



Episode 558: Medicare and Medicaid, 50 Years Later: The Awful Truth

Guest: Murray Sabrin

WOODS: I know the first time I met you was at the Mises Institute. If I remember correctly, we were both in line at the hotel desk, actually, to check into the hotel, and you struck up a conversation with me, and then after that I got to know you from a U.S. Senate campaign of yours that I supported, and you have just been out there, writing and speaking and fighting against corruption and ignorance in New Jersey, which must seem like a thankless task, for many years.

SABRIN: Well, someone has to do it. That's my attitude. There's such a void here in the state of New Jersey. The Republicans in the legislature, except more maybe a handful, are really clueless. In fact, many of them just voted 11 to 1 in an assembly sub-committee to reduce the smoking age in New Jersey to 18. And that shows you that the Republicans are totally in line with the Democrats about creating a comprehensive nanny state in the state of New Jersey.

WOODS: Can you say something – before we talk about the real reason I'm talking to you today, can you say something about the real Chris Christie, because the impression that we all got around the country was he's a tough guy because he fought against the teachers' unions and he's a real conservative, certainly by New Jersey standards. Now, we know about the bridge scandal and everything, but what can you tell us about the real Christie record?

SABRIN: Well, it's interesting. He first got into politics 20 years ago when he ran for a state assembly seat against the assault weapon ban – in favor of the assault weapon ban, because his opponents, incumbent Republicans, repealed successfully the Florio assault weapon ban. And so he got into politics, he stated, that this motivated him to keep so-called dangerous weapons out of the hands of people. And he lost that race, and then he lost another race, and then eventually he got appointed a U.S. attorney by the Bush administration, because his brother was a big fundraiser for Bush, a Wall Street guy, Todd Christie.

And then in 2009 after he served his eight years, I believe, in the U.S. Attorney's Office, he ran in the Republican primary for the governorship, and I supported him, because his opponent in the primary at the time wanted a flat tax, which is all well and good, but the point is his flat tax would have raised taxes on low and middle income families. And I said I can't support a candidate, whom I agreed with on many

other issues, for a tax hike on low and middle-income families. If you're going to support a reform of the tax code, everyone's taxes should go down.

And so I met him very briefly, we had a nice conversation on the phone, and his rhetoric is I guess B, B+, but the big issue in New Jersey, as people know, is high property taxes and the amount of money that goes into the urban school districts, which are controlled by Democratic political machines, which he cozied up to in his first term and got them to support him for reelection in 2013, won overwhelmingly, but didn't have any coattails and didn't bring any new Republicans into the state legislature.

So essentially, he's been looking at his career as a way of stepping into the presidency eventually, because of his rhetoric and his tough guy image, and the point is, his performance has not been what I would have wanted it to be, because he didn't talk about the hapless taxpayer in New Jersey who's paying property taxes, sales taxes, the state income tax, which has gone from a 2% to all the way up to a nearly 9% marginal tax rate. And so he's really disappointed a lot of people, but because he's running for president, he feels he has to show his "conservative credentials" to the rest of the country, when in New Jersey he really hasn't done that much to stem the tide, even though the state budget is still up in the stratosphere. It's not been going up much, because there's not much more to get from the people and businesses, because they know that you can't tax people without having really adverse consequences. So Chris Christie is your typical individual who "wants to be in government" and move up the ladder without a deep-seated philosophical foundation, like a Ron Paul or a Murray Sabrin.

WOODS: Or a Murray Sabrin indeed. All right, let's talk about this documentary you have, that people can watch actually. I'm going to put it up on today's show notes page. This is episode 558, so it'll be TomWoods.com/558, and it's called *Medicare and Medicaid: A Fifty-Year Retrospective*. A lot of terrible things coming out of the year 1965, and I don't think I've commemorated quite enough of them this year, so before the end of the year, I'm glad we're able to talk about Medicare and Medicaid. This is a topic, of course, that very few people would want to talk about, and these are areas where people would think maybe, maybe, maybe they could concede that the budgetary projections were vastly understated and we have to deal with that, but they would say that, well, what are you going to do, you've got to provide medical care for the poor and the elderly. So what's your big picture takeaway from this documentary?

SABRIN: Well, we have Larry Kotlikoff in it from Boston University, the economist who has done the intergenerational accounting, and he points out, which is in the documentary, that the federal government's deficit is really not the \$400 - 500 billion that we have annually and reached the \$1.4 trillion during the height of the financial crisis, but it's \$210 trillion of unfunded liabilities of Medicare, Social Security, Medicaid, and all of the programs of the federal government. Now, that's a number that most people can't get their head around, because that takes place over the next 75 years, but the point that he was making is that federal government officials have

lied to the American people for decades in order to establish this comprehensive welfare state with Medicare and Medicaid and Social Security, which we didn't touch in this documentary.

But this is another example of how philosophy drives policy and how they lie to us in order to get these programs established. When they made the projections in 1965 of Medicare, they said it was going to talk \$12 billion in 1990, 25 years after its establishment, and it was really \$100 billion. So the factor of error is so immense. And of course, what's bailed out Medicare and Medicaid to some degree is inflation, because we know when you have money printing, nominal incomes go up, nominal profits go up, and so that accrues to the federal government through taxation.

And so we have a problem of a perfect storm. The population's aging. The workforce is shrinking relative to the size of the population. And so how much money will be coming down the pipe to support these programs is problematic. And so we have to talk about solutions, because Tom, the scary thing about Medicare and Medicaid and all the other federal government programs, the Kaiser Family Foundation has a great website, and they just did a poll in July right at the 50th anniversary of Medicare and Medicaid, and it shows overwhelming support by both Democrats, Republicans, and Independents for Medicare, and less for Medicaid, because most elderly get Medicare. In fact, virtually everyone gets Medicare.

And so you have part of our culture that people think it's the responsibility of the federal government to provide healthcare for poor people and when you retire at age 65, and this is the challenge we as libertarians have is to come up with alternatives, which is what I tried to do in my book 20 years ago, *Tax Free 2000*, which is still available, believe it or not, on Amazon, of how to phase out these programs over the next 10, 20 years, so we can have a free society. And if that's our benchmark, our goal, to have a free society, then we have to talk about programs that are antithetical to a free society, which is government control and mandates of healthcare.

WOODS: All right, let's talk more about that, but I want to just get to the basic objection that anybody would have — that the average person would have — with hearing the types of arguments that you might make about Medicare and Medicaid. They would say, even if they concede to you that the present healthcare system is full of problems and that a good many of them can be laid at the feet of government, that's not the fault of poor people, that's not the fault of elderly people, and if they're just going to be on their own to cope with the crazy healthcare system, what are they going to do? Like just the other day, we got a bill from Children's Mercy from Kansas City. We took our five-year-old to their emergency room. Now, granting emergency room medicine is very expensive, but nevertheless, they did a couple of very minor things, and the bill after insurance came to almost \$1100. Now, that would be utterly devastating to most American households. What are people supposed to do if not avail themselves of these programs?

SABRIN: Well, this is I think what the documentary talks about. Dr. Alieta Eck, who, she and her husband founded a non-profit health center for the poor in New Jersey.

She no longer accepts Medicaid patients. She provides free healthcare to low-income people in her faith-based clinic in Somerset County, New Jersey, and she says there are three ways we should deal with healthcare in America: cash for routine visits, insurance for catastrophic loss, and charity, real charity for the indigent in our society.

Now, when it comes to the emergency room, which is incredibly expensive, as you well experienced recently, this is something that there's a movement in this country to develop these non-profit-seeking health facilities. We have one right down the street from our co-op here in Fort Lee, New Jersey. And so they're springing up all over the country, because there's a need for it, where it's fairly reasonable, I understand. We used one when we were Florida a few years ago. I was feeling lousy, and we didn't have a doctor, because we were at our condo down there, and so we went to one of these local places, and they diagnosed the problem I had, and it was a very minor bill that I had to incur.

And so this is the way that you can have it, is people developing organizations, institutions to deal with the needs of people. But as you know, there's so much red tape in establishing facilities in the country. We have licensing issues; we have a whole host of other impediments to free market approaches to healthcare. It's that people have to say in their own communities what's the best way we can organize a way to delivery healthcare, either on a profit-seeking basis or a non-profit-seeking basis, and let people do this. That's what free people do. They see needs in their community, and they address them through voluntary methods. And that's I think — one of the points I want to get across to your audience is that we need voluntary solutions as opposed to top-down, which I call the real trickle down economics in our society, where the government, whether federal or state, trickles down mandates to people, and you either obey or you get severely penalized.

WOODS: All right, so your documentary is going to take us from the creation of Medicare and Medicaid and then down to the fiscal crisis that it's facing today.

SABRIN: Absolutely.

WOODS: Does it tell us anything about the sorts of promises that were made initially about these programs and how much they'd cost and how it was all expected to work?

SABRIN: Well yeah, that was the thing President Johnson did. His people projected these low figures for the future, and as you recall at the time, the Senate and the House were controlled by southern Democrat conservatives. Richard Russell, Senator Russell from Georgia in the Senate Finance Committee, I believe, and Wilbur Mills from Arkansas of the House Ways and Means Committee, two very powerful individuals in the Congress, and they told Johnson we can't support this, because the numbers don't look good, and he assured them that the costs would be manageable in the future — and of course we know now that they weren't manageable — and so they signed on, and Medicare and Medicaid were passed July 30th, 1965.

President Johnson went to Independence, Missouri, not far I guess from where you are, to meet with President Harry Truman, who was one of the major supporters of government-run healthcare for the elderly, and he signed the legislation there, and a year later it was implemented, and as they say, the rest is history. Here are the frightening numbers: this year, Medicare and Medicaid will spend \$1 trillion, Tom. \$1 trillion, which is about 25% of the budget.

And so these programs, which started out as very modest, low-cost programs, have ballooned into this overwhelming fiscal burden on the American people. And the outcomes are problematic. Of course people are getting treated by their doctors, their hospitals, but the point is the future is not very rosy, given the projections of the aging of Americans. This is what all the western countries in Europe, Japan are facing over the next 50 years, is the aging of the population and the shrinking of the labor crew to pay for all these programs.

WOODS: That's the big crisis, it seems to me, and you're right, it's being faced all over the world, and you would think that, you know, given the child policy that they have in China that this would be a major problem for them, because obviously there would be a demographic imbalance as a result of that. You have all these old people, and you've artificially restricted the number of younger people who can support them, so this is a big problem. What would you say was the driving force that took this program from being a modest little program to being this gargantuan monstrosity? How'd that happen?

SABRIN: Here's the thing about political dynamics that I think libertarians understand fairly well, because Mises and Rothbard and others have written about this over the past 100 years; namely, that once you get a program in place, it then becomes an acceptable part of the American political culture, and then president after president adds on to those programs.

Same thing happened with Social Security in 1935. It started out as a very modest program. They promised that the tax would be no more than 1% on employer and the employee, and the taxable income would be no more than \$3,000. Now it's \$118,000, and it taxes 6.2% on both the employer and employee.

Same thing has happened to Medicare. The tax was, I forgot exactly, it was less than 1%. Now it's 1.54%. And it was capped at the same income level as Social Security; now it's unlimited income. So someone makes \$10 million. They're being taxed and their employer's being taxed 1.54% on that 10 million — or even a million. So you're paying \$14,500 in Medicare taxes, as is your employer, if you're a high income individual.

And the question is that money doesn't go into your own account. It's already spent. So this is another example of an intergenerational chain letter, or as we like to say, it's a Ponzi scheme, because no private company could get away with something like this, where the money's not segregated in your own account. It's just another promise of the federal government to pay for these liabilities in the future.

So again, we have to come up with ways of making it countable for the general public to realize that these programs are not sustainable, which everyone knows in Washington, but the point is their time horizon is the next election. For the average person, the time horizon should be their lifetime, but the way people have been taught over the last 50 years, over the last 100 years is that don't worry, the government will take care of you. And that's why I think the biggest lie we have in our society is we are from the government, and we are here to help you. And it's just not working in a sustainable manner. In other words, a welfare state can work on a very short-term basis, but we know the demographics work against it.

WOODS: All right, Murray, let's talk about Obamacare, which is a big issue for the Tea Party people, a lot Republicans; they really don't like Obamacare. They generally like Medicare and they generally like Medicaid. They maybe want to spend a little bit less on them, but they generally like those programs. They really don't like Obamacare. What is the relationship between Obamacare and Medicare and Medicaid, if any?

SABRIN: Well, the thing is I didn't focus on Obamacare, because there was so much on the plate for Medicare and Medicaid, but let me just say a few things about Obamacare from the little work that I've done on that program, is that here's an example of the government mandating that you purchase something from a private insurance company, which is really so over-the-top in terms of what the relationship should be between the government and the people.

And this I think is the main contention that we should be talking about, that the government should not be mandating you. But that horse left the barn a long time ago with Social Security. The government mandated you had to put money into a "retirement account," so you can have some semblance of income when you retire, because the government's attitude is people can't be trusted to take care of themselves. And this is sort of the infantilization of America, where the government says you need money at retirement; have Social Security. You need money for healthcare at retirement; let's have Medicare. We need programs for poor people, because we know that people are greedy and selfish and they won't help people who are indigent, so we need Medicaid.

And so this is an example of government officials and their allies in the academic community and in the business community who want a big government because it suits their philosophical needs and it also provides them with a steady income, either as consultants, or for insurance companies, a steady stream of money from the government subsidies to provide healthcare for everyone under Obamacare.

And I think this is going to blow up, and, given my cynical nature the last 30, 40 years about government, I think once Obamacare blows up, the push will be for a single-payer system, and I think that's where we're headed is a single-payer system. Merge Medicare and Medicaid and all the insurances under the government umbrella, and this way we get rid of all these different approaches to health insurance, and the government will run it, but the point is it will be provided in the private sector. So this

is a blend of private and public partnership, if you will, which will make the people more subservient to the federal government.

WOODS: In the current system, there's at least some elbow room, some wiggle room for doctors who want to do what, you know, you gave the example of somebody starting a practice where they don't take Medicaid, they don't get involved in any of these bureaucratic institutions; they just deal one-on-one, doctor to patient. And they have an arrangement; sometimes it's a monthly fee and you get all the healthcare you want. Whatever the arrangement is, a lot of these have worked very well, and as a matter of fact, at TomWoods.com/558, I'll link also to my episode with Dr. Josh Umbehr, who does exactly that and has been able to bring about tremendous cost savings for people. But if we move to a single-payer system, do you think they would move to close loopholes like this, and everybody would be dragooned into the federal system?

SABRIN: See, this is the danger of where Obamacare could be taking us and will probably be taking us, is doctors may become in effect civil servants of the federal government. And this is where the doctors have to stand up and be counted and say enough is enough. This is sort of an *Atlas Shrugged* moment, where people of talent go on strike against the government. I don't think this is going to happen immediately, but it could happen sooner than most people think, because these things have a way of snowballing, and doctors have to really stand up.

I mean, we've had two doctors on our documentary — actually, we had several doctors, because these are the people who are providing services at the local level trying to solve needs or provide needs at the local level and non-profit healthcare centers, and these are magnificent doctors who are giving their own time, their effort, their skill to the indigent, and they have their own practices, which they earn their living, charge modest amounts as internists, and they want to be doctors.

I interviewed a doctor on the phone, Dr. Pamela Wibel from I think Oregon, who has designed a medical practice, and she's the only one in the practice. She doesn't even have a secretary. So there are people out there who are doing what the old fashioned doctors did. The doctor that I went to in the 1950s when I was a kid, he had a secretary and himself. That was it. And my parents paid \$5 for the visit. There was no insurance form; there was nothing like that. That's the type of medicine that I recall growing up that worked perfectly well until we got Medicare and Medicaid, and even when my father had a major operation in 1961 prior to Medicare and Medicaid, he was a blue collar worker, and Blue Cross Blue Shield paid for his hospital visit and the operation, and as I recall, it didn't bankrupt the family.

So healthcare should be provided in the way that we receive other goods and services in our society, on a voluntary basis, and have the doctors and others, hospitals have outpatient services. And I think Wal-Mart and some of the drug chains like Walgreens and CVS, I think they have walk-in facilities where people can get diagnosed if they have a minor medical issue. So again — in fact, I'm a founder of one of the non-profit health centers here in north

ern New Jersey. I was invited by a doctor who started this, and we have partnered with hospitals so we can provide major medical care for patients at the clinic to go to a hospital if they need to. So again, everyone's got to work together. This is a good example of the coordination issue that Austrians talk about. How do you provide healthcare for people who have the means to pay for it and don't have the means to pay for it? And I think if people sit down in their local community, with the hospitals, with the doctors, with the medical societies, this can be done without the overbearing, overreaching hand of the federal government dictating procedures and all these other — and mandating their revenue. To me, being a doctor today is almost being like a civil servant.

WOODS: You know, it seems to me that a good documentary topic would be — I mean, I love this. We have to touch these third rails. But then, given — I agree with your analysis completely, that there will be a very strong push for the single-payer option when Obamacare fails to satisfy, and I think that's already starting to happen. What we need is also a documentary showing the free alternative in practice — people like Dr. Umbehr is a good example — where you can see with your own eyes what his practice is like and how cheap it is and all the benefits you get, and it has nothing to do with government, and it has nothing to do with traditional third-party insurance payments. It's just doctor and patient. And we just show example after example and say, this is what you can have. You can have a system like this that's very affordable, in which the doctor is your servant, not the government's servant.

SABRIN: Right.

WOODS: I'd like to see that kind of project as well. I like to give people extra work when I have them on the show.

SABRIN: (laughing) Well, the thing is we have to get the message out there, and that's why YouTube is an incredible tool to reach hundreds of thousands, millions of people at such little cost, because this documentary cost very little to put together, and all three documentaries that I've done over the last three years cost so little, I think Ken Burns probably spends that much on coffee for his documentaries. I mean, we've given people enough ammunition to really debate this issue with their local officials, with their federal officials, state officials, and that's why I like to do these symposia and documentaries, because it highlights, I think without being overly aggressive about it, that the free market, limited government approach will give us the best outcomes. And that's really what people are looking for: how do we get the best outcomes in healthcare, education, monetary policy, and so on and so forth.

So I have on my plate a whole bunch of documentaries I'd like to put forward in the next several years, because as we know, it's going to be very problematic in this country for the welfare state and the warfare state to continue and have a strong economy as well. We know that they are incompatible. And so healthcare being nearly 20% of the U.S. economy today represents the biggest challenge I think we face as libertarians, because so many people believe that it's the government's responsibility for healthcare costs for the elderly and the indigent, and that's the cultural barrier

that we have to address, because it's been so ingrained, because it's 50 years now, we have more than two generations of people who grew up with Medicare and Medicaid as the basic programs that the government has to solve what they think is an issue that they think can only be addressed through government programs.

WOODS: I'm going to make sure and put a link to your YouTube channel, not just to this documentary, but also to your YouTube channel, Sabrin Films, at TomWoods.com/558. Can you give us a sneak peek of what we can expect to see on that channel in terms of additional documentaries?

SABRIN: Well, I'm waiting to get funding for my next project, is on social entrepreneurship, which will address the whole issue of is the welfare state viable. And this is based upon Peter Drucker's 1991 article, so next year's the 20th anniversary of one of the most important articles. Tom, I can send you that article that every libertarian should read, where he states at the opening paragraph in his *Wall Street Journal* op-ed essay, "Government has proved incompetent at solving social problems." That sounds something like Mises, Rothbard, Rockwell, Woods, Hoppe, Salerno, DiLorenzo, and other libertarians could have written, but here's Peter Drucker coming strictly from a management, practical perspective as what is the best way to deliver social services to the average citizen in need in the local community. And he basically says that the welfare state should be replaced by the non-profit sector. He calls it non-profitization. This is 1991 during the first Bush administration.

And so we're doing the symposium next April. We're going to hopefully get the documentary done and then move on to other areas of our society that need to be addressed. So we have a documentary on the income tax with Jacob Hornberger and Dan Mitchell and other people talking about how to address the income tax issue. We have the Federal Reserve one, and we have this Medicare one, which really has a lot of information and why 1965 was such a watershed year in American history, comparable to 1913 when we got the Federal Reserve and the income tax. So I like to look at documentaries that have important historical vantage points in terms of an anniversary, where people have to sit and contemplate what do we want America to be in the 21st century.

And so the overall theme is something that Bill Clinton said on *Meet the Press* many years ago, and I'm sort of taking him up on it. He said to late Tim Russert, who was the host at the time, "What should be the roll of government in a free society?" And that I think is the issue that all libertarians need to address from their vocation. What should we be writing about? What should we be thinking about? What should we be addressing? And I congratulate you on what you're doing, because this is the best way to reach literally millions of people, not only in the United States but around the world, that we need an intellectual revolution that will force people to really come to grips with how do we create a society that's based upon peace, free enterprise, social cooperation. And if we just address those issues in a very matter of fact way like Drucker does in this op-ed – this is one of the most important pieces I've read in the 45, 6, 7 years that I've graduated from college, because it really strikes at the core

issue: what's the best way to do X, and in this case, it's how to deal with social services that people need because of issues that they face in their own life.

WOODS: Murray, if people want to get in touch with you directly online — of course I'm going to have all your contact information at TomWoods.com/558, but if they want to cut out the middle man, how do they just go reach you?

SABRIN: Well, you can reach me through my college email, MSabrin@ramapo.edu, and I'm just looking forward to really being part of this movement, because I've been involved in it for a long, long time, since the 1970s. I attended the first Austrian conference in South Royalton in Vermont, and I roomed with Joe Salerno, and he was at Rutgers and I was at Rutgers and we didn't know each other; we met each other at the conference. And he's demonstrated what I realized back then, what a great economist he was and all the great work he's done. And when I met you, I met all the work you've been doing and Lew and all the other people I've met over the years, we have probably the greatest pool of talent in the history of the world.

I'm not being patronizing here; I really believe that, because I've been at these conferences with Rothbard and others over the decades, Robert Higgs, and they have such an incredible breadth of knowledge of economics, history, philosophy, political science, sociology, that we should be — everyone in America should be able to articulate the ideas that have come forward about free markets and limited government and peace. Those are the three issues that I think will be driving the debate forward, and when people realize that government is a counterproductive institution for peace and prosperity, that's when I think we win, people will realize that the welfare state should be dismantled, the warfare state should be abolished, and I think the 21st century that the Founders envisioned of peace and prosperity.

WOODS: Well, we can certainly hope, and Murray, we appreciate your contributions in all their varied forms over the years, so again, I want people to check out what you've been working on, check out this documentary. You'll find it all at TomWoods.com/558. Thanks a lot, Murray. We'll have you on again soon to talk about basically anything under the sun, because you seem to write about pretty much everything that I think about all day long, so you're an evergreen guest I can have on at any time.

SABRIN: Thank you so much, Tom, and merry Christmas to you and your family and a healthy, happy new year to everyone out there, and hopefully 2016 will be the beginning of what we hope will be the return of sanity to Washington and the beginning of the movement toward a libertarian society in the 21st century.

WOODS: Well, we can certainly hope for that. Thanks again, Murray.

SABRIN: Thanks, Tom.