Bill Walton: Doing this, all the rest of it is easy.

Maurine: And you can hear him. Right?

Bill Walton: He's not talking though he will.

Maurine: [inaudible 00:00:15] working here.

Bill Walton: John, why don't you ... how was the drive back up from New York ... from the city?

John Steele G.: Well it was fine. I took the train so I only had about a three mile drive and the roads were perfectly clear.

Bill Walton: Yeah, that's good. Washington DC tends to shut down on a weather report, not actual weather. So they closed the federal government yesterday, which I think is a great thing. I would have hoped they do that every day. But for reasons other than weather. He's talking, I can't hear him we keep cutting in and out.

John Steele G.: I can hear you just fine.

Bill Walton: You just came through.

Maurine: Explain to him that you're going to be doing-

Bill Walton: John, here's what ... this thing just connected from my teleprompter. The way this is set up John is I've got the camera on my laptop here that I'm looking at you right now with the little green light on top. And then there's another camera behind the computer that's just a little off and that's going to be my main camera for the show.

Bill Walton: But I'm going to be looking at you a lot of times. So I'll be back and forth, the so-called audience is out there. And then I'm looking at you, so I'll be back and forth just a little bit. The reason we're doing ... this is primarily an audio podcast, but the reason we're doing the video is that this goes up on YouTube and YouTube is the world's second largest search engine.

Bill Walton: So you need to have a video to do this. And so we've got the visual and we've got the audio, but we're on all the other major podcast platforms, iTunes and Stitcher and so forth. And Maurine, could you ... this teleprompter is not showing up here.

Maurine: [inaudible 00:02:22]

Bill Walton: No, it's just finding, trying to find it there. And so the way we're going to do this is I'm going to open it up with about a minute and a half on framing the

conversation we're going to have, and then I'm going to give you a brief introduction and I'll probably say something after we, after I say that like ... so John, you've written a terrific both history and analysis of where we've come with health care.

Bill Walton: Could you give a bit of a background on healthcare over the last couple thousand years and then you can launch into what you did? You can probably not do all of healthcare last 2000 years, but [inaudible 00:03:11] and then we'll just get into the conversation and we'll go through where we are, where we were then and where we are now.

Bill Walton: Then we'll talk about the healthcare cost explosion, and then you've got a very good piece on the path to modern medicine. And I don't really care which order we take that in. It sort of depends on where you feel like you're leading us toward the most interesting story.

Bill Walton: And we hope to get through the conversation about 35, 40 minutes coz I very much want to get to your proposed solutions and why we don't want a national health insurance program and [inaudible 00:03:48] plan and instead of we want to have a price mechanism and we want to have something done about the tort litigation explosion and that sort of thing. And how are we doing there Maurine?

Maurine: It just disappeared, I apologize for some reason it's not [inaudible 00:04:09]

Bill Walton: So are you still writing for Barrons?

John Steele G.: No, I haven't written for Barrons now for about a year. They changed editors and they haven't used me.

Bill Walton: So which part of your bio ... By the way, I bought An Empire of Wealth and I'm about 60 pages into it and it's terrific.

John Steele G.: Thank you.

Bill Walton: Have you written anything since then?

John Steele G.: My latest book was a couple of years ago. It was called Washington's Monument. It's a history of the Washington Monument in Washington along with the history of obelisks in general.

Bill Walton: That's pretty interesting.

Maurine: [inaudible 00:05:05].

Bill Walton: What's that?

Maurine: Take it off [inaudible 00:05:11].

Bill Walton: I see what's going on. Here we go. So the bio I've got John is the one you had in Primus and contributing editor to American heritage where he wrote the business of America column for many years. And then I said he currently writes a long view column for Barrons and that's no longer accurate.

John Steele G.: No.

Bill Walton: So I should take that out?

John Steele G.: Yeah, you should take that out. I wish they'd started running it again, but they haven't so.

Bill Walton: Well, author of several books including Hamilton's Blessing: The Extraordinary Life and Times of our National Debt, the Great Game: The Emergence of Wall Street as a World Power and An Empire Wealth: the Epic History of American Economic Power.

Bill Walton: Is there any ... I think the one I'd like to plug would be An Empire of Wealth because it gets into our history and that leads us into a health care and insurance in some way. I've got you Milwak school Vanderbilt University?

John Steele G.: Yes.

Bill Walton: So Maurine he seems to be cutting out at the opening of when he talks.

Maurine: Maybe ... so John prior ... when you have to ... I know it's going to ... it seems that when you start to speak, it's not quite catching it. So maybe knock on the table before or make some kind of noise prior ... [crosstalk 00:07:01] I'm just trying to figure out a way.

Bill Walton: Yeah, your mic isn't switching on right away. Like say something right now.

John Steele G.: One, two, three, four.

Bill Walton: We're good. Let's just go ahead and see what happens. I don't want to-

Maurine: [inaudible 00:07:21] we're ready.

Bill Walton: All right, John, let's get it going and I'll just lead us into it and then we'll take it from here. How many of us understand the healthcare system in America and especially healthcare insurance? I know I don't, I have a lot of questions. How does the health-cares come to be 15% of the US economy? Over $3 trillion.

Bill Walton: And why are healthcare costs soared higher and higher more than inflation and average incomes? When did the market for healthcare services come unmowed from free markets and price competition? Why is healthcare insurance so different from every other kind of insurance? Is National health care insurance like Great Britain's inevitable or are there free market ways out of our healthcare costs problems?

Bill Walton: And how did healthcare according to [Sam 00:08:18] become "a universal human right when more than 90% of the medicine being practiced today did not exist in 1950?" How do we deal with the terrible end of life health care questions and that there is no cure for old age itself.

Bill Walton: So when I came across some terrific explanations of how all this came to be, I knew I had to bring it's author on the show, John Steele Gordon. John Steele Gordon is an editor at American heritage where he wrote the business of America column. His books include one of the best books in American history I've ever read. An Empire of Wealth: An Epic history of American Economic Power. John, welcome.

John Steele G.: I'm very glad to be here.

Bill Walton: Healthcare, you wrote a piece recently in Primus magazine for Hillsdale and you gave for me an enormously helpful bit of context about just how far modest modern medicine or medicine has come over the last, I guess, couple of millennia. And you make the point that I just made that 90% of the medicine practiced today did not exist in 1950.

Bill Walton: Can you ... I guess for me it could bring me up to date of how we ... where was healthcare for most of human existence and how quickly did things accelerate through the last century or two?

John Steele G.: Well rather a different line of work is often known as the oldest profession. But I think you can make a pretty good guess that is actually, doctors are the oldest profession. I mean, herbal medicines have been known to all human societies. And it was the Greeks who first figured out that disease is not caused by supernatural forces. It's caused by natural forces.

John Steele G.: And they began systematizing medicine, a Greek physician named Galen in the second century AD wrote enormously on the subject. And that became iconic in the middle ages. And so advance in medicine really stopped up until the 16th century when they began to get much better idea of human anatomy. But even up until the early 19th century, there were very few things.

John Steele G.: There were a few drugs like digitalis and quinine, but other than that, there was not much they could do. It wasn't until the germ theory of disease was developed in the middle of the 19th century. That it was germs that were

responsible for many kinds of diseases that medicine really began to advance and became a modern scientific enterprise.

John Steele G.: And then around 1930, suddenly things began to explode in terms of what we were able to do. Because before then, basically what a doctor could do when you came down with a disease was he could ameliorate the symptoms, but it was basically up to you to either cure yourself or not cure yourself as the case may be.

John Steele G.: But 1930 sulfa drugs, the first antibiotics were introduced. And by the 1950s, surgery had greatly advanced. The heart lung machine allowed chest surgery for the first time. And it just took off from there. Pharmaceuticals exploded with things like anti histamines and antibiotics and anti psychotics, which emptied mental hospitals all over the world.

John Steele G.: And it's just a snowball ever since. And this is just an amazing amount of advance means out of the hundred great advances of medicine, probably 80 were in the last 70 or 80 years.

Bill Walton: Well, I think you point out in 1891, the death rate for American children in their first year of life was 125 per thousand. And then by 1925, that had been reduced to less than 16 per thousand. And we saw a dramatic rise in the life expectancy of Americans just in the last hundred years.

John Steele G.: Indeed, well first in 1900, 47 was life expectancy. By the 1930, 65 was life expectancy. Most of that was because of the decline in infant mortality, much of that was due to pasteurization of milk. In the last 50 years, life expectancy has been increasing rapidly, is now approaching 80 years. And most of that is because we are able to cure the diseases that used to kill us.

Bill Walton: Now all of these advances you talk about before 1950 and of course one of my themes is the market is a wonderful innovation machine and you let people find markets for their innovations and good things happen. What drove the advances that occurred during the formative time, say before 1950. Was everything pretty much a free market in healthcare then and people paid for it out of their own pocket?

John Steele G.: Yes. Health insurance didn't exist until about 1930. And so there wasn't a whole lot that he could do with medicine in those days. So it wasn't all that expensive. We spent on average $23 per person per year on medical care in 1930. Today we spend something like 3,500. And so actually a curious thing happened was that health insurance was invented in the early 1930s but it wasn't invented by insurance people.

John Steele G.: It was invented by doctors because they wanted ... hospitals are very expensive and the expenses continue whether there are patients there or not. And so they wanted a way to smooth out their cash flow. So Baylor Hospital in Dallas offered

[local 00:14:26] teachers. If they paid $6 a year, I believe it was, they were entitled up to 21 days of hospital care.

Bill Walton: Well, the hospitals, there were only about a couple of hundred hospitals in America towards the end of the 19th century, 1870, 1880. And then they exploded. And I think you pointed out because of the germ theory and the fact that people could be safer in hospitals.

Bill Walton: Hospitals up to that point, before we understood more about how to treat illnesses were places where poor people went to die. And we had ... if you wanted healthcare or you wanted medicine. It was performed if you could afford it by a doctor in your own house or maybe at a clinic that he ran or she ran.

John Steele G.: Correct.

Bill Walton: [inaudible 00:15:15]

John Steele G.: And then once we learned about antiseptics, well then hospitals became places not only where you could cure disease, but also where you could research disease. Suddenly you had all these patients and you could teach doctors how to treat them and what have you. So they were enormous force in moving medicine forward.

Bill Walton: So we went from almost no hospitals to 7,000 hospitals and in when, 1970?

John Steele G.: Correct.

Bill Walton: But the thing about hospitals that you've pointed out is that they are tremendously expensive ideas. I mean, you've got a building fixed costs, you get a lot of people that work at them and the patients come and go. And in order to pay for the operation of the hospital, they had to figure out a better way to create steady cashflow.

Bill Walton: So they didn't wait till people showed up to check in. They came up with this idea where you prepay in effect for healthcare. And that's really what launched the modern medical insurance industry was called blue cross in those days sacramento. And then hospitals banded together and allowed this insurance to be ... this prepaid healthcare to be used at all the hospitals that participated in the plan that [inaudible 00:16:41]

John Steele G.: That's correct, but it wasn't ... insurance traditionally is you had a deductible insurance was to protect yourself against unexpected, very large expenses. Like a tornado hits your house or your car is wrecked. That's what an insurance was supposed to do.

John Steele G.: This early insurance was the other way around. They paid for the first 21 days of hospital care after that you are on your own. So it didn't really work terribly well as insurance. And then unfortunately politics got involved.

Bill Walton: I'm just envisioning people trying to get well in the 18th, 19th day of their stay-

John Steele G.: Exactly.

Bill Walton: Knowing that you're going to be kicked out.

John Steele G.: Well 21 days was a long hospital stay even now. Hospitals stays tend to be much shorter these days. And ... but also what happened was it made you want to be treated in the hospital, the most expensive way to be treated. Because that's when somebody else would pay for it if you just went to the doctor-

Bill Walton: So if you paid into this insurance plan, the only place you could get treatment was in a hospital. You couldn't go to the doctor and [inaudible 00:17:54]

John Steele G.: Right, and so it was a great incentive to go into the hospital, which of course is what the doctors had all along.

Bill Walton: And the problem with that is that that's the most expensive way to treat healthcare. So we already launched into a system where you've got ... you don't have a market at work, you're just going to go to a hospital and no place else. When did the doctors come into the picture? Didn't they create their own insurance plan called blue shield?

John Steele G.: Blue shield, right.

Bill Walton: Are they similar?

John Steele G.: [inaudible 00:18:25] in the 1930s as well.

Bill Walton: So if you want a health insurance then you had either blue cross or blue shield, most likely you wanted both?

John Steele G.: Correct.

Bill Walton: And so what are the flaws in that system besides the fact you can only have treatment in a hospital?

John Steele G.: Well that was the main one of course. And so what actually happened very soon is when the war broke out in 1941, suddenly we had a terrible labor shortage in this country. The unemployment rate in 1944 was something like half of 1%. And so companies were very anxious to get workers, but they couldn't raise wages because of the wage and price controls during the war.

John Steele G.: So what they started offering fringe benefits, one of which was medical insurance. And unfortunately what this meant was that most workers, by 1950 most people were getting their medical insurance through their employer. And therefore they have no choice but to take what he offered. And sometimes that wouldn't have been the best.

John Steele G.: A young person needs a different kind of health insurance than an old person does. Because as we get older we need more and more medical care.

Bill Walton: Well most of the cost of medical care today goes into the last few years of life. I mean it's something like half?

John Steele G.: It's a third I believe. It's only like a third in the last six months of life. Coz sometimes doctors were always trained to fight, to keep people alive. Now, I mean at old age, things begin to break down at some point, just your whole systems are breaking down and they can stop this thing and then they stop that and then they stopped something else.

John Steele G.: And it can be enormously expensive and the quality of life is often very poor and we have to figure out how to do this in a moral way. And that takes theologians and ethicists not just orients to figure that out.

Bill Walton: And the thing about the health care insurance back in the day with hospital insurance was that the cost of treating either the birth of a baby or a back problem or whatever was roughly the same. So there was no catastrophically high numbers as we see today.

Bill Walton: I mean, my wife had back surgery and it was a six figure number that ... And I used to be very free market [inaudible 00:21:07] we shouldn't have medicare. But now I'm on Medicare and it's a pretty good program if you're on it.

John Steele G.: Yes, I'm on medicare, I hardly approve of it.

Bill Walton: So how did the health care insurance ended up so different from other kinds of insurance? For the first place most healthcare insurers are nonprofit. And how did that come about? [crosstalk 00:21:37] and also they're not regulated by the state insurance regulators, which regulate every other kind of insurance.

John Steele G.: Well, the insurance regulators started moving to regulate them like regular insurance companies, which means you have to keep large financial reserves and they didn't want to do that. And so they simply made a deal that they'd accept anybody who applied and them and they will operate as nonprofits.

Bill Walton: So the quid pro quo to be not regulated as a insurance company by the state regulators with the IRS was that we're going to be nonprofit then that was the trade. Was there anything else involved?

John Steele G.: Also that they would take anybody who applied [crosstalk 00:22:26] might not want to do that.

Bill Walton: And so what happened was as blue cross blue shield expanded and in it's form it really ... other healthcare insurance companies were forced into the same model?

John Steele G.: Correct, coz there was no way to compete.

Bill Walton: So how do we get cost controls into this system? It's one of the things that I think is concerning now is the way the health care insurance is set up with the insurance provided by employers. And even the government programs, Medicare, Medicaid, the VA, you really don't have any incentive to shop for price because it's all going to be paid.

Bill Walton: And then if you look at your statement, I mean the retail price of some astronomically high number and what's really being paid is a vastly lower number. And so the typical person looking around to have something treated is not looking for cost savings, they are looking for something else.

John Steele G.: No one way that this insurance was different from ordinary insurance was it ordinary insurance indemnifies you against loss. If you're car is wrecked, the insurance company writes you a check and then you decide how best to go out and buy a new car or put the money in the bank and walk to work or whatever. In medical insurance it's a fee for service.

John Steele G.: And so the doctors have no incentive to cut their costs in order to gain market share and send a great incentive to add a dollar or two as long as everybody else are charging the same thing. So this is an engine of costs going up. No, it's a really dumb idea.

Bill Walton: So the reason we don't have a price mechanism and in health care, which is one of the questions I asked at the beginning is the way the insurance system was set up back in the 30s. And the way it evolved with the IRS making these companies non ... allowing them to operate as nonprofit and getting out from under the state insurance regulators where their cost of capital would have been a lot higher. They would have added to compete more on price.

John Steele G.: Yes. That's the key to solving the cost of medicine is price competition. The magic question is, doctor, how much is this going to cost? And under the current system, most of us just don't care. I had my gallbladder out 20 years ago and I haven't the faintest idea what it cost because insurance paid both the check.

John Steele G.: And now of course some medicine and if you're having a heart attack, you're not in a good position to bargain. But 85% of medicine is chronic care, not acute care. I mean it's handling your bad back and handling your overactive stomach or whatever.

Bill Walton: Well also it doesn't cover routine ... regular insurance let's say motor insurance doesn't pay for oil changes, doesn't pay for regular maintenance, whereas health care plans do.

John Steele G.: Yes, that is a very bad system because basically it's not the assurance at all which protects you against unexpected loss. It's a prepayment plan and a very expensive one. Because the government in its infinite wisdom decided that car insurance should cover oil changes. So it used to be you'd get down to the garage, pay the guy $25 four times a year, and he'd change your oil for $100.

John Steele G.: Now suddenly he bills the insurance company, but he has to wait for his money and has more clerical expenses. So he charges $35 and then the insurance company has to ... they have clerical expenses and they need to make a profit and what have you. So they charge you $50 so now in your prepayment plan, you're paying $200 a year for oil changes instead of $100. It's exactly the same thing in medicine

Bill Walton: And what's been happening with the hospitals, because this all started with the hospitals because as I understand that we ended up ... we started, we had 7,000 or so in 1975 but that's fallen about 5,500 a day because our ability to treat things outside of hospital treat ... treat illness outside a hospital is grown exponentially.

Bill Walton: And so the demand for hospital beds has been falling yet it's very hard to get rid of hospitals or merge hospitals together. And consequently, the cost of being in a hospital skyrocketed. What's keeping hospitals from going out of business or merging or working in a more economic fashion?

John Steele G.: Many things, local pressure unions. Everybody wants efficient hospitals, but they want their hospital. Nobody wants their hospital to be closed. Doctors like empty beds because that makes it easy to admit patients.

John Steele G.: And so you have all this surplus capacity hospitals. And they also want ... the doctors want the hospital to have ... treat everything. Whereas it'd be much more efficient if we do have some specialty hospitals like Memorial Sloan Kettering in New York with treats only cancer.

John Steele G.: But most hospitals are general hospitals and they need to be more efficient and then cut down. We could probably cut down at least a third of all hospital beds in the country if we could do it without ... get the politics out of there.

Bill Walton: And so it's just simply a matter of you put ... it turns up in the paper that XYZ hospital is closing and the unions and local politicians jump in and you just can't do it.

John Steele G.: Exactly.

Bill Walton: Let's talk a little bit more about the employer paid system because that's one of the problems and that also employees don't have any incentive to shop for any other insurance because if their company provides it, why bother? And then the insurance companies like the employee paid because they can cherry pick the kind of people they want to insure.

John Steele G.: Exactly.

Bill Walton: Word for that ... a term for it. I can't remember the ... I'm looking around here for what that-

John Steele G.: Community rating.

Bill Walton: Community rating. That's what I was looking for. Community rating, so how does community rating work?

John Steele G.: Well, insurance company, they look at a community and see how many ... they're insuring automobiles. They want to know how many accidents this particular locality is likely to have. You're going to have more accidents in New York City than you're going to have in rural Iowa. And so people in New York City have higher insurance rates.

John Steele G.: But it's a big community where I say you don't have to pay extra insurance because you happen to live on a block with a lot of lousy drivers. But when they're providing it to a company, they look through the company and they say, well this company has a lot of healthy employees, many problems. And so they cherry pick those and then the other everybody left over has to pay much higher rates because of that.

Bill Walton: And this is why 65% of workers without health insurance work for companies with 25 or fewer employees?

John Steele G.: Exactly, so if you have one employee in that 25 employee company, one employee who needs considerable and expensive medical care. Everybody has their rates go way up.

Bill Walton: I see.

John Steele G.: And often you can't leave the company because you wouldn't be able to get insurance, which is just plain wrong.

Bill Walton: Has Obamacare fixed this?

John Steele G.: No Obamacare has not fixed it. I personally think that Obamacare was designed to force the end of private medicine and to make socialized medicine inevitable. I think it was ... I don't have nice things to say about Obamacare.

Bill Walton: Well say a few nice things then. Tick off two or three of the particulars here.

John Steele G.: Well, it was done without ... economics had nothing to do with it. They did ... it doesn't change the basic fee for service system, which is part of the problem. It forces people to ... you can still go out and get insurance.

John Steele G.: I mean, if your house burns down, you can't buy the insurance the next day, but if you have a heart attack, you can buy the insurance the next day. And that's just plain wrong. Sends up everybody's prices again.

Bill Walton: So the two other programs that beside we talked about the blue cross blue shield, you wanted one of Medicaid and Medicare. The health care providers hated these because they hated the idea of socialized medicine.

Bill Walton: But then when the program's kicked in in the 60s and 70s, in particularly 80s, they loved it because people could afford services they couldn't pay for in the private system. And it's been with us ever since. But what are the ... so once again, we've got another more programs where we're not paying attention to what things cost.

John Steele G.: Exactly, Medicare you don't care what it costs. The government takes the money every month out of your account. And also that's fee for service. Again, the doctors have no incentive to compete in terms of price. And so they'd done. And the really big problem here is that every hospital has a list of what they charge and it's a state secret.

John Steele G.: They will not tell you. Because basically what they do is they pay a lot less Medicare and the big insurance companies have negotiated rates way down. But if you happen to be uninsured, you go to the hospital, you have to pay full freight which again is just wrong. And actually the Trump administration has required hospitals and other medical service providers to post their prices.

John Steele G.: And then what they did was they would say, well, procedure PQ17H is $5,000. Of course, you don't know what the procedure is. So they have to put a new rule saying in English please, and there are hospitals now and they're spreading, they're more of them. The surgical center of Oklahoma, for instance, they post their prices online and it's a complete package.

John Steele G.: If you need a knee replacement, you will go online and they'll tell you it's $15,607 or whatever the sum is and that's it. Whereas in other most hospitals you can negotiate the price and actually some people have begun doing that. Then they go to Oklahoma surgical Center and find what the price is and then go to their local hospital and say, well you do it for the same price. So they have these nominal prices, which are nonsense.

John Steele G.: I mean if you look, I know I'm, well, I got from Medicare, it says the doctor charged $150 for something or rather medicare lab 37 and the doctor took the

37 well he's obviously not losing money. I mean, so where does this $650 come from? It's so phony, phony price. Everybody should have to post their prices.

John Steele G.: And then once you post prices, once a hospital A says, we'll do it for 15,000 then hospital B, it's not going to be able to charge 25,000 because people are going to go to hospital A and the insurance companies are going to go to the hospital [inaudible 00:34:40].

Bill Walton: So there's no price transparency. Is there any quality transparency out there? One of the issues we have is that because of the litigation nightmare that ... well most everything's become, but you've got tort lawyers going after people and malpractice. There's really no sharing of information about what works and what doesn't work.

Bill Walton: And so if you're a consumer of healthcare, you not only don't see prices, you don't get quality ratings for doctors. I mean, I would love to see something where we had I guess a craigslist or something where people were posting up on the internet, well, this doctor is XYZ. Now maybe that's starting to happen informally, but there's certainly no formal way to judge who's a good doctor and who's a bad doctor.

John Steele G.: Well, hospitals, they do have morbidity tables and stuff like that. They do keep very careful statistics. Some hospitals of course are simply better than others and they have better results. They have fewer adverse results appendectomy [inaudible 00:35:46]

Bill Walton: But how do we as a potential appendectomy patient ... I'll try and pick something else. As a potential knee replacement patient, how's that? Can pick and choose us. But how do we know which one's better than the other except word of mouth?

John Steele G.: Basically it's word of mouth as far as I know. I mean, maybe there's an opportunity there for people to rate-

Bill Walton: I think there's a bigger opportunity. Maybe you and I should talk about a business because it seems to me that if you could pull together and systematize people's experiences, I mean, how many times we go out and people said, well, I had my knee done at this place and it was great. And somebody else says, well, I had my knee done at the same place. It was terrible. And so we have anecdotes, but we don't have analysis or statistics or ratings.

John Steele G.: Well, in fact the hospitals will have to be forced to provide those statistics. And they would ... the American hospital association would fight that tooth and nail I am sure.

Bill Walton: Well, and they are also are worried about the litigation explosion, which you've written about.

John Steele G.: Indeed. I mean, tort lawyers we have in the United States is the only country in the common law world where we have what's called the American rule where both sides pay their legal expenses regardless of outcome. Everywhere else, it's the English rule, which is the loser pays the outcome, which makes people much more reluctant to sue.

John Steele G.: And basically this is an opportunity for lawyers to extort. I mean, they go to you and say, look we're suing you for $100,000 and we have enough evidence to get into court, but we might lose. But anyway, you're going to have to pay $100,000 to your lawyer, pay as $25,000 to go away. And this is a plain old extortion and tort law layers are parasites.

John Steele G.: They contribute, they create no wealth. They simply transfer wealth from one person to another and take a big chunk of it themselves. It's a dreadful system. Unfortunately, tort lawyers are the second largest donators to the Democratic Party after labor unions.

Bill Walton: So labor unions are one, tort lawyers are two. Neurosurgeons what? Pay as much as $300,000 a year for insurance coverage?

John Steele G.: Indeed it is-

Bill Walton: Even good ones?

John Steele G.: Because some specialties are much more high risk than others and it's a ridiculous way to go into court and they're very careful on the juries to make sure there's nobody on that jury who actually knows anything about medicine. And so it really boils down to the history and the talents of the lawyers who are arguing.

John Steele G.: And I would like to see courts that do nothing but malpractice courts that they have judges who are specially trained in medicine. And it was the judge that calls the expert witnesses, not the lawyers. Because there are plenty of expert witnesses who will tell ... testify in court that yes, they'll tell you, the [Leslie 00:39:01] lawyer says what are you going to say, unless the guy says what he wants to hear, he doesn't get hired as an expert witness. So it should be the judges who do it.

Bill Walton: So I'm hearing a couple solutions if we could bring about, one is experts in the courtrooms who know medicine and know health care who can really assess what was a good thing or bad thing. I'm also hearing loser pays is a great system. The English system, which will reduce tort reform. What did Texas two in their tort reform? Was it something similar to that?

John Steele G.: Well, one loser pay-

Bill Walton: Texas has seen these costs dropped exponentially.

John Steele G.: Loser pay, but they did reform the system. You're not allowed to judge shop anymore in Texas. I forget the particulars. But Texas did do a very good job of reforming malpractice.

Bill Walton: So in the realm of solutions, why not ... People are pushing you mentioned that the [inaudible 00:40:00] is pushing for national health care insurance. But you say we've already tried that here. We've got three systems. We've tried that in.

John Steele G.: Right, we have Medicare, we have the Veterans Administration and we have the Indian Health Service. And all three of them are shambles. I mean, none of them as a private insurance company will survive a week.

John Steele G.: They're just very, very badly and inefficiently run. And why should we turn over all the medical care to the government when the government has been unable to run three separate medical care systems? It just doesn't make any sense.

Bill Walton: Instead we go back to my favorite solution, the free market. And that involves price transparency?

John Steele G.: Absolutely. Private prices have to be [inaudible 00:40:48] ... local gas station has to post the price. Why shouldn't the local hospital post the price? And the real price not be nominal price.

Bill Walton: So then if they have that, then they're going to force to compete on price. Now people will say, [Gee 00:41:04] if you force them to compete on price, they're going to cut the quality of their healthcare and they're going to try to complete surgeries quicker or with less care. How do you respond to that?

John Steele G.: Well, right now there is so much inefficiency in hospital because there is no incentive to become efficient. That there's just all kinds of low hanging fruit ... the hospitals could use to cut their costs. And I just don't think when they did bad then that'd be subject to being sued for malpractice if they cut corners that diminish success rate, things like that.

Bill Walton: Well sued or else the solution that you and I came up with a little bit ago, which is I think if we had price transparency coupled with a robust ranking system, a rating system, a community rating system driven by both patients and by doctors and people in the field. So that if a hospital or a doctor got a reputation for low prices but also low quality, that word would get around.

John Steele G.: Indeed it would, very quickly.

Bill Walton: You wouldn't be looking just at price. You'd be looking at how likely it was you'd actually get your knee fixed.

John Steele G.: Yes, exactly. And that's transparency is always a good idea. I think it was Louis Brandeis or Justice Brandeis who said that sunshine is the best disinfectant.

Bill Walton: He did and he was right.

John Steele G.: He was right.

Bill Walton: So we're going to go ... coz that's one solution. Then we got the American rule, we've got a patient shopping and you would also reform the federal programs, what they would pay so that Medicare would not be generously paying every single hangnail that we have, but it would be more selective about what it would pay for?

John Steele G.: Exactly with ... a medical savings account is what some companies have done this and there's not a reason Medicare couldn't do exactly the same thing. Which is that they provide a certain sum of money to handle routine cares, scraped knees and the sniffles and what have you. And major medical to cover the heart attacks and knee replacements and what have you.

John Steele G.: And then if you don't spend that money, if you don't have any sniffles that year, that money would go over into your retirement account. This would give everybody the incentive to ask the magic question, how much is this going to cost?

Bill Walton: We've come up with some good ideas. Price competition, a robust rating system, quality rating system, loser pays litigation, healthcare savings accounts. But we touched on this earlier and I want to close with your thoughts about how we deal with the fact that a lot of the money that gets spent on medicine falls into two categories.

Bill Walton: One, diseases like heart disease and diabetes, which some people feel are lifestyle related diseases. And then the other big bucket of where the money gets spent is in old age, primarily the last year or two or three of life. And we're able to prolong life. We can prolong life for almost forever, I don't want to say forever, but for a decade or two decades.

Bill Walton: When somebody has something in their 70s or 80s, how do you deal with those ethical questions? And I don't expect a short answer or a definitive answer, but that is the question-

John Steele G.: [inaudible 00:44:36]

Bill Walton: To be or not to be?

John Steele G.: How do we decide when to allow somebody to die because they're dying of old age and old age is an incurable disease. I wish it were otherwise, but it's not.

Bill Walton: I'm getting there on that one too.

John Steele G.: And so well that's a problem for ethicists, theologians and people like that. And that's not my job title I'm afraid.

Bill Walton: But it is something as a society we're going to have to grapple with because our ability to keep people alive vastly exceeds our ability to understand what the right thing to do is.

John Steele G.: And also we can keep them alive in a technical sense, but they're lying in a bed with tubes running in and out of them and there's no quality of life whatsoever. So I think ... I don't know what the solution here is. But we're going to have to think long and hard on that because our technical ability keeps bounding ahead.

John Steele G.: And also just think how much life expectancy has increased. I mean, when I was a child in the 1950s, I knew a woman who would live to be 107. Nobody else knew people that old. Now Queen Mother, Madame Chiang Kai Shek, Mitt Rose Kennedy on and on have lived ... Bob Hope. They all look ... Kirk Douglas is 102 and doing just fine.

John Steele G.: Olivia de Havilland who starred in a movie in 1939, she's still alive. And so these very long lives and if it's good quality of life, that's terrific. But if it isn't, then I think we need to think about.

Bill Walton: Well, let's think about ... John thank you for a lot of fascinating insights in the history about how we ended up where we are. Your piece appeared in Primus magazine Hillsdale, and that can be found online.

John Steele G.: Indeed it can, you can just Google on in Primus Hillsdale, it'll come up instantly.

Bill Walton: In Primus Hillsdale, hillsdale.org, highly encourage you to read it because it fills out some of the details that we've been talking about today and is the best overview of both the history and the nature of the problems we face in health care that I've come across. So John, thank you and look forward to having you back on to talk about, maybe we'll talk about the economic history of the United States next time.

John Steele G.: [inaudible 00:47:10] to do that.

Bill Walton: Bye John thank you.

John Steele G.: Thank you.

Bill Walton: And we're done with today's show. So welcome back, welcome us back. And we already turned off the tape.

Maurine: [inaudible 00:47:31]

Bill Walton: Maurine had a tense morning this morning. Hey John, I was gonna ... we're done. We got it done. Did you take a look at my history of crony capitalism?

Maurine: I haven't still been able to yet I'm afraid I've been very pressed for time.

Bill Walton: Yeah, I know I've got the same issue-

Maurine: But I will.

Bill Walton: But I did with crony capitalism sort of what you did in the Primus thing in health care. And that was a Primus piece of health care. It was just basically take a look at how we got to where we are based on a whole series of unfortunate moves and with the Supreme Court and other things like that. Anyway so take a look. Maybe we can talk about that at some point.

John Steele G.: Great, I'd love to. Well thank you very much.

Bill Walton: Thank you. Looking forward to talking again.

John Steele G.: Great.

Bill Walton: Great, thanks.

John Steele G.: Is that a cat I saw going in the back there?

Bill Walton: That's my dog. My terrier, she gets to go on the set anytime she wants.

John Steele G.: Talk to you soon.

Bill Walton: Talk to you soon, great. Bye.

John Steele G.: Bye.

Speaker 4: Hello.

Speaker 5: Hi Kenny.