

# The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

*A Monthly Publication of The Ethan Allen Institute*

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## Green Mountain Care: Mission Impossible

### COMMENTARY

With Governor Shumlin's signature, the government of the state of Vermont has officially become the first American state to set out on the path to an all-inclusive taxpayer-financed single-payer health care system.

That result is scheduled to materialize in 2017, when the Federal government will presumably agree to convert the ObamaCare health insurance tax credits for employers and employees into transfer payments to the Green Mountain Care Board. That assumes that

by that date there will still be tax credits to convert.

The Vermont Health Care for All lobby group makes much of the statement in the new legislation that "health care is a public good". Apparently "public good" has taken the place of "human right," even though Gov. Shumlin, in his bill-signing speech, hailed the impending creation of a new system "that treats

health care as a right, not a privilege."

Any competent economist can explain why "health care" cannot be a "public good" (it is not "non-rivalrous" and "non-excludable"). Any competent lawyer can explain that nowhere in our Constitutions and laws can there be found a "right", whereby you can force providers to give you whatever medical services you believe you are entitled to. But leaving aside that the proposed single-payer plan is founded on one or both of two falsehoods, the newly empowered architects of this project face staggering tasks.

Gov. Shumlin is fond of saying that single-payer is the only realistic way to achieve "cost control". A hint of what that means can be found in the bill's language that "all Vermonters must receive affordable and appropriate health care at the appropriate time in the appropriate setting."

That might be reassuring, until one realizes that the single-payer health care mega-system can only extract so much money from taxpayers. The amount of money available will inevitably define what care is "appropriate", what time of service

is "appropriate", and what setting is "appropriate".

The primary mechanism for cost control is a government-enforced "global budget." When asked how essentially infinite demands for health services can be squared with "cost control", one early and fervent backer of single-payer (former Sen. Cheryl Rivers) replied breezily, "the global budget defines how much will be spent on health care. So the cost is controlled."

In other words, the Green Mountain Care Board will decide how much coverage each category of Vermonters is entitled to receive, when they will get it, who will provide it, and how much the providers will be paid for providing it, all in light of the available funds.

The new law stops short – so far – of prohibiting providers from accepting private paying patients. That was the case in Quebec until 2005, when the Supreme Court of Canada struck down the provincial ban on private health coverage. The Court found it impermissible for the government's single-payer system to bar patient access to private doctors

See **Green Mountain**, Page 5

# 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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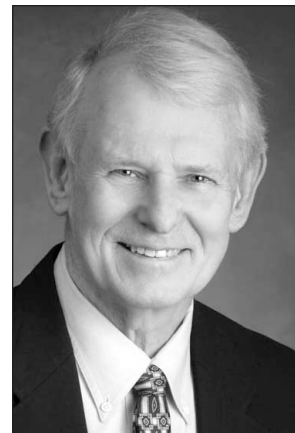
## ETHAN ALLEN INSTITUTE

4836 Kirby Mountain Road  
Concord, VT 05824

Phone: 802-695-1448 Fax: 802-695-1436  
E-mail: [eai@ethanallen.org](mailto:eai@ethanallen.org)  
Web page: <http://www.ethanallen.org>

# EDITOR'S MESSAGE

## Important Changes: EAI and Vermont



At its meeting on April 20, the EAI Board decided that beginning with the July issue (No. 208), the Ethan Allen Letter will be delivered electronically. This means that it will be produced and laid out as a PDF document and posted around the first of each month on the EAI web page.

I will notify all members by email that the monthly newsletter has been posted, and members can view it, forward it, and print it out at their convenience. To make sure you receive the notification, please make sure we have your email address. If you are not currently receiving occasional EAI emails, send us an email message (subject line: "add to list").

My take on the 2011 legislative session appears on page 3. I tried hard to be even-handed and even (grudgingly) complimentary, but it ought to be crystal clear that this legislature has launched us down the path from a too-big \$5 billion state government to an humongous \$8 billion state government, with a firm grip on education, health care, energy, land use, and economic activity. By (disgracefully) pushing the vote on raising \$3 billion in new taxes to finance Green Mountain Care into 2013, this Governor and his partisan legislators expect to be re-elected in 2012.

What Vermonters need to understand is that Gov. Shumlin and his partisan allies are reveling in the knowledge that they now have unchallenged power to impose their entire sweeping liberal-progressive program on the people of this state, subject only to the constraint that it has to be paid for.

If their grand plan for Vermont's future is not derailed in the 2012 election, you can confidently expect Vermont to become an unproductive green socialist backwater – or as I put it in 1992, "a combination Shelburne Museum, government office warren, and welfare colony."



EDITOR

P.S.: Be sure to catch Rob Roper's Common Sense Radio, presented by the Ethan Allen Institute, on WDEV (550 AM, 96.1 FM) every weekday at 11:05.

# The Legislature's Budget: Who Will Pay

## COMMENTARY

When the very liberal 2011 legislature assembled in January to hear the call to action from a new and very liberal Governor, most Vermonters had every right to expect the worst. Now, four months later, the legislature concluded a week ahead of schedule, without (so far) doing any lasting damage.

In January the state faced a FY2012 general fund shortfall of \$176 million. But to its credit, the legislature managed to produce a theoretically balanced budget, that even allocated three million dollars to bring the General Fund stabilization reserve up to the statutory minimum.

It did so first by surprisingly finding unspent funds from the previous fiscal year, in the amount of \$59 million. Another \$38 million came from imposing a 2.5 percent reduction in human services payments to various “designated agencies”, albeit without instituting any structural reforms.

The budgeteers filched \$4 million from the always vulnerable Transportation Fund. It short-changed the mandated transfer to the Education Fund by \$23 million. It's worth noting that a similar proposal from Gov. Douglas in 2006 drew the wrath of Democratic leaders, who were eager to pose as the champions of beleaguered property taxpayers. But that was then.

These provisions, along with several minor items, brought the

shortfall down to \$33 million. The legislature booked \$9 million more in expected revenue increases from the current cigarette tax and the MediScam provider tax on hospitals. At this point the budgeteers had to turn to new taxes.

Since Gov. Shumlin had repeatedly declared that “there is no more tax capacity left in Vermont” and had promised no increases in “broad based taxes”, finding the remaining \$24 million posed a political problem.

The Governor and legislature solved this problem by jacking up the MediScam tax to new levels, taxing health claims paid by insurers, adding 38 cents per pack to the cigarette tax, and tweaking some minor taxes. The \$24 million thus expected will, if it turns up, give the state a balanced General Fund budget.

So what has happened here?

First, the 38 cents a pack cigarette tax hike (to \$2.62 a pack) will have important border effects. That's why Gov. Shumlin surprised legislators by coming out against it (at \$3.24 a pack). To bank the expected revenues, the state will have to have guessed right about how many smokers quit, and how many more buy their smokes elsewhere (especially in New Hampshire).

Second, shorting the Act 60-required transfer to the Education Fund penalized local property taxpayers collectively for failing to restrain school spending. That restraint was mandated by last year's largely failed “Challenge for Change” program. Since local school spending is in the hands of the voters, the restraint became a suggestion, not a requirement.

Now, with \$23 million less in the Education Fund to meet 2012 school budget expenses, property taxpayers will get the bill for the shortfall. One could argue that they are being forced to subsidize Medicaid, the largest component of General Fund spending.

Third, in addition to shorting the Education Fund, the legislature was forced for the first time to increase the base education property tax rates that provide two thirds of the money in that fund. That will show up in everyone's education property tax bills.

Fourth, the hospital provider tax and the fivefold increase in the tax rate on health claims creates new costs for hospitals, insurance companies, and self-insured companies. Those higher costs necessarily produce higher insurance premiums. As those premiums are raised, the cry goes up from the Left that “health insurance costs are out of control”; we must move even more quickly to put an end to health insurance and engulf all Vermonters in the single payer health plan already lumbering down the legislative track.

What these folks won't face up to is that the state's ever deepening Medicaid underpayments to hospitals, nursing homes, doctors and dentists, plus the state's ever increasing provider and health claims taxes, are the root cause of those soaring premiums.

Once Green Mountain Care drives out private health insurance, the budgeteers will no longer be able to shift government health care costs onto private health insurance premiums. Then what? Hello, taxpayers!

# Health Care Reform Ain't Beanbag

## COMMENTARY

The bill to put Vermont on the irreversible path toward a single-payer health care system is now well on its way to the governor's desk. The ceremonial signing may well be the governor's answer to the pageantry of the Royal Wedding.

Perhaps the most startling aspect of this four-month legislative saga has been the enormous contrast between the daunting requirements of organizing the new \$3 billion government program, and the limited competence of its advocates.

The 2010 legislature launched the process – for at least the third time – by voting \$300,000 to Dr. William Hsiao of the Harvard School of Public Health to explain how to gather all Vermonters into the grand single-payer system.

The Hsiao team recommended a level of health benefits thought to be suitable for Vermont's under-65 population. It specified the payroll tax rates required to bring in enough tax dollars to pay for the program. It claimed an astounding \$590 million a year would be saved (starting in 2015) by abolishing health insurance companies.

So the House Health Care Reform Committee brought out a bill that gave the Hsiao-recommended Green Mountain Care Board the power to set benefit levels and decide how much to underpay health care providers – but neglected to include any provision for raising the necessary \$2 billion of new taxes. Instead, the new board was told to

take another year and another million dollars to grapple with the same questions that Hsiao had already studied.

Once the eligible population is identified, the board's view of the "appropriate health care at the appropriate time in the appropriate setting" spelled out, the costs of that care estimated, and the Federal subsidies added in, the board can tell the legislature how much it will have to raise in new taxes to keep this ship above water.

In the Senate, the majority Democrats won the vote of Sen. Kevin Mullin (R-Rutland) by agreeing to require the board at some unspecified point to announce to the world that it believes that Green Mountain Care would reduce administrative costs (whose?), contain the growth in health care costs, improve the quality of care, attract providers, and not damage the state's economy. There is no appeal process or enforcement mechanism for these declarations.

Gov. Shumlin has made it clear that he wants the new ObamaCare-mandated Exchange to be the only place anyone can obtain health insurance. In addition, liberals have long ago taken to viewing Health Savings Account plans as a conservative plot to thwart their collectivist ambitions. Sen. Vince Illuzzi (R-Essex-Orleans) offered a carefully crafted amendment that would have prevented the Exchange from exterminating the popular HSA plans. The Democrats voted it down 11-19.

The Democrats also voted down an amendment from Sen. Randy Brock (R-Franklin) to advance the date for the administration's health care tax request from January 2013

to September 2012. That would allow the voters to learn what's in store for them if the governor is re-elected. Only eight senators were willing to support that eminently sensible provision.

It was patently apparent during the legislative debate that the backers of single-payer – now relabeled "universal and unified health system" – have little grasp of the complexities involved in completely disassembling and repackaging Vermont's \$5 billion health care sector to satisfy the red-shirted Sanderistas shouting that "health care is a human right".

The Democratic legislators are marching to orders from the Shumlin health care high command. They are almost mystically convinced that the native genius of Vermonters can somehow make Green Mountain Care work. This is so even though 40 years of the almost identical Canadian single-payer model have produced rationing, waiting lines, maddening bureaucracies, demoralized doctors and nurses, shabby facilities, obsolete technology, declining quality of care, and of course much higher taxation.

Typical of this widely held attitude is the remark of Sen. Anthony Pollina (I-Washington): "We're from Vermont. We're one of the smartest states in the country, and we can figure this [single payer thing] out." This is the same Sanderista activist whose venture to pay farmers premium prices for milk and sell it at competitive prices predictably collapsed into insolvency.

As the saying goes, "politics ain't beanbag." Neither is health care reform, but the beanbaggers are in the driver's seat.

# Green Mountain Care: Mission Impossible

Continued from Page 1

when government cost containment policies left thousands of those patients without such access.

That points to another major problem to be faced. A major cost containment technique used in Quebec's single-payer system is limiting the number of and payments to providers. With fewer providers, there will be fewer patient visits and medical services. With fewer visits and services, there will be fewer billings. With fewer billings, costs will be contained.

Is this the Shumlin model? Is there some other possible single-payer model?

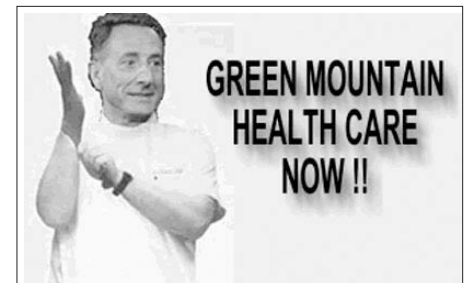
It should come as no surprise that single-payer in Quebec has long

been characterized by rationing, long waiting lines, maddening bureaucracies, demoralized doctors and nurses, shabby facilities, obsolete technology, declining quality of care, and much higher taxation.

Vermonters want to know how much in new taxes they'll be asked to pay to enjoy the as yet unspecified benefits of Green Mountain Care. That will depend on the extent of benefits mandated by the Board, the future payments from a federal government \$15 trillion in debt, whether the state can impose a payroll tax on self-insured companies (legally doubtful), and the level of underpayment the state can get away with without sending its hospitals into in-

solveny and its doctors fleeing elsewhere.

The backers of single-payer, notably Gov. Shumlin, are sensitive on this point. That's why they made sure that the method of raising the \$3 billion in new taxes to pay for Green Mountain Care won't be made public until after the 2012 elections.



## The Vermont Workers Center

**T**he Vermont Workers Center (VWC) has been a leading voice for single payer health care in Vermont, providing crowds of red-shirted participants chanting "health care is a human right" at rallies and lobbying campaigns.

VWC was founded in 1996 as a tax-exempt nonprofit 501(c)(3) educational organization "dedicated to organizing for workers' rights and living wages for all Vermonters". Its strategic orientation is the belief that "the most effective means of change is people engaging in collective struggle to place direct demands upon those who hold power."

In the fall of 2001, VWC affiliated with a national organization called Jobs With Justice, and with an alliance of grassroots groups called the Grassroots Global Justice Alliance in the summer of 2005. As the Vermont affiliate of Jobs With Justice, VWC no longer files its own IRS 990 reports.

Jobs With Justice is headquartered in Washington, DC and claims to have affiliates in more than 40 cities in 25 states across the country. The Grassroots Global Justice Alliance is located in San Pedro, CA and describes itself as a "broad national alliance with a founding core of 40 local, regional and national organizations".

VWC has an office in Burlington, and reports total assets of \$102,917 (2009). Its three-person staff is headed by James Haslam. Its Coordinating Committee is made up of Peg Franzen, Amy Lester, Heather Pipino, Chris Guros, David Kreindler, Faried Murnarsyah, Matt McGrath, Susan Lucas and Traven Leyshon.

As an affiliate of Jobs with Justice, VWC reported revenues of \$129,044 in 2007, \$171,627, in 2008, and \$201,383 in 2009.

From 2003 to 2009 VWC received 12 grants totaling \$190,000, all from out-of-state sources. These grants included:

- Fidelity Investments Charitable Gift Fund of Cincinnati, OH: \$75,000 (2007 to 2008).
- The Abelard Foundation of Lincoln, MA: \$30,000 (2003 to 2005)
- Common Stream of Boston: \$25,000 (2005)
- Haymarket People's Fund of Boston: \$18,000 (2008 to 2009).

– Robert Maynard, True North Reports

*(For John McClaughry's reply to VWC 's claims that health care is a "public good", and single-payer is required to overcome "market failure", see page 8.)*

# NEWS & VIEWS

## Remember this Quote:

Speaking of the legislature's fiscal performance, Gov. Shumlin said to the Lake Champlain Chamber "They did it the old fashioned way – without raising taxes." (5/9/11)

Actually they raised the health claims tax, the cigarette tax, the health providers tax, and the residential and nonresidential property tax rates. Wait 'til they start raising \$3 billion to finance Green Mountain Care – the new-fangled way.

**Here It Comes:** On May 17 Gov. Shumlin announced the formation and first meeting of the Vermont Climate Cabinet, a group of senior officials in his administration charged with leading the state toward reduced greenhouse emissions and from reliance on fossil fuels.

"At a time when few if any states are focusing on climate change, Vermont is committed to doing everything possible to mitigate the threats and impacts," Shumlin said. The wild weather caused by climate change impacts the state at many levels, including increased snowfalls and flooding, unpredictable storms and more, he said.

Got that? "Climate change" causes "wild weather," and Peter Shumlin is ramping up to do something about it – with your nickel.

**Midwife Choice:** On May 18 Gov. Shumlin signed a bill mandating insurance coverage of midwifery, commending it because it offered consumers more choice – which is exactly what his Green Mountain Care bill will emphatically NOT do.

**We Tried to Tell Them:** "... the little-lamented Challenge for

Change initiative of 2010...." *Rutland Herald* editorial (5/18/11).

**Vermonters for Health Care Freedom** is building a strong coalition to mobilize against the coming \$3 billion Green Mountain Care tax increase. Sign up now at [www.vthealthcarefreedom.org](http://www.vthealthcarefreedom.org).

**The Green Jobs Chimera:** "Renewable resource advocacy studies always ignore the economic effects caused by higher electricity prices. Households whose electric bills increase because of renewable energy mandates have less money to spend on everything else. At the same time, goods and services whose production requires electricity increase in cost. So, consumers have less money to spend on goods and services that cost more to produce. That is no different than imposing a tax on consumers and producers." – Dr. Jonathan Lesser, former chief of planning for Vermont DPS. (*Regulation*, Winter 2010).

**The Opulent Vermont-NEA:** Here's the VT-NEA finance report for 2008-09: Revenues \$4,127,296. Revenues from dues: 3,117,944 (75 percent). Number of employees: 27. Employee compensation, including retirement and post-employment health benefits: \$2,864,875. Average employee compensation: \$106,107. (EIA 4/25/11)

**Vermont Nurse on Single Payer:** "I have nursed for 30 years, and took care of many Canadians who could not get care in Canada,

or had to wait six months and by that time it was too late. Universal Health Care – I am against it!" (Facebook message from nurse C.H. to a Vermont Senator, 5/25/11.)

**Farewell to the Less Desirable:** "The [vacation town] population loss is masked every winter, when thousands of people come to stay at condominiums and hotels that dot the slopes around Mount Snow. The loss of people doesn't trouble everyone. Bill McKibben, a writer, climate-change activist and scholar-in-residence at Middlebury College, said he'd "rather have quality than quantity." (Bloomberg, 4/19/11.)

**More Outbursts of Faith:** "We're from Vermont. We're one of the smartest states in the country, and we can figure this [single-payer thing] out." – Sen. Anthony Pollina, whose venture to pay farmers premium prices for milk and sell it at competitive prices collapsed into insolvency last year. (AP 4/26/11.)

Followed by Gov. Shumlin: "This bill is good for Vermonters and Vermont businesses." (Same AP report.)

**HSAs in Vermont:** In 2010, Vermont had the highest penetration by Health Savings Accounts in the private market of any state: 13.8 percent (per AHIP). Single payer will stop that!

**The Thermal Efficiency Utility** was the most important idea on the planet for Sen. Peter Shumlin's 2007-08 legislature. Then Gov. Douglas vetoed creation of this taxpayer financed entity, it was upheld,

*Continued on Page 7*

Ethan Allen  
Ideas for Vermont's Future  
Institute

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and no more was heard of the idea.

But energy efficiency makes sense for many business owners and homeowners. They can consult the Rocky Mountain Institute's page <http://retrofit-depot.org> to learn how to retrofit their home or building – at no expense to Vermont taxpayers.

**Single-payer Advocates' Motto:** "All within the State, nothing outside the State, nothing against the State". (Compliments of Benito Mussolini, 1883-1945)

**Big Oil Profits:** "According to rankings by *Fortune*, in 2010 ExxonMobil had profits of \$19,208 million on sales of \$284,650 million, for a rate of return on sales of 6.8 percent. Companies such as McDonald's, Microsoft, and Google achieved returns of 20 percent or more." (SEPP 5/11)

**The Socialist Whole Nine Yards:** "If we can imagine health care as a right, we can imagine

# NEWS & VIEWS

housing, education, child care, food, a minimum wage that is truly a living wage – all unacceptable to the capitalist class." Livingston & Capps, "Health Care Reform: A Socialist Vision" (*Social Medicine* 5:74, March 2010.)

**Mainers Smarter Than Vermonters:** "Maine's previous attempt at controlling healthcare costs and expanding coverage, Dirigo Care, was dubbed 'a well intentioned failure,' much like our own flop, Catamount Health. The only difference seems to be that whereas Mainers appear to be smart enough to learn from their mistakes and not repeat them, Vermonters are intent on doubling down on failure." Rob Roper (TNR 5/5/11.)

**Buy Local?** "We should be wary of using laws, regulations, subsidies and taxes to encourage buying local or to discourage people from buy-

ing goods from outside our borders. That's a route to poverty, not prosperity or sustainability." – Art Woolf (VEN Feb. 2011).

**Can't Happen Here:** "Gaping loopholes in the program that covers poor uninsured Bay Staters have cost taxpayers tens of millions in bogus claims from out-of-staters and foreigners – not to mention gynecological bills for men and foot X-rays for headaches, according to the commonwealth's inspector general. We're finding overpayments, double payments and medically unnecessary payments," Massachusetts Inspector General Gregory Sullivan said of his office's scathing review of the state's so-called Uncompensated Care Pool obtained by the Herald. "When the state set up the free-care pool, it was supposed to have the most cutting-edge anti-fraud system to go along with it, but it's not up and running, and because of that, many millions of dollars are being wasted." – *Boston Herald*, (3/29/11).

## Green Mountain Care: Deficits Forever!

Last month at a public meeting in Rutland, Rutland City Treasurer Wendy Wilton released an exhaustive analysis of the financing for Gov. Shumlin's Green Mountain Care.

Wilton's analysis is based on a Catamount health plan benefit schedule, a steady increase in the Federal Medicaid Global Commitment, a 14.5 percent payroll tax, and a mid-range 7.5 percent annual increase in health care costs, reduced by 11 percent to reflect the administrative savings claimed by Dr. Hsaio. It also projects a two percent annual job growth and two percent annual wage growth, and zero immigration of sick people seeking free health care.

The results are a deficit of \$123 million the startup year, and 31, 63, 97 and 133 million dollars for the next four years.

If the state isn't allowed by federal law to tax Medicare, military and self-insured payrolls, the deficits explode. The first year rises to \$476 million, followed by 399, 445, 494 and 547 million dollars for the next four years.

Now, where does Gov. Shumlin expect to get the money to cover these astounding single-payer deficits, with only a 14.5 percent payroll tax? I haven't the faintest idea.

– John McClaughry on WDEV (5/31/11)



*John McClaughry's speech at the Institute's 18th annual Jefferson Day event in Rutland, April 28, "Jefferson's Timeless Message to America and the World", can now be read at [www.ethanallen.org/html/jefferson\\_s\\_message.html](http://www.ethanallen.org/html/jefferson_s_message.html).*



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4836 Kirby Mountain Road  
Concord, VT 05824

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## June 2011

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*Sunday Times Argus*

*(not published)*

## Public Good and Market Failure

**MEDIA**

James Haslam of the Vermont Workers’ Center (TA, 4/17) presents an earnest argument for putting the government fully in charge of health care. It rests on two main points, both indispensable to the left wing narrative, but both false.

He argues that health care is a “public good”. Let’s turn to Wikipedia: “In economics, a public good is a good that is non-rival and non-excludable. Non-rivalry means that consumption of the good by one individual does not reduce availability of the good for consumption by others; and non-excludability means that no one can be effectively excluded from using the good.”

“For example, if one individual visits a doctor there is one fewer doctor’s visit for everyone else, and it is possible to exclude others from visiting the doctor.

This makes doctor visits a rival and excludable private good.”

Haslam then brings up the favorite leftist notion of “market failure”. The truth is that for over a hundred years governments, usually motivated by rent-seeking special interests, have strangled most of the market-based aspects of the health care economy.

This isn’t market failure. It’s government-driven failure – and now the friends of big government are insisting that this exhibition of government failure be turned over to the government to produce a solution.

Far better we should back the government out of health care tampering, and confine it to enforcing laws against fraud, requiring transparency, and subsidizing low income people to buy the services they need.

John McClaughry  
Ethan Allen Institute