

To Get Employment Rising Again: Resolve The Healthcare Issue

Historically employment is the last statistic to rise in an economic recovery. Only after businesses are convinced that an upturn is intact will they begin to add workers rather than increase overtime or turn down work in the fear that demand is not sustainable. This is especially true of small businesses which make up some 60 percent of all job creation.

However, at present there is another issue hanging over employers. No one knows for sure the healthcare burden that will be ultimately assigned to employers as the result of the current debate on healthcare reform. Since healthcare costs are per employee rather than per dollar of salary, one way to minimize healthcare expense is to hire as few employees as possible. This in turn is a significant disincentive to add to payrolls.

For employers the healthcare issue comes down to how equitable and how much. If policies are put in place to make the healthcare burden uniform then there is no competitive advantage in not having health insurance. If part-time workers are not covered then there will be an incentive to create as many part-time jobs as possible at the expense of full-time employment. If those over 65 are exempt due to being on Medicare there will be renewed interest in hiring seniors. In businesses where labor costs are high and profit margins small all these options will be considered.

If the cost burden is not uniform (say higher in some states than others), there will be consideration given to moving operations to states with lower health insurance premiums. This will put states with higher average age populations with a higher health risk profile (say Mississippi or Pennsylvania) at a disadvantage relative to states with lower average age populations and lower health risk profiles (such as Colorado or Utah).

In sum, the optimal thing for employers to do at this point is as little hiring as possible. While the final form of healthcare reform is still being debated, it is obvious that a few changes in the approach to healthcare would change the basis of the debate.

For starters, the health insurance industry cannot operate on an interstate basis. This fact reduces competition in most markets. The reason for this is presumably the fact that health insurance (along with life and other kinds) is regulated by the states and not the Federal Government.

After the \$80 billion rescue of insurer AIG by the Treasury the need for Federal oversight of the insurance industry should be obvious. Obvious things do not happen when the incumbents are enriched by the status quo. If Congress can overcome both lobbying and contributions by the industry to keep things as they are the competitive landscape for insurance would change drastically.

One of the goals in insurance reform is to cover the entire population. However with the bills before Congress there still will be millions of people exempt from coverage. To solve this taking a page from the auto insurance industry might be helpful.

In most states all owners of a vehicle are required to have minimum levels of auto insurance. If a person is turned down by two insurers he or she is placed in a pool which is underwritten by each insurer in proportion to the market share that company holds in a given state. Thus if Company A has 40 percent of the market for auto insurance it picks up 40 percent of the pool coverage. The premiums charged are set by the average premium charged in the state for similar coverage. The losses on the insurance are picked up by the insurance companies in the proportions shown.

In effect the loss on insuring the high-risk pool is a tax on all insurance policies in that state. The cost of insurance in that state includes a provision for paying such losses out of the balance of premiums paid. In the case of health insurance the Government can pay the premiums on some sliding scale in proportion to income up to some level.

This idea would have the effect of essentially privatizing what is currently called the public option. It would also end the current health insurance company strategy of trying to sign up healthy people and exclude unhealthy ones. One way or another everyone would have insurance.

With universal coverage the debate can shift to such areas as how to make information electronic without violating patient privacy rights. Should society be responsible for coverage for lifestyle choices such as skydiving, obesity or the consequences of recreational alcohol or drug use, or should such be the responsibility of the individual. Should doctors own facilities that profit from their patient authorizations such as testing, procedures and the like, or are such facilities more cost-effective than the alternative.

There is not one health insurance debate. There are several. Because they are all taking place at the same time little is being resolved. If insurance coverage can be taken off the table then the other debates can be given their due. The only ones benefiting from the current confusion are those who want no change at all. At this point that does not seem to be an option.

The Economy

Economic activity seems to be pointing to a recovery. For many it will not feel like a recovery since it lacks consumer participation.

Growth seems focused on exports, capital goods, and Government spending, especially healthcare. As consumers continue to save at the rate of six percent and pay down debt at the rate of \$10 billion or more a month, there is not a lot of demand for consumer goods and services. While year to year comparisons will begin to look better compared to this time last year when the financial crisis was in its formative stages, the longer term prognosis is that consumer spending will not be the engine that drives the economic recovery.

Interest Rates

Interest rates have continued to bump along at a record low level. The generous providing of funds by the Federal Reserve coupled with the tepid demand to borrow has kept interest rates in low gear.

In part because of this low return on cash investors have been avid purchasers of bond mutual funds. While such investors have regained the interest rates afforded them a short while ago, they are now exposed to risk of principal, especially for those bond funds holding Government and high-grade bonds. Depending on the time to maturity, an upward shift in interest rates will result in a sharp decline in unit value.

Inflation

Inflation continues to be the source of anxiety that is not there. While oil is driving gasoline higher and a weaker dollar is firming materials prices, labor is in great supply making wage inflation a bit of a non-event.

At some point inflation will again be with us. The amount of money in circulation as well as demographics, to say nothing of world competition for resources, will assure it. In the short run it is not as easy to spot as to talk about. As Keynes once said, it is not the anticipated matters but the unanticipated ones that move stock prices.

The Stock Market

In the short run there is much talk of a market correction. Such a correction may occur, but there is no consensus of for how long or how quickly the market will come back.

In the camp of a short-term correction are those who feel that funds will continue to flow to stocks, especially with real estate having been discredited as an investment for the time being. The longer-term correction camp cites the high current valuations along with the slow pace of profit growth.

Like employment, profit growth tends to be among the last items to move in an economic upturn. This is especially true when interest rates have been reduced to levels such as the present. From this it would seem that the real test of the stock market will not be soon but when interest rates rise. This is not anticipated for some time.

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