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The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

A Monthly Publication of The Ethan Allen Institute

INSIDE:

The Vicious Acts of 2010

COMMENTARY

For years afterward it was called "The Vicious Act of '92". Act 20 of 1892 decreed the consolidation of the manifold tiny school districts within most towns into a single town district. At one stroke it reduced Vermont's 2,214 school districts by almost 90 percent.

This was, its critics charged, the death of "local control" of public education – "local" meaning the neighborhood around a school. Eventually the passions of 1892 faded, and citizens came to associate "local control" with the town school district, where it remained for a century.

The current assault on local control began in 1997, when a liberal legislature enacted Act 60 at the direction of a Supreme Court informed by bogus history and exulting in what even a liberal legal critic described as "a raw exercise of judicial power."

The most revolutionary and controversial of Act 60's provisions was its requirement that all revenues raised locally be shipped to Montpelier, where they would be mixed with state revenues, shifted about, and returned to districts to meet the Court's mandate of "substantially equal access to tax resources."

That broke the historic link between the amount voted by local taxpayers to operate their schools, and the amount of taxes collected for public education. After Act 68 of 2003, school districts where voters chose to spend more than a dollar amount per equalized pupil set by the legislature (currently $8,544) would suffer a corresponding increase in their legislatively-determined residential education property tax rate (currently .86 percent). This was a shrewd attempt to maintain some linkage between spending and taxation, but most voters have long since given up trying to understand how the system works.

The non-financial provisions of Act 60 were every bit as subversive of local control. For years Commissioners of Education had asked for more control over public schools, but the legislature was largely unwilling to grant their pleas. Schools districts were habituated to teacher certification, union bargaining, financial and educational reporting, and civil rights and special education rules. But Act 60 decreed that the Department could enforce "school quality standards", and "standards regulating conditions, practices and resources". It even gained the power – not yet used – to put a school into receivership.

This year saw another wave of attacks on what was left of "local control". The legislature passed a bill to encourage voluntary school district consolidation into "Regional Education Districts". It's perfectly clear to everyone, and especially to the educrats who promoted it, that over time the multi-town REDs will be controlled by the Department and the teachers' union, not by local voters and taxpayers. The REDs will become the equivalent of multi-town waste management districts.

The second step, presaged by Gov. Douglas' 2010 state of the state message, will be departmental control over pupil-teacher ratios. The legislature declined to act on that recommendation, but spending pressure on the Education Fund will likely provide the votes to adopt it within a year or two.

The third step came with Challenge for Change. This much-touted process for achieving spending savings assigned a $23 million cost reduction

See ***Vicious Acts***, Page 6

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.

MEMBERSHIP

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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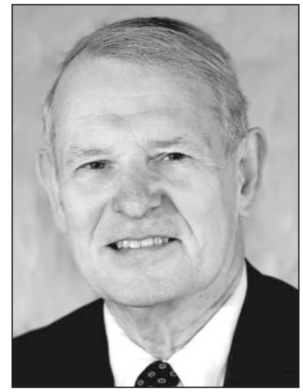
PRESIDENT'S MESSAGE

Campaign Season Comments



Our August 19 David Walker program at the Sheraton (see page 5) was perhaps the best EAI has ever organized. While Walker didn't go into Vermont's particular fiscal issues, Art Woolf, Dave Coates and Tom Salmon did.

Their messages (condensed): we are steadily becoming a state of graybeards who don't produce enough wealth to keep our economy going forward; our unfunded state obligations (teacher and state employee retirement and post employment health benefits) run well into the billions; if we don't quickly come to grips with these facts, we will become a fiscal basket case.

The PowerPoint slides used by all of the speakers are now on our web site, under Fiscal Facts. Of course you don't get the audio narration, but the arguments are pretty clear from the slides.

Of the six candidates for Governor, none showed up. Rep. Peter Welch sent a staffer; so did challengers John Mitchell (House) and Len Britton (Senate). Our two Senators didn't even do that.

There are ways to deal with the problem – unless cowardly politicians cop out by kicking the can down the road. Our *Off the Rail*s report (updated 2008, available on the web site) contains three pages of specific recommendations – smart and tough, but not radical. The initial response of the legislature and Governor to *Off the Rail*s was to create a 15-year public school system (by authorizing universal preschool).

Our next issue will contain 10 sharp, clear proposals that readers can put to their favorite candidates. For a sampler from October 2008, go to at www.ethanallen.org, under Commentaries>General>*Candidates: Fish or Cut Bait*.

Here's my warning: you're almost certain to get a load of the usual stuff about "creating green jobs, holding the line on taxes, improving our economic climate, achieving operating efficiencies, etc."

Don't accept that bullhockey. Candidates owe you more than that. Make 'em deliver. If they won't – you know what to do.

John McClaughry

The Ethan Allen Institute presents

SHERATON ECONOMIC SERIES 2010

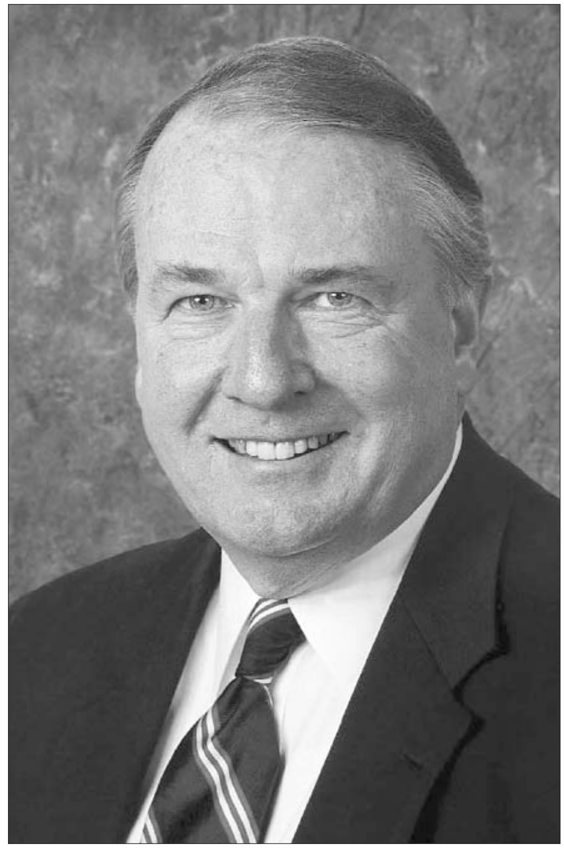
THE PROSPECTS FOR LIBERTY

featuring ***Edward Crane III***

President of the Cato Institute

Sheraton Burlington Conference Center
University Amphitheatre

Wednesday, September 22, 2010, 7:00 p.m.



Ed Crane is the founder and president of the Cato Institute. Under his leadership, Cato has grown to become one of the nation's most prominent public policy research organizations. Crane has been a pioneer in framing the political debate as one, not between liberal and conservative, but rather between civil society (the voluntary sector) and political society (government power).

Crane was at the forefront of promoting personal accounts for Social Security reform and was one of the first national leaders of the term limits movement. He is the coeditor of several books, publisher of *Regulation* magazine, and is a member of the Mont Pelerin Society.

He is a chartered financial analyst and former vice president at Alliance Capital Management Corp. Crane's writing has been published in the *Wall Street Journal*, the *Washington Post*, the *New York Times* and *Forbes*. He has been interviewed on National Public Radio's *Morning Edition* and *Talk of the Nation*, C-SPAN's *Washington Journal*, Fox News Channel, MSNBC, and other national media. Crane holds a B.S. from the University of California, Berkeley and an MBA from the University of Southern California.

"I have known Ed Crane for 30 years, and every time I hear or read him, I learn something new and important." – John McClaughry (Vice President, EAI)

Sheraton Burlington HOTEL & CONFERENCE CENTER

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

Lake Champlain Regional Chamber of Commerce

Reservations not necessary – no admission charge

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Facing Up to the Fiscal Storm

COMMENTARY

George Washington once observed that "We should avoid ungenerously throwing upon posterity the burdens that we ourselves ought to bear." The fiscal facts contained in the Congressional Budget Office's long-term budget outlook, released last month, would leave the normally unflappable Washington appalled.

Just to set the stage: we have an accumulated federal budget debt approaching $15 trillion. That's staggering, but it is small compared to the additional $47 trillion in unfunded liabilities for benefit programs, notably Social Security and Medicare.

The respected and nonpartisan CBO presents two scenarios. The first, called "extended baseline", assumes that current law taxing and spending will continue. This assumes that Federal deficits (this year: $1.47 trillion, 9.5 percent of Gross Domestic Product) will drop down to around 2 percent of GDP by 2014, then rise steadily to over 4 percent in 2035.

For this to be remotely realistic, the Bush tax rate cuts of 2001 and 2003 will be allowed to expire at the end of this year, not just for "the rich", but for all taxpayers. The Alternative Minimum Tax (AMT) comes roaring back to plague upper middle-income taxpayers. Compensation of physicians providing Medicare services will be slashed 20 percent. The new ObamaCare Independent Payment Advisory Board will get tough on wasting Medicare dollars on sick people who are, in the government's view, well over the hill.

You say the American people will never let their Congress allow those bad things to happen? The CBO agrees, and thus presents an "alternative scenario" that is more politically realistic.

CBO's "alternative scenario" assumes that most of the Bush tax rate cuts will continue, taxpayer resistance will block ever more "soak the rich" schemes, the Medicare doctors and hospitals will get paid quite a bit more, and the outcry over Medicare "death panels" will block those expected savings.

By 2035, under this scenario, federal spending would account for almost a third of the U.S. economy, and federal debt held by the public will have risen from the present 60 percent of GDP to an astounding 185 percent.

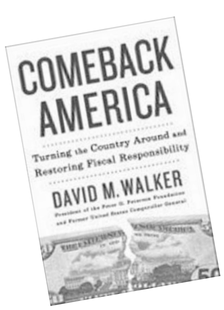
But wait! It gets worse. When the government pays its bills by borrowing, the funds it borrows "crowd out" productive private investment. CBO projected that federal debt would increase to 188 percent of GDP by 2027. The CBO's model gave up at 2027 because the curve was heading straight up.

And don't forget the tax dollars required to pay the interest on federal debt. At the present $15 trillion debt level and 3 percent average yield, we will pay on the order of $450 billion next year to service the debt. That annual burden will triple by 2027.

David Walker CPA served for ten years as the U.S. Comptroller General. There is probably no one person in the country who has a better grip on what these fiscal facts mean for Americans, especially the younger generations.

In his new book Comeback America, Walker writes "if we don't wake up, the next crisis could be much worse. What if we went into it with even greater budget and current accounts deficits? These measures [interest rate cuts, bailouts, stimulus spending] worked this time because the world still trusts in the strength of the dollar and the safety of U.S. bonds. But what if trust in the United States erodes? In that dismal event, our economy would face skyrocketing interest rates at best, and at worst a flight from the dollar to the euro or the yen. If that happens, farewell to America as the world's economic powerhouse."

David Walker gave a splendid presentation at the Ethan Allen Institute program at the Sheraton Burlington on August 19 (see page 5). Vermonters concerned about the fiscal storm facing their children and grandchildren in the years ahead seriously need to digest his message – and act on it.



Comeback America:

Turning the Country Around and Restoring Fiscal Responsibility

... is David Walker's new book. In it he clearly explains our country's fiscal crisis, and offers a road map – from the standpoint of a top fiscal manager – toward solvency and transforming our overgrown national government.

Walker Event a Dazzling Success

REPORT

David Walker put on a dazzling presentation on "Shaping America's Fiscal Future" at EAI's Sheraton Economic Series program on August 19.

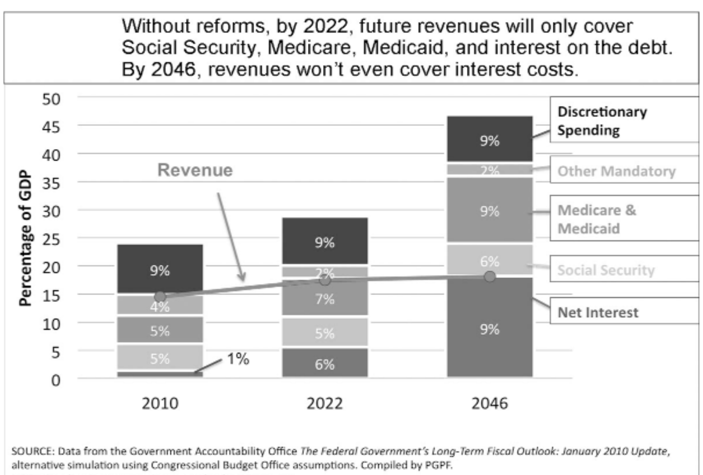
The former U.S. Comptroller General, now President of the Peter G. Peterson Foundation, persuasively demonstrated where our Federal government's finances are heading, unless leaders summon the courage to rein in entitlement spending, cap discretionary spending, and put an end to reckless debt financing.

EAI President John McClaughry, Gov. Jim Douglas, Auditor Tom Salmon, EAI Chair Jim Gatti, and David Walker.

A panel chaired by Mary Alice McKenzie responded to Walker's presentation – and added important information about Vermont's similar situation. The panelists were UVM economics professor Art Woolf, retired KPMG senior partner David Coates, and Auditor Tom Salmon. Gov. Jim Douglas opened our program by emphasizing to some 200 attendees how important this subject is for Vermont and the nation.

The PowerPoint presentations of all the presenters may be accessed – without audio narration, of course – at www.ethanallen.org, at the new Fiscal Facts tab.

CCTV Channel 17 – Town Meeting Television – videotaped the event and will show it for the final time on Sunday, September 12 at 1 p.m. (also on Comcast and Burlington Telecom). The program can also be viewed at http://www.cctv.org/node/96386, accessible through the EAI Fiscal Facts page. We hope to have DVDs available sometime in September.



Phoenix Books of Essex Jct. reported that they sold 40 copies of David Walker's book *Comeback America* at the sales table. EAI is grateful to business leader Bruce Lisman for making this fine event possible.

David Walker, Art Woolf, Mary Alice McKenzie, Tom Salmon and David Coates on the response panel.

NEWS & VIEWS

ObamaCare for Vermont! "Mandates requiring Vermonters to participate in a universal plan is also an issue the state will have to grapple with. He [consultant William Hsiao] pointed to Catamount Health as an example of the reason why **compulsion may be necessary** – because 40 percent of eligible, uninsured Vermonters (mainly 18- to 24-year-olds) don't enroll." (VT Digger, 8/6/10.)

Liberals can solve any problem with enough compulsion, including compelling you to give them your paycheck. You have already shipped $300,000 to Dr. Hsiao to design the method of extracting much of the rest.

Not so Golden Oldie: "The [EAI *Off the Rails*] report states that historically Vermonters have paid on average 16 percent of their adjusted gross income (AGI) for state and local taxes. But this methodology is misleading. AGI is calculated after deductions for those who itemize."– Doug Hoffer, the longtime researcher for the leftist Peace and Justice Center, now the Democratic candidate for State Auditor. (BFP, 1/4/07.)

Actually, Doug, AGI is calculated before deductions for those who itemize. Nice try.

For "Right Wing Racists": Rob Roper of True North Radio did a video critique of the *Rutland Herald*'s sleazy attack on EAI's education commission report, in which we compared Vermont test scores with white U.S. scores. Watch it at: http://www.youtube.com/watch?v=Q_dMdmCOBbs

Interesting thought: for 40 years liberals and minority interest groups have bombarded us with demands for more government spending on education for racial minorities, because they score lower on education tests than white students. But when we took that into account, we're branded "right wing racists."

Consumer Driven Health Plans: The American Academy of Actuaries published "Emerging Data on Consumer-Driven Health Plans" just a year ago. This paper was peer reviewed by 33 actuaries who are named in the paper. On prevention, the AAA paper concluded, "All of the studies reviewed reported a significant increase in preventive services for CDHP participants."

Nonetheless, the Left continues to claim that persons with a CDHP will ignore preventive care instead of using their HSA to pay for it. Not true – but the Left doesn't care about truth.

New Book I: Dick Armey and Matt Kibbe of Freedom Works have just published *Give Us Liberty: A Tea Party Manifesto*. It's an inspired account of what's eating ordinary Americans and how they can do something about it – this year. FreedomWorks has been the foremost national organization backing local Tea Party movements. – JMc

New Book II: *The Blueprint: How the Democrats Won Colorado* is an excellent account of how four very rich liberals hired some very shrewd liberal operatives to set up and fund (liberally!) a panoply of cooperating organizations (think tanks, media watch, action groups, 527s, PACs etc.). In four years they had reversed Colorado's red state coloration and made it a blue state.

If you're a very rich non-liberal who would like to make this happen in reverse in Vermont, call me! – JMc

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The Vicious Acts of 2010

Continued from Page 1

goal to the Department of Education. But the Commissioner does not have the power to force voters of school districts to reduce their budgets to meet that goal. The most he can do is contrive district by district reduction targets, and write urgent letters pleading with the school boards to plead with the voters to meet his target. This he did on August 4.

Many districts may well achieve an average of 2.34 percent in spending reduction this year. Over time, however, the Commissioner will acquire the power, either by statute or by force of his office, to tell school districts the most that their schools can spend.

As these steps play out, the Commissioner will issue orders to its Regional Education Districts, capping their pupil-teacher ratios and instructing them on how much they are allowed to spend.

Just as "local control" of subdistrict schools went out with the Vicious Act of '92, "local control" as it existed prior to 1997 will soon give way to one of two outcomes: either complete state control, or parental control.

The former is the French model, with its nationwide curriculum and all-powerful Ministry of Education.

The latter would decentralize "local" down to the family level: empowered parents would choose the educational program that they believe is best for their children, and providers would compete to please them as customers, not subjects.

Continued From Page 6

NEWS & VIEWS

America's Health: "If you leave out people who are victims of homicide or who die in automobile accidents, Americans live longer than people in any other Western country.

Doctors do not prevent homicides or car crashes. In the things that doctors can affect, such as the survival rates of cancer patients, the United States leads the world." – Sally Pipes, *The Truth About ObamaCare* (2010).

Cleveland on the Texas Drought Relief Bill: "I can find no warrant for such an appropriation in the Constitution, and I do not believe that the power and duty of the general government ought to be extended to the relief of individual suffering which is in no manner properly related to the public service or benefit. A prevalent tendency to disregard the limited mission of this power and duty should be steadfastly resisted, to the end that the lesson should be constantly enforced that, though the people support the government, the government should not support the people." (1887.)

Coolidge's Thought for America: "We have come to our present high estate through toil and suffering and sacrifice. That which was required to produce the present standards of society will ever be required for their maintenance. Unless there is an eternal readiness to respond with the same faith, the same courage, and the same devotion in defense of our institutions which were exhibited in their establishment, we shall be dispossessed, and others of a sterner fibre will seize on our inheritance." – Calvin Coolidge, "The Price of Freedom", January 21, 1923.

Friedman Event Report 2010

Many years ago young Bill Sayre, an undergraduate economics student at Northwestern University, had the assignment of fetching Professor Milton Friedman to a campus economics club meeting from the University of Chicago, two hours away by car. At the time, Bill, says, he was a young liberal in his political views. After four hours in the car with Friedman, he has been an unshakable free market champion ever since.

Such was the power of ideas, advanced and defended by a brilliant, principled man who this year, three years after his death at 95, was honored in all 50 states and five foreign countries. The EAI Vermont event was held at the University Amphitheatre at the Sheraton Burlington on July 31.

Sayre went on to graduate study under Friedman at Chicago. From Friedman he learned that a free market in ideas and goods and services creates wealth for all parties; that centralized political control kills freedom and creativity and impoverishes society as a whole; that wage controls produce unemployment and price controls produce scarcity; that monopoly leads to higher costs and lower quality; and that the absence of effective choice in education leads to dull schools, failed children, and woeful inefficiency.

Friedman, Sayre said, was fond of simplification of economic ideas. He used a four-box matrix to illustrate the iniquity of most government spending. "When you spend your own money on yourself," he recalled Friedman saying, "you seek economy and value. When the government takes your money and spends it on somebody else, it invariably does so with little concern for cost or value."

Bill Sayre (center) chats with former Senate Education Committee member Wendy Wilton of Rutland and EdWatch executive director Rob Roper of Stowe.

"In his last decade," Sayre said, "Dr. Friedman and his wife Rose focused their intelligence and resources on promoting choice in education, a 50-year campaign that he regarded as his greatest accomplishment." Only through choice can students achieve their greatest potential, and our society become all it can be. Trusting individuals to make their own decisions is the route to progress.

The Ethan Allen Letter

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September 2010

INSIDE:

Vermont Economy Newsletter *August 2010*

Health Care a Public Good?

MEDIA

Earlier this year the Vermont legislature passed Act 128 [S.88] which reads in part: "It is the policy of the state of Vermont that health care is a public good."

The way I see it is that the legislature is essentially redefining public good to be any service the legislature decides it wants the people to have.

If the legislature can define health care as a public good, it can also define many other important items we consume as public good. We don't define food or housing as public good, but we do provide them to low income people, while at the same time understanding that real resources are used to provide them to people and that if someone is provided public housing, someone else cannot live in that same house. That means we have serious discussion about how to spend on food and housing for low-income people.

I'm afraid the same thing is not occurring with health care. Government cannot guarantee an unlimited amount of health car to all Vermonters, just like we can't provide filet mignon or a 2,000 square foot house or an unlimited amount of health care to all Vermonters. We recognize that food and shelter are scarce and have to be rationed. So too is health care. The only question is how to ration it.

– Art Woolf (PhD Economics)