

Basic economics

Economist Thomas Sowell makes a salient point about the function of pricing in his book "Basic Economics: A citizen's guide to the economy." When the number of people who want a product exceeds the supply, pricing reduces the number of people who get access to the product, he explains. The smaller the supply, the higher the price — making the product accessible to a smaller group of people.

Philosophers, economists and others have argued for centuries about the justice or fairness of this principle. As egalitarian as we would like to think our culture is, however, the fact is not everyone can afford everything. There are some things which only some people can afford.

On smaller things, Americans accept social stratifying fueled by pricing. We accept that not everyone can buy a flat screen TV, a fishing

boat or even a meal at Morton's. But there are at least three areas where Americans seem to reject the economic realities of income as it relates to buying power: education, health care and home ownership.

Think about education. Have you looked at the price of college lately? Annual tuition in the \$20,000 to \$40,000 range is common. No middle class person can afford four or five years of expenses at that level. Yet, we have this idea that everyone should go to college. When it comes to education, people don't want to connect their ability to pay with the actual cost of the service being delivered. The result is student loan debt that dogs many working adults for decades.

The prevailing attitude about health care in this country is that everyone should have access to every known medical procedure. Layers of bureaucracy have completely obscured any relationship between service provided and cost. Health insurance is an out-of-control business expense for most companies; things are so bad we may be on the

verge of turning the whole thing over to the government.

And in the last few years, home ownership joined the ranks of those things too important to be limited to those who can afford it. Programs were created that opened home ownership to any adult who could breathe — low doc programs, no doc programs, interest-only mortgages, subprime mortgages — you name it, we came up with ways to get everyone in a house, whether they could afford it or not. The economy, and many of the banks that fuel that economy, are suffering the effects.

A fundamental economic principle says there is a relationship between a person's income and what they can afford to buy. As hard as we might try, we can't break that principle. ❖

