Episode 824: Do Those 7 Charts Prove Obamacare Has Been a Success?

Guest: Bob Murphy

WOODS: Always glad to you have you on the show. We're talking about Obamacare again, and it's in the news, because of course we have a new president coming in, and he's talked about repealing and replacing Obamacare, so people are talking about it.

And progressives are saying — and these are the same progressives who were disappointed with Obamacare because it didn't go far enough — are saying we can't get rid of it; it's done so much good, and a lot of these Trump supporters, who are working-class people, are the ones who are going to suffer the most from a repeal of Obamacare, so it's like they have false consciousness in supporting a guy who wants to take their health care away from them. What is the matter with these people? That's been the narrative we've heard an awful lot in the media. And then there was this article —

MURPHY: Well, can we just stop on that for a minute, Tom?

WOODS: Yeah, let's do that.

MURPHY: What's funny — I mean, so they kind of have the cognitive dissonance there. They know full well they can't be claiming, Oh, Trump told you he was going to expand the ACA, but actually he's a liar. You can't trust one thing out of that guy's mouth. I mean, they know full well Trump won the election, among other things by saying we're going to get rid of this awful health care thing that Obama gave you. So they can say Trump wasn't specific about what he was going to replace it with, and so it's just pie-in-the-sky promises, but even the critics of Trump cannot possibly claim that the people who voted for him didn't know that he was going to try to get rid of Obamacare.

WOODS: Yeah, exactly. This isn't an area that he was particularly shy about. If you were to narrow down to five things that emphasized, this would be one of them. Well, I wanted to have you on, because somebody brought to my attention an article that appeared in the *LA Times*. This is from January 4th, 2017. I'll link to it at TomWoods.com/824 if anybody wants to follow along. It's written by a, looks like Michael Hiltzik, and if you follow *Contra Krugman* maybe you'll get this joke, that I'm wondering if it's actually pronounced "Suave." But all the same, this column is called, "Republicans Call Obamacare a 'Failure.' These 7 Charts Show They Couldn't Be More Wrong."

And our point today is not going to be that the 7 charts are all nothing but lies and they're just misleading numbers; it's rather what should we think about the charts, what is the correct lesson to take away from the various charts. So the first of the charts — and again, if you're at a computer or on your phone, it might be nice if you looked at them with us, but the first —

MURPHY: Can I stop you for one second?

WOODS: You stop me any time you want.

MURPHY: (laughing) Yeah, because here I'm the guest. When I'm the cohost on the other podcast you can just walk all over me, but here you've got to have some courtesy. That's partly why I jumped in a minute ago, is because this guy's narrative — so he quote Mike Pence, who said, "This law has failed. Americans are struggling. The law is failing while we speak. Things are only getting worse under Obamacare. The health care system has been ruined, dismantled — under Obamacare." And now this guy, Michael Suave also known as Hiltzik says, "Every one of those statements is demonstrably untrue."

And so it's like, wait a minute. Why are all these people voting for the guy who said he's going to get rid of the Affordable Care Act if it's such a smashing success? So in other words, one way of demonstrating that no, it is failing, is the public got really riled up by a guy who said this thing is terrible; vote for me and I'll get rid of it, and he won the election. So we can quibble about, oh, the majority, and what have you, but still, that's prima facie evidence that what Pence was saying was correct.

WOODS: Now let's look at chart number one, which is: the uninsured rate has fallen dramatically under Obamacare. And the decline in uninsured rates was especially pronounced among lower income Americans, according to the Council of Economic Advisors and other sources. So I don't know if that counts as two charts. They're both dealing with the decline in the uninsured. But what do you say to that? Nobody really denies that. That's the whole point of the thing, so we would expect that thing to happen.

MURPHY: Right. So one analogy we could use here is to say look, if the government's going to throw billions of dollars at higher education, would we say, "Is it a success or not? Well, let's see: are more Americans getting diplomas from colleges who otherwise would not have?" And yeah, the answer presumably is yes. If the government is going to throw billions of dollars at something, they can move certain metrics. And the question is just: is that a good thing or not?

So here I think what happened is the rollout of Obamacare was botched so badly that for a while there the critics were saying, Oh my gosh, they might not even be able to get this thing to work. So their expectations were so low, for a while they were waiting to see: can they even get people to sign up and take this money and go ahead and buy this stuff now that the law is mandating companies have to sell them? And then of course after a while the kinks were worked out, and yes, the official insurance rate has gone up, or the percentage of uninsured has gone down.

But you're right, Tom; it's sort of like saying if the government is going to have school lunches, can the number of school lunches go up or not, and we're going to use that to see if this thing is working. And so in those other contexts, you can see that yeah, that's really not the issue if you're going to be an opponent of such a thing; it's just that with Obamacare it was so bad when they first rolled it out and the website didn't even work that I think the critics got excited and perhaps overstepped and made wild claims about, you know, I don't even know if they're going to be able to sign people up for this thing.

WOODS: I don't want to get into what they would replace Obamacare with, because that really is an entirely different episode, and I've done a lot of different episodes on health care since starting the show. So let's leave that to one side.

But on the other hand, I do want to raise, right here at the beginning, this basic objection to our point of view, which would be: the fact is the number of uninsured has come way down under Obamacare, and yes, it's true there are other problems and premiums are higher and this and that. But the fact is this: even if you libertarians say that a purely free market in health care would leave to much reduced prices, that's not what we would have if we got rid of Obamacare. We would go right back to the old system where people are paying $2,000 to get a cast on their arm. It's just totally insane. That's the reality. The reality is that these people who are insured now who weren't before would go back to being uninsured, very vulnerable, and you people have no real solution for them.

MURPHY: That is a difficult question, but they sort of load the deck by telling us what is and is not politically feasible. So it's not libertarians' fault that the Affordable Care Act got passed, but it's also not our fault that Ronald Reagan signed legislation that made hospitals have to treat anybody who showed up. It's not our fault that the tax code makes it advantageous for employers to bundle health insurance premiums with your compensation package, so now if you lose your job you lose your health insurance. It's not our fault that there's the FDA and the American Medical Association in conjunction with licensing boards that heavily restrict the amount of doctors that can go into the field, and that's what makes health care so expensive. So that's one thing here.

People in this discussion often use health care and health insurance interchangeably, and no, those are distinct things. The reason it's so critical for people to have health insurance is because health care is so expensive. If you look at stuff like getting laser eye surgery or something in the mall now — they've got an outpatient status — or just getting an elective cosmetic surgery that's not going to be covered, and you're just paying cash out of pocket, the cost for those procedures and the quality behave like they do in any other normal consumer market where things get cheaper over time and the quality gets better. There's nothing weird about health care in that realm, and that's because that's a normal market transaction, where you're a patient and a customer, and you pay money for something if you think it's worth it, and that's how it works. And so it gets better over time. But yet that doesn't seem to work in health care, and the reason's not because of stuff libertarians have been doing.

So if we want to make analogies here, if the government all of a sudden starts taxing rich people and giving the money to people who were convicted of nonviolent drug

offenses, how's a libertarian supposed to deal with that? Well, the correct thing is no, that's wrong. You don't just take from these people here to give to these people over here, even if they have been victimized by the system. The correct thing is to stop those transfers that are coercive and end the drug war, and that will really fix things. And so you know, right now, yeah, it can come off as, oh, we're heartless, and we don't care about these — especially people of modest means who couldn't get health insurance before. But you're not doing them any favors by letting Washington start this new program. So I think that's part of the issue.

I don't know if now's the time, Tom, to segue into —

WOODS: The cruise?

MURPHY: (laughing)

WOODS: Sorry.

MURPHY: — talking about are people really satisfied with this and is it good. Yes, so people right now officially have coverage. More people have it. But the problem with this stuff is there's lots of different competing claims. So you'll see some survey saying everyone loves their coverage and they're very satisfied, and that by itself wouldn't be so surprising, because people who literally had no coverage before now getting it would say that's better than nothing.

But on the other hand, looking around there's other surveys saying people are not satisfied with their coverage, so it partly depends on how the questions are phrased. There's examples of things where deductibles have been rising rapidly, so that's one way that the health insurance companies are dealing with this. So this is from a *New York Times* article in 2015, and it says, "The steady upward creep in health insurance deductibles has easily outpaced the average increase in a worker's wages over the last five years...Kaiser calculates that deductibles have risen more than six times faster than workers' earnings since 2010."

So there's various ways that you could technically have coverage, and yet you don't feel like — it's not really buying you anything. It's not just Donald Trump. Bill Clinton, I don't remember his exact words, but if you remember back in the fall, he was on the stump somewhere campaigning for his wife, obviously, and said to the screaming crowds, Oh yeah, this Obamacare, this doesn't make any sense. You're paying more for something you're not getting any health care through. So that's a real phenomenon that he was tapping into there. He understood. He read the tealeaves and realized that the public, this thing is not working out well.

So just more anecdotes: I talk to a lot of people who are in the health care sector, and yeah, there's a bit of a selection bias. Some of them might know what my views are, and so they know the kind of stuff I want to hear. But I have yet to encounter anybody involved in health care, whether we're talking nurses, doctors, people who work on the administrative billing side, who've said, Oh yeah, now that the Affordable Care Act is in place, my office is so streamlined and everything's great, and I'm really confident about the future of health care in this country. Nobody says anything like that.

Now, some of them might be supporters of the Affordable Care Act and think we had to do something because these people weren't getting care, and just because you don't have enough money that's not fair, but nobody thought this thing was a viable long-term solution. They all thought this is not working by itself, and so they're going to have to intervene massively again to fix this system.

WOODS: I want to just go in order now of these different charts. The next one follows from this. He says, "Although Republicans claim that even if the Affordable Care Act brought down the uninsured rate, its enrollees had trouble seeing a doctor, that isn't true. Numerous studies debunk claims that doctors shun Affordable Care Act enrollees." And they say, "This sample by the Council of Economic Advisors shows that the decline in the uninsured rate is closely associated with a reduction in people who were prevented from seeking and finding medical care because of its cost." And then there's a scatter plot where they plot these things against each other. So is there anything to that?

MURPHY: Well, the problem here — so this one in particular, right, Tom, I wanted to see what the source of this was. I'm not claiming the guy did anything dishonest, but the problem is if you click on the links in this thing to go see where they're getting all of this from, this economist — I believe he's an economist — who assembled all of these charts, originally these are coming from his tweets. So he was doing this on his computer or wherever he is and then was tweeting this stuff out. So I couldn't go and look up the actual calculations to see exactly what lies behind this.

But again, I can just come back to it and say I've seen plenty of surveys where people are not satisfied, and they're saying they can't get access to who they want. I've seen thing saying that part of how health insurance companies are responding to incentives in the mandates of the Affordable Care Act, it's perverse — so the government's saying if somebody with brain cancer comes up to you and says you have to give me a policy and you can't turn the person down and you can't charge them more than somebody who has similar demographic characteristics except they don't have brain cancer, that's clearly a losing business model.

So what do they do? They'll say okay, here's our plans, and they makes sure — they ask their actuaries and whoever and they say, Who's the best cancer doctor in our region? Make sure that person's out of network for our plans, because we don't want people who have cancer researching and thinking we're the company they want to go with. Make them think our plans aren't good, so they go somewhere else. So there's things like that, where yes, you could see a doctor because the law mandates it, but the point is for a lot of people it's like, Oh yeah, but the one I really want to go to is not in network.

So again, I'm just relying on anecdotes here, but my son, he's got an insurance policy from a private company, and it's useless. I mean, if we get in a car accident or something I'm sure that's going to help me at the hospital, but the point is that the deductible's way higher than it was before the Affordable Care Act. I've taken all sorts of — The pediatrician we wanted to take him to didn't cover it, so I pay out of pocket for that. He had a sore throat the other day. I went to one of those, you know, minute clinics out of a Walgreens or something. I get in there; I go to pay; I pull the insurance card out just on a lark, and she said, No, we don't take that.

So I think there are plenty of people — Again, that underlies what Bill Clinton's whole rhetorical point was there, saying how this system's crazy; you're paying more for something that you don't even get any coverage from. So yes, that's an exaggeration, and I'm sure there are some people, but the mere fact saying, Oh, you can go see some doctor somewhere that your plan covers, that's not the same thing as saying this is actually working out well and people are getting the medical care they really want.

WOODS: Let's go to the next one then. This one, sometimes we hear libertarian doctors, let's say, saying, Oh, the Affordable Care Act has just led to all kinds of problems, and it's making everything so much more expensive. And what we're reading here is that hospitals have actually been "major beneficiaries of the Affordable Care Act." "Hospitals' uncompensated care costs fell sharply in Medicaid expansion states, as patients treated as indigent in the past are now covered by Medicaid. Their uncompensated care costs fell from an average 4% of operating costs before the Affordable Care Act to less than 2% afterward" now after the Affordable Care Act. So again, what are we to make of that?

MURPHY: Well, I don't have a problem with this chart, per se. Again, it's like saying, Did the compensation of college professors go up when the government started massively subsidizing students?

WOODS: Right.

MURPHY: You know, so yeah, that's not shocking, if the government's going to start throwing around billions of dollars that that's going to help some people and hurt other people. I would say, though, again, this issue of why were hospitals in trouble — So I don't want to come off like I'm minimizing how bad the system was in, let's say, 2007. It was a messed up system, and there was a reason that the public was unhappy and that they were looking at Obama as a savior who was going to come in and fix things. And yes, it is true that hospitals were in trouble. People would show up, and by law they had to treat them. It had to do with what's called EMTALA; that's an acronym from something that was passed in the '80s.

And in fact, Mitt Romney, when he did what's now dubbed as Romneycare when he was governor, he tried to beef up his libertarian bonafides by writing — I think it was in *The Wall Street Journal*. He wrote an op-ed saying how this is a free market thing we've done, because right now the government forces hospitals to treat people, and so people don't have an incentive to get insurance, because they know if they get sick society's going to pick up the tab. And so this is just encouraging individual responsibility and so forth, and those are conservative, right-wing principles, blah, blah, blah.

So I mean, with all kinds of stuff with government intervention, it's the Mises classic formula where they keep intervening and it causes unintended consequences, and the public doesn't like that, so the government comes in and does another round. If you just try to rollback one little piece of that, it's going to be untenable. That's kind of the point, and that's partly the logic of why you don't want to let some big new thing in the door: because it's going to be hard to get rid of it. I was going to say you're not going to be able to get rid of it, but we'll see what happens, because Trump's presidency is kind of an asterisk on normal trends of what happens in politics.

WOODS: All right, let's go on. Now it starts to get even more interesting, so let's first thank our sponsor.

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All right, the next chart is "Projected National Health Expenditures," and the conclusion reached here is: "Overall national health spending has come down even faster than was predicted, as a share of gross domestic product." Isn't that good?

MURPHY: Well, here too, Tom, it's a little bit tricky. So I ran this by somebody I know, a health economist — and I don't know if he wants me to mention his name, so I won't. And this one, he said, well, that's a little bit misleading. He's not saying that the person did this intentionally. But yes, the Affordable Care Act was signed into law in 2010, but a lot of the major provisions were only phased in over time. And so it's interesting if you look at the actual chart that they're showing here, that national health expenditures as a percent of GDP was roughly flat up till 2013, and then it started rising again, and for a while there for several years it was on the same trajectory, the same slope that the previous ACA projections showed. So it's not obvious when you really think through, okay, when did the full meat of the ACA kick in that it actually slowed the rate of growth all that much.

Also, again, without being able to go and — if look at the footnotes on this chart, Tom, it says, "Note: Pre-ACA projections have been adjusted to reflect a permanent repeal of the SGR following the methodology used by — " So the fact that this is just some chart that a guy tweeted out, and I, as far as I can tell, can't go figure out the numbers, what he's doing here — I can't say whether or not these projections are fair. For example, what I do know for sure is I've seen people using this trick where — and Krugman would do this a lot, where he would say, Oh, and the ACA is coming in under projections of cost. So hip hip hooray. And it didn't mean it was actually lowering costs, per se; what he meant was if you look at what the CBO said this thing was going to cost — oh wait, it's less than that. So it's not the thing was cheap or anything; it's just it wasn't as expensive as people thought it was going to be. So there's those issues.

WOODS: Right.

MURPHY: What I will say — I don't want to — I went to the CMS — that's the government's agency that keeps this kind of data — just looking at health expenditures as a percent of GDP going back to 1960. And if you plot that chart, it is true that it was flat — it plateaued for a few years there from about '08 to — just eyeballing the thing — until about 2013, and then it started rising again. But there were other plateaus throughout that whole period. So if you looked at this chart, and I just said, Hey, when did the government come in and do this massive effort to totally revamp health care and to slow the rate of increase, you wouldn't know from looking at the chart.

For example, in the '90s it was flat as well, and presumably that's because the economy was growing fast there. It was also pretty flat, the growth of this, for a period there in the mid 2000s before it came up again. So I'm just saying if you look at a chart of this thing, it's not that you could even tell from the chart where was this

great cost-saving measure put into place; it just looks like, yeah, this thing steadily ramps up over time.

Another measure — I was trying to say okay, let's try to get something better. I looked at the growth in real — meaning inflation-adjusted — per capita health expenditures. So there that does make the ACA come out looking a little bit better. So it's been bouncing around 5% the last few years, and going back to 1960 that is the lowest. However, in the mid '90s it was only like a percentage point higher, the growth, for several years, so it's not like this is some fundamentally new paradigm.

And also, there was a bad recession. So the problem — Fans of the ACA would think we're cheating by saying this, but you know, I've seen statistics — I was looking at fuel economy standards and things like that, like expenditures on automobiles by certain metrics came way down after 2008, 2009, because Americans were broke, and a lot of them lost their jobs, and everyone was terrified about the worst economy since the Great Depression, and so they were switching to cheaper car models to try to save money. So the fact that total spending on health care slowed way down right when we went into the worst economy since the Great Depression, by itself it's hard to attribute and say, Wait a minute; is it because of this thing over here? Is that what did it, or is it partly because people were slowing down their spending on all kinds of stuff? So it's difficult to disentangle these things.

What I will say is, again, it's not that the critics are just making stuff up out of thin air. Here's a *New York Times* piece from October of 2016 — so fairly recently. I'm just reminding people of the news: remember how the Obamacare premiums — so the policies issued on the ACA exchanges — were rising. I'm just reading from this: "The latest estimate from the federal government is that the average midlevel Obamacare plan, the most popular choice, will cost about 22% more in 2017 than it did in 2016." Okay, so a 22% increase in the premiums on those particular plans, it's just showing you that it's not obvious that actually this plan really is containing costs the way the supporters are saying. It's reducing growth in certain sectors, perhaps, and then moving them over here, and then it's popping up over there.

And people, for this, they even say, Oh yeah, but as long as you're getting subsidies, what do you care? Well, somebody's paying for that. So a lot of these things, you can tell us whatever story you want. There's a lot of statistics to back it up. I'll put it that way.

WOODS: Would you say something similar for this sixth graph, which is about — the argument behind it is: "The average growth in per-enrollee spending by private health plans in key categories has slowed materially since the passage of the Affordable Care Act in 2010."

MURPHY: Right, I would say a similar thing, that yes, there are several metrics by which it really does look like spending on health care did slow in the past several years, but again, I would just recycle some of those same responses, that this also happened during the greatest downturn since the Great Depression, and so it's not obvious how much of that should be given credit for Obamacare.

Another thing is, part of why you saw a lull in the jumping up of premiums is that there were several measures in the Affordable Care Act to get health insurance companies to not aggressively raise premiums right when the thing was first phased in. So for example, there was something called a risk corridor program, a reinsurance program. So the idea was the federal government was telling health insurance companies, Hey, go ahead and set your prices for what you want for people who sign up now that we've got the ACA on the books here and you can't turn away people's preexisting conditions, but don't worry; if it turns out you were way off and you end up losing a bunch of money, you submit those numbers to us, and then we will share the loss with you. I'm not going to get into the weeds of the formulas and so on, but that's what these health insurance companies thought.

And then when the Republicans gained power and there was the issue with the budget sequester and all of that kind of stuff in that period, the Congress came back and said, You know what? This program is supposed to be revenue-neutral — meaning this reinsurance program — so all we're going to do is if some of you came in under budget and you owe us money — you're going to share some of your profits with us — we'll use that to compensate people who underpriced. But we're not kicking in net taxpayer money for this thing. So a lot of health insurance companies were like, [gasp] and realized that they needed to really jack up their premiums and that this was not working. And I think that's partly why some of those big companies, like United Health Care and Etna and so on that were in the news, how they were pulling out of a lot of the Obamacare exchanges, because it just wasn't profitable.

So all I'm saying is for some of these particular statistics which seem to show, Oh, the critics were saying the premiums were going to blow up, and look, you see the first few years after it went into effect and it wasn't growth that was all that much worse than before, a lot of that is misleading, because the act was deliberately designed to phase in the pain and to make it seem really attractive up front.

WOODS: What about this last one, where the author says, "Even though employer-based insurance hasn't yet been directly affected by the Affordable Care Act, there seems to be a spillover effect from the overall reduction in healthcare spending growth. Premiums rose by an average 5.6% a year in the 10 years prior to passage of the Affordable Care Act, but only 3.1% since." So actually we're griping about nothing — I added that part in.

MURPHY: (laughing) Well, again, the same thing of — Part of the issue to is — and I realize somebody who's a fan and thinks no, the government comes in and tries to roll up its sleeves and take care of something, and why would we think that was going to fail? Part of the issue here is yes, health care expenditures in general were trending up because of demographic shifts. The population was getting older, and we're getting newer treatments that didn't exist 20 years ago that can prolong life and so on but are expensive. And so that's a good thing. You don't want people just to have to die. It's good to have more options. But then that's partly the reason that you see rising health care expenditures.

And so those trends were unsustainable. It can't be that health care spending as a percent of GDP just keeps rising forever, because eventually the whole economy's just devoted to health care, and that doesn't make any sense. So these trends did have to

start changing at some point. It's a little bit awkward to look at the pre thing and then the post and say, Oh, again, this is doing this. Private health plans were incorporating some changes to try to contain costs on their own. If you'll remember things like HMOs where famously — what was her name? Helen Hunt, in that one movie was swearing about and so on. So people didn't like that stuff, but private companies were trying to come up with ways, because they realized we can't just have health care expenditures rising like this.

So also with this stuff about the costs or whatever, again, without going and looking at the exact statistics — I'm not sure exactly what's going into these numbers, but I would say that there's things about the deductibles rising and so on. It's not obvious that this is such a panacea.

And also, part of the issue here — Let me just make this point. I don't know if it directly pertains to this particular chart, Tom, but it's difficult, because you can see dueling statistics. I ran into this problem when I was doing the book *Primal Prescription* with Dough McGuff, where some studies were looking at premiums before and after Obamacare and saying, Oh, look, no huge surge, and other ones were showing humongous increases.

And part of the issue was the Affordable Care Act was making you buy a "better" policy, like a more comprehensive policy, as opposed to a so-called catastrophic one that had just a high deductible and just covered a few major things but didn't cover all kinds of ancillary procedures and so on. And so the studies that wanted to downplay the impact were looking at if you had a similar policy before the Affordable Care Act, how much did that thing's price change. Whereas the studies that wanted to say no, this is killing average families were looking at, really, how much out of pocket did you pay before, and now how much are you paying. And those are two different things.

So for an analogy, if the government passed a law saying anyone who has a car now has to have a Cadillac or better, and then you looked at what impact does that new law have on Americans' auto expenditures, well, you could see how that would make everybody's — in general that would make it go up, because a lot of people right now are driving cars that aren't as fancy as Cadillacs, and so their actual out of pocket spending on vehicles would go way up. But if instead you said, Wait a minute; assume before the law you were driving a Cadillac and now after the law you're still driving a Cadillac. How much did Cadillac prices go up? Let's do apples to apples to see how much this law actually increased car prices.

So you could see how those are two different things. In one it would make like the thing was devastating, and the other one might actually make it look like it went down. If more people are buying Cadillacs, maybe there's economies of scale and now the company makes more Cadillacs, and the per price is lower than it otherwise would have been. So there's lots of tricks like that.

The one thing, I found a study that tried to control for all that stuff, and it found that in — it was from a Yale economist for the Brooking Institution, so she had no ideological axe to grind. And she found that in 2014, the first half of that year, the premiums were 24% higher than you would have predicted based on preexisting trends and so on. So again, I'm not saying I'm directly refuting these particular charts here; I

just know that there's a lot of nuances and decisions you can make in how you're going to model this and frame the issue. And when I went into it, the people who were really trying to carefully control for things and make it legitimately what the public has in mind when they say, "Did this thing make premiums go up?", they were showing very big increases.

WOODS: All right, I think that pretty much does it for this article, and what I really want to do is recommend that people check out — because it's more important than ever — your book *The Primal Prescription*, because it's a really entertaining book too, and it's not purely economics — although, it's not like that would be a bad selling point for my listeners. But the fact that you have an ER doctor writing it with you gives a great perspective that you and I alone might miss. So if you go to TomWoods.com/prescription it takes you right to the Amazon page, and you can grab that baby. You should read it. It's *The Primal Prescription: Surviving the "Sick Care" Sink Hole*. It is the best overview of what went wrong with health care and what generally we ought to be doing instead. It's fantastic.

MURPHY: Can I give one example from that book, Tom?

WOODS: Please do.

MURPHY: People should still buy it, of course, but just a little tidbit — the kind of thing where I would not have picked it up, but somebody's who's in the trenches, he's seen it day in and day out. So Doug — he's the ER doctor, Doug McGuff, he was saying yes, the government agencies that are responsible for reimbursing hospitals and so on, they tweaked their formulas to try to contain costs, because what was happening is that they were just reimbursing hospitals for certain procedures. If you had a patient who had five things wrong with him, they would give the doctors the incentive — They would treat one thing, make the guy go home; they would get paid for that; the guy would come back; now he's got four things; they would treat that; he'd go home. So they could keep re-billing and get that maximum amount.

So the government was aware that this was happening, so they tweaked the formulas such that they were penalizing readmission. So if you treated somebody for something and then he left, and then he came back within a certain window, you had to treat that person for free. In other words, the government wouldn't reimburse you for that. So the spirit of it, the intention was to make sure you gave people all the right, correct treatment upfront and didn't let problems linger, that you'd nipped it in the bud, because you weren't going to be able to string them along and just keep getting payments every time they showed up.

But Doug was pointing out that — he was saying, No, I've seen in practice what that means; it's that some people get discharged, and they get sent elsewhere to make sure that they don't come back to our hospital. Or people would get discharged, and they would end up dying, and that was partly why they weren't coming back to the hospital. So he was admitting I can't go and give you all kinds of peer-reviewed journal research on this stuff, because this is a fairly new thing. He was just saying anecdotally, though, I'm seeing what's happening, and it's still the case that we're discharging people who should not be discharged.

So anyways, things like that just to show someone who sees what was happening before, why it wasn't working, and then how the government tweaked the rules, and how now on paper a lot of fans are pointing to things saying, See? They're containing costs. This is great. Bounce-back rates have dropped in these certain areas. And he's just pointing out that, Yeah, but it's not exactly what you'd want. It's kind of like in the Soviet Union, if they gave production quotas and say we want to have more screwdrivers or something come out, and so then they produce really big screwdrivers instead of what the people actually need to use to meet the official quotas. Perversities like that are happening in the health care sector now, so these statistics showing success should not be taken at face value.

WOODS: All right, and with that we'll leave it off. Make sure everybody not only grabs the book, but visit Bob over at ConsultingByRPM.com. He has an excellent blog. I read it faithfully. You'll enjoy it. I'll have links to Bob and all of his different projects, including — of course Bob and I do *Contra Krugman* together. Bob has a podcast he does with somebody else. He's a busy guy. We'll have all that stuff linked at TomWoods.com/824. All right, Bob, I know you're really busy this week, and I appreciate you taking the time to do this for us. I know everybody listening appreciates it. Thanks a lot.

MURPHY: Glad to be here.