



# The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

*A Monthly Publication of The Ethan Allen Institute*

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## Vermont's Feeble Job Creation Philosophy

COMMENTARY

In his January inaugural address, new Governor Peter Shumlin repeatedly pledged to “put Vermonters back to work, one job at a time.”

On February 3, Gov. Shumlin unveiled his long awaited jobs bill, and hailed it as “by far one of the most comprehensive jobs bills that reflects our commitment to grow jobs in Vermont one job at a time.” He did not explain just what “one job at a time” is supposed to mean.

A few days later Commerce and Community Development Secretary Lawrence Miller explained to legislators that the Shumlin jobs plan “is about focusing our efforts, being strategic with our thoughts and working together across agencies and across the private sector [and] with our educational institutions to get things done.”

The Shumlin philosophy here seems to be that jobs are created by a collection of shrewd, focused, well-coordinated government actions. There’s not much to be said for government agencies that work at cross purposes to each other, but it’s not at all apparent that Vermont’s job shortfall is a result of a sluggish, confused, uncoordinated government failing to create them.

The jobs bill evinces a belief by the governor that the “creative economy” – artists, sculptors, poets, etc. – has the potential to create new jobs. Thus it proposes to spend \$100,000 to hire a new “creative economy specialist” to do something to stimulate the “creative economy.” This will end the years of government neglect and set the “creative economy” ablaze with new job-producing activity.

The governor also believes that employers lack sufficient incentive to hire new employees. His jobs bill promises to pay selected employers up to \$500 when they create a new, full time position, and fill it with someone who has been drawing un-

employment benefits for five months or more.

Note that the employer can’t collect the \$500 by just rehiring the worker who was laid off a month ago. In any case, the total pot of money to be made available for paying employers to hire unemployed workers is only \$25,000. That’s enough to incentivize employers to hire some 50 workers a year. Of course it will require the government to spend more than \$25,000 to police the lucky employers to make sure they meet all the program requirements for pocketing the \$500, but that’s apparently included elsewhere in the budget.

Another example: beginning in 2016, the proposed science, technology, engineering and math (STEM) program will distribute \$1,500 a year to Vermont college graduates working in those fields in Vermont for five or more years.

Contrast the Shumlin philosophy of “government as the wellspring of correctly managed and channeled economic progress, one job at a time”

See **Vermont’s Feeble**, Page 7

**Save Our Health Care Rally! Monday, March 7 at 4-7 p.m. at the State House. For details see EAI’s web page.**

# 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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# EDITOR'S MESSAGE



## Are We Being Unfair?

Someone reading the cover article in this issue may object that we cherry picked three examples of foolish government programs to make our point about the Shumlin administration's philosophy of "government as the well-spring of correctly managed and channeled economic progress, one job at a time." I wish that were true.

In fact, the governor and his allies see now as the magic moment. All the foot dragging and obstruction of the past eight years are past. Empowered by huge majorities in House and Senate, gifted with vision and determination, and – so far at least – unhindered by reactionary resistance from the myopic, selfish and unworthy, this administration must and will drag Vermont into the brave new world where everything not prohibited is required, and taxes, mandates, subsidies, and "revenue enhancements" will make possible the achievement of the Liberal Dream of the Perfect Little State.

Of course, the inherited \$176 million General Fund deficit (that resulted largely from enactment of their own FY2010 general fund budget over Gov. Douglas's veto) will necessarily slow forward progress. That regrettable fact will not, however, diminish their zeal for advancing toward the ultimate goal.

The only roadblock left is that of free citizens rising up to shout No. I hope you will make it a point to be one of them.

EDITOR

## Have You Renewed Yet?

Ethan Allen  
Ideas for Vermont's Future  
Institute

If there's a response envelope tucked into this newsletter, you haven't! But it's not too late. (Whew!) Please use the envelope to send in your contribution for 2011 – and any ideas or suggestions you may have for issues to address, or bright "Ideas for Vermont's Future". Thanks for keeping the Institute in the action at this critical time.

# Analysis of the Single-Payer Model: Executive Summary

**T**his report presents a critical analysis of a recent study prepared by the Lewin Group for the Vermont Office of Health Access analyzing the costs and impact of universal health care coverage under a single-payer model for Vermont. This report finds serious problems with the Lewin Group's analysis. The major problems are:

- By eliminating any incentives to use less health care, implementing a system where individuals have no idea of the price of using health care, the demand for increased health care services will increase more rapidly in the future under the single-payer system than under the current system. **The single-payer plan will not control health care costs in a way that will be satisfactory to a majority of Vermonters.**
- The single-payer plan attempts to control costs by a system of global budgeting of health care. But this will limit the ability of Vermonters to have access to the full range of valuable health care procedures that they would like to have. Under a system of global budgeting, **Vermonters will have long waiting times to gain access to health care professionals, they will have less access to new health care technologies, and some care will be denied to certain segments of the population.**
- The single-payer plan will “work” in the sense that everyone will have coverage. But the 92 percent of **Vermonters who currently have health insurance will experience a reduction in the quality of health care** as a result of longer waiting times, less access to technology, and reduced availability of prescription drugs. They will likely say that the system does not “work.”
- The single-payer system is financed primarily through a payroll tax of 8.7 percent. That will give Vermont a very high tax burden, especially for high income workers. This will put **Vermont's economy at a competitive disadvantage** compared to other states and will discourage firms that pay high wages from locating in Vermont.
- **The single-payer system is not financially sustainable.** Over the next two decades, Vermont's population will be aging, with a higher percentage of people over 65 and a smaller percentage of working age Vermonters. Since the single-payer system relies on payroll taxes, there will be fewer workers paying taxes to support an increasing share of non-working Vermonters.
- Over time, the health care system **will be increasingly forced to either raise the payroll tax rate or reduce Vermonters' access to health care services.**
- The single-payer system makes dramatic changes in health care finance and delivery to obtain health insurance for the 8 percent of Vermonters who do not have health insurance. The cost of doing that is very high. For those who cannot afford to purchase health care, an appropriate government role is to subsidize their health care costs. A massive change in the entire health care system is not needed to do this.

*Prepared for BCBSVT by NORTHERN ECONOMIC CONSULTING, INC.*

# The Hsaio-Gruber Health Care Mega-system

## COMMENTARY

On January 19 Prof. William Hsaio of the Harvard School of Public Health unveiled his recommendations for this year's version of health care reform in Vermont. The 2010 legislature defined and paid for Dr. Hsaio's work to support the final all-out push to make Vermont the first American state ever to install a taxpayer-financed single payer system.

Before plunging into the Hsaio report itself, it's worth looking at the track record of the report's principal authors, to understand how they approach health care reform issues.

Dr. Hsaio rose to fame for devising the Resource-Based Relative Value Scale (RBRVS) to control Medicare payments to physicians, adopted by Congress in 1991.

Writes Pacific Research Institute health policy expert John R. Graham, "[Hsaio] put together a large team that interviewed thousands of physicians from almost two dozen specialties. They analyzed what was involved in everything from 45 minutes of psychotherapy for a patient with panic attacks to a hysterectomy for a woman with cervical cancer. They determined that the hysterectomy takes about twice as much time as the psychotherapy session, 3.8 times as much mental effort, 4.47 times as much technical skill and physical effort, and 4.24 times as much risk. The total calculation: 4.99 times as much work. Eventually, Hsaio and his team arrived at a relative value for every single thing doctors do."

"Today," Graham continues, "Medicare's RBRVS and Sustainable Growth Rate rules for fixing prices are so flawed that the Congress that con-

sistently champions this price-setting process is annually engaged in a routine effort to change, modify, or even stop the progress of its own pricing machinery before it inflicts damage on the public and the medical profession."

This annual exercise is called "the doc fix". It played an important part of last year's debate over ObamaCare (because the Democratic leadership took it out of the ObamaCare legislation, in a desperate attempt to keep that legislation's ten year price tag under \$1 trillion.)

Of the RBRVS, Dr. Michael Bond, a nationally known health economist at the University of Arizona, says RBRVS "was essentially a point system based on 'effort' to determine what various procedures were 'worth'. These guys at the Harvard School of Public Health have done more damage in medicine than you can shake a stick at. They are smart people who have no clue about economic principles."

The other high profile author of the Hsaio report is Dr. Jonathan Gruber, a nationally known health economist at MIT. His speakers' bureau bio touts him as "instrumental in establishing the current health care reform program in Massachusetts, one of the most ambitious and successful in American history." "Romneycare", adopted in 2006, was undoubtedly ambitious, but successful is another matter.

Romneycare attacked the problem of "the uninsured" by fining them and their employers for their not being insured. It also subsidized premiums to make it possible for the uninsured to avoid paying the fine. Romneycare costs have ballooned far beyond 2006 projections. The "solution" of its administrators is to raise new taxes, increase fines on employers, and impose price controls on insurance premiums, which would force the insurers to further cut their reimbursements to hospitals and doctors.

According to the Massachusetts Medical Society, the flood of new patients and the government's deepening underpayment for treating them has produced a "critical shortage of primary care physicians". Patients who, if they can find doctors, can't wait weeks to see them, head for the emergency rooms.

Dr. Gruber might want to think again about taking credit for having been a "key architect" in devising this program.

The central concept in the Hsaio report's preferred Option 3 is the urgent need for a comprehensive, unified, enforceable, inescapable, tax-financed System to control every component of Vermont health care that a state government can realistically control.

Who will do the controlling? The Hsaio report declares that an "Independent Board", not the government, will define the benefit packages and provider payments, and thus set the budget that will in turn determine the payroll tax rates.

This all-powerful Board will include "all the major payers." And how do these "stakeholders" gain their seats on the Board that will control the System that will control everyone's health care? Dr. Hsaio and Dr. Gruber don't say, but it surely won't be through a lottery.

Imposing an all-powerful and all-embracing System to regulate the lives and behavior of a free people never produces happy results. Any Hsaio-Gruber-type health care mega-System will inevitably lead to coercive mandates, ballooning costs, increasing taxes, bureaucratic outrages, shabby facilities, disgruntled providers, long waiting lines, lower quality care, special interest nest-feathering, and destructive wage and price controls. Wait and see.

*For EAI's letter to Dr. Hsaio, see the facing page.*

## EAI Project Reports

**Common Sense Radio** presented by the Ethan Allen Institute is on the air from 11:05 to noon every weekday on WDEV (550 AM, 96.1 FM). Host Rob Roper, who previously hosted true North Radio in the same time slot, also publishes the daily True North Reports ([www.truenorthreports.com](http://www.truenorthreports.com)). He and reporter Angela Chagnon cover statehouse and political news, with special attention to the often remarkable sayings of our new Governor. Visit that site to learn who Rob's radio guests are for the coming week. To contact Rob with a guest or topic suggestion, send to [roper@ethanallen.org](mailto:roper@ethanallen.org).



**Energy Education:** Meredith Angwin has been exceptionally busy speaking on the safety and economics of nu-

clear energy, and particularly Vermont Yankee, at luncheon clubs and chambers of commerce around the state. On February 24 Meredith's coworker Howard Shaffer, of the New England branch of the American Nuclear Society, took the pro-VY side at a Janus Forum debate at UVM. Meredith and Howard were featured in a five page interview in the February issue of ANS Nuclear News. It can be accessed at <http://bit.ly/fmymf9>. To have Meredith speak in your town, email her at [meredith@ethanallen.org](mailto:meredith@ethanallen.org).

**Vermont Transparency:** State employee compensation files have been posted for FY 11. ([www.vttransparency.org](http://www.vttransparency.org)). However the data set was prepared back in November, so employees put in office by the new administration will not appear for a month or two. A new feature is the Governor's FY 2012 budget proposal for all state funds.

## Earth to Hsaio

*On September 13 EAI wrote Dr. Wiliam Hsaio in Cambridge, MA, offering some insights on his health care report in progress. Excerpt:*

From your briefing in Montpelier on August 6, I learned that you are intent on designing a rational, integrated health care "system" for Vermont, using compulsion where necessary to achieve its goals of universality and efficiency.

After 20 years of health care debates in Vermont, beginning when I was a senator, I have come to believe strongly that the determination to create such a "system" leads inevitably to recommendations for coercive mandates, compulsion of patients and providers, bureaucratic outrages, and the inevitable wage and price controls, resulting in the costly and unresponsive "system" operating in the UK and to a lesser extent in Canada....

I am enclosing some of our health care analysis over the years. You aren't getting paid to consider my views on the matter, but I at least want you to have them available. In short, I offer these maxims.

1. "Health care" is primarily determined by the actions of each individual, who will always resist the instructions issued by some impersonal supervening "system". If we as a society want to improve health, the primary responsibility lies with the people themselves – their knowledge, actions, choices and preferences.
2. "Health care" is not "delivered". This is the most pernicious word in the health policy lexicon. An injection can be delivered, but the nice man from UPS can

not be made to show up at your door with a large tub of "health care".

3. Unwise government interventions dating back a hundred years have severely distorted health policy, usually for the worse. Once government intervention produces its usual baneful effect, its supporters advocate ever more interventions, with the same result. This is of course clinically insane.
4. Your giant "system" will steadily drive away licensed professionals, who have other choices and venues available to them. Medicare, Medicaid and Catamount Health reimbursement rates are taxing the providers to pay for what the politicians do not dare to raise taxes for. This practice will not have a happy ending.

Since you were chosen by liberal legislators who urgently favor government run health care, I have little doubt but what you share their passion for this concept. I cannot have much prospect of even gaining your attention for a health "non system" where personal responsibility, an innovative and competitive marketplace, and informed consumer choice can produce (with subsidies for the needy) the optimum outcomes. If you have any interest at all in considering a workable third option, I would be happy to meet with your team, in Vermont or even in Cambridge.

– John McClaughry, President (acting)

*Although the eventual report declared that Hsaio's team had consulted with over a hundred Vermont "stakeholders", EAI was not included. No surprise.*

**FEE Seminars and Internships:** The Foundation for Economic Education is again hosting its annual Freedom Academy summer programs for high school and college students (deadline March 31). FEE also has internships available (deadline March 15) at its Atlanta office. For info: [www.fee.org](http://www.fee.org).

**IHS Summer Seminars:** The Institute for Human Studies presents 12 Summer Seminars for motivated students and recent graduates for a week of inspiring lectures and lively discussion on the ideas of liberty. Application deadline: March 31. For more info: [www.theihs.org](http://www.theihs.org)

**What Did We Tell You?** In last month's lead story, "The Shumlin

# NEWS & VIEWS

Green Police State", we prophesied that the Shumlin administration would run wild imposing that extreme green socialist vision on Vermont.

On February 3, ANR Secretary Deb Markowitz addressed a rally of climate warriors at the State House on behalf of the Governor. Said she, "Global climate change is really a central issue of this administration." She went on to say that she and the governor had discussed putting together a "climate cabinet" to deal with the so-called climate crisis. (TNR 2/8).

Stay tuned. This is not going to be pretty.

## Why Wasn't He Told?

"The extraordinary thing to me is that I stand here as your governor – 16 months before the shutdown date that was scheduled when we approved it 40 years ago – and state government has one plan. That's to continue to operate it beyond its design date. There was never a second plan, which might have been: What if it is actually shut down when it was scheduled to be shut down?" (VPR 1/27/11)

For the past four years Sen. Peter Shumlin did everything in his power to shut down Vermont Yankee. He pushed through a flood of mandates,

*Continued on Page 7*

**"My guiding principle is, and always has been, that consumers do better when there is choice and competition."**



Address to Congress  
on health care  
policy,  
September 9, 2009

Continued From Page 6

# NEWS & VIEWS

subsidies, and credits to promote “renewable” energy for the day when VY would be shut down (March 2012).

But he had no idea that the state in fact has a legislatively mandated long - range energy plan, available on the DPS web site.

**He Was Told:** “While Challenges for Change was a well intentioned initiative, we simply cannot budget \$26 million in savings that may not likely be realized, and I won’t.” – Shumlin budget message (1/25/11)

From the unveiling of CfC on January 6, 2010, and through all the months thereafter, this Institute repeatedly and forcefully pointed out that it was an unworkable political fig leaf for those in power. So who will now be called upon to find ways to solve a \$176 million GF budget gap? The same people who put forward CfC, led by one of its three chief promoters, who is now governor. Not too promising.

**Understanding Cost Shifting:** “Over the past 10 years Vermont has shifted over three-quarters of a billion (yes, 3/4 billion) dollars off the state’s

budget for Medicaid onto the cost of private insurance. The cost shift just for hospital services for Medicaid is now over \$100 million per year. Costs weren’t reduced; eligibility wasn’t trimmed; programs weren’t eliminated. All that happens is that costs are moved off the state budget.” – Jeanne Keller, [www.vtreform.wordpress.com](http://www.vtreform.wordpress.com) (1/29/11)

**Who Are These Guys?** The Hsiao health care reform report repeatedly cites the research of Drs. David Himmelstein and Steffie Woolhandler, without further identifying them. They are co-founders of Physicians for A National Health Program and authors of an article in *Monthly Review, America’s Leading Journal of Marxist Thought* (May 1, 1990) entitled “The Corporate Compromise: A Marxist View of Health Policy”. We report, you decide.

**Shumlin Says Terrorists are Winning:** “Obviously we’ve got to maintain security. But at the same time, if it means that we can’t run passenger rail

from New York to Montreal, the terrorists are winning.” (VPR 2/16/11) From a taxpayer standpoint, we could afford to let them win this one.

**Shumlin’s Energy Plan:** “I’m going to build solar and wind and everything that can get us off oil.” (VPA meeting, Montpelier, 2/17/11) (C-R 2/18).

Everything, except the one electric power technology that can actually get us off oil: nuclear. He apparently would prefer installing, say, 200 330’ wind turbines requiring 300 Mw of natural gas burning backup plants to replace Vermont’s share of Vermont Yankee’s reliable, low cost baseload nuclear power.

**Climate “Disruption”:** “Environmentalists and alarmist scientists have reinvented global warming and now attribute all weather to global warming – cold, warm, drought and flood. They call it ‘climate disruption’. But the climate has not been cooperating in a way that is convincing the public they have to sacrifice even more to stop a problem they don’t sense is real.” Meteorologist Joe D’Aleo, *Energy Tribune*, 1/28 /11)

## Vermont’s Feeble Job Creation Philosophy

Continued from Page 1

with the philosophy of probably the nation’s most economically successful governor, Republican Mitch Daniels of Indiana.

In a recent speech, Gov. Daniels explained that “we believe that government works for the benefit of private life, and not the other way around ... Every day we work to lower the costs and barriers to free men and women creating wealth for each other ... When business leaders ask me what they can do for Indiana, I always reply: ‘Go make money. That’s the first act of corporate citizenship. If you do that, you’ll have to hire someone else, and you’ll have enough profit to help one of those nonprofits we’re so proud of.’”

Gov. Shumlin appears to believe that economic progress comes from government wisely picking favorites, showering them with subsidies and credits, forcing consumers to buy their products at above-market prices, hiring functionaries to stimulate, coordinate and enforce, and managing government to carry out these many tasks smoothly and efficiently.

Gov. Daniels believes quite the opposite. He recognizes the role of government in preserving public order, financing infrastructure, and underwriting – but not necessarily providing – the education essential for a prosperous economy and citizen self-government.

But beyond that, Gov. Daniels says, “We believe it is wrong ever to take a dollar from a free citizen without a very necessary public purpose, because each such taking diminishes the freedom to spend that dollar as the owner would prefer.”

That limited government, pro-free-domin governing philosophy has put low-tax Indiana in the top rank of the nation’s states, economically and fiscally. The Shumlin jobs bill will give the Hoosiers little worry about losing their high ranking to a far more, high-tax, overregulated, low-growth nanny state like “progressive” Vermont.

*Listen to Gov. Daniel’s CPAC address (32 min.) at [http://www.youtube.com/watch?v=9vJ9mcwQ\\_oI](http://www.youtube.com/watch?v=9vJ9mcwQ_oI)*



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## March 2011

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Burlington Free Press

January 21, 2011

# The Danger Lurking Behind Tax Reform

MEDIA

The new governor has repeatedly said there is no capacity left for taxation and for that matter higher fees.

The Governor is right to suspect that any move to broaden the tax base in exchange for a lower rate will only mean that, eventually, the rate will creep back up on the broadened base. If that is the case, then reform becomes nothing more than a setup for higher taxes down the line. Gov. Peter Shumlin's specific

concern is over the sales tax, but the entire proposal warrants the same skepticism given the nature of state government..

The question of whether to raise taxes is the kind of issue lawmakers are elected to hash out on behalf of the people. But those who see an increase as the answer to the budget shortfall must be prevented from using the opaque calculus of reform to hide what amounts to a tax increase. And that, in essence, is the danger that lurks behind tax reform.



### The Reagan Centennial – February 6, 1911 – February 6, 2011

“Tonight America is stronger because of the values that we hold dear. We believe faith and freedom must be our guiding stars, for they show us truth, they make us brave, give us hope, and leave us wiser than we were. Our progress began not in Washington, DC, but in the hearts of our families, communities, workplaces, and voluntary groups which, together, are unleashing the invincible spirit of one great nation under God. Four years ago we said we would invigorate our economy by giving people greater freedom and incentives to take risks and letting them keep more of what they earned. We did what we promised, and a great industrial giant is reborn.” (State of the Union, 1985)