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The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

A Monthly Publication of The Ethan Allen Institute

INSIDE:

- Forum on Future of Health Care in Vermont 3
- Remembering Ethan Allen 4
- An Indiana Success Story 5
- News & Views . . . 6

Obama's New Stimulus and Tax Proposal

COMMENTARY

President Obama's new $447 billion plan for stimulating the economy and creating jobs reflects his deeply held belief that increasing government spending, through more bailouts, handouts and tax credits, is the foundation for job creation and economic recovery.

Like the ill-fated $787 billion Obama stimulus program of 2009, this idea has a natural appeal to those who believe the federal government ought to have complete control over the economy. Many, such as Sen. Bernie Sanders, lament that it is too timid, and fails to sufficiently hammer "the rich and the big corporations".

One the other hand, one does not have to be a screaming libertarian to know that this scheme, like the last one, not only won't work, but will make things worse.

A centerpiece of the Obama plan is a one-year-only, fifty percent cut in the Social Security payroll tax rate for both employers (up to $5 million in payroll) and employees. The President seems to think this will create new jobs. It's hard to see how more than a few employers will be motivated to hire new $40,000 a year permanent employees in return for a one-year, $1,240 reduction in social security tax payments.

This new stimulus is estimated to reduce payroll tax revenues into the social security program by $150 billion. How will that be made up? The administration will draw upon the general revenues of the United States, which is running a trillion and a half in the red this year.

So where will the Treasury find the additional $150 billion? By borrowing! And how will that new borrowing be repaid? Obama proposes to collect $467 billion over the next decade from his favorite revenue sources, "the rich" and the big corporations. That will pay off the one year social security raid and cover the remaining smorgasbord of subsidies for the usual list of worthy recipients.

Corporations (oil and gas, hedge funds, corporate jet depreciation) would pay in around $40 billion. The big money would come from snatching back the income tax deductions now taken by taxpayers with $200,000 a year ($250,000 for a couple) incomes: charitable contributions, mortgage interest, state and local property taxes, health savings accounts, etc.

These targeted people constitute the top two percent of all taxpayers. Obama says, misleadingly, that these "millionaires and billionaires" aren't paying their "fair share". But consider: the top five percent of income taxpayers are now paying 58 percent of all income taxes. The top two percent – the ones Obama brands as "the rich" – are paying about 45 percent of all income taxes, far more than their share of income. Is this more or less than their "fair share"? There is no objective answer to that question.

Hitting up "the rich" to pay for Obama's latest stimulus adventure is far from the whole story. Beginning in 2013 the "Bush tax cuts" will expire, and Obama is dead set against extending them again. In addition, dozens of new Obamacare taxes start. As Peter Ferrara, tax analyst for the Carleson Center for Public Policy, observes, "Just wait until [the ar-

See ***Obama's New***, 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.

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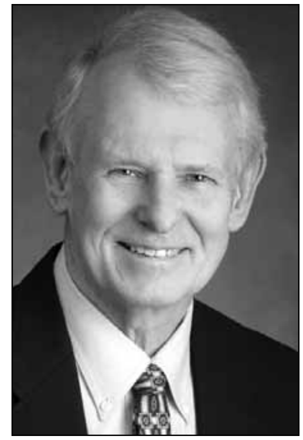
EDITOR'S MESSAGE

Two Books on America and Vermont



As October begins, the U.S. economy remains in a funk – high unemployment, wavering stock market, and a nonexistent new housing market. The Obama administration – see my front page commentary – is obviously groping for some combination of Keynesian steps – never mind the national debt – to increase consumer demand, so producers will start producing, banks will start lending, and employers will start hiring.

Forgive me for saying so, but this is pathetic.

From all I read, and learn from people like David Hale, our Sheraton Economic Series speaker in August, America's core problem is the still-accumulating burden of an overreaching federal government on economic producers.

Decision makers in the private sector look at the approaching horror of ObamaCare, the thousands of pages of new financial regulations, the EPA power grab over anything that releases carbon-dioxide, the coming avalanche of taxes, and the exploding U.S. government debt bomb, and much more, and rationally decide to try to protect what they have rather than risk new (unsubsidized) investment and growth.

The obvious way out is to elect a new President who will reverse those policies. On page 5, I review a new book by my friend Gov. Mitch Daniels of Indiana, a man well equipped to address America's problems. The book was obviously written as a presidential campaign book, but last May, on a 5-1 vote of his family, he opted out. As I say, it's a tragedy.

My commentary leaves out Mitch's views on national issues – he's a former Director of the Office of Management and Budget – but I found them informed, cogent, reasonable, and largely free of the partisan thrusts that have dragged down our political discourse. I highly recommend it to anyone concerned about our country's future.

Also reviewed on page 4 is Will Randall's new biography of EAI's namesake hero Col. Ethan Allen. It's also well worth reading, although marred by a couple of dozen careless errors (mostly geographical) that any knowledgeable Vermont reader will quickly spot.

EDITOR

A Forum on the Future of Health Care in Vermont

Featured Speakers

Sally Pipes

President and chief executive officer of the Pacific Research Institute, a San Francisco-based think tank founded in 1979, Ms. Pipes is the author of Miracle Cure: How to Solve America's Health-Care Crisis and Why Canada Isn't the Answer, The Top Ten Myths of American Health Care: A Citizen's Guide, & The Truth About Obamacare. Her op-eds and essays have appeared in the Wall Street Journal, Washington Post, USA Today, Financial Times of London, and many other periodicals.

Joel Allumbaugh

Director, Center for Health Reform Initiatives
The Maine Heritage Policy Center
CEO, National Worksite Benefit Group

Panel Discussions on Financing & Stakeholders

Panelists: Darren Allen, VT NEA; Wendy Wilton, Rutland City treasurer; Representative Cynthia Browning, Vermont Legislature; Melbourne Boynton, M.D.; Dan McCauliffe, M.D.; Bob Gaydos, Digital Benefit Advisors; William Brownlee, businessman

Moderators: Anson Tebbetts, News Director, WCAX; Stewart Ledbetter, senior reporter, WPTZ

Tuesday, November 8, 2011

8:30 a.m Registration
9:00 a.m. to 4:00 p.m.

Hilton Burlington Hotel
Battery Street
Burlington, Vermont

Register by October 20, 2011
$95 per person (includes lunch)
$60 legislator rate

After October 20, 2011
$125 per person

Register Here:
(https://secure.piryx.com/donate/eYUGG058/Grow-Vermont-Inc-dba-Vermont-Tiger-/)

Remembering Ethan Allen

COMMENTARY

Forty-two years have passed since the appearance of an academically respectable biography of Vermont's patron figure (clearly not a patron saint!), Col. Ethan Allen of Sunderland and Burlington. Burlington journalist-historian Willard Sterne Randall has now given us *Ethan Allen: His Life and Times*. It's a lively, readable biography of a remarkable American, a man of whom author Stewart Holbrook remarked, "riot and tumult followed in his wake."

How one views Ethan depends a lot on one's own preferences. Boozer, brawler, blasphemer, bully. "Lover of liberty and property." Bold, brave, hot-headed, intemperate, philosopher, pamphleteer, commanding presence.

Remarkably self-educated, a friend of scientific inquiry and calumniator of Puritan divines. Military hero, foolish adventurer, scourge of Tories, prisoner of war, author of the second most widely read work of the revolutionary era (after Paine's *Common Sense*), *A Narrative of Col. Ethan Allen's Captivity*.

Successful and failed businessman, absentee father, enthusiastic land speculator. Duplicitous negotiator (with the British). Father of independent Vermont.

Randall's work gives ample coverage to all these features and more. It portrays Ethan not only as he saw himself – heroic – but as others saw him, ranging from George Washington to the Albany Junto to his British captors in England.

What, then, can modern Vermonters take away from Ethan's rambunctious life? Let's select just three aspects.

First, Ethan's audacious capture of the Crown's largest fortress in North America, Ticonderoga, was the first offensive act by the American colonists. Ethan's startling, bloodless victory over King George's mighty empire thrilled patriots throughout the 13 colonies.

Second, Ethan proved himself a skillful – and duplicitous – negotiator with Congress and the British governor in Montreal. Using the possibility of independent Vermont rejoining the British Empire, and a threatened expansion of "Greater Vermont" into New York and New Hampshire, Ethan kept the British waiting for Vermont's return to the empire, while at the same time luring Congress into admitting independent Vermont to the American confederation. This was a major diplomatic achievement.

Finally, Ethan clearly understood the crucial importance of property ownership to liberty and self-government. He learned this from visiting the Hudson Valley of New York, where hundreds of thousands of mostly Dutch farmers lived as feudal serfs on the vast manors of the Schuylers, Livingstons, and Van Rensselaers.

The Hudson Valley farmers were not slaves, because they could always collect their household belongings and move on. But the baron owned the land itself, required two weeks of labor each year to maintain his roads, and insisted that all grain be ground at the baron's grist mill, at his price.

The baron enjoyed the legal right to evict his tenants whenever they made significant improvements to their plot, which could then be re-rented at a higher price. The tenant's only right was to bequeath his servile tenure to his descendants.

By contrast, the New Hampshire Grants offered freehold ownership. The owners could improve, sell, and bequeath their land in their own interest, and enjoy the economic value of their improvements.

Entering Vermont from New York in 1791, James Madison noted in his journal that the houses were larger, more substantial and closely settled, the fields "full of corn and potatoes, flax to make linens, wheat and clover and half a dozen grass crops for feeding livestock." What a difference from the threadbare tenant farmers and ramshackle hovels of feudal New York!

The first two points are historical. The third, the importance of freehold ownership, is very much contemporary. Ethan's allies of 1777 began Vermont's first constitution, still in effect, by declaring "that all men have natural and unalienable rights, amongst which are enjoying and defending life and liberty [and] acquiring, possessing and protecting property…"

That hallowed constitutional right to property has been under attack in Vermont for the past 40 years. One can only imagine what Ethan Allen, come back from the grave, would say and do about the land use control schemes so favored by the pretty people who long ago supplanted the frontier freeholders who erected this little republic out of the northern wilderness.

A good guess would be: "Before those villains and schemers steal the property rights of freeborn Vermonters, I will make Montpelier as desolate as Sodom and Gomorrah, by God!"

An Indiana Success Story

COMMENTARY

When the people of Indiana elected Republican Mitch Daniels governor in 2004, he took office with one overriding goal in mind: "To make private sector job growth a leading goal of government policies, while also changing the culture within governmental institutions in ways that encourage thriftiness and a healthy respect for the liberties of individual citizens, and do it without letting up on environmental protections or taking away essential government services."

Seven years have now gone by, during which Daniels was overwhelmingly re-elected in the year that Democrat Barack Obama narrowly won Indiana's electoral votes. Last year, thanks to his successes and personal popularity, the Republicans broadened their margin in the Senate from 33-17 to 36-14, and shifted the House from 52-48 Democratic to 60-40 Republican. Daniels must have been on to something.

In his new book *Keeping the Republic: Saving America by Trusting Americans*, Daniels tells how he did it. Here are just a few of his accomplishments.

When Daniels took office the state had had seven successive years of budget deficits. Four years later the $700 million operating deficit was gone, and Indiana had $1.3 billion in rainy day reserves. State spending grew only one percent per year, and rising revenues produced a surplus. Debt was reduced 40 percent and the state earned its first AAA bond rating.

Daniels insisted that the legislature make the actuarially required annual contributions to the state employees' retirement fund. Once the state budget is balanced and the rainy day funds filled to 10 percent of a year's spending, Indiana now refunds any excess revenue directly to taxpayers.

In 2007 Daniels led the drive to install a constitutional cap on property tax rates: one percent of fair market value for homeowners, two percent for farmers and landlords, and three percent for businesses. Local governments could go beyond the caps only by winning a referendum vote of their citizens.

Shortly after taking office Daniels revoked a 16-year-old executive order mandating union membership for state employees. That put an end to restrictive union work rules that made it almost impossible for managers even to relocate copy machines. Within a few months, he writes, 90 percent of state workers stopped paying union dues – "a rational decision to reward themselves with a 2 percent pay raise."

Daniels installed a Health Savings Account option for state employees, that gave them much more control over their health expenditures. By this year 85 percent of the workers had chosen the HSA option, preventive care was up, and the state spending for employee health benefits had dropped by 11 percent.

He also installed a similar option, called Personal Wellness and Responsibility (POWER) accounts, for Medicaid recipients. They pay up to 4.5 percent of their (low) adjusted gross incomes, and the state adds cash to top the accounts at $1,100 per person per year. The recipients have an incentive to manage their costs, and doctors and hospitals welcome the instant payment.

Indiana moved up to second place behind neighboring Michigan in auto production by attracting Toyota, Honda and Subaru. "The workers of our growing companies," he writes, "have been unreceptive to unions that would take away part of their pay, spend it on purposes about which they are not consulted, while insisting that jobs be kept narrow and boring, and that the most hardworking, productive employee be treated no better than the slacker next to him on the line."

Explaining his success, Daniels writes "I believe one reason why Hoosiers have shown a maturity about public spending, and a willingness to support limits on the size and scope of government, is because, at least in recent years, their government has acted as though it sees them as adults, as the bosses and not the vassals of public institutions."

Daniels' conviction that citizens must be trusted with their own destinies, instead of powerless subjects of their "Benevolent Betters" who believe that they know what is better for the people, pervades the entire book. Daniels deeply believes this, and it accounts for a lot of the trust Hoosiers have placed in his leadership.

One would think that an Indiana Governor with that record of success, a commitment to open and civil discourse, and a philosophy of trust in the people, limited government, fiscal responsibility, economic growth, and liberty as the highest value, would by now be a commanding presence in the Republican Presidential sweepstakes. And he surely would have been, had he (and his family) not decided to stay out of the race. Mitch Daniels is the sort of man and leader that Americans would be proud of, and it is a pity – nay, a tragedy – that they won't have that opportunity.

NEWS & VIEWS

Coming Event: EAI's energy project director Meredith Angwin will be the guest speaker on Vermont nuclear power issues at a breakfast meeting to be held on Thursday, October 13 at 7:30 a.m. at Archie's Grill in Shelburne. The meeting is hosted by the Shelburne Republican Town Committee and is open to all interested citizens.

Coming Event: "Green Mountain Care", a high-powered panel featuring Dr. Deb Richter, Wendy Wilton, Darcie Johnston, and others. Thursday, October 20, 7 p.m., Ludlow Town Hall.

The Morality of Capitalism is the new educational program of the Atlas Network, featuring a book of that title aimed at college students, a lecture tour, and a video starring EAI's fall 2010 speaker Dr. Tom Palmer. For more info: www.atlasnetwork.com.

Sanders' Dire Prediction: "If we don't reverse global warming all of the other issues won't matter because we won't have a planet for our grandchildren." (Moving Planet rally, 9/24/11)

Not only that, they won't have Social Security, Medicare or a solvent U.S. government either.

Prediction Confirmed: Back in April we published a whimsical piece on *Vermont Tiger* predicting how the Green Mountain Care Board, chaired by governor's assistant Anya Rader-Wallack, would dispose of the well-meaning but ineffective Mullin Amendment to the health care bill.

In September, Gov. Shumlin did indeed name his assistant Anya Rader-Wallack to chair the Green Mountain Care Board.

Physicist Resigns from American Physics Society: "In the APS it is OK to discuss whether the mass of the proton changes over time and how a multi-universe behaves, but the evidence of global warming is incontrovertible?" Dr. Ivo Giaver wrote in a resignation email to APS executive officer Kate Kirby.

"The claim is that the temperature has changed from ~288.0 to ~288.8 degrees Kelvin in about 150 years, which (if true) means to me that the temperature has been amazingly stable, and both human health and happiness have definitely improved in this 'warming' period," his email message said.

Giaever earned the Nobel Prize for his experimental discoveries regarding tunneling phenomena in superconductors. (Fox, 9/14/11)

Remember this Statement: "We will only go ahead [with Green Mountain Care] if we're convinced together as a state, that the system is better than what we have, that it costs less, it's going to help create jobs, and we've got the cost containment system right. If we can't do that, we'll take our marbles and go home." – Gov. Peter Shumlin, Rutland, July 26, 2011.

Arctic Warming!: "The Arctic Ocean is warming up, icebergs are growing scarcer, and in some places the seals are finding the water too hot, according to a report to the Commerce Department yesterday from Consulate, at Bergen, Norway … Within a few years it is predicted that due to the ice melt the sea will rise and make most coastal cities uninhabitable." – *Washington Post*, November 2, 1922.

Comic Relief: Lead sentence of Fareed Zakaria's column in the *Washington Post* (9/30): "President Obama's jobs bill is better than doing nothing in the face of a national crisis, but it won't have much impact on unemployment."

It reminds James Taranto (WSJ) of this famous exchange from "Animal House":

Otter: "I think that this situation absolutely requires a really futile and

Continued on Page 7

Obama's New Stimulus and Tax Proposal

Continued from Page 1

rival of] that tidal wave of tax increases in 2013, when the failure [of Obamanomics] will hunt you down, and punch you in the face."

Obama and Congress need to face up to the hard fact that a Federal government now $15 trillion in debt – almost 100 percent of GNP – has very little prospect of spurring economic recovery by levying hundreds of billions of dollars of new taxes on "the rich", to finance another wave of election-year handouts.

What's the Grand Solution? One set of options would be to implement a progressive consumption-based tax in place of the loophole-ridden income tax; repeal productivity-killing overregulation; reverse the pro-union bias at the National Labor Relations Board; repeal the Dodd-Frank concept of businesses "too big to fail"; open Federal lands for oil and gas production; stop subsidizing noncompetitive "green jobs" programs; favor lower energy prices, not higher; welcome high skilled immigrants; let global corporations bring a trillion dollars of foreign profits home and pay them out in (taxable) dividends; reduce both discretionary spending and foreign military commitments, and put the brakes on ever rising entitlements.

A tall order? Yes. Controversial? Of course. But extricating America's future from impending bankruptcy and economic chaos is worth a heroic effort.

Continued From Page 6

stupid gesture be done on somebody's part!" Bluto: "We're just the guys to do it."

NEWS & VIEWS

Listen Up, Vermont: "A new survey from the Massachusetts Medical Society reveals [that] more than half – 58 percent – of the 1,100 doctors who responded to the society's survey this year said they would not voluntarily agree to treat patients under so-called global payments. (*Boston Globe*, 9/30/11)

More Global Warming "Evidence": From *World Environment News*, (9/19/11): "Missing: Global Heat May Hide In Deep Oceans", reporting a study released by the Obama Administration's National Center for Atmospheric Research.

Layman's translation of findings: According to our computer models the missing heat didn't radiate into space, so it has to be somewhere, therefore it must be hiding where we can't find it.

More Global Warming News: "In a report released Wednesday the [EPA] inspector-general found that the EPA failed to follow the Data Quality Act and its own peer review process when it issued the determination that greenhouse gases cause harm to "public health and welfare." (*Caller*, 9/28/11)

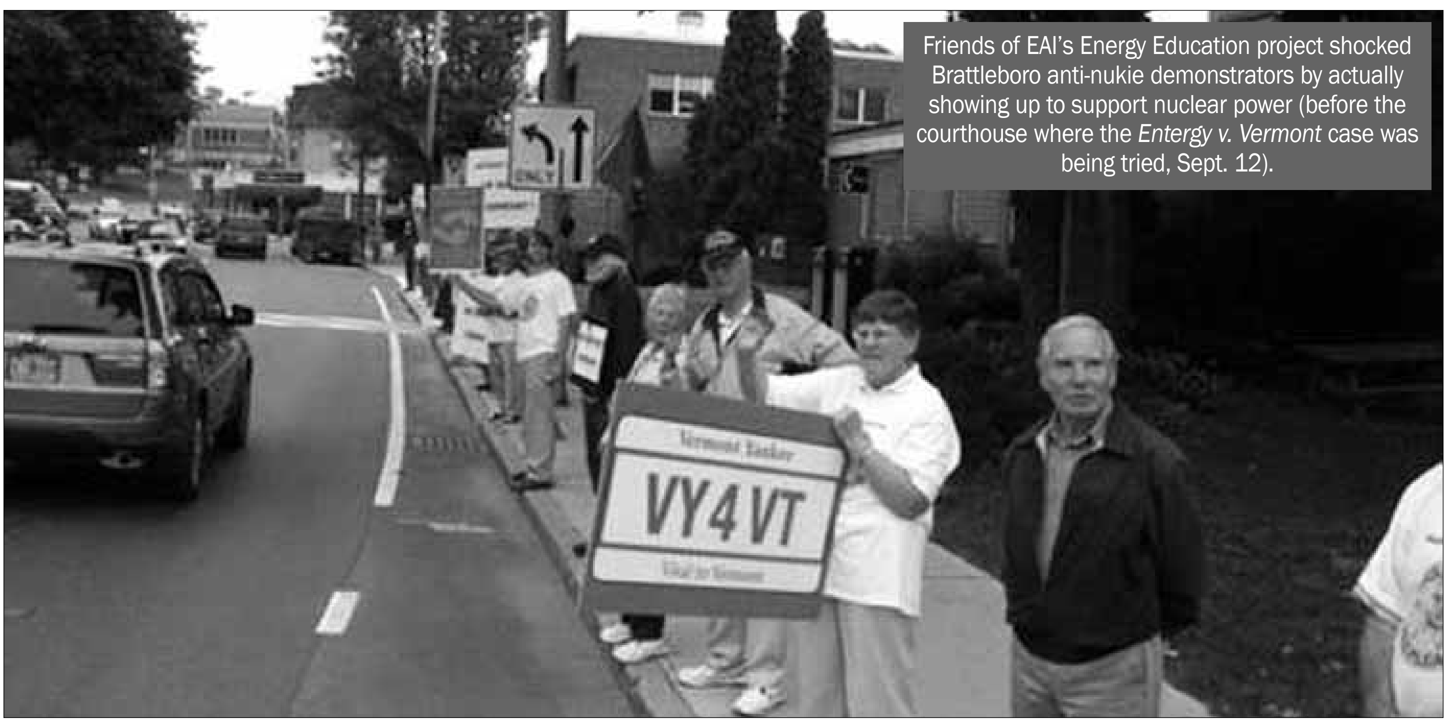
L.A. to Get New Stadium: "We're going to protect the environment," [CA Democratic enviro Gov. Jerry] Brown said, "but there are too many damn regulations ... Let's cut the barriers and regulations and move ahead." (AP, 9/19/11)

Income Taxpayers: "The top 2 percent of the taxpayers had 27.95 percent of AGI [adjusted gross income] and paid 48.68 percent of the income tax. The bottom 50 percent of the tax filers had 12.26 percent of AGI and paid 2.89 percent of the income tax. Half of the filers now owe no income tax or receive a refundable income tax credit." – Stephen Entin (IRET, 9/14/11)

Individualism: "The distinctive principle of Western social philosophy is individualism. It aims at the creation of a sphere in which the individual is free to think, to choose, and to act without being restrained by the interference of the social apparatus of coercion and oppression, the State. All the spiritual and material achievements of Western civilization were the result of the operation of this idea of liberty." – Ludwig von Mises (*Liberty and Property*, 1958).

Reagan on What to Do: "Balance the federal budget by bringing to heel a federal establishment which has taken too much power from the states, too much liberty with the Constitution, and too much money from the people." (7/19/1982)

The Joys of Freedom: "Economic freedom means that people are free to produce and exchange with others. Freely negotiated and agreed upon prices carry information throughout the economy about what people want and what can be done more efficiently … A free economy gives people incentives to invent, innovate, and produce more goods and services for the whole society. That means more satisfaction of more wants, a higher standard of living for everyone, and more economic growth." – David Boaz, (*Cato Policy Report*, Jan. 2011)



Friends of EAI's Energy Education project shocked Brattleboro anti-nukie demonstrators by actually showing up to support nuclear power (before the courthouse where the *Entergy v. Vermont* case was being tried, Sept. 12).

The Ethan Allen Letter

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INSIDE:

• Obama's New Stimulus and Tax Proposal 1
• Forum on Future of Vermont Health Care 3
• Remembering Ethan Allen 4
• An Indiana Success Story 5

MEDIA

St. Johnsbury Caledonian-Record *September 29, 2011*

School Closing Presents Opportunities

There is, though, an upside to village and small town school closings [like the one in East Haven]. It is that, for the first time, parents and children get school choice, even if by default, and school choice is a blessing as any parent who has it will confirm.

In this state, the political power structure is anti-school choice. Between the governor, who speaks with forked tongue, claiming to support choice, but only among public schools, explicitly excluding independent schools, and the teacher unions that are virulently anti-choice under any circumstances, school choice is always in danger of being snuffed out.

In our opinion, anything that advances, even by default, choice among schools for parents and their children is a good thing. In a parallel to the age-old proclamation on the death of a king, "The king is dead. Long live the new king," the parents and kids in East Haven and all of the other places that will have to close their schools can proclaim, "Our old school has passed. Long live our new school choice."