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The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

A Monthly Publication of The Ethan Allen Institute

INSIDE:

THE ETHAN ALLEN INSTITUTE PRESENTS

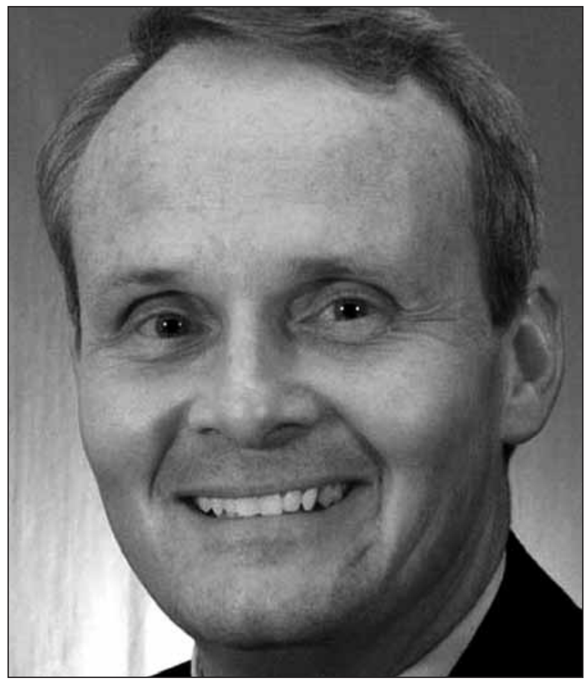
Putting Vermont Back on Track

How the Power of Ideas Can Make Change Happen

Featuring Lawrence Reed

SHERATON BURLINGTON CONFERENCE CENTER

THURSDAY, OCTOBER 15, 2009 – 5:30 P.M.



Lawrence Reed is the founder and for 20 years President of Michigan's Mackinac Center for Public Policy, long considered the most influential free-market state think tank in the nation.

His address, part of the ongoing Sheraton Economic Series, will focus on how the ideas of individual liberty, private property, limited government and competitive free enterprise can be packaged to promote increased economic opportunity and prosperity for Vermonters.

Reed is now President of the Foundation for Economic Education in Irvington-on-Hudson, NY. In the past 20 years, he has authored over 1,000 newspaper columns and articles, 200 radio commentaries, dozens of articles in magazines and journals in the U.S. and abroad, as well as five books. His articles have appeared in *The Wall Street Journal*, *Christian Science Monitor*, and *USA Today*, among many others. Reed's most recent book is *Striking the Root: Essays on Liberty*.

Reed holds a B.A. degree in Economics from Grove City College (1975) and an M.A. degree in History from Slippery Rock State University (1978). He taught economics at Midland (Michigan) Northwood University from 1977 to 1984 and chaired the Department of Economics from 1982 to 1984. He designed the university's unique dual major in Economics and Business Management and founded its annual, highly-acclaimed "Freedom Seminar."

"Larry Reed's commitment to principle, his passion for liberty, and his vast practical experience have made him a much sought after speaker on four continents. This is a program EAI members and all friends of liberty and prosperity will not want to miss." – John McClaughry, EAI VP

The Sheraton Economic Series is hosted by the Sheraton Burlington Conference Center and cosponsored by the *Vermont Economy Newsletter*, *Vermont Business Magazine*, *Vermont Tiger*, and the Lake Champlain Regional Chamber of Commerce.

(Reservations not necessary; no admission charge.)

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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The Ethan Allen Institute relies upon the generous support of its more than 600 members to support its work. Contributions to the Institute, a 501(c)(3) educational organization, are tax deductible to individuals, corporations, and foundations. The Institute neither solicits nor accepts funding from government sources.

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PRESIDENT'S MESSAGE

Putting Vermont Back on Track

Larry Reed's topic for our Sheraton Economic Series program on October 15 (see page 1) is "Putting Vermont Back on Track: How the Power of Ideas Can Make Change Happen".

I've only been here a month, but already it has become shockingly apparent to me that Vermont badly needs to be put back on track. Look at the Joint Fiscal Office-produced chart on page 4. Unless dramatic changes are made in state government beginning this January, our little state will face four years of General Fund deficits totaling an astounding $471 million. And that number includes expected stimulus funds from Washington, until they terminate in FY2012.

This trend forecasts a Vermont fiscal future that looks like California – or Argentina. Couple this JFO projection with the analysis contained in EAI's *Off the Rails* report (2008, available on our website), and no reasonable person can escape the conclusion: Vermonters need to get serious, quickly.

As I write this, talks between the Administration and the Vermont State Employees Association have broken down. At issue is a microscopic (compared to this looming deficit) $10 million in state spending. Our government employees won't accept a $10 million hit – while the rest of us citizens and taxpayers are staring at numbers that are really terrifying.

Clearly state government is going to have to learn to operate on a much more limited and efficient scale – and quick.

I hope every EAI member and reader of this page will make a special effort to come hear Larry Reed on October 15. I don't know Larry personally, but John McClaughry has known him for years. John says he is one of the most principled, committed, dedicated and effective champions of a free society anywhere in the land. I'm looking forward to his presentation – and to meeting lots of EAI members and their friends that evening.

Rick Bornemann
PRESIDENT

Get Ready for the Obama Individual Mandate

COMMENTARY

With President Obama's government-run "public option" insurance proposal on the skids in Congress, attention has focused on an even more central part of his sweeping health care plan: the individual mandate.

"Individual mandate" means that every person subject to it must buy a government-approved health insurance policy from a government-regulated insurance carrier. Or else what? Or else they must pay the government a "fee" for not being insured. This "fee", in the most recent Senate bill, amounts to as much as $3,800 a year for a family. If you willfully refuse to pay it, the government has the power to fine you another $25,000 and put you in jail for a year.

Here's a brief tutorial on the issue.

Government (mostly state government) regulates the sale of health insurance policies. Policies must have government-approved coverage and include a host of specific government-mandated terms and benefits.

Many states (including Vermont) require community rating. This means that healthy young people must pay higher premiums to enable the insurance company to pay the health care expenses of their less healthy parents and grandparents.

Many states (including Vermont) require guaranteed issue. This requirement forces the insurance companies to offer coverage to all applicants (except that pre-existing conditions aren't covered until after a waiting period, to discourage people from skipping insurance until they get sick.)

Coverage mandates, community rating, and guaranteed issue drive up the cost of premiums. So many young working people, basically healthy, can't or don't buy coverage. They are the largest component of the uninsured.

When the uninsured do have a health problem, they show up at the emergency room. Federal law requires the hospital to treat them, whether or not they can pay. The hospital factors this uncompensated care into its state-regulated rate structure. This shifts the cost of uncompensated care onto the premiums paid by people with private insurance.

At the same time the two big government insurance programs – Medicare and Medicaid – seriously underpay for those they cover. These underpayments, far larger than non-payments of the uninsured, produce even greater cost shifts to private insurers, making insurance coverage even less affordable for many young workers.

President Obama's solution to this is the individual mandate: "You will buy a government approved insurance policy, or you will be fined/taxed/jailed until you comply."

He also wants to prohibit insurance companies from denying immediate coverage for preexisting conditions. But this is very expensive. The only way to cover such expensive enrollees is to find more people to pay into the insurance pool, who aren't likely to require much treatment – the young and healthy who can't or won't buy insurance.

The insurance companies fear the government will force them to cover expensive pre-existing conditions. Without the premiums paid by young and healthy new enrollees this mandate could put them out of business. So they are strongly in favor of the Obama individual mandate. For them, the individual mandate becomes a pre-emptive government bailout.

What's wrong with this proposal?

In the first place, Congress has no power to force Joe and Betty to buy a product specified by the government, or pay a tax. The taxing power cannot be used to force regulations on Americans, where the federal government has no constitutional power to regulate.

All of the bills in Congress specify that a person can avoid the tax only by buying a government-approved policy. Every special interest – prescription drugs, substance abuse, mental health, in vitro fertilization, pregnancy, abortion – will lobby furiously to make sure the approved policy includes their money making product.

This will of course drive up the cost of that product. President Obama proposes subsidies to people whose incomes are not adequate to pay the inflated premiums, and the taxpayer cost of these subsidies (and resulting deficits) will escalate accordingly. Ending "uncompensated care" will come nowhere close to yielding enough savings to cover these subsidies.

The approved policies will clearly not include the increasingly popular lower cost, high deductible health plans coupled with tax-favored Health Savings Accounts. The House bill doesn't repeal the HSA language, but it imposes an accrual requirement designed to make sure that no such policy can be sold on the government-run monopoly insurance exchange, or qualify for the premium subsidies. Eight million Americans with HSA plans are a significant obstacle to expanding government health care, and the liberals in Congress are eager to eliminate their influence.

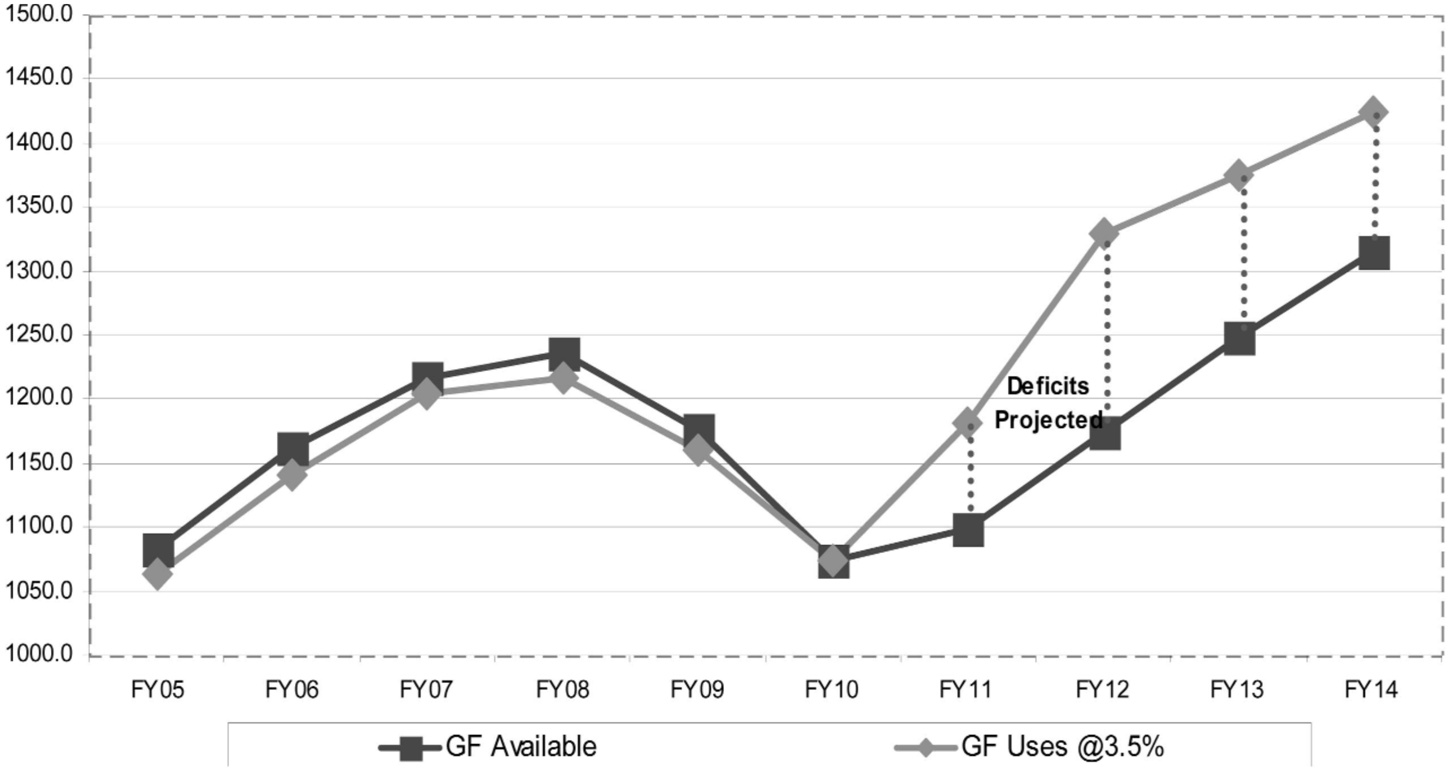
Obama's protests to the contrary, his proposed "fee" on the uninsured is a tax. Even some of his own officials and the Congressional Budget Office recognize that fact. It's a clear violation of his firm campaign pledge not to raise taxes on Americans making less than $250,000 a year.

The September 22 *Wall Street Journal* poll found respondents opposed 57-38 to an individual mandate. There are more reasons than liberty, constitutionality, cost, taxation, jail, corporate welfare, and reverse Robin Hood economics to oppose an individual mandate, but these ought to be enough.

General Fund Budget Picture – September 2009 through FY2014

Prepared by Joint Fiscal Office 9/18/09

Assumes 3.5% revenue growth on FY10 spending base including Federal ARRA (stimulus) funds. ARRA funds in General Fund Base: FY09=$75m, FGY10=$175m, FY11=$100m.



Comment: The "deficits projected" beginning in FY11 through FY14 total $470 million. That is, if the $82 million FY11 deficit is not closed by the 2010 legislature by spending reductions or tax increases, the following year the General Fund will be an additional $154 million in the red, and so on until the cumulative deficit reaches $470 million in FY14.

Clearly this can't be allowed to happen. But the (relatively) "easy" spending reductions have been made in FY09 and FY10. The General Fund can't be rescued by repeated line-item reductions. State government will have to learn to stop doing many things, and start doing others in different ways. Unfortunately no one in Montpelier has shown any sign of getting to that point in their thinking. – JMc

Larry Reed Sampler

What constitutes "success" for a public policy organization like EAI? Larry Reed, the founder of the most successful state-based think tank in the country, Michigan's Mackinac Center for Public Policy, says this:

"Success means building a growing network of people who are informed and passionate about free market ideas and who are willing to translate the knowledge they've gained into a force to be reckoned with by policy makers and opinion leaders.

"Success means forcing public discussion of issues and perspectives that were not previously on the table.

"Success means making our case so persuasively that it becomes part of mainstream thinking.

"Success means that our ideas were enacted into law and became part of everyday convention.

"Success means that important people look to us for advice about what needs to be done to improve the lives and preserve the liberties of the citizenry." (Atlas *Highlights*, Winter 2002).

(Hear Larry Reed at the Sheraton Burlington, October 15 – see p. 1.)

Imagining Vermont

COMMENTARY

Four months ago the Council on the Future of Vermont released its report, *Imagining Vermont: Values and Vision for the Future*.

The report culminated an 18-month, $400,000 process, during which some 4,000 Vermonters attended over 100 meetings. Ably written and attractively produced, the report collected and transmitted the ideas and dreams of its participants of the possible Vermont of the future.

It's not easy to fairly summarize the findings, but here's an attempt. The Council members heard Vermonters say that, by and large, they wanted a future Vermont with a working landscape, vigorous small industry, renewable energy, public transportation, creative arts, human scale, shared cultural values, affordable housing, excellent education and health care, more secure jobs and higher incomes, a renewed sense of community and, of course, intensified government planning to bring about the desired results.

Whenever a panel of citizens goes forth to hear the voice of the people, they are naturally more likely to hear voices that express their own vision and values. Thus it's worth looking at the composition of the council, selected by the Vermont Council for Rural Development.

It was chaired by an upscale gentleman cattle breeder. Its 17 members included eight from government and nonprofit organizations, three from education, two from the news media, two retired bankers, one public utility official, and one entrepreneurial businessman (the founder of the Vermont Culinary Institute).

The striking thing about this group is the near-absence of anyone making a living in the competitive enterprise sector. Its composition and set of values are reflected in the Council's conclusions.

The watchwords seem to be collective action, unity with diversity, civility, affordability, sustainability, creativity and the public good. Nowhere is there any inclination to laud the bold, visionary, risk-taking entrepreneur – a James Hartness, Horace and Erastus Fairbanks, T.N. Vail, or (more recently), Rich Tarrant. Such people produce disruption, not harmony – but in doing so they create wealth, spur human progress and, in Vermont, pay the lion's share of taxes.

The report recognizes that Vermont has high taxes and "what many have called an impossible business development environment". It acknowledges that Vermonters want to see improvement in the state's overgrown regulatory regimes. But having done so, the report sails off into the need for more (government) education, better health services, more participation, more diversity, and more socially progressive policies, such as "making the state a national model in order to slow or reverse climate change".

The Council shows no evidence of recognizing the fundamental importance of secure, predictable private property rights to economic growth and development, and that the more intense planning it proposes cannot but further undermine that right.

The report celebrates Vermont "firsts" (no slavery, universal suffrage, the billboard law, civil unions), but it does not notice that Vermont's was the first constitution anywhere to declare that "whenever any person's property is taken for the use of the public, the owner ought to receive an equivalent in money" (Ch. I Art 2).

But perhaps the crowning omission in this report is the bald fact that state government, the great hoped-for wonder worker, is careering toward insolvency. At this rate, by 2030 essentially all of the projected revenue of all governments in Vermont (state, school districts, municipalities) will be required to pay only for public education and human services – and that assumes that Vermonters will agree to pay 18 percent of their adjusted gross incomes in taxes, an all time high.

State government is now a year into a serious budget crisis. Its revenues, especially the income tax, have tanked. In January legislators will face General Fund deficits totaling $439 million for the four fiscal years 2010-13. This is after Federal stimulus receipts.

The state's two retirement funds are $466 million out of actuarial soundness. The unfunded post-employment benefits (health insurance) promised to retired state employees and schoolteachers are an astonishing $1.6 billion out of soundness.

How will taxpayers ever pay this off? The state can't raise tax rates. Vermont already has one of the five highest tax burdens in the nation. Raising tax rates would guarantee a serious crippling of Vermont's productive economy.

The solution to this problem isn't at all obvious, at least if dishonorable bankruptcy is ruled out. But *Imagining Vermont* should at the least have put these sobering facts on the table, and engaged its 4,000 participants in that discussion.

NEWS & VIEWS

Coming Event: "$787 Billion: Stimulus or Sedative?" is the topic of a UVM Janus Forum debate Monday, October 5, 2009, 4:00–5:30 p.m. in the Grand Maple Ballroom of the Dudley H. Davis Center on the UVM campus. It features Dr. Jeffrey Miron of Harvard and the Cato Institute, and Dr. Justin Wolfers of Penn and the Brookings Institution.

The moderator is Emerson Lynn of the St. Albans *Messenger*. The public is invited.

Coming Event: David M. Walker, former Comptroller General of the United States and now President of the Peter G. Peterson Foundation, will speak on America's frightening fiscal situation at 7:00 p.m. on Tuesday, October 13, at Plumley Armory, Norwich University, Northfield. For reservations: jbarnett@norwich.edu

Congratulations to Vermont Congressman Peter Welch for voting to cut off federal funding of the radical group ACORN. (9/17, 345-75). Let's hope his determination continues when ACORN tries to sneak back into the taxpayer trough. As for Leahy and Sanders … (expletive deleted).

Entitlement Restraint, Liberal Style: "A [Vermont Rx] recipient shall contribute a co-payment of $1.00 for prescriptions costing $29.99 or less and a co-payment of $2.00 for prescriptions costing $30 or more. A pharmacy may not refuse to dispense a prescription to an individual who does not provide the co-payment." (The legislature's FY10 budget bill H.441, Sec. E.309.8)

Ten Threats to Your Liberty: EAI VP John McClaughry delivered an updated version of his April Tea Party talk on this topic at Bradford on September 16. It's on the EAI website, but it's also on the Family Security Matters website at http://www.familysecuritymatters.org/publications/id.4315/pub_detail.asp.

FSM is a valuable national organization concerned about many threats to our liberty and security – highly recommended.

Reagan on Freedom: *"If you lose your economic freedom, you lose your political freedom and, in fact, all freedom. Freedom is something that cannot be passed on genetically. It is never more than one generation away from extinction. Every generation has to learn how to protect and defend it. Once freedom is gone, it is gone for a long, long time." – Ronald Reagan (Hillsdale College, 11/10/77).*

View of the Left: "Many of the Left believe that if conservatives would just get out of the way, shut up and allow liberals to recreate America in their image, we would all be better off. But those loud-mouthed cable TV and radio talk show hosts keep uneducated, God-worshiping, flag-waving, NASCAR-loving country music-fueled trailer trash riled up and prevent their brave new world from being born." – Cal Thomas (StJCR 9/24/09).

The Left on Health Care: "All over the developed world, the political left only knows two ways to constrain health care spending: (1) squeeze the providers and (2) deny patients care. Since they don't believe in markets or incentives or entrepreneurship — the ways costs are controlled in other markets — there really isn't much left to do but take it out on doctors and patients." – John Goodman blog (7/6/09).

Markets vs. Government Monopolies: "All K-12 education spending [in the District of Columbia], not counting charter schools, comes to just under $1.3 billion. The latest audited enrollment count for the district is 44,681, putting per-pupil spending in the nation's capital at about $29,000. Meanwhile, fewer than half of the students who enter the ninth grade in D.C. go on to graduate four years later.

"To put that profligacy in perspective, the private schools serving D.C.'s 1,700 voucher students charge an average tuition of $6,600, according to a recent Education Department study. After three years in the program, voucher students read more than two school years ahead of a randomized control group of their public school peers." – Andrew Coulson (IBD 7/15/09).

Liberal Tax Policy: "I have debated Democrats and Progressives who glibly point folks unwilling to put up with this level of left wing abuse and taxation toward the door. That's fine, but only if they're also willing to give up the big government programs that the wealthy and successful pay for."

Continued on Page 7

Continued From Page 6

NEWS & VIEWS

[Of course they aren't.] – Republican State Chair Rob Roper (6/19/09).

Health Care Insight: An article by media executive David Goldhill in the September *Atlantic* ("How American Health Care Killed My Father") (http://www.theatlantic.com/doc/200909/health-care) reports the lessons the author learned through first hand experience with health care systems and financing. Written by a non-expert with an inquiring mind, it's a valuable read with sound recommendations.

Obama's "Public Option": "If the president intends to create a new insurance company run by the government that boasts low premiums because it is subsidized by tax money, that dictates reimbursement rates to hospitals, physicians and drug companies rather than negotiating them, that pays providers less than the cost of providing care, thereby shifting costs to private companies, and that rations care by one means or another, private insurers will certainly be unable to compete with the 'public option'.

"That will drive insurers out of business and eventually result in the 'public option' becoming the only option." – Rep. Tom Koch (R-Barre) (St J C-R 8/5/09).

Sen. Obama on Individual Mandate: "Hillary's health care plan forces everyone to buy insurance, even if you can't afford it … and you pay a penalty if you don't". (2008 Obama campaign brochure).

Pres. Obama on Individual Mandate: "Yes! Now! For Me!"

The Energy Solution: "There is no solution to America's energy problem other than repeal of the excessive taxation, oppressive regulation, and onerous government-sponsored litigation that prevents private enterprise from building the additional energy production capacity we require to remain an independent and prosperous nation." – Dr. Arthur Robinson, OISM (E&CN 9/09).

Could Just As Easily Have Been Montpelier: "When I left Brattleboro I resolved never to go back to Vermont … Those wild hills are surely the outpost of a frightful cosmic race … I vainly try to assure myself that these daemoniac creatures are not gradually leading up to some new policy hurtful to the earth and its normal inhabitants." – Horror writer H.P. Lovecraft, "The Whisperer in the Darkness" (1931). And this was well before Sen. Shumlin appeared!

Dubious Fish Lover: "Rep. David Deen, a Westminster Democrat who is also the river steward for the Connecticut River Watershed Council, said the Council was committed to fighting both this [Vermont Yankee water discharge] permit and any future permits from Entergy that in his mind further degrades the fish habitat in the river." (Rutland *Herald* 9/16/09).

"Deen said the Connecticut River was being viewed in environmental circles as a 'river refuge' and thus needed special protection from environmental degradation.

"Deen, who is a professional fishing guide …"

Let's get this straight. Entergy wants to raise the water temperature in the river by less than two degrees. Deen makes his state-licensed living abetting men who catch and kill fish and eat them. Who's the friend of fish here?

Thanks, John

As you turn over the reins of the Ethan Allen Institute, I want to commend you on your dedication to this endeavor over the past 16 years. Through your work you have advanced important ideas and perspectives into Vermont's political dialogue. I am confident that your efforts have made a positive difference in our state and will continue to do so for many years to come.

Jim
James H. Douglas
Governor

I thought EAI members would appreciate seeing this note to John from the Governor – RB

The Ethan Allen Letter

ETHAN ALLEN INSTITUTE
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October 2009

INSIDE:

MEDIA

Vermont Tiger *September 15, 2009*

Underfunded and Overpromised

Vermont is staring down the barrel of the sort of pension crisis that has hit elsewhere and even driven some California municipalities into bankruptcy … Treasurer Jeb Spaulding has taken up the cause of reforming and funding Vermont's obligations to retiring state workers and school teachers.

The new head of the Vermont NEA isn't having any of it. For Martha Allen, the issue is not just the possible changes to teachers' and state employees' pensions being considered by a commission set up to study how to bring the costs of those retirement systems down. It's that the commission even exists in the first place that worries – even offends – her.

"They are out to eliminate our pension system as we know it," said Allen, who has concluded that the biggest change in education policy being sought by the state is not in school spending but that state officials "need to support our retirement system."…

Unions draw lines in the sand and when they fight, they give no quarter. Issues are defined as *labor vs. management*. Or, in this case, *teachers vs. taxpayers*. And the people representing labor do not care about management's problems. They represent their members and are out to get them the very best deal. Management can look out for itself. Or not.

The teachers do not expect to lose, and cannot be expected to give in. Not, anyway, to appeals to sweet reason.

– Geoffrey Norman