

A Healthier Economy for North Carolina

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There is solid empirical evidence for a positive relationship between economic development and health outcomes. A successful strategy for promoting economic growth in North Carolina would include reforms of the state's education, infrastructure, tax, and regulatory policies.

The principle that “wealthier is healthier” has a long pedigree among scholars and policy analysts of all fields and persuasions. One of the most famous proponents of the idea was Aaron Wildavsky, a political scientist at the University of California at Berkeley and one of the most influential scholars of public administration in the 20th century. Speaking at an American Enterprise Institute conference in 1979, he argued that rising life expectancy and other indicators of improving health in the United States and elsewhere had more to do with economic growth than with rising medical expenditures. Given the lack of a consistent relationship between spending and outcomes in health care, Wildavsky said, “in the long run the lower classes and the middle classes undoubtedly will be healthier with more income than they would be with more medical care—dollar-for-dollar, one use against the other” [1].

Economist Lawrence H. Summers has also made a noteworthy contribution to the “wealthier is healthier” thesis. A former president of Harvard University, Treasury Secretary under President Bill Clinton, and director of the White House National Economic Council under President Barack Obama until November of 2010, Summers is now Charles W. Eliot University Professor at Harvard University's Kennedy School of Government. In 1996 he and Lant Pritchett coauthored an influential paper on the subject for the World Bank. It showed a clear link between rising incomes and declining infant mortality. The researchers found that the relationship was significant even after adjusting for other factors and that the causality arrow likely pointed from income gain to health improvement rather than in the opposite direction [2].

Although there may be broad agreement that socioeconomic factors such as income, poverty, and education level have a substantial effect on human health, the consensus breaks down when it comes to turning the “wealthier is healthier” thesis into public policy. Democrats and Republicans disagree about how best to boost income growth, alleviate poverty, and improve education. Scholars and activists from across the political spectrum bring dif-

ferent assumptions, and sometimes even different definitions, to the task of devising policy alternatives. After all, if the answers to these questions were obvious, much of our current political debate would be rendered superfluous—a welcome state of affairs, perhaps, but not one that is likely to transpire.

Having just completed a book about North Carolina's economic problems and prospects, I spent much of the past year reading nearly 100 studies on the relationship between public policy and economic performance, including income gains for households at all levels of the income distribution. I also examined many studies that probe the link between educational inputs and outcomes. I found it useful to organize the material in the form of 3 prevailing schools of thought about how state and local governments can best promote economic progress. I also found it convenient to give these competing theories the familiar political labels of *Left*, *Center*, and *Right* [3].

The Left believes that the recent recession and weak recovery are the result of inadequate consumer spending. In the short run, progressives favor taxes and transfer programs to redistribute income from the wealthy to the poor and unemployed, who are most likely to spend it and thus prop up aggregate demand. In the long run, the Left believes that chronic poverty and lackluster income growth can best be combated by government action to raise the minimum wage, strengthen unions, and provide universal health care, day care, and other services. With regard to education, many thinkers on the Left have come to believe that factors outside the classroom—the persistence of poverty and racism, for example—best explain performance gaps among racial and ethnic groups.

In contrast, the Center believes that our economic woes are primarily the result of inadequate investment in public capital such as schools, colleges, and infrastructure. Centrists point to overcrowded classrooms, congested roads, and ailing water and sewer systems as major impediments to business creation and growth, much as a body with a poor circulatory system has difficulty operating at

Electronically published October 12, 2012

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0029-2559/2012/73525

peak efficiency. Centrists agree with progressives that government must take a lead role in economic policy, but they disagree with the progressives' emphasis on more income-transfer programs and heavier labor-market regulations. Centrists want to maximize government investment, not government spending per se. Most also believe that public schools can produce better educational outcomes if they receive more resources and put them to good use—in other words, it is not all about what goes on outside the classroom.

The Right agrees with the Center about the primacy of investment as a vehicle for economic development. But conservatives believe that our economic woes are primarily the result of inadequate investment in private capital, such as plants, equipment, technology, innovation, and new business enterprises. In North Carolina, the Right points to the state's relatively high marginal tax rates on savings and investment, an adverse regulatory climate, and other factors that reduce the projected rate of return on investment, thus chasing private capital elsewhere. They don't consider it an accident that North Carolina ranks poorly in both unemployment and entrepreneurial activity. I should hasten to say that, just as most centrists do not discount the importance of private capital, most conservatives do not discount the value of improving public capital such as infrastructure and educational institutions. But the Right does tend to doubt that higher government spending in these areas reliably produces returns high enough to offset the tax cost. So conservatives often focus on how to raise the productivity of taxpayer investment in education and infrastructure, not the amount of taxpayer investment.

In North Carolina, these 3 groups have pulled and tugged on leaders of both major political parties. Past governors and legislators have embraced the Center by approving major capital campaigns to build roads, schools, gas lines, and other infrastructure. They have nodded to the Left by expanding Medicaid and extending unemployment insurance benefits, while nodding to the Right by cutting taxes and reforming regulations. But the days of trying to mollify everyone are over. Both in Washington and in Raleigh, we have reached our fiscal limits. Faced with tight budgets and an increasingly competitive market, our leaders are going to have to make some tough decisions. They are going to have to choose the strategies with the greatest likelihood of creating jobs and economic opportunities, which will in turn lead to measurable improvements in health status.

My guess—and, I admit, my preference—is that policymakers will eschew the policies of the Left and opt for a blend of the policies of the Center and the Right. They have good reasons for choosing this option. The literature on economic growth is voluminous, and there are some conflicting findings. Still, the best-designed studies do offer some useful lessons to policymakers. In general, the available research is not very friendly to the Left's argument that government spending on transfer programs such as Medicaid or jobless benefits is a good way to stimulate growth in jobs or incomes.

In most cases, researchers have found that such spending is inversely correlated with economic performance—and that the relationship cannot be explained simply as an artifact of people in weaker economies making greater claims on welfare programs [4].

The research is somewhat more favorable to the centrists' focus on government investment in education and infrastructure, and is more favorable still to the Right's focus on encouraging private investment by reducing the cost of doing business. Two factors really stand out. High marginal income tax rates are strongly associated with lower rates of economic growth [5]. And high average test scores in K-12 reading, math, and other core subjects are associated with higher rates of economic growth [6]. High-quality infrastructure, low energy prices, high private investment, and low labor costs are also significant. What doesn't show a consistent relationship with economic growth? Government spending on education and infrastructure. It's the quality of the outcomes that matters in both cases, not the level of inputs.

Raising North Carolina's academic performance offers a 2-for-1 deal when it comes to improving health. Not only would upgrading our human capital be good for income growth, but also education is independently correlated with good health outcomes. The higher the level of literacy and numeracy in a society, the more likely it is that patients will eat healthful foods, avoid risky behaviors, recognize health problems, seek appropriate care, and follow instructions. Better K-12 education also makes it more likely that colleges, universities, and training programs will produce high-quality medical professionals.

By national standards, North Carolina is relatively low in K-12 spending and relatively high in university spending. Interestingly—and contrary to popular belief—North Carolina ranks higher in K-12 outcomes than in higher-education outcomes. The state's K-12 students test just above the national average in math [7], about average in reading [8], and just below average in science [9]. Our high-school graduation rate is close to the national average as well. But in higher education, we actually lag nearly 2 percentage points behind the national average in degree attainment [10]. And according to a recent *Bloomberg BusinessWeek* study, North Carolina's public universities fare poorly in a ranking of how much they boost the average earnings potential of their students [11].

The international evidence does not support the spending-equals-learning thesis either. North Carolina spends more per student on education than almost every industrialized country in the world. Yet our students' test scores rank below the international average. The problem is particularly acute for black, Hispanic, and low-income youth, whose scores are far lower than those of whites, Asians, and students from middle- or high-income households [12].

To address the problems of unemployment, income stagnation, persistent poverty, and educational deficiency, I recommend the following strategies, which combine the

policy insights of the Center and Right: (1) Lighten North Carolina's tax and regulatory burdens to increase the profitability—and thus the likelihood—of investment in North Carolina businesses. The best social program really is a job, and entrepreneurs don't create jobs in places where they are unwelcome. We should adopt a flat-rate, pro-growth tax code and require all regulations to meet a cost-benefit test. (2) Reduce unwise government subsidies of immediate consumption to free up resources for valuable, job-creating investment in both public and private capital. Both Medicaid and unemployment insurance need immediate reforms to reduce their cost to taxpayers and their disincentive effects on employment. (3) Use consumer choice, competitive contracting, and other innovative mechanisms to increase the payoff from government spending on education and infrastructure. Invite private investment in physical and human capital, as well, through such policies as public-private partnerships for repairing and upgrading roads, and tax credits or scholarships that partially offset the cost of private education for students of modest means.

A strategy of improving the health of North Carolinians by raising their incomes and educational levels can't just be about good intentions or stated objectives. It should include policies that have proven themselves in other states or countries. Each of the policies I recommend has done just that. Let's proceed. **NCMJ**

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Acknowledgment

Potential conflicts of interest. J.H. has no relevant conflicts of interest.

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