



The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

A Monthly Publication of The Ethan Allen Institute

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Incandescent Unpopularities

COMMENTARY

It has fallen to Gov. Jim Douglas to present to the 2009 legislature a budget proposal replete with incandescent unpopularities.

It's not that Gov. Douglas is some kind of hard-hearted Scrooge, who revels in human suffering. Nor is he a notable subscriber to President Reagan's 1981 inaugural declaration that "government is not the solution to our problems; government is the problem." Far from it.

But there is no doubt that Vermont's state government faces a serious budget problem. Already the administration has made severe cuts in the FY2009 budget, ending this June. In the approaching FY2010, the General Fund, compared to a year ago, faces a revenue shortfall of \$152 million. That will produce a budget gap of over \$200 million.

The governor clearly understands that our demands and expectations for government have outrun the money available to pay for them. He also recognizes that a Congressional bailout

of unknown size and form will not resolve the problem.

Perhaps the most politically unpopular belt-tightening proposal – in the sense that highly organized interest groups will rise up against it – is reducing state government employment by some 600 positions. That's easy to say, and it's easy to calculate the savings (\$17 million).

What is not so easy to determine is whether the work that those 600 employees are doing will no longer be done at all, or whether it will be distributed among the surviving state employees on top of their present workload. If the latter, there will be consequences: unplowed highways, even lengthier permit delays, untested water supplies, waiting lines, closed offices.

Equally unpopular with the state's environmental movement will be his proposed one-year suspension of conservation purchases (\$4 million) by the Housing and Conservation Board. The Board has been making conservation purchases – beginning with a loon preserve in Newark – since 1989. After twenty years most people will probably be content to give this activity a rest for a year – or more.

For the first time in many years a

Governor has pried open the Pandora's Box of spending through the state's captive nonprofit human service organizations. The home health, developmental disability, planned parenthood, and mental health service monopolies have for years contrived to expand their own budgets, militantly stifled competition, and provided very "robust compensation packages" (the governor's phrase) to their executives. They have also built up a powerful political force.

The governor wants a "comprehensive package to rein in property taxes." How this will be achieved while transferring some \$40 million of teachers' retirement costs to the Education Fund, and freezing the annual General Fund contribution to that Fund, is not at all clear. His message did not include a proposal for forcing spending controls on local school districts, an idea that, whatever its merits, would lower the coffin of "local control of education" into an already beckoning grave.

The governor declaims against raising "broad based taxes that can be avoided": income, gasoline, and property taxes. But upon close examination his budget exhibits numerous tax increases. Unless there is some as yet

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The Ethan Allen Letter

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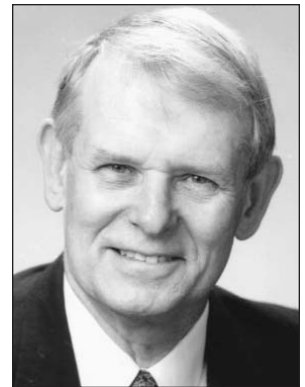
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PRESIDENT'S MESSAGE



Through a Cloud Darkly

The Governor has delivered his somber budget message to the legislature. It is crystal clear that, as a *Free Press* editorial observed, "The sharp downturn in state revenues has shown that we have more state government than Vermont can sustain." (1/16/09).

What is not so clear is where and how Vermonters will discover the political will to effectively come to grips with this serious situation. The Governor set forth his ideas (see p. 1), but from early reactions he seems to share little if any ground in common with the legislature.

Actually, things are worse than even the Governor portrays, since his time horizon only extends through June 2010. As David Coates pointed out to the Vermont Business Roundtable in mid-January, the state is on the hook for \$87.1 million in unfunded pension promises for state employees, and \$379.5 million more for teachers.

As if that's not enough, the state is, by current actuarial projections, also on the hook for a staggering \$1.6 billion in unfunded health care costs for retired state employees and teachers. If there is any imaginable way that this enormous sum can be paid, even over a generation, it surely escapes me.

Meanwhile, every group that sees its state entitlement threatened is marching through the halls of the state house to demand that budget cuts be taken out of somebody else's program, and that taxes be increased "on the rich".

And where is heard the voice of the responsible tax-paying citizens who are willing to support the necessary shrinkage of state government spending, and oppose economy-killing tax rate increases? Not to be heard – so far. Time is short.

PS: Thanks to the over 300 members who have already renewed for 2009. If you find a response envelope in this letter, please use it to join "The 300". Unlike the Spartans at Thermopylae, you won't end up dead at the hands of the Persians.

A Worthwhile Legislative Agenda for 2009

COMMENTARY

For legislators – especially freshmen – the first January trip to Montpelier is usually a hopeful occasion. This year it will surely be different. The state’s growing fiscal crisis promises only day after day of grim tidings and voting on highly unpopular spending cuts for programs once thought to be eternal and bullet proof.

In the old days – the 1950s – a majority of the legislators (old male Republicans) were largely content to do the state’s necessary business, and especially to avoid doing anything expensive or stupid. In recent decades, a liberal majority always comes back to the Capitol eagerly hoping to Do Something Big and Historic.

The 2005 legislature came to town eager to install \$2 billion worth of universal taxpayer financed health care. After a stern Douglas veto, it was forced to settle for creating Cata-mountain Health for the uninsured, which is now of course running out of money.

The 2007 legislature, goaded by Senate president pro tem Peter Shumlin, the Senator from VPIRG, sought to have Vermont lead the planet in defeating the Menace of Global Warming. Over the ensuing two years his proposed program of taxes, regulations, mandates and supergovernment shriveled into practical insignificance.

Now comes the 2009 legislature, and in the face of a deepening fiscal crisis the prospect of its doing Something Big and Historic probably comes down to only two issues: authorizing gay marriage and voting Vermont Yankee off the island. Nei-

ther one, significantly, will have any impact on the state budget, at least for the next three years.

So, leaving aside these two hot button issues, what could legislators usefully do while the money committees sweat over the FY2009 and 2010 budgets? Here are some suggestions that would make the Vermont of the future more economically attractive and productive.

- Put a stop to taxation by unaccountable strangers, notably the Public Service Board and the Vermont Milk Commission. Affirm that if the state government is going to relieve its citizens of their wealth and incomes, it can do so only by a recorded vote of elected legislators.

- Put a stop to unaccountable bureaucrats adopting sweeping and costly regulations. A regulatory accountability act would allow one fifth of the membership of the House or Senate to bring proposed regulations up for an approval vote.

- Give local citizens the opportunity to reshape their educational systems by passing an Educational Freedom District bill.

- Rescue the state’s deteriorating bridges by raising the motor fuel taxes by a nickel a gallon. That would largely solve a growing problem, and still leave gasoline under \$2 a gallon. Unlike other taxes, the motor fuel taxes are levied on gallons used, independent of prices. They must be periodically raised to stay current with the ever-rising costs of highway and bridge rehab and maintenance. It’s been twelve years since these user fees were raised, and waiting for a bailout from Congress is not a responsible option.

- Repeal Act 168 of 2006, the sleeper bill that commits the state to reducing its carbon dioxide emissions to 75 percent of the 1990 level by 2012, and down to 25 percent

thereafter. Unsuspected by legislators who viewed this as a feel-good greenie bill, regulators can seize upon Act 168 to defeat economic growth. California Attorney General Jerry Brown has pioneered this tactic, using a law almost identical to Act 168. Vermont AG Bill Sorrell refuses to disavow the use of this powerful regulatory tactic, so the legislature should do it for him.

- Rationalize the Act 250 permit criteria, especially wetlands, esthetics, historic preservation, agricultural soils, and conformance with town plans instead of zoning bylaws. (This is not an exhaustive list).

- Make sure that Vermont’s proportion of renewable-source electricity is the nation’s highest. This requires only deleting the artificial “less than 200 megawatts” definition of “renewable”, thus making HydroQuebec hydropower what it is everywhere but in Vermont, a renewable resource. That would ease the pressure to unwisely subsidize uneconomic renewable energy producers.

- Pass a regulatory takings bill, by which a landowner could invoke inverse condemnation whenever harsh regulation destroys more than half the value of his or her property.

- Create a long overdue performance review process to weed out outdated or useless state programs and make the remainder more efficient. The modest funds needed could be found by abolishing several state commissions that serve no useful purpose.

None of these would be, arguably, Something Big and Historic. But while the money committees are wrestling with the looming deficits, the rest of the members could well vote these through and go home with a sense of having done something useful toward making Vermont more economically competitive in the years ahead.

Single Payer Health Care

For the benefit of politicians addressing bills to create “single payer health care” or its more recent descriptor “universal coverage”, here’s a brief refresher:

“Single payer” means that all payments to medical providers for covered health care services (other than nominal co-payments by patients) are made by **one single payer**.

That single payer is a **government** or government-contracted entity.

The funds required by that entity to make payments for services come from **taxes**.

Single payer is **universal**: every person in the society is included in the system.

The government determines which medical services will be covered for which patients, how intensively they will be provided, and how much the providers will be reimbursed for providing those services.

The government prohibits any private health insurance coverage with respect to medical care covered by the single payer plan.

Providers serving patients in the single payer system are not allowed to provide covered services to covered patients privately, or to receive payment by any means other than through the single payer system.

Single payer systems rely upon a **global budget to “control costs”**. The global budget attempts to match expenditures and revenues by directing providers to **ration health care** through denial and postponement of services, and by reducing government reimbursement to the “private” providers.

The leading example of a single payer system is the health care system in each Canadian province, operating under the authority of the **Canada Health Act** of 1984. The providers are nominally “private”, but all of the providers’ income for covered services must come from the tax-financed government system.

In 2008, H.304 was the single payer proposal. It promised taxpayer-funded services only when provided by hospitals, assuring that everyone with a health problem would turn up at a hospital to receive “free” services. The 2009 version has yet to appear.

Brought to you by the Ethan Allen Institute, 2009.

Coming Event: Former President Thomas Jefferson, portrayed by renowned humanities scholar Clay Jenkinson, will talk about democ-

racy today and how it compares with democracy during the early 1800s in a talk at the Vermont State House at 7 p.m. on **Wednesday, February 11**. The event is sponsored by the Vermont Humanities Council.

Clay Jenkinson was the featured speaker at the 2008 EAI Jefferson Day Dinner in Burlington. If you didn't hear him there, we highly recommend your attending this presentation at the state house.

Trenchant Insight from the Governor: "For too long, too many have held the mistaken belief that we could live beyond our means – that we could buy now and pay later – convinced that easy credit would allow us to have what we could not afford. Many thought revenues would always rise and difficult decisions could be deferred. That misguided notion has brought us to this time of great collapse." (Inaugural address, 1/8/09.)

Trenchant Insight from Mr. Jefferson: "I think we have more machinery of government than is necessary, too

many parasites living on the labor of the industrious." – Thomas Jefferson, 1824.

The Obama Promise: "If we are going to make the investments we need, we also have to be willing to shed the spending that we don't need. We can't sustain a system that bleeds billions of taxpayer dollars on programs that have outlived their usefulness or exist solely because of the power of politicians, lobbyists, or interest groups." (President-elect Obama, 11/25/08.)

Extorting Vermont Yankee: Representative Tony Klein, Chair of the House Natural Resources Committee, gave the House Democratic Caucus an overview of issues affecting the future of the Vermont Yankee Nuclear Plant and the likelihood of a vote to re-license the plant this session. He indicated that Senate President Pro Tem Peter Shumlin (D-Windham Co.), Speaker Shap Smith and the Vermont Department of Public Service agree that if the price of power sold by Entergy, the owner of Vermont Yankee, to

Vermont utilities after 2012 is the market price, and the only additional benefit to Vermont ratepayers is a revenue sharing agreement currently in place, then Yankee "might as well pack up and go home." (LCRCC 1/23/09.)

These people apparently agree that Vermont Yankee must pay the state of Vermont merely to exist (and produce cheap power). And what is the state doing for VY to justify demanding this payment?

Déjà vu: The Commission on the Future of Economic Development released a report on regulatory reform urging "changing the combative nature of the [Act 250] process by requiring a mediation process to solve disputes at the outset."

The Landowners Steering Committee proposed precisely that in 1975. The then-chair of the Environmental Board (Margaret Garland) indignantly dismissed the idea, declaring that no mediation was necessary because the Environmental Board itself was the mediator between developers and the environment. (From our "supreme enviro arrogance" file.)

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Incandescent Unpopularities

Continued from Page 1

undisclosed magic money pot, property taxes will have to increase to fill the proposed hole in the Education Fund. The Governor opposes raising the gas tax, which is long overdue, but wants to institute a new "infrastructure investment fee" on vehicle registrations paid only by Vermont motorists. The employment security tax will have to increase to replenish the depleted employment security trust fund.

And then there is the surprising call, amid all the reductions, to increase preschool spending. This, he says, will assure that "more children arrive at kindergarten ready to learn". Only three years before, the governor had observed that "adding two more

grades to the already stressed K-12 education system" would be "an unacceptable outcome". In addition, he wants to increase spending for higher education, where many believe that the costs are running well beyond the benefits, many if not most of which are exported when new graduates seek employment.

Is there a game changer in this menu of fiscal remedies? One modest possibility is the governor's call for creating a Health Savings Account-eligible Catamount Health policy. The liberals dominant in the legislature adamantly reject high deductible coverage coupled to tax-free HSAs as "not even insurance".

By that they apparently mean that such consumer-driven health plans threaten their hoped-for march toward the government-run, taxpayer-financed single payer health care system of their dreams. And they probably do. The Governor's HSA proposal heads the opposite direction.

All in all, Gov. Douglas has done the best he could to deal with an enormous problem under very trying circumstances, almost totally not of his making. Now the political combat will begin, and as usual, focused special interest groups are likely to fare better in it than ordinary citizens and taxpayers.

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Note Well: “Senator Vince Illuzzi asked [Transportation] Secretary [David] Dill whether the project list would

look different if other projects had permits in place. Secretary Dill responded that while every project on the “shovel-ready” list is worthwhile, other projects of higher priority would be on the list *if not for lengthy permitting delays.*” (LCRCC 1/16/09.)

The Minimum Wage Family: A family with one full-time minimum wage earner and a child would have earned \$15,602 in 2007. They would pay no federal or state income taxes. Vermont would issue them an \$898 earned income tax credit. The IRS would issue them a \$2,807 EITC and an additional \$587 child tax credit.

The family’s total net income would have been \$19,494, the equivalent of a minimum wage of \$9.37 an hour. (VEN 1/09.)

Scary Global Warming: Sen. Peter Shumlin states that the Menace of Global Warming will make our future “unspeakably horrid”. A UK researcher surveyed hundreds of news stories

NEWS & VIEWS

Vermont Education Spending: “The U.S. average per-student expenditure for public elementary and secondary schools in 2007-08

fall enrollment was \$9,963. States with the highest per-student expenditures were New Jersey (\$15,374), New York (\$15,286), **Vermont (\$14,336)**, Wyoming (\$13,967) and Massachusetts (\$13,768). Arizona (\$5,346), **Utah (\$5,734)**, Nevada (\$7,133), Mississippi (\$7,175) and Idaho (\$7,305) had the lowest per student expenditures (NEA 12/18/08).

Anyone care to examine how Utah schoolchildren compare on the NAEP testing?

Useful Legislation: Connecticut H.B. 5697: “An act to repeal global warming legislation that was passed based on the assumption that global warming is caused by human action.” Sponsor John Piscopo said in introducing the bill: “Mark my words, in 10 years, we’re all going to be worried about late spring frosts, and early fall frosts, and crops dying and we’re going to be in some huge climate cooling hys-

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Have You Renewed Yet?

If there is a response envelope tucked into this newsletter, you haven’t! But it’s not too late (Whew!).

Please use the envelope to send in your contribution for 2009 – and any ideas or suggestions you may have for issues to address, or bright “Ideas for Vermont’s Future”. Thanks for keeping the Institute in the action!



Hurrah for Single Payer Health Care!

“**E**mergency rooms in Canada are so crowded that patients are dying while they wait to be treated, Canadian doctors said [in November]. Treatment is free in Canada’s national health care system, and in many hospitals, packed ambulances idle outside for hours because there is no place to leave patients.

“Doctors are asking the provinces to adopt a plan in which patients are either admitted or discharged

within six hours. ‘We’ve had people have heart attacks in the waiting room, people seize in the waiting room and patients have miscarriages in the waiting room,’ said Dr. Brian Rowe of the University of Alberta Hospital. ‘It’s like a Third World country.’” (Forbes, 12/8/08)

And for only \$2 billion in new taxes, we can have this wonderful system in Vermont!

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NEWS & VIEWS

teria. That's just the way it is with this globe. It warms and it cools. There is nothing the little State of Connecticut, in rolling back its economy to 1990 standards, or over-regulating its manufacturing industry or anything like that, is going to do to stop this huge planet from having fluctuations in its climate."

Will someone heroic legislator sponsor a Vermont bill to repeal Act 168?

Next, the Federal Cow Tax? The New York Farm Bureau costed out the impact on dairy farmers of the EPA carbon-dioxide regulations released in December: \$175 per cow. According to the USDA, any farm with more than 25 dairy cows would subject to the regulations. These operations simply could not bear the regulatory compliance

costs that would be involved." (B&MI, 1/5/09.)

Would some pro-farm legislator please introduce a joint resolution denouncing this madness? Then we'll find out how much the global warming fighters care about Vermont agriculture.

U.S Economic Freedom: The Pacific Research Institute has published its 2008 report on economic freedom. Its methodology is somewhat convoluted and controversial, but it seeks to measure state fiscal policy, government size, taxation, judicial, and welfare spending from the standpoint of economic freedom and opportunity.

South Dakota, Idaho, Colorado, Utah and Wyoming came in at the top of the list. PA, CA, NJ, RI and NY were the five lowest (in descending order).

Vermont came in at 42nd. It ranked 34th in the 1999 report and 36th in the 2004 report, indicating a steady slide toward the bottom. Surprisingly, Vermont's highest sector ranking was 23rd, in "regulation". Not so surprisingly, its lowest was 45th, in "welfare spending". New Hampshire also slid overall - from 6th to 7th to 8th.

Dim Future for the Menace: "Although they now have a friend in the White House, the cold economy and cold winter will cool public ardor for global warming initiatives. As a fad, the catastrophist's view of global warming has peaked." (Rich Karlgaard, *Forbes* publisher, 2/2/09.)

Education Fund Outlook – December 2008 (millions of \$)

	TOTAL REVENUES	RESIDENTIAL TAX	RESIDENTIAL REBATE	NON-RES. BUSINESS TAX	GEN. FUND TRANSFER	OTHER REVENUES
FY2010	\$1,383.6	509.2	(147.1)	560.9	297.8	162.9
% Growth 2005-10	31%	47%	59%	45%	19%	—
Projected 2016	\$1812.5	748.5	(233.8)	813.3	354.4	162.3

FY2010 figures from JFO; Residential rebate is income sensitization. Projections using same growth rate as 2005-10. Calculations by David Coates for Vermont Business Roundtable. Cost per pupil 2010: \$1383.6/94,000 = \$14,719 per pupil.

Educate Your Legislator!

Now is a good time for worthy citizens (i.e., EAI members) to start pressing their legislators to do something worthwhile during this biennial session. On page 3 are nine such suggestions that we thought up. Surely there are more ideas out there that would make Vermonters more productive, prosperous, and free. (Repealing bad laws is a fertile area for consideration.)

Do you have a good idea? Here's a test. Think up a proposal, get three or more local friends to buy into it, think it through (anticipating objections), and then invite your Representative and/or Senator to have coffee at the diner with all of you to discuss it

(on Sat.-Sun.-Mon., when the legislators are not in session).

Ask them if they will support such a measure. If not, what changes would they require to bestow their support? Would they like to win fame by introducing such a bill?

Tell them, too, that you're writing up the interaction for publication, and you want to make them look good. After the event, write a synopsis that we can publish in a future *EA Letter*.

This can be entertaining, informative and even conceivably useful!
-JMc



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