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The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

A Monthly Publication of The Ethan Allen Institute

INSIDE:

Jefferson's "Profusion and Servitude"

COMMENTARY

The European banking system and stock markets – and therefore ours – are sinking from the increasing doubt that sovereign EU countries can pay their bondholders. It's worth taking a minute to consider the effect of public debt.

Is public debt a good thing? Yes, if incurred to defend the nation (e.g., Civil War, World War II), or to build infrastructure that greatly increases the economic productivity of the people (Interstate Highway System.)

But no, if the government merely borrows now to spend on current programs and benefits, leaving future generations to come up with the taxes to service the debt.

The U.S. government is now $15 trillion in debt, and borrows 40 percent of every dollar it spends. That doesn't include the unfunded liabilities of Social Security and Medicare "entitlements". The former will exhaust its funds in 2036, and the latter in 2024. Each is at least politically obliged to keep paying benefits until 2085, but both programs are totally unsustainable..

At the Vermont level, the most recent (2009) report of the Treasurer's committee that oversees teacher and state employee retirement systems forthrightly said "Simply put, financial commitments for pension and health benefit programs are growing much faster than the rate of revenue growth or the ability of taxpayers to pay for them….Our actuaries estimate that it will take more than 20 years at our current actuarial investment rate of return of 8.25 percent [since reduced to 8 percent] to get back to fiscal year 2008 funding level."

Despite this ominous statement, Vermont is one of only nine states to maintain a AAA bond rating. And despite being the only state that does not have a balanced budget requirement, even Vermont's very liberal legislatures have contrived – often with dubious accounting and fund-robbing practices – to produce a nominally balanced budget every year.

The Democratic administration in Washington, however, has embraced the argument that it's better to go deeper and faster into debt to shower payments on favored (unionized) groups, and let another political generation figure out how to service the debt.

This convenient rationalization already has a sizable foothold among liberals and progressives in the Vermont legislature. How soon those legislators become majorities is an important question that bears watching.

The argument over the benefit or menace of public debt is far from new. It originated in Roman times, and became the great battlefield issue in the very First Congress.

Treasury Secretary Alexander Hamilton proposed that the new national government assume the Revolutionary War debts of the states. He ardently believed that a government that borrowed money

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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.

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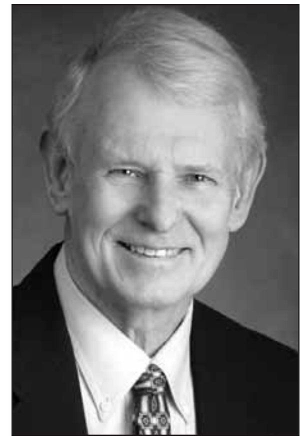
EDITOR'S MESSAGE

The Menace of Debt



This issue's front page commentary – Jefferson's "Profusion and Servitude" – sharply points out the threat to any government that chooses to continually borrow to spread benefits among voters. Even two hundred years ago it was apparent to Mr. Jefferson that the American republic would not endure once this endless deficit spending thinking came to prevail.

The United States is now close to that point. It would have been reached years ago, but was forestalled by the remarkable productivity and wealth creation of the free enterprise system. That isn't likely to save us now, unless there is a quick (2012) change in control of the White House and Senate, which together persist in shackling and taxing our productive people while keeping the spending circus going at full speed.

Vermont remains one of only nine states to keep a AAA bond rating. That speaks well for us. Whether that bond rating can survive Tropical Storm Irene, a possible double dip recession, a depleted UI fund, over $2 billion in unfunded state employee and teacher retirement obligations, no new pipelines for low cost natural gas, no more low-cost electricity from Vermont Yankee, higher energy costs thanks to rigged deals for "green" providers, ever increasing compensation demands from the Vermont-NEA, and the staggering projected costs of Green Mountain Care, remains an open question.

This is especially so in face of the demographic changes occurring in Vermont, their economic implications spelled out in EAI's 2006 report *Off the Rails* (read the 2008 update with specific recommendations on our website, or request a hard copy.)

The Institute's Board is planning a new and somewhat different program for 2012. You'll learn more about that in your membership renewal letter, probably in January. Stay tuned!

Thanks for all your past support, and best wishes for a joyful Christmas season.

John McClaughry

EDITOR

Nuclear Plant Decommissioning: Facts vs Fantasy

COMMENTARY

Meredith Angwin, Energy Education Project Director

A nuclear plant owner has two main choices for decommissioning a plant.

• Prompt decommissioning: starting the decommissioning project as soon as the plant stops operating.

• SafStor: keeping the plant intact for many years, until decommissioning is more convenient.

At his press conference on August 11, Gov. Peter Shumlin explained that SafStor wasn't part of the Vermont Yankee purchase agreement, no matter what papers the state signed, and no matter what words somehow sneaked into those signed papers.

Shumlin said that decommissioning the plant quickly means:

"The jobs gap doesn't really happen for about 16 years," he said. "Five to six years for the plant to cool down, gotta keep all the systems running, that requires a number of employees, several hundred. And ten years of decommissioning. So the jobs cliff, despite what they tell you in those 30 second advertisements, is not as significant as long as they keep their promise on decommissioning the plant whenever it shuts down."

Unfortunately, the facts do not agree with Shumlin's statements. There is a jobs cliff.

Shumlin does not believe that Entergy has the right to put Vermont Yankee in SafStor. But Entergy can legally use SafStor, whether Shumlin believes it or not. What will happen if they choose to use it?

The Zion nuclear plants in Illinois have been in SafStor since 1998 and they are now beginning decommissioning. In the case of Vermont Yankee, the plant would be put in SafStor while the decommissioning fund (now around $490 million) grows to a larger amount. Meanwhile, the radiation inside the plant would decrease, leading to a less expensive cleanup.

The site must have security, the fuel pool must be maintained and monitored, and the rest of the system has scheduled inspections. SafStor generally requires a staff of around 100 people, instead of the 650 at Vermont Yankee now. With SafStor, around 80% of the staff at VY would be laid off within a year of shutdown. No further staff would be needed until decommissioning began, which could be many decades in the future.

Clearly, SafStor is a "jobs cliff", and Entergy can choose to use it. But what if Entergy chooses prompt decommissioning?

Shumlin says that it would take "five or six years for the plant to cool down" while hundreds of employees monitor it. Shumlin's tale is cheerful but wrong. With prompt decommissioning, the staff at the plant is laid off as soon as possible.

Wayne Norton was President of Yankee Atomic during the prompt decommissioning of three nuclear plants: Maine Yankee, Yankee Rowe, and Connecticut Yankee. At an industry forum on decommissioning in 2006, Norton presented a paper on lessons learned from the decommissioning experience. Norton considers the need for rapid layoffs to be an important lesson:

The biggest controllable cost in decommissioning is manpower... However, the plants that have been slow to efficiently accomplish...downsizing [the workforce] have had higher decommissioning costs....Severance packages, early retirement, and worker transition services helped workers make the transition. The major downsizing occurred over about a three month period.

Decommissioning Maine Yankee began in 1997, with an on-site staff of approximately 600. By the end of 1997, the staff was down to 300 and by the end of 1998, it was down to 135. In 1999, the staff had shrunk to 85.

With SafStor, most plant workers lose their jobs within six months. With prompt decommissioning, it takes two years to downsize to a skeleton staff.

In the case of prompt decommissioning, contractors are brought in for the majority of the decommissioning work. The number of people in the contract work force is hard to estimate because it varies as the job goes through various phases. Decommissioning activities are done on a subcontract basis, with various groups of contractors brought in and later terminated. Decommissioning is basically a construction (de-construction) project.

With SafStor or prompt decommissioning, there is a jobs cliff. The people at the plant are mostly gone within six months or two years. The decommissioning workers are not permanent employees. Morale is often low, job security is non-existent, and well-trained people who have other options tend to leave town. The contractors come to town and then move on quickly.

Decommissioning leads to an instant loss of jobs, tax revenues, and community.

(A longer version appeared at www.yesvy.blogspot.com on November 18, 2011.)

Irene's Hidden Blessing

COMMENTARY

Tropical Storm Irene hit Vermont hard. At a statehouse briefing on November 10 Deputy Transportation Secretary Sue Minter totaled up the damage.

Fourteen hundred residences – 433 of them mobile homes – damaged; 1,350 households displaced; 34 state highway bridges washed out; 90 town bridges gone or closed; 2,260 state road segments damaged; 531 state highway miles closed; 175 town roads closed; three thousand repair projects under way.

By the time the rain stopped, Vermonters set out to repair the damage. Gov. Shumlin named former Administration Secretary Neale Lunderville as Irene Recovery Officer. The VTrans team set up regional commands to get the roads open.

The Vermont Army National Guard and Guard detachments from nine states as far away as South Carolina and Illinois brought equipment and manpower. The Red Cross and many other organizations went to work to ameliorate the human side of the damage. A state cleanup day on October 22 brought out thousands of volunteers.

These combined efforts have been a historic success. How many other states could have performed so spectacularly in the face of a calamity of this magnitude? At the statehouse briefing the assembled legislators gave two standing ovations for the VTrans employees who got the roads open and the traffic moving.

Three weeks after the storm, Gov. Shumlin announced that the total damage to public infrastructure and state property would be over $1 billion. Now it turns out that, using reasonable assumptions about federal assistance, the cost to Vermont taxpayers will come to $267 million, or even (best case) $106 million. (Both of these figures include $50 million to replace the Vermont State Hospital facility, which has been in planning stages for a decade.)

As these sharply lowered numbers were being compiled, Gov. Shumlin said "when you bring in the National Guard, and you don't have to hire flaggers, and you don't have to keep roads open while you're rebuilding, and you can take the gravel and the rock from the brooks and rivers that it got washed into, you drastically reduce the cost of rebuilding."

Deputy Secretary of Transportation Sue Minter added "When we're in an emergency, we don't have to take on all of the normal construction processes. Those extend from permitting at the federal and state [levels] to community outreach, to surveying to negotiation and compensation for right of way – a whole host of processes that we were able to shortcut in this emergency response."

She went on to say, as reported by True North Reports, "It usually takes an average of eight years to take a bridge project from beginning to completion. [On the Rt. 114] project we did several expedited processes, including closing the road, to take that to three months and instead of a $1.5 million average, to $300,000. We know we can cut costs."

House Republican Leader Don Turner then raised an obvious question. "If we can bypass some of those steps in an emergency situation and save hundreds of millions of taxpayer dollars, why can't we do that all the time??"

To some, that is a very dangerous thought.

Vermont's environmental activist groups have spent forty years deliberately making any project that would affect the environment, ecosystems, transportation, economic growth and esthetics the target of costly and exhausting regulatory processes.

So when Gov. Shumlin says, "You can be assured that in the interest of delivering the best possible roads and bridges and transportation infrastructure that we can to the hard-pressed taxpayers in Vermont, we have asked the Agency of Transportation… to assess how we can bring this kind of good news to future road projects," the alarm bells start ringing at enviro headquarters.

Look for a counterattack in the 2012 legislature. The enviros, spearheaded by Senate Natural Resources Chair Ginny Lyons, are almost certain to try to push through new legislation to ensure that the hundreds of millions of dollars the state's Irene response saved the taxpayers cannot be saved the next time.

The legislation will undoubtedly propose stringent and time consuming regulatory processes that no mere Governor will be allowed to short circuit, even when a hurricane shuts down 34 bridges and 531 miles of state highways.

VNRC will bring eight registered lobbyists to the task; VPIRG, nine; Conservation Law Foundation, four. Who will be joining the battle on behalf of Vermont taxpayers and transportation users?

EAI Comments on DPS Comprehensive Energy Plan

"Vermont's Energy Future"

November 8, 2011 (excerpt)

The guiding principle of the Plan's "vision" is "to set Vermont on a path to attain 90 percent of its energy from renewable sources by 2050."

The document also advocates for:

• Moving toward "energy independence" by requiring Vermonters to reduce their consumption of imported fossil fuels that now comprise two thirds of the state's total energy consumption.

• Reducing greenhouse gas emissions to 25 percent below 1990 levels by 2012, and 50 percent below by 2050, to "lower the state's contribution to global warming." (Act 168 of 2006)

• Strengthening and extending the various mechanisms for effecting these goals: mandates, subsidies, controls, and directives.

Here are our 20 specific policy recommendations.

1. Abandon the "vision" of this Plan that state government must use its coercive powers to see that Vermont gets 90 percent of its energy from renewable sources by 2050 or any other date.

2. Replace that vision with this: **"To set Vermont on a path to assure safe, reliable and competitively priced energy that will make possible a strong, competitive and growing economic base, both for creation of new wealth and income for the people of the state, and for expanded tax revenues to enable the state to meet its fiscal obligations."**

3. Repeal the requirement that Vermonters be forced to reduce their greenhouse gas emissions to 50 percent below the 1990 baseline by 2028, or any other year. (Act 168 of 2006.)

4. Repeal the state's "climate action plan", inasmuch as nothing the people of Vermont can do, even at crippling economic cost, will ever have any detectable effect on any metric of climate change (formerly "global warming").

5. Repeal the SPEED requirement that utilities meet a fraction of their increased demand with renewables.

6. Repeal the Feed In Tariff (Standard Offer) mandate that requires ratepayers to pay far above market prices to the producers of government-favored renewable electricity.

7. Repeal the small business solar tax credit and the renewable energy rebate.

8. Stop looking for inventive new ways to suck money into the Clean Energy Development Fund, such as a "compliance fee" levied on non-renewable energy (heating oil, truck and auto fuel, propane, natural gas etc.). When its current subsidy commitments are exhausted, abolish the Fund.

9. Abandon the idea of authorizing issuance of Qualified Energy Conservation Bonds unless the entire risk of default rests with the enterprise favored by the financing (in which case the issue probably can't be sold.).

10. Repeal the ratepayer-financed PSB energy efficiency program, and let businesses and homes that wisely invest in energy conservation recover their costs from their own savings, instead of sending the tab to other ratepayers.

11. Abandon the notion of creating a thermal efficiency utility to absorb hundreds of million more in taxpayer dollars to do what sensible homeowners and business owners will do anyway, at their own expense.

12. Abandon consideration of imposing Renewable Portfolio Standards on Vermont utilities, streamlined or otherwise.

13. Abandon any temptation to subsidize any form of passenger rail in Vermont, especially after Gov. Dean's $28 million Champlain Flyer boondoggle.

14. Abandon any notion of requiring buildings to be "net zero" (100 percent energy self sufficient) by 2030.

15. Abandon any notion of restricting or taxing single occupancy vehicles (SOVs) driven by Vermonters.

16. Abandon any notion of using land use controls to force Vermonters into downtown centers or other government-favored locations in the name of energy efficiency..

17. Review all existing energy regulatory schemes to remove barriers to creative energy innovations by a free people.

18. Consistently remind yourself that markets work, and that ordinary people usually turn out to make better use of their resources than what is prescribed for them by the experts who prepare "comprehensive energy plans."

19. Monitor the economic and environmental effects of adopting the foregoing recommendations.

20. Read Ch. I Art. 9th of our Constitution again, and post it in plain view at DPS headquarters. (Send copies over to the State House and the Governor's office.)

NEWS & VIEWS

Coming Event: The annual Vermont Economic Outlook Conference is set for Friday, January 13, 2012 at the Sheraton Burlington Conference Center. Details at www.vteconomy.com.

Thanksgiving Dinner at Plimoth: As viewed by liberal icon Paul Krugman in the *New York Times*: "many of the lucky duckies benefiting from the largesse of this 17th-century welfare state were illegal immigrants (that would be the Pilgrims)."

Actually, all of them were, since the Wampanoag's ancestors migrated across the Beringia land bridge without papers.

A Rare Correction: In our commentary on Green Mountain Care in the September issue, we quoted "con man Groucho Marx" saying "Who you gonna believe, me, or your own eyes?" Actually, it was Chico Marx, a fact we discovered completely on our own.

Welcome Candor: [VT-NEA spokesman Darren] Allen said the union supported Act 48 during the legislative session and continues to support it. But NEA members don't want the health care plan they have negotiated during the past several decades to be replaced with something that isn't as good or one that doesn't actually achieve its stated goals." (*Rutland Herald* 11/9/11)

Translation: Taxpayer-supported health care for all, and extra taxpayer-supported health care for us.

Ready for Winter: Winter temperatures trend for the U.S. Northeast region 2001-11: –2.10 degrees F. per decade. "According to the National Climatic Data Center, it seems clear that, for at least the last 10 years, there has been a cooling trend in the annual mean temperature of the contiguous United States." (Watts 11/10/11)

Reckless Endangerment is the title of a new book by NY Times reporter Gretchen Morgenson and Joshua Rosner. It walks through the 17 years leading up to the housing-fueled market crash of 2008 and names the names of the perpetrators of two decades of very bad (and government-facilitated) behavior.

John McClaughry reviews the book for the December issue of *Reason* magazine – see Page 8 for a brief excerpt and URL.

Campaign for Vermont: Burlington native and retired Wall Street financier Bruce Lisman has launched a new "public policy campaign to unite Vermonters for the purpose of building momentum for setting a new direction for Vermont's future – one toward economic security, better job opportunities and growing prosperity for every generation of Vermonters." Learn more at www.campaignforvermont.org.

NJ Insurance Outcome: "New Jersey dropped its pure community rating requirement in the individual [health insurance] market, but one is left to wonder how many families were financially destroyed in the meantime by this misguided social experiment.

"How many people found they could no longer afford coverage and were thrown into the mercies of the charitable system? How many people continued to pay politically inflated premiums and were forced to curtail other important services?

"No one ever bothers to count the people damaged by liberal social engineering." (Greg Scandlen on John Goodman's Health Policy Blog, 11/23/11)

Jefferson's "Profusion and Servitude"

Continued from Page 1

from the rich to fund this assumption would enlist the rich in the protection of the government. (This scenario is playing out now in Europe, where the banks that lent billions to profligate governments are pleading with the European Central Bank to hit up the sound governments to bail out Greece, Portugal, Ireland, Italy, Spain and even France.)

Hamilton's great adversary, Secretary of State Thomas Jefferson, saw the planned increase in public debt as evidence of "corruption" – today called "crony capitalism". After leaving the White House, Jefferson summed up his opposition to Hamilton's theory thus: "We must not let our rulers load us with perpetual debt. We must make our election between economy and liberty or profusion and servitude."

"If we run into such debt, as that we must be taxed in our meat and in our drink, in our necessaries and our comforts, in our labors and our amusements, for our calling and our creeds...[we will] have no time to think, no means of calling our mis-managers to account, but be glad to obtain subsistence by hiring ourselves to rivet their chains on the necks of our fellow-sufferers."

"And this is the tendency of all human governments. A departure from principle in one instance becomes a precedent for [another] ... till the bulk of society is reduced to be mere automatons of misery. And the fore-horse of this frightful team is public debt. Taxation follows that, and in its train wretchedness and oppression."

That was written in 1816, and accurately explains the consequence of runaway public debt today.

A Reasonable Prediction

"Vermont rolls out its Green Mountain Care plan on January 1, 2016. On January 2, thousands of out-of-state residents begin to arrive in Vermont, declare residency, and claim their rightful access to medical services. The state announces that it won't ration care by limiting access and costs skyrocket. Faced with a bond rating downgrade in the face of a huge deficit, the legislature approves a tripling of the payroll tax instead of a doubling.

"Vermont's not quite as attractive to businesses now, is it? No one knows that will actually happen and, until someone does, it's safe to say that no firm of any significant size will invest in Vermont if it has choices elsewhere."

– Prof. Robert Letovsky, a Quebec native who grew up under a single-payer system just across Vermont's northern border. (True North reports, 11/14/11)

Vermont Activist Directory

Ethan Allen Institute: commentaries, reports, valuable archive. www.ethanallen.org

Common Sense Radio: talk show sponsored by EAI, hosted by Rob Roper. WDEV AM 550/FM 96.1 weekdays 11:05-noon.

True North Reports: daily news and investigative reporting by Rob Roper and Caitie Banfield. www.truenorthreports.com

Energy EAI: sponsored by EAI Energy Education Project, hosted by project director Meredith Angwin. www.energyeai.org

YesVY: Informative and authoritative blog hosted by Meredith Angwin, on Vermont Yankee and larger nuclear energy issues. www.yesvy.blogspot.com

Vermont Tiger: premier Vermont blog hosted by Geoff Norman, with Art Woolf, Tom Evslin, Dan Foty, John McClaughry, and others. www.vermonttiger.com

Vermonters for Economic Health: campaign to wake Vermonters up to budget realities. www.vermontersforeconomichealth.org (Tom Licata)

Vermonters for Health Care Freedom: campaign to stop single payer health care. www.vthealthcarefreedom.com (Darcie Johnston)

Tea Party Groups:

www.vermontteaparty.com
www.greenmountainpatriots.com (NW Vermont)(Pat Crocker)
rutlandteaparty@gmail.com (Rutland Co.) (Jon Wallace)
capitolteaparty@gmail.com (Washington Co.) (Jessica Bernier)
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vtgirl2@charter.net (Upper Valley) (Peg Coutermarsh)
manchesterteaparty@gmail.coml (Bennington Co.) (Barbara Marchetti)

Vermont Campaign for Liberty: www.vermontcampaignforliberty.org (Steven J. Howard)

Make Them Tell Us the Tax Bill Before the Election!

Vermonters for Health Care Freedom is collecting petition signatures demanding that the 2012 legislature direct that the Shumlin Administration's plan for financing $3 billion in new health care spending be released by September 15, 2012, instead of January 2013 – safely after the 2012 election. You can print out copies of the petition for you and your friends to circulate across Vermont at www.vthealthcarefreedom.org. Twenty or thirty thousand signatures ought to get their attention!

VERMONTERS FOR HEALTH CARE FREEDOM

The Ethan Allen Letter

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Reason Magazine *December 2011*

REVIEW

Reckless Endangerment:

How Outsized Ambition, Greed, and Corruption Led to Economic Armageddon

By Gretchen Morgenson and Joshua Rosner, Henry Holt & Co., 315 pages, $30

The thesis of Reckless Endangerment is simple: In a rush to orchestrate affordable home ownership – and generate enormous profits – politicians, government-sponsored enterprises, pusillanimous regulators, greedy mortgage brokers, and profit-chasing Wall Street investment bankers combined to drive the American economy into its worst crisis in 70 years, saddling taxpayers with trillions of dollars of debt and leaving the financial landscape littered with the wreckage of ruined lenders, borrowers, and taxpayers….

Morgenson and Rosner begin this ugly tale in 1991, following the savings and loan crisis and subsequent taxpayer bailout. "In just a few short years," they write, "all of the venerable rules governing the relationship between borrower and lender went out the window, starting with the elimination of the requirements that a borrower put down a substantial amount of cash on a property, verify his income, and demonstrate an ability to service his debts"…

Morgenson and Rosner turn over a lot of rocks to examine the life forms beneath, doing a good job of explaining the incentives and motivations of various actors, including those few who sounded the alarm, usually in vain. The most infamous of the bad boys are Rep. Barney Frank (D-Mass.), Sen. Chris Dodd (D-Conn.), Clinton administration Treasury Secretary Robert Rubin and his deputy Larry Summers, and Fannie Mae officials Franklin Raines and Robert Zoellick.…

Those interested in this shameful topic would do well to read additional accounts by Jeffrey Friedman, Peter Ferrara, Richard Rahn, and Peter Wallison, among others. But all in all, Reckless Endangerment is an informative, understandable, and balanced account of the great homeownership madness. It is especially good in illuminating the scheming of actors in and out of government who made it worse, and a useful epilogue tells us what became of the key figures….

The authors stop short of offering an explicit reform agenda, but it's not hard to infer their preferred model: more and better regulation by dedicated and courageous public servants. A market-disciplined system – with full and honest disclosure, no government risk taking, and no hope of bailouts – might have been a far better path.

– Contributing Editor John McClaughry recently retired as president of the Ethan Allen Institute in Vermont. (For the much lengthier review from which this is excerpted, visit http://reason.com/archives/2011/11/09/the-affordable-housing-scam.)