

As We See It

"In America you can go on the air and kid the politicians, and the politicians can go on the air and kid the people."

-Groucho Marx

On April 7, 1994, President Clinton held a town hall meeting in Kansas City. The topic of discussion was health care reform. Among those attending the meeting was Herman Cain, President and CEO of Godfather's Pizza. In response to Mr. Cain's concern that the Clinton health care plan's provision mandating employers to provide health insurance would be detrimental to business and jobs, Mr. Clinton said, "Why wouldn't you be able to raise the price of pizza 2%?"

This response reminded us of an October 5, 1993, report written by economist Raymond F. DeVoe, Jr.. To explain the concept that all of the expenses of a business go into the price of its products or services, Mr. DeVoe refers to the 1941 movie *Honky Tonk* starring Clark Gable.

The Gable character, Candy Johnson, and Chill Wills are small time confidence men who, having become tired of being run out of numerous towns, decide to "get a town of their own". Through a contrived plot line the amiable Johnson wins the respect and trust of the residents of Yellow Creek, Nevada. He and his cronies take over town hall and commence to loot the town passing out all kinds of goodies to the citizenry.

As described by Mr. DeVoe, "He raises taxes on the town's merchants and uses the funds to provide free fairs, free shows and free drinks. The townspeople love it, since they think it's coming out of the pockets of those greedy gouging merchants-and that the goodies cost them nothing at all. The merchants are upset about the increased taxes and send a delegation to the mayor's office to protest. In a classic economic line, Clark Gable says, 'What do you mean you can't afford to pay the taxes? Up the price of beans!!' So the merchants raise the prices of their wares including beans to reflect the additional costs--the costs of "government", which is placating the citizens with "free" entitlements using their own money.

Both the President and Candy Johnson told businessmen complaining about government mandated costs (health insurance and taxes) to raise the price of their products. Politicians have long understood that the costs of running a business, be they taxes, wages or employee benefits (health insurance) are passed on to consumers in the form of price increases in the company's product or service. Requiring business to provide health insurance gives the appearance that business is paying for health care reform. But there is no such thing as a free lunch. In the end the citizenry pays.

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