it believes that inflation is a threat, will not lower short term interest rates, and may raise them.

Inflationary pressures stem from essentially two different sources: rising oil prices and, to lesser extent, the declining value of the dollar. With higher oil prices come higher production costs and, hence, lower supply. What this has the potential to do is to send the economy towards both higher inflation and unemployment. Yikes.

"I decided to read all the statements made by the Fed over the course of the past year to get a pulse of the US economy and glean some hints over what the future may hold … I am not prepared to make the leap that we are headed to another recession, or slow down, just yet, but let's just say I won't be surprised if it happens. And now, neither will you."

The last time this really affected our economy was in the oil crunch during the 1970s, remember them? Halcyon days all 'round. Fortunately, the changing structure of the US economy – less heavy manufacturing – means we rely less on oil intensive production choosing to import those goods instead.

But, not so fast. If we import those goods from countries whose currency is strengthening relative to the dollar, and they have to pay higher prices for oil, won't that bleed into our economy? Possibly, but maybe not as much as one might expect, US imports only account for about 16% of GDP.

And certainly changes in the exchange rate will not have an impact on imports from places where the value of the dollar has not declined, like Latin America and China. Moreover, the depreciation of the dollar helps our exports, which, though a relatively small percentage of GDP, is growing.

And this certainly helps US employment, at least as far as the export sector, and its supporting cast, is concerned.

> "The pace of economic expansion will likely slow in the near term, partly reflecting the intensification of the housing correction."
> - (10/31/2007)

Also of growing concern is the housing slump, no one really knows how far it will go – the New York Times reported it reaches small towns in Norway.

The math is straightforward – less construction, less employment in a great variety of sectors from lumber and rebar to dishwashers and carpet. Housing starts fell to their lowest level in over fifteen years, about 880 thousand starts, well below the number in the 2001 recession.

And how does that affect us here, the specter of rising inflation and unemployment? Not terribly well. A quick statistical analysis, suggests that rising inflation and unemployment undermine nationwide expenditures on recreation (tourism?). Ditto for housing. And together, these two components account for about 30% of La Plata's private income.

I am not prepared to make the leap that we are headed to another recession, or slow down, just yet, but let's just say I won't be surprised if it happens. And now, neither will you.

La Plata County Economy Still On Track

By: Dr. Deborah Walker

As 2008 approaches (Happy New Year to everyone), our local economy continues to remain strong. When comparing economic indicators with the third quarter of 2006 to the third quarter of 2007, we see no reason to believe that our local economy will see a downturn any time soon.

In looking at the local labor market, for example, the average (for the three month period) number of people employed increased by 8% over the same time last year from 29,629 to 32,009 people.

The average unemployment rate for the County (the percent of people in the labor force who are looking for a job) also continues to remain very low. In the third quarter of 2006 it was 3.2%; while it was only 2.4% in the third quarter of 2007. That translates into approximately862 people unemployed in the third quarter of 2007, while there were approximately 1,014 people unemployed in the third quarter of 2006.

> "As 2008 approaches … our local economy continues to remain strong."

Visitors, as well as locals, continue contributing to our local economy. Just a few more passengers (38) used the Durango–La Plata County Airport in the third quarter of this year when compared to the same quarter last year (a 0.1% increase). Lodgers tax revenue increased by 5% when not accounting for inflation. When inflation is considered, the increase from quarter three 2006 to quarter three 2007 was 2.6%. Sales tax revenue also increased in the third quarter. Considering inflation, the increase was 1.73% over last year (this includes both County and City of Durango sales taxes).

Agriculture still remains an important contributor to the local economy. While average alfalfa hay prices increased 19.2% from quarter to quarter (when adjusted for inflation, or 22% when not adjusting for inflation), third quarter calf prices continued to decline. Third quarter calf prices fell (compared to the third quarter of 2006) by 7.6% (adjusted for inflation, or 5.4% when not adjusted for inflation).

Local industry indicators were mixed in the third quarter of 2006, some increasing, while others decreasing. Industrial kilowatt hours used in La Plata County increased by 9.4%, while the energy price index decreased by 3.5% (when adjusting for inflation). According to the Federal Deposit Insurance Corporation, bank deposits in La Plata County increased by 1.37% (not adjusted for inflation, and by 1.32% when adjusted for inflation) from the end of June 2006 to the end of June 2007.

According to the Durango Area Association of Realtors, median residential real estate prices (country homes) in La Plata County increased from quarter three 2006 to quarter three 2007 by 8.5% (adjusted for inflation). Without adjusting for inflation, the price increased from $341,500 to $379,450 (an 11.1% increase). Breaking this down by area, quarter three median prices for country homes (not adjusted for inflation) decreased by 1.2% in Durango, but increased by 11.4% in Bayfield. The number of country homes sold in La Plata County in the third quarter of 2006 was 127. During the same time frame in 2007, the number of country homes sold decreased to 122. Most of this decrease came from the Durango area (84 homes sold in quarter three 2006 versus 68 homes sold during the same time in 2007). The Bayfield area, on the other hand, saw an increase in home sales from 25 in quarter three 2006 to 42 in quarter three 2007.

The project value of the building permits issued increased substantially in the third quarter by about 48.8% (adjusted for inflation) from the previous year. Permit valuation can change dramatically from quarter to quarter due to a very large project being issued a permit during a specific month. But this increase does show that the construction industry remains strong in the County. Enrollment at Fort Lewis College (comparing fall 2006 to fall 2007) increased by 0.7% (from 3,907 students to 3,935 students). This is the largest freshman class at the College since 2004.

> To hear more detailed economic statistics about La Plata County and the surrounding region, the State of Colorado, as well as the nation, please come to the 2008 Southwest Business Forum sponsored by Wells Fargo Bank and the School of Business Administration at Fort Lewis College on Friday, January 11. Continental breakfast will be served at 7:30 am the program runs from 8:00 am to 11:30 am. There is no charge for attending.

The *Four Corners Economic Quarterly* is a newsletter on economic indicators of Southwest Colorado published by the Office of Economic Analysis and Business Research in the Fort Lewis College School of Business Administration and Region 9 Development District of Southwest Colorado, Inc.

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