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The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

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The Doleful Road to $6 Gas

COMMENTARY

Vermonters are alarmed at $4 gas, and terrified at the prospect of $5 or $6 gas to follow. That alarm has contributed mightily to the descent to 41 percent in President Obama's job approval rating. The Obama Administration is thus working feverishly to transfer the responsibility to somebody – anybody – else.

The President argues that the prospect for an Iranian conflict causes speculators to drive up the price of crude oil on world commodity markets. That's certainly true, but that's far from all of the story.

The price of oil futures, like every other commodity, is based on forecasts of future oil demand and supply. In addition to the looming Iranian interruption, market participants – both oil refiners and speculators – look at many other factors, including government policies relating to supply.

In a January 2008 interview with the San Francisco Chronicle, candidate Obama explained his cap and trade plan to cut greenhouse gas emissions from carbon-based fuels. Under it, he admitted, "electricity costs would necessarily skyrocket." And so would gasoline, diesel and heating oil prices, subjected to the same cap and trade regulations.

Once in office, Obama 's energy policies have clearly been based on the belief that humans, in our insatiable urge for the convenience and comfort made possible by inexpensive carbon-based energy, are propelling the planet toward Al Gore's heat death.

Ever higher prices discourage energy consumption. Obama named as Secretary of Energy Steven Chu, who had then recently said "somehow we have to figure out how to boost the price of gasoline to the levels in Europe", currently $8 a gallon. A month ago Chu informed a House committee that he was not working to lower gasoline prices, but to wean the US off of oil. With U.S. gas prices pushing $4 a gallon, Chu is now squirming to reinterpret those statements.

But Steven Chu's statements don't drive up gas prices. Policies designed to choke off petroleum production do.

The Obama administration, backed by the entire environmental movement, is dead set against allowing oil production from a 2,200-acre tract – the size of tiny St. George, Vermont – of a desolate plain in the Arctic National Wildlife Refuge. Not only will the billions of gallons of oil stay in the ground, but the lack of oil production will eventually require shutting down the Alaska Pipeline.

The administration, again backed by the environmental movement, has been hostile to increased oil production in the Gulf and on the Outer Continental Shelf. Almost all of the welcome surge in natural gas production made possible by fracking technology has occurred on private land where the administration can't stop it.

The Obama Environmental Protection Agency is also imposing Tier 3 gasoline standards that are predicted to increase gas prices by 25 cents a gallon. The Obama EPA refuses to recognize that at some point the claimed benefits of ever-cleaner gasoline can cause more economic damage then they are worth.

Under strong enviro pressure the President has, astonishingly, blocked the Keystone XL oil pipeline from crossing into the U.S. from Canada. Denied a transit route to Texas re-

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The Ethan Allen Letter

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

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

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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Members receive the monthly Letter, invitations to all Institute events, periodic email news, and (on request) all publications. For a list of available publications or other information, please contact the Institute by phone, fax, mail, e-mail. Most publications can be downloaded from the web site.

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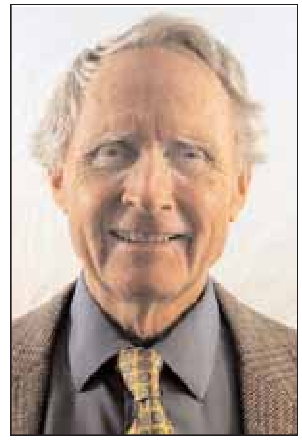
PRESIDENT'S MESSAGE

The Foolish Urge to Send Messages



Progressive politicians like to send messages. Western Union was designed to send messages, but the Acts and Resolves of the State of Vermont is not a message board. Floor debates seem designed to allow legislators to Tweet noisy constituents. Perhaps a constituent objects to a neighbor breeding dogs and gets his local legislator to introduce a bill banning dog breeding. In our new world of 10-word messages, the bill advances. Lost among the emailed feelings is whether that new law is realistic, precise, and enforceable.

Other messages have a far more widespread and serious economic impact. Vermont has enacted a statewide energy policy, a part of which mandates utilities to own or distribute a fixed amount of renewable energy. The message in this bill is to demonstrate how seriously committed to resource conservation the State of Vermont is. But then the word renewable is defined as being either solar or wind. A direct consequence of that mandate is the erection of large numbers of towering wind turbines.

Vermont lawmakers also send messages about how seriously they take education. They have doubled education spending during the past decade, yet testing shows negligible improvement among our students, either in national ranking or in objective tests of knowledge. Spending money is simply a symbol of how much Vermont cares about education.

This year we are embarked on reinventing how health care is organized and paid for. Actual improvement appears elusive, but advocates argue that it is vital to signal how much we care about health.

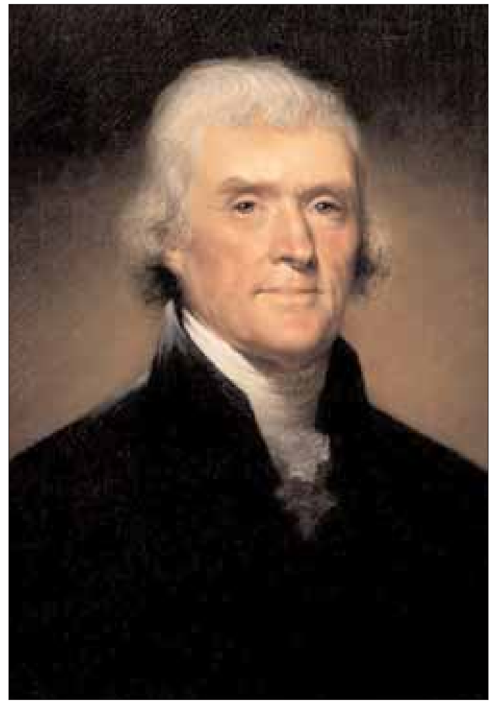
In all these matters, thousands of astute Vermonters could make their own personal choices in the market place. Chances are very good that they would make better choices than 180 representatives in Montpelier intent on sending messages. Let the legislature forget about sending messages, and let our people return to making their own choices.

President

The Sheraton Economic Series presents –

The Ethan Allen Institute's
19th Annual Jefferson Day Event

Mr. Jefferson's Economics



A Talk by John McClaughry

Introduced by Gov. Jim Douglas

7:30 p.m. – Wednesday, April 18, 2012

University Amphitheatre,
Sheraton Burlington Conference Center

South Burlington (I-89, Exit 14W)

Since his college days half a century ago, John McClaughry has been a student and acolyte of the career and philosophy of the author of the Declaration of Independence. For the past 18 years, under John's leadership, the Ethan Allen Institute, founded on Jeffersonian principles, has sponsored a Jefferson observance during the month of Mr. Jefferson's birthday, April 13, 1743.

For this year's celebration, John will speak on "Mr. Jefferson's Economics". Among John's writings on the subject are a featured op ed piece in the *New York Times*, an exposé in *Insight* magazine of President Bill Clinton's attempt to portray himself as the heir to the 3rd President, and a tribute offered to Mr. Jefferson by Ronald Reagan, who John served as a speechwriter and White House Senior Policy Advisor.

This talk will be an excellent opportunity for friends of the Institute to learn more about Mr. Jefferson's economic philosophy and its relevance to dwellers in the 21st Century, from a well-informed and entertaining speaker.

Members, friends, students, guests and the general public are invited.

Admission is free. Reservations are not necessary.

The 2012 Jefferson Day Celebration is co-sponsored by the Jefferson Legacy Foundation.

The Sheraton Economic Series is hosted by the Sheraton Burlington and co-sponsored with the Lake Champlain Regional Chamber of Commerce, Vermont Economy Newsletter, Vermont Tiger, Vermont Business Magazine, and True North Reports.

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The Health Insurance Exchange: Your Questions Answered

COMMENTARY

Many members of the Vermont House uncomfortably confided that they really didn't understand what they did last month, when they voted 88-38 to pass Gov. Shumlin's health insurance exchange legislation (H.559).

The bill is now under consideration in the Senate, so this easy-to-grasp format may prove helpful to legislators and citizens alike.

What's a health insurance exchange? It's an online marketplace where individuals and small businesses can purchase from among various state-approved insurance plans. Individuals purchasing through the Exchange will qualify for Federal tax credits to reduce their premium costs.

Why does Vermont need this? Because ObamaCare says so. If Vermont won't create one according to federal rules, the federal Department of Health and Human Services will step in and create one.

Who is required to buy their health insurance in the Exchange? All individuals, plus all small businesses with 50 or fewer employees.

Is this an ObamaCare requirement? No. This is a Shumlin requirement.

What about small businesses with 51-100 employees? They objected to the 18% increase in premiums the State projected, when they are forced to pool their employees with the group the governor's legislation mandates to buy only through the Exchange. So Gov. Shumlin backed off his demand that they also be forced into the Exchange – until 2016.

Why this urgency to get as many people as possible covered through an Exchange-based plan? Because in 2014 ObamaCare will provide tax credits for persons to assist them in buying insurance through an approved exchange. Gov. Shumlin hopes that he can, in 2016, persuade the federal government to discontinue the tax credits and turn the total amount in cash over to the state, to help finance Green Mountain Care in 2017.

What's Green Mountain Care? That is Gov. Shumlin's version of Canadian-style single payer health care for all. The Green Mountain Care Board is working now to decide what benefits people will have, which hospitals can remain open, how much doctors and nurses will be paid, how much pharmaceutical and medical supply companies will be reimbursed, and the global budgets that will contain the costs of health care.

So the Exchange is the pathway to single payer health care in 2017? That's what the Governor says.

What becomes of the Exchange when Green Mountain Care comes into being? The Exchange will be "suspended", since most private health insurance will be abolished.

Will there be a choice of plans available in the Exchange? The Shumlin administration says there will be 10 or 12 plans, varying by the size of the deductible etc.

From how many carriers? Most likely, one: Blue Cross Blue Shield of Vermont. Possibly MVP. Those two carriers now insure 83.6 percent of the lives in Vermont's private health insurance market. (Cigna – 14.7 percent – insures only large groups that are not mandated to enter the Exchange.)

The state long ago drove out all of their competitors, which are not coming back into this small market with its oppressive insurance regulation, just to sell policies for three years.

How much will the Exchange cost to create and operate? According to a state consultant's report, \$13-\$22 million for startup, and roughly \$30-\$38 million for the following three years.

How will this Green Mountain Care be paid for, when it springs to life in 2017? Gov. Shumlin says it will be paid for by Medicaid funds, the hoped-for cash out of the Exchange tax credits and Medicare payments, the state's current premium payments for state employees and teachers, and perhaps some new tax dollars.

Tell me more about these new tax dollars. The legislature's consultant Dr. William Hsaio estimated that the Green Mountain Care model chosen by the legislature would require new payroll taxes of 12.5 percent, split between employers and employees. Since then, the Shumlin administration has departed significantly from the Hsaio model, and the Joint Fiscal Office has suggested that the enormous savings projected by Hsaio (\$11 billion over 10 years) are not likely to be realized. Gov. Shumlin has said that the payroll tax rate will likely be 14.4 percent. Other new taxes will almost certainly be needed to fill the gap.

When will we be told what taxes we will have to pay to finance the Shumlin plan? In January 2013, after the November elections. The governor's party in the House defeated an amendment to make the administration tell the voters the magnitude of the new taxes in September, before the election. It failed 86-49. Sorry.

Another Stealth Tax Increase

COMMENTARY

By Bruce Shields

Leftist legislators face a real challenge: How can they raise more money from hard pressed Vermonters without voting for a tax increase? If they vote for an outright tax increase, voters don't like it. If they reduce spending, they will risk facing primary opponents from even further to the left.

The magic solution is found in the legislature's annual Tax Expenditure Report.

The term "tax expenditure" describes the difference between the potential and actual sum raised by a particular tax. Some very popular income tax deductions and exclusions are property taxes paid, charitable contributions made, health care premiums paid for employees by employers, interest received on state or federal bonds, and interest paid on home mortgages. Together these make up about three fourths of all tax deductions and exclusions.

Interestingly, the Vermont legislature is very tough on some classes of taxpayers. If a town exempted a Logging Museum from its municipal property tax, the legislature requires that that property remain in the tax base used to calculate school taxes the town's taxpayers are required to remit to Montpelier.

Recently the State for the first time began to supply to towns solid current information on the value of all state owned parcels, such as boat launch sites, VTrans salt sheds, and state buildings, parks, and wildlife management areas. Towns receive some Payment in Lieu of Tax (PILOT) from the State based on those valuations.

In Act 75 of 2005 the legislature mandated that each January 15 the Administration must present a comprehensive snapshot of tax expenditures, covering the full range and amount of tax expenditures under state tax laws. The 2008 report contains 230 pages, covering corporate and personal income taxes, sales and use tax, meals and room tax, and property tax.

But by 2010, the Left discovered its magic solution: that cutting back tax expenditures were a way to raise revenue without running the risks of voting for higher tax rates.

In that year's Miscellaneous Tax Bill the legislature requested a targeted study of which Federal income tax deductions and exemptions Vermont could reduce or eliminate in order to raise more money. That coincidentally meshed with a study by the Congressional Budget Office of the cost of hundreds of "minor" exemptions (i.e. not the popular ones listed above).

Many of the tax expenditures now apparently flagged for extinction primarily benefit small businesses, such as accelerated depreciation for capital improvements, or lower tax rates for long-term capital gains.

The honest method of simplifying taxes requires a two-step process. First, the legislature reduces selected tax expenditures. That increases revenues. Then the legislature adjusts the tax rate schedule downwards to reduce revenues by approximately the same amount. This is revenue neutral.

The current legislative game is, however, to quietly eliminate various income tax deductions without making the revenue-neutral tax rate adjustments. This results in a stealth tax increase, at least until taxpayers reorganize their affairs, or move away.

So keep alert, or you will likely have some ugly surprises by the time your 2012 Turbo Tax ships next fall.

Meet the Vermont-NEA!

Ever wonder why Vermont, curiously, has so little real education reform? Meet the guardian of Vermont's unionized public school teachers, especially the least competent, who have more need for union protection to keep their jobs: the Vermont-NEA!

Total revenue in 2009-10:	$4,261,279
Revenue from member dues only (74.6%):	$3,179,093
Number of employees:	75
Employee compensation (wages, benefits, payroll taxes):	$3,018,653
Total U.S. NEA + state affiliate revenue:	$1.59 billion

(Source: Education Intelligence Agency, 3/5/12)

NEWS & VIEWS

Rally Report: "We had a great rally for Vermont Yankee [March 17]! More than 70 people came to celebrate the plant's continued operation. This was the biggest turn-out ever. Our *Green* theme included green energy from Vermont Yankee, St. Patrick's Day, and the Entergy VY4VT signs. Pictures and a video of the rally are posted on my blog: *Green Power for St Patrick's Day!* http://yesvy.blogspot.com/2012/03/vermont-yankee-rally-green-power-for-st.html. You can see comments (as well as more pictures) on the Save Vermont Yankee Facebook page. https://www.facebook.com/SaveVermontYankee." (MJA EEP 3/19/12)

The Coming Progressive Police State: Marvin Malek MD explains how to suppress all resistance to the Prog single payer dream at http://vermontforsinglepayer.org/blog/. Scary stuff.

VHCF Executive Director Jeff Wennberg penned a strong response in the *Rutland Herald* of March 13, noting that "apparently [to Malek] nothing protects freedom like censorship."

ABCs of School Choice is the title of a new booklet from the Friedman Foundation for Educational Choice. It's available online (download or hardcopy) at www.edchoice.org/ABCs.

ObamaCare Exchange Regulations: "Shortcomings of the Regulations: No clarity on what benefit mandates will be imposed on states; No clarity on cost-sharing; No clarity on risk adjustment and reinsurance; No clarity on the federal health insurance exchange that would be forced upon states if they refuse to implement the law; No clarity regarding who will pay for a federal health insurance exchange."

"Rather than provide clarity, the rule opens new questions and is silent on the most crucial pieces of information for states." (Republican Governors' Assn. 3/12/12)

Federal Debt: "If the government had to pay the 5 percent rate that it was offering before the financial crisis on today's debt, the annual interest payments would be $535 billion, twice CBO's projection of total federal spending on Medicaid this year … .Such a radical change in budget math could trigger a political panic and intense pressure for tax increases, perhaps even for a European-style value added tax." (WSJ 3/12/12)

The Rest of the Story: "We feel that as we design an exchange it should have maximum flexibility and allow shoppers to make choices for insurance until we implement our [single payer] plan in Vermont" – Gov. Shumlin (2/6/12).

Not said: "After which, of course, no one will have any choices about coverage, because my Green Mountain Care Board will have made those choices, in light of available resources, including the $3 billion in new taxes."

Who Benefits from Solar PV: "In time, household and business electric bills will be much higher due to rolling the expensive solar energy into rate schedules. At that point, it will become abundantly clear to the average Vermonter that we have been misled, whereas the top one percent of households that are part of tax-shelter LLCs will have enjoyed a lucrative 20-year joyride courtesy of Vermont's

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The Doleful Road to $6 Gas

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fineries, the Canadians are about to build their own pipeline to convey the Alberta oil to their Pacific coast, for export to the Far East.

According to the environmental groups backing the Obama policies, the alternative fuel to gasoline is ethanol. But the Federal mandates and subsidies that caused the conversion of 40 percent of America's corn crop into ethanol have also produced engine damage and higher food prices. Cellulosic ethanol has turned out to be an embarrassing bust.

Then there's the electric car craze. When the Obama administration became the largest shareholder in General Motors, it pushed the company into marketing an electric car. The new Chevy Volt will reduce demand for gasoline by running 100 percent on electricity (so long as their batteries last.)

Despite a federal subsidy of $7,500 per car, GM announced last month that it was suspending Volt production after selling only 8,000 cars. The President is now proposing that the subsidy be increased to $10,000 to attract more buyers (with average household incomes of $170,000).

The current crown jewel in the President's energy tiara is a new program to replace petroleum fuel with alcohol from algae. Sure, it could probably be done, with enormous federal subsidies. So could Newt Gingrich's city on the moon.

Can we get real here? If Americans don't want to face Steven Chu's European gas prices any time soon, the President should forget about the dubious Menace of Global Warming, tell his appointees to back off ever more subsidies and mandates, and let American industry produce the energy the American people need, at prices they can afford.

Continued From Page 6

NEWS & VIEWS

SPEED program." Engineer Charles Kelly, (yesvy, 2/3/12)

Green Mountain Care Costs: "Without significant federal funding in the hundreds of millions of dollars – which we do not currently have – Green Mountain Care cannot break even, and it cannot be viable. The state issued a report in November anticipating that Green Mountain Care, when fully implemented, will cost Vermonters $9 billion annually (but they don't estimate the revenues). Where will the revenues come from to support this, in an already highly taxed state, with a very limited tax base? My projection shows Act 48 will result in a cumulative deficit in the $1.5 to $2 billion range in the first five years." – New EAI Director Wendy Wilton, who has modeled GMC costs for six months, (3/8/12).

Like We Said: "At $1.2 trillion, the federal deficit will be $93 billion larger than previously expected in fiscal year 2012, due almost entirely to the cost of a payroll tax cut, the Congressional Budget Office projected Tuesday." – (*National Journal*, 3/13/13).

And This: "President Obama's national health care law will cost $1.76 trillion over a decade, according to a new projection released today by the Congressional Budget Office, rather than the $940 billion forecast when it was signed into law." (3/13/12)

Lemming Rush: "Lemmings are tiny rodents who overpopulate their habitat every few years, and who, as regularly, try to cross large bodies of water to get to new habitat. Most of them drown in their rush to get away. Vermonters are now in a lemming rush that threatens to drown us in an economic and medical care collapse. The cause is the blind race into Shumlincare, about which we know practically nothing, but which is going to put us billions of dollars beyond our means in a very few short years." – (*Orleans County Record*, 3/8/12)

Thought for the Day: "History furnishes no instance where the right of man to acquire and hold property has been taken away without the complete destruction of liberty in all its forms." – John W. Davis, Democratic Presidential candidate of 1924, (NRO, 1/31/12)

Look Out, Docs: "Green Mountain Care Board's plan to control health care costs with global budgets will increase the likelihood that Vermont physicians will be sued. Why? Because patients will be upset when services are delayed or denied due to HMO-style rationing that will result from global budgets". Dan McCauliffe MD, Rutland, (2/5/12)

Wake Up, You Dolts: "These people who are asked to handle this 18 percent [health insurance premium] increase – they are already paying millions of dollars through the Medicaid cost shift, millions of dollars for taxes, bill backs, assessments and fees. If you remember last year, 75 percent of the money [the legislature] raised to plug the hole in the budget increased the hospital tax and a fee on employers. Both of those things are finding their way onto these premiums. If you want to know why [health insurance is] so expensive, you must look to yourselves to some extent." – Craig Fuller, EHCA, (Senate Finance, 2/8/12)

Wendy Wilton Joins EAI Board

Wendy Wilton is the newest member of the Ethan Allen Institute Board. Wendy has served as the treasurer for the City of Rutland since March 2007. She has successfully managed the financial operations of the City of Rutland to turn around a $5 million deficit under her predecessor to a $3 million positive fund balance.

As treasurer she collects over $36 million in annual revenues, and oversees an $18 million general fund, city payroll and benefits for over 150 full time employees, and she administrators of the city pension system with $52 million in assets. Most recently under her stewadship, the city achieved an unqualified audit opinion for FY 2011 – the first clean opinion in 32 years.

Prior to her role as treasurer, Wendy served as a Rutland County state senator and a Rutland City alderman. She was a senior business advisor for the Vermont Small Business Development Center and enjoyed an eight-year career in small business and mortgage lending.

She is a native Vermonter and a UVM graduate (BA, Chemistry, 1981).

Most recently, she has developed and spoken widely on a financial model to project the insupportable fiscal impact of the proposed Green Mountain Care.

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