

The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

A Monthly Publication of The Ethan Allen Institute

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Solving the Debt Crisis

COMMENTARY

The United States government and its AAA bond rating are heading toward a crisis on August 3, and citizens ought to understand how we got to this sorry situation.

According to the Congressional Budget Office alternative fiscal scenario, widely considered the most realistic, federal debt now held by the public is 68 percent of gross domestic product. On the present trajectory it will reach 100 percent of GDP by 2021, well into the crisis zone.

The national debt – exclusive of the more than \$50 trillion in long-run unfunded liabilities of Social Security and Medicare – will hit \$14.3 trillion next month. At that point the Treasury cannot issue more debt to finance more federal spending. Raising that limit requires an act of Congress.

This year the federal government will raise about 60 percent of its spending from taxes collected from the American people. It will borrow the remaining 40 percent. About half

of that will be borrowed from foreigners, notably the Chinese. Those borrowers are already spooked by the relentlessly approaching U.S. fiscal crisis.

Last year Social Security paid out more than it took in from payroll taxes. It covered the shortfall by cashing in special bonds bought from the Treasury with surpluses accumulated in past decades. That portfolio will keep Social Security paying benefits until 2038. Every time the program cashes in a Treasury bond, however, the Treasury has to raise the funds by diverting money from other programs, or issuing new debt.

Medicare is far closer to insolvency. It is eating through its reserves at the rate of \$37 billion a year, and will run out of money in 2024, five years earlier than predicted just a year ago.

Meanwhile, the federal deficit spending for the past three fiscal years (one of Bush's, two of Obama's) has totaled \$4.3 trillion, which increased the national debt by 40 percent.

The growing fiscal crisis is the predictable result of decades of fiscal irresponsibility, enthusiastically practiced by politicians of both parties.

Raising taxes to cover desired spending is politically dangerous.

Raising spending – distributing more money to more recipients – builds political support. A cynic would say that this is the reason why democracies cannot last.

In January President Obama offered his budget, featuring trillion-dollar deficits for years into the future. The Senate rejected it 97-0. Now the President is promising cuts in domestic spending in return for a large debt limit increase and a sizable amount of new taxes.

The Republican House says it will vote to raise the debt limit by an amount less than the specific spending cuts required, with no net tax increases. It also wants congressional approval of a Balanced Budget Amendment to the Constitution.

President Obama, a lifelong devotee of expanding government, seems to be at a loss how to deal with Republicans who are unwilling to perpetuate liberal spending programs that they view as excessive, unjustified, wasteful and even destructive.

In what the *Christian Science Monitor* described as a "primal scream" last Friday, the President portrayed the Republican Congress almost as some kind of cult, unwilling to yield to the

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The Ethan Allen Letter

The Ethan Allen Institute is an independent, non-profit, nonpartisan public policy research and educational organization, incorporated in 1993 under Vermont law.

The Institute sponsors and conducts research on important public policy questions facing the people of Vermont, and makes its findings and recommendations known through various channels to the general public, the news media, and civic leaders at all levels.

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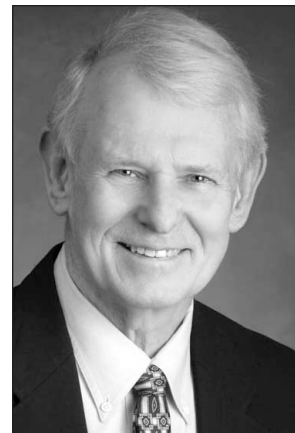
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EDITOR'S MESSAGE

An Insincere Request



In abbreviated remarks to a recent Rutland health-care meeting, Gov. Shumlin “asked doubters of the initiative to help find solutions rather than just pointing out flaws”. Excuse me for finding this extremely annoying.

On its face, it’s reasonable. A proposer of legislation ought to seek critiques and alternate solutions from those who don’t share his enthusiasm for an idea. But Shumlin and his allies refuse to consider any “solution” to “the health care problem” that fails to conform to the oft-repeated “principles for health care reform” enshrined in the recently enacted single payer bill, Act 48.

That act insists that health care is a “public good”, which it clearly is not; mandates universal coverage; and insists on taxpayer financing (\$3 billion). If you have a solution to the “health care problem” not based upon these and other specified features, don’t bother Peter Shumlin with it.

Even Barack Obama told Congress that “my guiding principle is, and has always been, that consumers do better where there is choice and competition” Clearly the Shumlin forces want none of that thinking.

For 18 years this Institute has published high quality, substantive, proposals for coping with the “health care problem”. Our website offers four major reports and 37 commentaries on the subject. But since they all posit free people making choices to maintain their own health, the single payer people have long since – often scornfully – ruled them out of the discussion.

Maybe they’ll have a change of heart when Green Mountain Care cripples our state’s economy, denies care to the needy, and drives doctors and taxpayers out of the state. Better yet, maybe the free people of this state will remove them from office before that calamity befalls us.

EDITOR

PS: Visit www.vttransparency.org to (finally!) see the list of vendors receiving state payments.

The War Against the First Amendment

COMMENTARY

Gov. Peter Shumlin has cast himself in a new role: enemy of the First Amendment that protects everyone's freedom of speech.

The occasion for this new Shumlin crusade was the June 24 ruling of the U.S. Supreme Court, invalidating Vermont's pharmaceutical data mining legislation. That legislation, enacted while Shumlin was Senate president pro tem, sought to prohibit the collection and sale of data on physician's prescription practices.

Data mining companies buy data from pharmacies to learn what doctors are prescribing for their patients. Pharmaceutical companies buy the reports to learn which doctors are prescribing their company products, and which are not. Then the company's sales reps can make their pitches to the doctors to prescribe more of their product. No patient's name or other identifying information is collected. The focus is on prescriptions, not patients.

The data mining companies also sell their reports to research institutions and governments. That didn't concern the Shumlin-led Vermont legislature. Its real concern was that the availability of the prescription data eventually resulted in doctors prescribing more brand name drugs instead of lower priced generics.

Since the largest single item in the state's general fund budget is Medicaid, the liberal legislature decided that by preventing data miners from selling prescription information to certain disfavored people – pharmaceutical companies – it could curb

Medicaid's drug expenditures.

Enactment of the law was accompanied by derisive attacks on the evil pharma companies. These bad boys are a "multi-billion dollar industry" (Shumlin, in his recent commentary on the case.) They are unworthy! The First Amendment protects only people with correct ideas (like us)!

The appeals court didn't buy that, and neither did the Supremes. By a 6-3 vote, with liberal justice Sonia Sotomayor joining five conservatives, the Court once again held that legislatures cannot exclude certain parties from First Amendment protection just because a legislative majority disapproves of those parties' opinions or use of information. "The fear that people would make bad decisions if given truthful information", the Court held, "cannot justify content-based burdens on speech."

Sens. Patrick Leahy and Bernie Sanders joined Shumlin in the liberal chorus of denunciation. Leahy charged that the Court was "using the First Amendment as a tool to bolster the rights of big business at the expense of individual Americans." Sanders, with his usual flair for the ridiculous, said "it's an absurd ruling", and, falsely, "an invasion of my privacy and my relationship with my doctor."

Contrary to the Shumlin theory, the legal issue is not whether the pharma companies are worthy, or whether their use of information increases the state's Medicaid costs. The legal issue is governmental denial of access to information to certain individuals, companies, and associations disfavored by certain politicians. That is a constitutional no-no, and friends of the Bill of Rights should rejoice that a majority of the Court is its defender.

In his commentary Shumlin also indicts the Supreme Court for its rul-

ing in another First Amendment case, *Citizens United* (2010). In that case a nonprofit corporation sought to publicly distribute a documentary film designed to cripple the presidential candidacy of Sen. Hillary Clinton.

Congress had enacted a law in 2002 that made it a felony for a corporation, labor union, or citizen's association to make independent expenditures to influence approaching elections. The *Citizens United* Court overturned that part of the law because it violated the First Amendment: "the government may not suppress political speech based on the speaker's corporate identity."

In Shumlin's view, that sinister ruling "opened the door for corporations to manipulate our elections." He neglected to observe that the ruling equally protects political speech by the Vermont-NEA, Planned Parenthood, the Sierra Club, Vermont Health Care for All, the Vermont Workers Center, and VPIRG. Those liberal organizations may now buy radio spots and send out mailings supporting the reelection of, say, Sen. Sanders, without fear of prosecution.

The *Citizens United* case left untouched the long-standing federal law prohibiting corporations from donating money to candidates' campaigns for Congress or the Presidency. But it remains perfectly legal for candidates for state office in Vermont to receive contributions directly from corporations.

Surely Peter Shumlin is well aware of this, since his campaign finance reports list dozens of contributions from corporations bent on "manipulating elections" to his political benefit.

Today's misnamed "liberals" are all too often willing to stifle speech that threatens their political interests. The First Amendment, fortunately, still stands in their way.

Vermont's Phony Health Care "Exchange"

The Exchange preferred by the Shumlin Administration and the Vermont Legislature, spelled out in the language of Act 48, would allow the Vermont to:

- Offer only one state-selected qualified health plan,
- Offer only one state-selected health insurance issuer, and
- Possibly prohibit sale of health insurance to 'qualified employers' and "qualified individuals" anywhere else but through the Exchange.

This is quite the opposite of the direction taken in the federal law and its proposed regulations. Here are a few examples of the language used [in ObamaCare]. Compare these with that bullet list of the direction spelled out in Act 48:

"Exchanges will offer Americans competition, choice, and clout. Insurance companies will compete for business on a level playing field, driving down costs. Consumers will have a choice of health plans to fit their needs." (from the Executive Summary)

"Exchanges should aim to maximize enrollment of eligible individuals into Qualified Health Plans (QHPs), to increase QHP participation and competition which in turn increases consumer choice and purchasing clout. (p. 44)

In this proposed rule, "qualified health plan" only refers to those QHPs that are certified by and offered through an Exchange; however, a QHP issuer is not precluded from offering the certified QHP outside of an Exchange. (p. 17)

"We note that participation in a SHOP (the small business insurance exchange) is strictly voluntary for small employers." (p. 77) (Note: How 'strictly voluntary' is participation if it's the only place a small employer and employees can purchase health insurance?)

"The Exchanges should be an attractive market for health insurance issuers to achieve the goal of providing consumers and employers with access to a competitive choice of affordable, high quality QHPs. Part 156 contains the proposed standards for QHPs and QHP issuers that are intended to promote robust and meaningful consumer choice." (p. 115)

... [Under ObamaCare] the role for state government is to validate that plans and issuers meet the state's high standards, not to take all choices away from consumers by selecting only one plan and one issuer, and give consumers no other choice outside the Exchange.

During the next session of the legislature, Representatives and

Senators will make decisions on key design elements for the Exchange in Vermont:

1. Will the director of the Exchange be given authority to offer only one plan from only one carrier (in addition to any federally offered plans) on the Exchange? Or, will the director be ordered to provide consumers "robust and meaningful choice?"
2. Will the insurance laws in Vermont be amended to prohibit sale of insurance to individuals and small businesses except through the Exchange? Or, will those proposals be turned down in favor of giving consumers choices, and, by the way, giving Vermont a "Plan B" in case the state's Exchange plan(s) can't satisfy our needs?

Obviously, if the director of the Exchange offers only one (state-selected) plan from one (state-selected) carrier, and then state law prohibits any other carriers or plans from being available, the result of Vermont's implementation of the federal law will have been to reduce consumer choice far, far beyond the worst cases around the country that the federal law was designed to reverse. – Jeanne Keller (TEBHR 7/15/11)

Make Them Tell Us the Tax Bill Before the Election!

Vermonters for Health Care Freedom is collecting petitions demanding the 2012 legislature direct that the Shumlin Administration's plan for financing \$3 billion in new health care spending be released by September 15, 2012, instead of January 2013 – safely after the 2012 election. You can print out copies of the petition for you and your friends to circulate across Vermont at www.vthealthcarefreedom.org. Twenty or thirty thousand signatures ought to get their attention!



VERMONTERS
FOR HEALTH CARE FREEDOM

ShumlinCare as Job Killer: “Paul Frascoia [CEO of Fab-Tech, 140 jobs, Colchester] is forthright about what his business strategy will be in response to Green Mountain Care. ‘Our Vermont factory already bears higher legislated costs than our other factories. If Green Mountain Care and its anticipated employer payroll tax come to fruition we will probably need to take action in terms of relocating capacity and staffing.’” (TNR 7/20/11)

Wizard Finds Work: On July 20 Gov. Shumlin appointed Rep. Mark Larson (D-Burlington) as Commissioner of Health Care Access. This is the same Mark Larson who, as chair of the House Health Care Reform Committee, repeatedly claimed that Green Mountain Care would save a “trillion” dollars in health care costs. Good luck understanding your budget, Mark.

Balanced Budget Amendment: John McClaughry offers a clever alternative to the unworkable Balanced Budget Amendment on *American Thinker* at www.americanthinker.com/2011/05/proposition_twenty.html.

Why We Have a Debt Crisis: “Vermont to apply for \$50M educa-

tion grant”. (*Rutland Herald* headline, 7/21/11).

NEWS & VIEWS

company’s legal position and the record strongly support its decision to continue to trial scheduled to begin on Sept. 12.”

Amazing News: from slide show by Anya Rader-Wallack, architect of Green Mountain Care (Health Industry Forum 7/13/11):

- Health care is a right – all Vermonters are covered
- Health care costs are sustainable – closer to our rate of economic growth
- Providers are paid fairly
- Everybody pays their fair share
- Vermont is the best place to do business
- Vermont is the best place to practice medicine
- If you don’t believe all this, psychiatric counseling will be available under Green Mountain Care.

- (OK, we added the last one.)

Entergy Gambles: On July 25 Entergy’s board agreed to refuel Vermont Yankee in October, at a cost of \$90 million. Entergy president Wayne Leonard said, “Our board believes both the merits of the

If Entergy’s lawsuit fails, the new fuel load will be only one-third consumed by the scheduled shutdown date of March 21, 2012. Entergy’s decision to risk a \$60 million loss strongly suggests that its lawyers believe they will win their case, or at least get judicial permission to keep operating the plant until April 2013.

Riding in Style: After eight years of Gov. Jim Douglas’s modest sedan, Gov. Peter Shumlin is restoring the lost grandeur to state government. He has ordered a gigantic \$50,000 carbon-dioxide spewing 2011 Ford Expedition 4WD SUV for his official travels. (BFP 7/19/11)

No word on whether the Governor will voluntarily pay the \$150 purchase and use tax surcharge and registration surcharge that would have been required of every owner of a car getting less than 20 mpg by the VPIRG gas guzzler tax bill (S.350) introduced in 2008 by Sen. Peter Shumlin.

Light Bulb Fiasco: “When 100 watt bulbs begin to disappear early

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Solving the Debt Crisis

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imperatives of ever more government spending, taxes, and debt.

If the debt limit is not raised, the Treasury will not default on Treasury debt. There are plenty of tax dollars coming in to pay the interest. Nor will Social Security checks not be written, because Social Security’s redemption of its Treasury bond assets, and the Treasury’s issuance of new debt to cover the repayments, doesn’t increase the national debt.

There would, however, be unpredictable economic consequences, possibly “catastrophic”, possibly temporary. But unless the U.S. shows the world that it can get its fiscal house back in order, Americans will be assured of an ever-deepening economic crisis.

Thanks in large part to the Tea Party demand for fiscal responsibility, the House Republicans are taking responsible, if controversial, steps to prevent the coming national train wreck. Pres-

ident Obama and the Democrats are determined that the only solution is to keep jacking up the debt limit, and to pay for their endless list of spending demands by hitting up “the rich” – the people now paying half of federal income tax collections – for ever more tax payments.

The painful House plan will work. The destructive Obama plan will not. It’s time for America to make the difficult choice.

NEWS & VIEWS

2008 statement supporting Obama's election.)

next year, there will be plenty of fury to vent on the knuckle-draggers who insist on foisting crummy, mercury-filled junk on us 'for our own good'. One wonders why the leftists have bought into this one – the 'nouveau' CFL bulbs are a health hazard, production is entirely overseas (in China), and the main wind-fall beneficiary will be one of those 'huge multi-national corporations' that lefties are always moaning about." – Dan Foty (*Vermont Tiger*, 7/16/11)

Making a Difference: Will Randall's new biography of Ethan Allen so impressed Jack DuBrul, president of The Automaster in Shelburne, that he bought 50 copies, had Will supply autographs, and sent them as gifts to 50 public and private schools in the Greater Burlington area. "Every student in Vermont and in the United States," he wrote, "should know the imposing story of Ethan Allen's life." Just so – and thank you, Jack.

CNBC Rankings: The business news network CNBC published its "Top States for Business" rankings for 2011, based on 10 categories. Vermont: 44th. (VA 1; MA 6; NH 17). Had Vermont not scored very high on "quality of life" (3rd) and "education" (4th), it could well have

been 50th (instead of RI).

Energy Choices: "Vermont Yankee puts \$100 million a year into the Vermont economy (three economic firms did the studies for this) and \$10 million into Vermont taxes. Does [Gov. Shumlin] think we can charge the Canadians \$110 million for the use of these new [transmission] lines [from Labrador]?" Meredith Angwin of the EAI Energy Education Project (TNR 071211)

Name of the Climate Game: "Urgent and unprecedented environmental and social changes challenge **scientists to define a new social contract** ... a commitment on the part of all scientists to devote their energies and talents to the most pressing problems of the day, in proportion to their importance, **in exchange for public funding.**" Jane Lubchenco, NOAA Administrator, 1997 AAAS presidential address (emphasis added).

Curiosity: Mainstream media regularly refer to "Tea Party supported" members of Congress. But why don't they ever refer to our "Communist Party supported" President? (See CPUSA, August 14,

Clean Energy German Style: The German government says it will shut down its nuclear power plants by 2022. To deal with the electricity shortfall, it will use 5 percent of its equivalent of Vermont's Clean Energy Development Fund to finance new coal and gas power plants. (TL 7/13/11)

Fight Climate Change! Burn More Coal!

Vermont's No. 1 – In a Good Way for Once: When it comes to property and casualty insurance, Vermonters have the best insurance market and the best regulators, according to the Heartland Institute.

The institute annually rates the states' insurance departments against two criteria: "How free are consumers to choose the property and casualty insurance products they want?" and "How free are insurers to provide the property and casualty insurance products consumers say they want?"

Heartland's 2011 survey, released June 26, ranks Vermont highest among all states. Then there's health insurance ...

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Vendor Data Posted!

After over a year of prolonged negotiating, trying hard to accommodate the demands on the state's Department of Finance and Management, the joint EAI-PAI transparency site has finally posted the state vendor data. We were on the verge of posting these files three months ago, only to get an urgent call from F&M asking our webmaster to return the data files because certain information in them is by law confidential. F&M has finally redacted the confidential data – mainly the towns of residence of a handful of state employees who received incidental vendor payments. The files will appear on www.vttransparency.org, at last, by July 29.



NEWS & VIEWS

First Principle: “Discussions of policy issues should begin with first principles ... there are only two basic ways to organize society: coercively, through government dictates, or voluntarily, through the myriad interactions among individuals and private associations. ...

The bottom line of political philosophy, and therefore of politics itself, is, ‘Who is going to make the decision about this particular aspect of your life, you or somebody else?’ Do you spend the money you earn or does some politician? In a civil society you make the choices about your life. In a political society someone else makes those choices.” – David Boaz (Cato Institute)

Global Warming Update: “The entire climate-change movement, fairly or not, is now in shambles, thanks to serial scandals about faked research, record cold and wet winters in much of Europe and the U.S., and the conflict-of-interest, get-rich schemes of prominent global-warming preachers such as Al Gore.

“The administration’s energy visions are forged by academics and

government bureaucrats who live mostly in cities with short commutes and have worked largely for public agencies.

“These utopians have no idea that without reasonably priced fuel and power, the self-employed farmer cannot produce food. The private plant operator can’t create plastics.

“And the trucker cannot bring goods to the consumer – all the basics like lettuce, iPads and Levi’s that a highly educated, urbanized elite both enjoys and yet has no idea of how a distant someone else made their unbridled consumption possible.” – Victor Davis Hanson (IBD 3/24/11)

Policing Single Payer: “The federal government’s systems for analyzing Medicare and Medicaid data for possible fraud are inadequate and underused, making it more difficult to detect the billions of dollars in fraudulent claims paid out each year, according to a [GAO] report released Tuesday (7/12).” Michael Cannon of the Cato Institute points

out that this is the 159th report issued by the GAO since 1986, finding Medicaid and Medicare anti-fraud controls inadequate.

Candid Electric Car Info: “If you live in an area where the winters get extremely cold an all-electric vehicle will have to be garaged and equipped with some kind of plug-in battery warmer for it to be effective in the coldest months of the year. Keep these thoughts in mind if you’re planning an electric car purchase; we don’t want you finding out the range of your car has been halved when it’s five below zero and you’re 15 miles from home.” – www.thecarelectric.com, a site promoting electric car use (Jan. 2011.)

Act Now! Last month Congressman Peter Welch sent a flyer apparently to every nonprofit organization registered in Vermont (EAI got one). It’s “Congressman Peter Welch’s Guide to Funding Grants”, and it advises people to go to the Congressman’s web site to learn how to extract federal grant money, presumably before the federal government, \$14 trillion in debt, is taken over by its creditors.

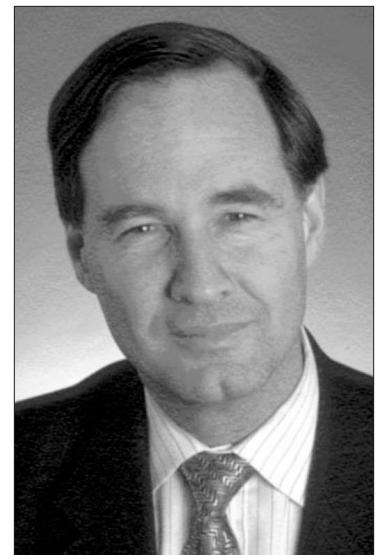
David Hale to Speak August 29

Vermont-born global economist David Hale will appear on the EAI platform for the seventh time on Monday, August 29, at 7 p.m. in the University Amphitheatre at the Sheraton Burlington Conference Center.

David and his wife Lyric are the editors of a just released book, *What’s Next? Unconventional Wisdom on the Future of the World Economy* (Yale University Press).

In this unique book, more than 20 leading economists and experts offer rigorously researched prognoses for the world’s major economies over the next five years. Factoring in such varied issues as the price of oil, the strength of the U.S. dollar, geopolitics, tax policies, and new developments in investment decision making, the contributors ground their predictions in the realities of current events, political conditions, and the health of financial institutions in each national economy.

David and Lyric will summarize the highlights of *What’s Next?* as part of EAI’s Sheraton Economic Series. The public is invited.





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WDEV Radio Vermont

August 1, 2011

More Government Dairy Ideas

MEDIA

The National Milk Producers Federation has two new dairy policy proposals, endorsed naturally by the Vermont Congressional delegation.

Under the Margin Protection Program the taxpayers would make sure dairy farmers' "margins" would not drop below \$4 per hundredweight.

Under the Market Stabilization Program, handlers would be required to pay farmers less for their milk when milk production threatens to drive down prices. The government would claim the funds not paid to farmers to buy up dairy products to support milk prices.

By driving up the price of milk, the Market Stabilization Program will damage every industry, like cheese and yogurt making, that uses milk as a raw material and increasingly relies on export markets.

A far easier way of protecting margins would be to repeal the mandates and subsidies that are currently sucking forty percent of the U.S. corn crop into ethanol production.

A far better way to cope with market swings is to make use of futures contracts to level out price swings over a multi-year cycle. Many dairy farmers have been resistant to this technique. They have somehow gotten the idea that the government owes it to them to maintain healthy "margins", by buying up products, fixing prices, banning imports, distributing subsidies, and penalizing overproducers.

Implementing "reforms" to install government-organized supply management, at the expense of manufacturers, exporters, consumers, and taxpayers, will hasten the day when independent farmers become dependent wards of the government. Not good.

– John McClaughry