Rationing and Rationality

Scarcity exists. That is not a normative statement. It is a positive fact. At any given point in time people’s wants and desires exceed their ability to have those wants and desires fulfilled. Even if all individuals achieved a momentary state of perfect contentment, they would still become hungry by dinner. Scarcity has always existed, does exist, and will always exist in this world. Acknowledging that fact doesn’t make one mean, it makes one honest.

Goods and services don’t fall from heaven like manna. That’s both good and bad. On the one hand, if all of our wants and desires were automatically given to us, we would never have to show up for work. On the other hand, if pick-up trucks fell out of the sky like manna, they may land on people squishing them. Even when wealth grows on trees, [unpicked apples don’t fill stomachs](http://online.wsj.com/article/SB10000872396390443294904578046661503934852.html?mod=ITP_pageone_1).

Virtually every economics class explains on day one that scarcity exists. The next thing usually taught is that nothing is free. Every action has consequences, both direct (If I pick an apple I can eat it) and indirect (the time I spend picking an apple is an hour I’m not picking an orange). Perhaps it is too much to hope that our elected politicians have successfully passed a single course in economics. Is it too much to ask that they understand but the first day of an economics class? Apparently it is.

It is campaign (silly) season where politicians fall over themselves to promise free stuff to people - from health care, welfare, and education to infrastructure, national defense, and farm supports. Scarcity, according to them, is caused by the public’s reluctance to vote themselves free stuff via the *correct* candidate. A vote for the other guy means a life of scarcity. A vote for them means a life without scarcity. I call BS (and I am called BS – my initials).

According to [the Medicare and Social Security Trustees](https://blackboard.wku.edu/bbcswebdav/pid-2295265-dt-content-rid-8078814_2/courses/201230ECON37539072/Other%20Articles%20IX%20-%20Social%20Security%20and%20Medicare%20Solvency.pdf), there is $63 trillion dollars of unfunded liability in Medicare and Social Security. That number is “only” that low because The Affordable Care Act already cut $50 Trillion of future liability from Medicare. The government didn’t actually become more solvent since that entire $50 Trillion in savings was used to provide more health care for other people, so we still owe the money. That amounts to $113 trillion (our national debt is *only* $16 trillion) worth of lies. These are big promises of free stuff made by politicians who have no ability (or even a plan) to pay for them.

A responsible presidential debate would entail two candidates expressing their plan to address $113 trillion worth of lies. That has yet to materialize. President Obama has done absolutely nothing (other than shuffling $50 trillion worth of promises for health care for the elderly to health care for younger people) to address needed entitlement reform. On the other side, Mitt Romney actively scolded President Obama in last week’s debate for “cutting” Medicare. Tweedle Dum and Tweedle Dumber apparently believe that infinite amounts of health care fall like manna from heaven. (Watch out for falling syringes).

Everything, including health care, has to be rationed in a world of scarce resources and unlimited wants. The question is how best to do this. The two major options are by price or by bureaucratic fiat. Prices in a competitive economy are based on the marginal cost of producing one more unit of the good or service and the marginal benefit to someone willing and able to pay for the good or service. Prices don’t reflect one person’s costs or one person’s value of a benefit, but society’s collective costs and benefits as expressed by explicit (not hypothetical) actions. When I see a price for going to the doctor I know what I have to give up for a visit. I can then ration my own health care relative to other goods and services I desire. If I desire more health care, I consume fewer other goods and services.

If the government rations by fiat, they have to have bureaucrats institute thou shall or thou shall not rules. The 15 person panel set up by the Affordable Health Care Act is empowered to make such proclamations with the force of law. The law includes things like thou shalt cover contraception without copays. It will also inevitably include thou shalt not have certain medical treatments. Notice that rationing will exist whether or not the government intervenes in the health care market. The question is, who rations for whom? Do you want to ration for yourself based on your own wants and desires or do you want others to make those choices for you?

Rationing is a daily experience for everyone in every possible market. We even ration “essentials”. We ration food. Most people don’t spend $100 eating dinner out every night. We ration housing. Most people don’t live in 7,000 square foot houses. We ration clothing. Most people don’t own 100 pairs of shoes. Yes, some people undoubtedly do spend $100 on dinner from time to time. Some people do live in 7,000 square foot houses. Some people even own 100 pairs of shoes. Those who choose to have those things have had to forgo other things they could have purchased with the money it took to buy them. If food, clothing, and shelter are rationed, and they are, what makes people think that health care doesn’t have to be? Those who think that health care does not have to be rationed will eventually end up without food, clothing, or shelter.

The probability of death is 100%. No government action is going to change that. Everyone will die. Life-saving drugs and operations don’t exist. Life-extending drugs and operations do and they are often expensive which means society has to forgo large amounts of food, clothing, shelter, and fun stuff in order to provide life extending goods and services. At the end of your life do you want a. the freedom to ration your own health care or do you want b. a bureaucrat to ration it for you? Note: That multiple choice question doesn’t include c. none of the above.

**A further note on rationing**: Dr. Strow’s busy upcoming teaching, speaking, research, and conference schedule will result in a rationing of new upcoming posts to the Capitalism Today Blog. Should he work out a deal with God to let new posts fall from Heaven like manna, he’ll let you know.