



The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

A Monthly Publication of The Ethan Allen Institute

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Recession As Motivator for Shaping Up Government

COMMENTARY

In six weeks Governor Douglas will stand before the new General Assembly and deliver some grim news – but it might have a silver lining.

Back in July the administration announced a \$32 million revenue shortfall for the fiscal year 2009, ending next June 30. On November 18 the total FY2010 shortfall was recalculated to \$82 million. The steps that have been taken to cope with the \$32 million shortfall will not be sufficient to cope with next year's, higher number.

The monster in General Fund spending is Medicaid. A small General Fund surplus from FY2008 allowed a slight increase in the state's embarrassingly low provider reimbursement rates. Barring dramatic

program changes, there will be a Medicaid deficit in FY2009.

This will force the Administration and legislature to make politically difficult Medicaid choices: reduce services, reduce eligibility, reduce provider reimbursement rates, or cut back the important chronic care initiative before it has really gotten off the ground.

The Transportation Fund is increasingly starved for revenues, thanks to higher fuel prices causing less driving and more efficient vehicles using less fuel per mile traveled. That means stopping new construction, limiting maintenance to the worst problem areas, and cutting back state highway payments to local governments. The latter "solution" reduces local road maintenance or forces higher municipal property taxes, both highly unpopular.

One stop-gap solution would be to restore the \$20+ million in vehicle purchase and use tax from the Education Fund back to the Transporta-

tion Fund. That would of course cause a \$20+ million hole in the Education Fund.

It is almost a certainty that the Governor will have to recommend an increase in gasoline and diesel taxes by something like 5 cents a gallon. Those tax rates have not been increased since 1997. With gasoline prices down almost two dollars a gallon from six months ago, this is the best time to ask motorists to accept a slightly higher rate.

The Education Fund, fed by a formula-driven General Fund transfer and two state property taxes, will certainly not keep up with the growth of public school spending voted by the towns. That's because the huge boom in assessed values is now over, and many valuations are likely to start going down instead of up. It's also because the 2007 legislature foolishly authorized school districts to send the bills for universal preschools to the Ed Fund.

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Anniversary Dinner Report – See Pages 4-5

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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PRESIDENT'S MESSAGE

No Rest for the Friends of Freedom



What a great celebration dinner! John Stossel gave us an inspiring message (see p. 4), I was the surprise recipient of the Pizzagalli Prize (see p. 8), and 344 members and friends enjoyed a fine evening of inspiration and friendship.

But what a lot of work it was, especially for my wife Anne and Darcie Johnston and her staff at Johnston Consulting, who handled solicitations and arrangements. I am personally grateful to all of them, and to our Board members, for making this event such a grand success.

Now that that pressure is off, there's a temptation to sit back, enjoy Thanksgiving with family, and get into the Christmas spirit. The storm windows are all on, the plow is on the truck, and the four big brush piles are all burned – my modest way of injecting more carbon-dioxide into the atmosphere, in the hope (undoubtedly forlorn) of ameliorating the coming Vermont winter.

But alas, there's little time to slough off. The state, like all of them, is facing a dark fiscal future (see p. 1). The national economy is in a nosedive. Congress already voted to borrow another \$750 billion to shore up staggering financial institutions. The Detroit automakers are on Capitol Hill pleading for somebody, anybody, to cover the costs of their many years of bad corporate decisions.

And, of course, Vermont continues to have a very liberal legislature that, from all appearances, will go on waging war against the Menace of Global Warming, which has to be about the least of any rational person's worries right now.

So it's shoulder back to the wheel. This is no time for us to ease off on our spirited advocacy for limited government, free markets, fiscal sanity, and economic opportunity.

When your EAI renewal letter arrives in a couple of weeks, please do your part with another generous contribution. We'll do our best to make it go a long ways.

Institute Winds Up Another Busy Year

REPORT

The Ethan Allen Institute capped off its 15th anniversary year with a splendid and well attended celebration dinner at the Sheraton Burlington on November 12 (see story on pages 4-5). A special bonus of the evening was the award of the Pizzagalli Prize to Institute President and founder John McClaughry for his years of principled advocacy for the fundamentals of a free society spelled out in the Institute's mission statement (see page 8).

During the year EAI released two major reports. The first, *Don't Send me To Waterbury* (actually released in December 2007) explained the long history of Vermont's efforts to treat the mentally ill, focusing on the state's proposal to spend upwards of \$100 million on a new facility to replace the run-down state hospital in Waterbury.

The report concluded "Building an enormously expensive new replacement facility for VSH, at the urging of a state bureaucracy and its employee union allies, over the objections of the Public Oversight Commission and most advocates for the mentally ill, will create a tremendous and unnecessary burden for a generation of Vermont taxpayers, while offering inadequate recovery services for Vermonters with mental illness. It is not sound public policy."

Happily the state seems to have backed off its extravagant proposal, but the VSH replacement issue remains unresolved as the

bureaucracy grinds slowly onward.

The other major report was an updated and expanded version of *Off the Rails*, not only explaining where Vermont is headed in the coming 22 years, but also offering five pages of specific recommendations for policy changes to avert eventual fiscal disaster. This was sent out to media and business leaders, and to over 300 candidates for the General Assembly.

Also included in the candidate's kit were EAI policy briefs on education, health care, energy, and economic policy for 2009. We hosted October issues meetings for candidates in St. Johnsbury, South Burlington and Rutland and gave *Off the Rails* presentations in St. Albans and Brattleboro. We sponsored two state house round tables, one on the mental health issue and the other on atmospheric physics, featuring scientist Jim Peden of Middlebury.

In April we hosted Jefferson scholar Clay Jenkinson as our Jefferson Day dinner speaker at the Doubletree in South Burlington. Appearing as Mr. Jefferson, Clay was introduced by UVM President Dan Fogel, and put on his usual excellent performance.

On July 31 we again sponsored an education policy dinner in honor of Dr. Milton Friedman. This one, in Rutland, attracted 65 people, and we have since been discussing new parental choice options with the Roman Catholic diocesan school board.

One success story was our continual analysis and criticism of the Shumlin-VPIRG "Stop the Men-

ace of Global Warming!" legislation (S. 350). This sweeping collection of costly foolishness (taxes, bureaucracies, mandates, intrusive CO2 policing, new "super government", etc.) shrank smaller and smaller in its path through the legislature, and when Gov. Douglas finally signed it, it was but a pale shadow of the original. This story is related in my article for *Vermont Business Magazine* (May issue, on the website.)

Since EAI doesn't lobby, it's difficult to back up claims for effectiveness in changing public policy. But in this case we really think our barrage of criticism of the Green Police State bill really did get the public and the legislators to grasp just what they were being asked to buy into, and they didn't want it. They are likely to want even less of it in 2009, with the economy in such dire straits.

Thanks in part to our 15th anniversary celebration, EAI's 2008 membership closed at 615, slightly down from last year's record 635, but in view of the late-year economic collapse, still very heartening. We have yet to figure out how to zoom up to 1,000 (bright ideas enthusiastically received!).

Throughout the year EAI produced 26 newspaper columns, a handful of policy briefs and VPR commentaries, the 2008 Vermont Voters Report Card and another 254 weekday commentaries on WDEV Radio Vermont. We also did battle with all sorts of raging Greenies and Lefties in the letters pages of the state's major newspapers.



John Stossel signs a copy of his book for Lynn Miles as Remo (left) and Angelo Pizzagalli watch.

John Stossel Wows EAI Dinner Crowd

More than 340 Institute members, friends and guests, filled the Emerald Ballroom at the Sheraton Burlington, November 12, to celebrate EAI's fifteen years of educating Vermonters in the fundamentals of a free society.

The big hit of the evening was award-winning television investigative reporter John Stossel, co-anchor of ABC's long-running 20/20 show. Stossel told how he had begun his career as a consumer protection reporter rooting

out and exposing wrongdoing by corporations. But as his career progressed, he found more and more "myths, lies and stupidities" were being perpetrated, not by business but by governments.

Using the current financial meltdown as a backdrop, Stossel pointed out that "more regulation" is not at all the obvious solution. In many cases problems will shrink away as everyone in the marketplace comes to know the facts and responds accordingly in

his or her own best interest. Setting up government regulatory structures staffed by bureaucrats often ends up creating new opportunities for private actors to manipulate the government for their own benefit.

Describing himself as "pretty much a libertarian", Stossel affirmed that America's best hope for the future is freedom and opportunity, not ever more meddlesome government choking off progress.



Longtime EAI Director Bill Sayre, chair of the Vermont Coalition for Employment and Prosperity, ably handled the emcee chores.

Also featured at the podium were EAI directors Bill Sayre (emcee), Jim Gatti (chairman of the board), John M. Mitchell (introducer), and John McClaughry (welcomer). Directors Jack McMullen, Catherine Clark, Art Wolf, Anne McClaughry, and Chris Robbins hosted tables, and Jeff Chapple was a Platinum Sponsor.



EAI Treasurer Anne McClaughry performed heroically to make the dinner a success.

The Pizzagalli Foundation provided an unexpected highlight by presenting the Pizzagalli Prize to President John McClaughry for his decades of work on behalf of liberty and economic opportunity (see page 8).

Gov. Jim Douglas, who was in Florida at an National Governors' Association meeting, sent congratulations, as did 15 leading trade and business associations.

CONGRATULATIONS

To the Ethan Allen Institute, for fifteen years of principled and effective support of competitive free enterprise, less regulation, lower taxes, and more economic opportunity for all Vermonters.

ASSOCIATED GENERAL CONTRACTORS OF VERMONT

ASSOCIATED INDUSTRIES OF VERMONT

BARRE GRANITE ASSOCIATION

HOMEBUILDERS AND REMODELERS ASSOCIATION

LAKE CHAMPLAIN REGIONAL CHAMBER OF COMMERCE

NATIONAL FEDERATION OF INDEPENDENT BUSINESS — VERMONT

VERMONT REALTORS ASSOCIATION

VERMONT AUTO DEALERS ASSOCIATION

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VERMONT FUEL DEALERS ASSOCIATION

VERMONT GROCERS ASSOCIATION

VERMONT PETROLEUM ASSOCIATION

VERMONT RETAIL ASSOCIATION

VERMONT SKI AREAS ASSOCIATION



The enthusiastic dinner crowd filled the Emerald Ballroom.

A MESSAGE FROM THE STATE POLICY NETWORK

The 56 state free market think tanks associated with State Policy Network send their congratulations to the Ethan Allen Institute on the occasion of its 15th anniversary celebration.

Over the years your Institute has remained a principled voice for liberty, enterprise, and opportunity — a bastion of reason in one of the most liberal states in the union. Best wishes for future success in your important mission!

TRACIE SHARP, President
State Policy Network

George W. Bush's Last Sorry Gift to America

COMMENTARY

To the relief of a majority of Americans – and a very large majority of Vermonters – the presidency of George W. Bush will terminate on January 20. But President Bush will likely leave America with one final gift, one that if carried through by the Obama administration will wreck what's left of our productive economy.

The wrapper on this improvised explosive device reads “Environmental Protection Agency Advance Notice of Proposed Rulemaking: Regulating Greenhouse Gases Under the Clean Air Act.”

This ugly story began back in 2003 when a bunch of hyper-enviro attorneys general, predictably including Vermont's William Sorrell, petitioned EPA to regulate carbon-dioxide emissions under the Clean Air Act. They did so because the Bush Administration had reversed a finding by a Clinton-era EPA lawyer that CO₂ was a “pollutant” subject to regulation.

Unlike the pollutants regulated under the Clean Air Act – things like sulfur dioxide, nitrogen oxides, volatile organic compounds and ozone – CO₂ is no threat to healthy lungs. In fact, and fortunately for human life, healthy lungs produce CO₂ with every exhaled breath.

The petitioners argued that CO₂ may not produce diseased lungs, but a higher concentration of it will endanger human health and welfare. That's because, so “scientists” say, increased emissions will bring on the Menace of Global Warming, the ice caps will melt, sea levels will rise,

malaria will spread, and the polar bear population will shrink.

The Bush EPA denied the petition. Sorrell & Co. went to the D.C. appeals court. It ruled against them. They then appealed to the Supreme Court. And, in one of the most ludicrous (5-4) opinions of the past century, the Court's most liberal justice decreed that despite the lack of any legislative history supporting CO₂ regulation, and despite the fact that twice the U.S. Senate voted down proposals to require CO₂ regulation, EPA had to decide whether CO₂ emission was a danger to the public, and if so, regulate it.

At this point a real President would have announced, “Look. When Congress, on the record, passes a law to require EPA to regulate greenhouse gases as pollutants – over my veto – I will faithfully execute that law. In the meantime I have no intention of letting EPA bureaucrats wreck our battered economy by issuing sweeping regulations over activity that Congress has never voted to regulate.”

“If Justice Stevens and his four friends believe so strongly that CO₂ emissions should be subject to Federal regulation, they are free to work to elect a Congress that will do what even Nancy Pelosi and Harry Reid don't dare to do. Good luck. And if the five honorable justices think that's beneath their dignity, they can retire to their chambers and pound sand.”

Unfortunately this country does not have such a President.

Instead, the Bush EPA put out this Notice that the *Wall Street Journal* observed “would [if finalized] trigger an economy-wide cascade of new rules and mandates. Just about everything that emits carbon [dioxide] would be affected, including cars, factories and power plants, but also farms, schools, hospitals, restaurants, and office buildings.”

Michigan Congressman John Dingell, the venerable Democratic chairman of the House Energy and Commerce Committee, said the proposed regulations had “the potential for shutting down or slowing down virtually all industry and all economic activity and growth.” It would surely wreck what's left of the U.S. auto industry.

The Notice governs not only industries, power plants, cars, trucks and airplanes, but also greenhouse gas emissions from dairy herds of more than 25 cows. It would regulate logging and farms with over 500 acres of crops, farm tractors, and lawn and garden equipment. EPA even proposes regulations for snowmobiles and dirt bikes.

The Competitive Enterprise Institute, which has followed this issue carefully from the beginning, points out that an EPA finding of “endangerment” could also compel the agency to establish new National Ambient Air Quality Standards for CO₂.

Since Sorrell and the enviros contend that existing greenhouse gas concentrations are already harming public health and welfare, EPA would have to issue NAAQS below current atmospheric levels. To reduce those concentrations would almost certainly require a carbon tax built into the price of every product, and a tariff to assess a similar charge on imports.

Enviros can harmlessly amuse themselves by prancing around the state house lawn in polar bear suits, but this is serious business. Vermonters, whose state gave Barack Obama such a huge margin of victory, might want to suggest to the new President that this economy-wrecking madness ought to be thrown out along with other unpopular policies of the departing Bush administration.

Off the Rails News:

“State government is in for some very difficult years. This far, Vermont has escaped most of the problems

which have driven other states into the red. But this won't last. All major tax sources – income, sales, rooms and meals, corporate profits – will perform poorly. And the demand for government spending will rise.” – Dick Heaps (VEN, 10/08).

Coping with Budget Shortfall:

“This process will serve as a reminder to the legislature that you can't grow government faster than the underlying economy and not have it catch up with you sooner or later.” – Gov. Mark Sanford (R-SC), October 2008.

Internships, Scholarships Etc.:

The Institute for Humane Studies offers undergrad and grad student awards (deadline December 31), film and fiction scholarships (deadline January 15), and public policy internships for summer 2009 (deadline January 31). Go to their website www.TheIHS.org for full details.

EAI would be pleased to have an intern for a summer 2009 project here in

NEWS & VIEWS

(top 1, 5 or 10 percent, your choice) paying the highest possible share of income taxes. (Try this on liberals you know.)

Vermont. If you know a college student who might like such an internship (\$1,500 stipend plus project expenses) please encourage that person to apply to IHS by January 31.

New Federal Land Grab: EAI was one of 150 national, state, and local organizations that signed a letter to Congress in mid-November, opposing a 1,000-page, \$4 billion pork-laden federal land regulation measure slated to come to a vote in the lame duck session.

Soaking the Rich: “In 1972, when the highest [income] tax rate on the rich was 70 percent and the top capital gains rate was 35 percent, the richest one percent of Americans paid 17 percent of the income tax burden. Today, with a top income tax rate of 35 percent and capital gains at 15 percent, they pay 39 percent.” – Economist Steve Moore (*The American*, 9/08).

Test for liberals: specify the income tax rate that will result in the “rich”

Crazed Green AGs: Re our October commentary about California AG Jerry Brown using global warming goals to stop growth: “Brown also seems determined to declare a holy war against the state's already weakened agricultural and industrial base. As attorney general, he has pledged to block a proposed northern California plant that violates green values by using plastic bottles, a policy which, if he carries it out to its logical end, will decimate almost every blue-collar and industrial industry in the state.” (Joel Kotkin, “Sunset for California”, *The American*, 11/08).

Will Vermont AG William Sorrell do the same thing, using Vermont's Act 168 of 2006? He adamantly refuses to say he won't (see November *EA Letter*). Prepare for the worst.

Here They Go Again: “We recognize global climate change as the major challenge of our time.” – Vermont Democratic Platform, 2008.

Recession As Motivator

Continued from Page 1

Thanks to the rising assessments, the legislature has four times reduced the residential property tax rate, from \$1.10 in 1997 to the present \$0.87. Next year the legislature will almost certainly have to increase that rate, and also the nonresidential rate, to enable the Ed Fund to pay the bills that local voters are sending to Montpelier for payment.

On October 27 Gov. Douglas, as vice chair of the National Governors Association, joined chairman Gov. Ed Rendell of Pennsylvania in a letter urging Congress not to stimulate consumer spending by another cash giveaway. Instead, they pleaded for a higher Federal matching percentage for Medicaid (now 59.35 percent),

plus increased federal grants to states for transportation, water and sewer, and telecommunications investments.

Those are better ideas than another taxpayer handout, but Congress doesn't have more money to spend. It just authorized \$750 billion (out of what?) to bail out ailing (and irresponsible) financial institutions.

Raising Vermont's income tax rates would be devastatingly counterproductive. Raising the sales tax to 7 percent would be possible, but the revenues would be swallowed up in a year or two without solving any problem. Extending the sales tax to services (architects, lawyers, auto

mechanics, barbers, hairdressers, taxi drivers, etc.) is a political third rail.

There's still the option of maintaining spending by dipping into the three “rainy day” reserve funds. But other than threatening the state's bond rating, that, like a sales tax increase, would provide only a brief respite.

This recession will drive home to Vermonters that for years their politicians have written checks that our economy now can't cover. It's time for taxpayers to force the politicians to get serious about cutting back, shaping up, and encouraging wealth-producing enterprise.



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McClaughry Awarded 2008 Pizzagalli Prize

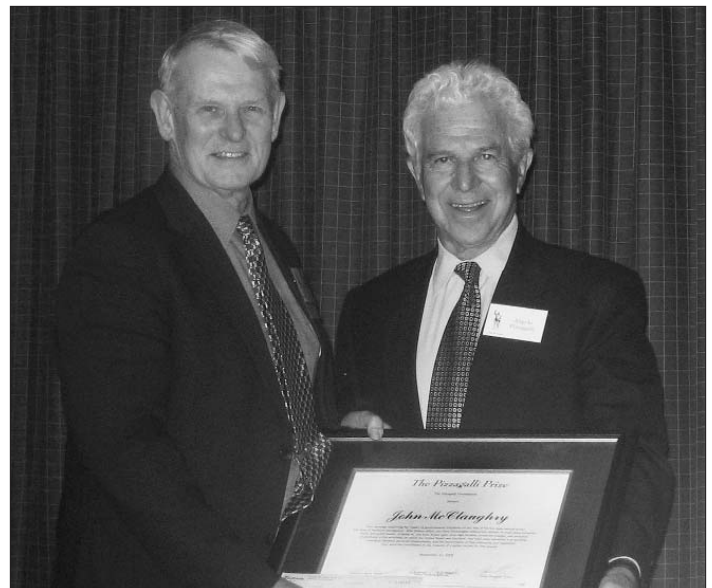
Ethan Allen Institute President John McClaughry is the recipient of the 2008 Pizzagalli Prize for “outstanding talent, vision, and commitment resulting in individual achievement in one’s chosen profession ... having widespread impact on the public and our way of life.”

Angelo Pizzagalli of the Pizzagalli Foundation presented the prize to McClaughry at the Ethan Allen Institute’s fifteenth anniversary celebration dinner at the Sheraton Burlington on November 12. The prize carries a stipend of \$10,000.

In its citation, the award said “with tireless effort you have encouraged widespread debate of major governmental, social and public issues. In doing so, you have drawn upon your high intellect, broad knowledge, and personal commitment to the principles on which the United States was founded... individual initiative, personal responsibility, and the preservation of free enterprise and capitalism.”

“I am truly honored and grateful to have been chosen as this year’s recipient of this prestigious award”, McClaughry said. “The Pizzagalli family and their businesses have for years been an enormous economic and civic asset to our state. It’s my hope that improving Vermont’s economic climate will help many more such families and companies to

succeed and contribute as the Pizzagallis have. That will continue to be an important part of the Institute’s mission into the future.”



John McClaughry accepts the Pizzagalli Award from Angelo Pizzagalli.