

Woody Brock on Healthcare Reform and Trade Relations with China

By Robert Huebscher
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Dr. Horace "Woody" Brock is the founder Strategic Economic Decisions, an economic research and consulting service. He earned his B.A., M.B.A., and M.S. from Harvard University, and his M.A. and Ph.D. from Princeton University). He was elected an Andrew Mellon Foundation Bicentennial Fellow in 1976. Dr. Brock studied under Kenneth J. Arrow, and John C. Harsanyi, both winners of the Nobel Prize in Economics. His recently published book, American Gridlock, is available on Amazon.com or via the link above. For more information, follow Dr. Brock on Twitter (@HWoodyBrock) and on Facebook (www.facebook.com/AmericanGridlock), or visit his

website www.AmericanGridlock.com.

I spoke with Dr. Brock on February 14.

This is part two of the interview. Dr. Brock discussed his solutions to America's fiscal problems in [part one](#), which appeared last week.

The subtitle of your book is "Why the Left and the Right are Both Wrong." You wrote about a conversation you had with many years ago with Bill Buckley and John Kenneth Galbraith. Despite their positions at the opposite ends of the political spectrum, they were able to find a common ground on many issues. That isn't happening today. So is this a new phenomenon?

First, a little perspective on today's Left-Right divide. If you think that bipartisanship is bad today, think about what it was like just before the Civil War. We've had explosive politics before in this country.

I was indeed skiing with those two men in Gstaad Switzerland. Bill was very Right-wing and Ambassador Galbraith was very Left-wing and they were good friends. They listened to each other. They went to the same restaurants. By contrast, in Washington today, for the first time Republicans and Democrats don't go to the same restaurants. That is unheard-of. It has become very partisan.

There are several reasons for this, including the advent of gerrymandering and redistricting, which is quite an arcane subject to most people. Gerrymandering has brought





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What advice would you offer the next president in terms of dealing with this?

“Mr. President: Demonstrate to the people that we can break gridlock with new win-win policies that don't require either Left-wing or Right-wing solutions.” That is what the book is about.

Let me give an example, because otherwise this point is not clear.

Our biggest future financial burden is Medicare and Medicaid. Estimates range from \$35 trillion to \$50 trillion in unfunded liabilities for these programs over future decades. Obamacare was an effort to slow the growth of these huge healthcare costs, which are now 18.4% of GDP and are projected to go up to 35% by 2050. Obama also wanted to increase access for the uninsured.

Let's think this problem through from scratch and use a much higher level of logic in doing so. Let's see if we can have our cake and eat it too – with nothing Left-wing or Right-wing.



Let's put down three goals up front. My first goal is for more health-care access to more people.

Number two, unlike Obamacare, where the focus was on giving more access, I don't want to have a situation where 40 million Americans – with new access and insurance – call the doctor and his phone doesn't answer. I'm worried because many doctors may stop practicing, because ObamaCare is telling them that we are going to cut their fee for each procedure. They will just get out of the business. I want *more* people to be covered, and I want *more* services provided.

But the president might say, "That's great, but you are talking about bankruptcy."

Excuse me, my third goal is to reduce the nation's bill and cut health-care expenditures in half. I want everything, mister president. I want the cost to be 10% of GDP, and for it not to go from 18% to 30%.

In fact, it should go to 5%.

"Well now Dr. Brock, you really *do* want your cake and eat it too. This is ridiculous."

Mr. President, with all due respect, you will find in Appendix B of my book a full mathematical proof that there is one and only one way whereby you can have your cake and eat it too. And the nation should demand this solution.

"So, Dr. Brock, you are saying that if we can both cut the cost way back pleasing the Right, and at the same time, we can give more access to everybody thus pleasing the Left."

Yes, Mr. President. As you will see in the appendix of my book, the way to do this is to shift way out the supply curve of healthcare services. More specifically, you work to shift the supply curve outward over time more rapidly than the demand curve. If you do this, total expenditure for the nation on health care resembles a parabola in geometry. It will peak and then go down to zero. It is exactly what happened in the telephone industry, where we can make the same number of phone calls today as we made in 1980, but for one-ninth the cost.

I also show that if you don't adopt my proposed strategies, then you must confront what is now happening: Demand is rising faster than supply and if this continues, the share of national income going to health care will rise towards 100% in the long run.

These are not opinions. These are theorems. There is no argument. There is no Left-wing. There is no Right-wing.



That is an example of what I am trying to do in the book – to show that there are win-win answers to our problems that even your Labrador retriever would deem reasonable. With these policies, the Left isn't goring the ox of the Right, and the Right isn't goring the ox of the Left.

Your assessment of ObamaCare is very negative.

Yes, it is. These new policies will increase demand much faster than supply. In the single most important national policy decision in 50 years, the focus was on more access and more demand for services—with virtually no teeth to provide more supply.

Given the huge stakes involved, this is the worst legislation in half a century.

It is hard to believe I am obliged to say this. I will go to my grave not understanding why the point that I made about the need to boost supply wasn't argued forcibly in two years of debate, but it wasn't.

On the other hand, I had to prove formally what I was claiming. My editors made me put the proof in the appendix because they said no one will believe you could have your cake and eat it, too. It actually wasn't that easy to prove. But it is common-sense 101 to me, and it certainly has nothing to do with Left-wing versus Right-wing, because both sides should be happy.

The same is true with the Marshall plan that I proposed for infrastructure spending. As long as you are not running up any *bad* debt in implementing this, everyone wins. You put people to work, and you hire lots of private-sector contractors to do what we have to do to put a new roof on the nation's house. As a result, we end up with more jobs, added growth, and higher productivity. Those are all Right-wing and Left-wing goals. You are also not going to have any *bad*-deficit spending, which both factions should also applaud.

My view is thus that you can have it both ways. This really is a wonderful message, because it is an antidote to today's pessimism. The biggest threat to the country is the proportion of the people who have given up and believe nothing can be done. This is really dangerous.

We haven't talked at all about China, but that is the subject of one of the chapters in your book. You are very critical of its currency manipulation. Why do you single out China? Don't virtually all of the surplus countries engage in currency manipulation to some degree? Japan has for a long time, although they haven't recently, but Hong Kong does. Even the ECB engages in currency manipulation.

The purpose of that chapter in *American Gridlock*, as you know, is to emphasize that *bargaining* is the central phenomenon in political life. The first part of that chapter says political science is not in fashion because it is a third-rate discipline. It is a third-rate



discipline because it doesn't have a core model. Economics would be a mess if it didn't have the law of supply and demand as its own core model.

Political science doesn't have anything like that. It is just a collection of studies and general principles, but this can and must change.

A Nobel Prize was given to John Nash, about whom the movie *A Beautiful Mind* was based, to John Harsanyi, and Reinhard Selten for a political model every bit as persuasive and elegant and far more important than the model of supply and demand in economics. I can describe this model via simple pictures for students. Their model is one of multi-lateral *bargaining behavior* and should form the first chapter of the new Poli-Sci 101 textbook.

In 1963, Harsanyi, with whom I was particularly close, utilized this new model to derive the first measure of *relative power* in politics. I want us to utilize their models to restore political science to its throne of ancient glory, and political theory with it.

How does all this relate to our relations with China?

I utilize the Harsanyi power index to contrast U.S. and Chinese power. China, in the past 30 years, had at most a quarter of the power we did, measured properly. Yet, in most every negotiation with the U.S., we buckle. We are supine, we back down. We got a "D" as opposed to an "A" in bargaining 101, and they got an "A." That was the point of my picking on China. It was just a case study whose logic I could explain.

You say China in its currency manipulation is no different from other nations, and suggest I could have cited others. Well, first of all, you want to select the player that hurt your people at home the most. That was China.

Japan cheated, but we responded with pressure. As the graph in my chapter 5 shows, Japan's currency *doubled* during its good years.

China's currency started off from a much lower level, with an economy that had been trashed by 1980, after the Cultural Revolution. Yet, its currency today is 50% *lower* than it was in 1990. That does not include inflation. It is the worst case of currency manipulation of its kind in recorded history.

Maybe it wouldn't have mattered if we were discussing the Island of Fiji. But we lost millions of jobs – not because China grew, which we would have welcomed. We would have lost millions of jobs, and that would have been part of the adjustment process that we would have expected.

But for us to lose millions more jobs because they broke every rule with impunity is not acceptable. So why was it when they wanted to join the World Trade Organization, which they did in 2001, that we let them in without stating the following: "You will open your



capital account and you will open your markets. You will do this with your currency. You will stop your unprecedented theft of intellectual property that has no counterpart anywhere else in Asia. And if you don't do these things, per the Harsanyi-Nash-Selten logic, you are going to find that three years from today, there will be a 75% tariff on everything you sell us, and two years later this will go to 150%.”

If you don't have credible and enforceable threats you are going to get screwed over, as Nash stressed. That is just what happened in this country. The American public was sold down the river by the State Department and the Commerce Department, administration after administration. That is why I wrote about China. It mattered to our well-being. Hong Kong does not. Also, Hong Kong did not *reduce* the value of its currency.

To conclude, we struck back in the case of Japan, and their currency more than doubled. China's currency has been cut in half and we never fought back.

Is it really accurate to say that we've lost millions of jobs to China? Isn't it fairer to say that the composition of the jobs in the US workplace just shifted dramatically, and that we now have a lot more high-paying managerial jobs than we used to? If you look at the numbers, before the financial crisis, we had relatively low unemployment. So if we lost jobs, they didn't show up in the unemployment numbers.

You have to be very careful. We had a huge boom between 1995 and 2000 – an explosion of good jobs due to this whole rewiring of America due to the internet that involved engineers, techies, all sorts of people. This drove unemployment way down.

Let me try to respond to your point in another way. There is a rich body of economic theory that says how things *should* work. The theory of competitive advantage underlies the theory of free trade, and it makes very clear certain things. It says that you should let the system work on a flexible basis, and not close capital accounts or do this and do that to damage your trading partner.

China's trade policies were akin to saying to Intel that we will buy your products only if you give us your design book with it. What if Vermont were told we will buy your maple syrup only if you sell us the forests of Vermont? Before he died, the late Nobel laureate Paul Samuelson said such policies were intolerable.

So the statement that we would have lost all these jobs anyway is false. Had the Chinese currency appreciated naturally, we would have lost jobs here, absolutely right, *but not nearly at the rate we did*.

China is going to pay price for all this. Their strategy of growth – dependent on huge net export surpluses and excess investment – has left its consumption at 34% of GDP.



Now they are finding that their population is maturing and getting rich and they want services. By obstructing economic progress and imposing this extreme mercantilist model, they have caused big adjustment problems for the future. That is why I have such respect for a true invisible-hand world. Yes, we do lose jobs to China, but we lose them at the right rate. They do over time become less export-orientated and more service-oriented, and they do that the right rate. Then everybody is happy.

What you don't want to do is alter this natural pattern, these natural trajectories of change with artificial stimuli and constraints and illegalities that create a lopsided system. And it is indeed lopsided.

This is just a very important point of welfare economics. Every day, market forces wash over us, they cleanse us. Every day excesses get washed out by the market and we are all the better for it. If you deny flexible markets, dam up the system, then holy hell breaks out. The water level behind the dam rises higher and higher and the dam finally bursts. When the tourniquet comes off your wound, the blood squirts out.

But in a free market where you let things work, we are all cleansed every day, and there is no dam. Nothing ever builds up. Nothing therefore ever crashes. That is the best way I can make the point that we need a correct market-based adjustment mechanism. This is part of the theory of welfare economics, but it's not the stuff you read about, because most people don't know about this.

China will be hurt by this. We will be hurt. Some people make the simplistic argument that things are okay, because Americans have been able to buy inexpensive flat-screen TVs made in China. But you can't measure national well-being by the number of cheap TVs without noting that we also lost three million good jobs and racked up over two trillion dollars in debt to China.

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