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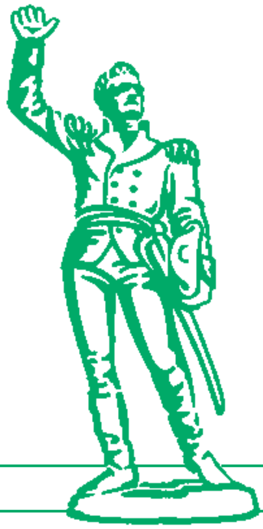

The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

A Monthly Publication of The Ethan Allen Institute

INSIDE:

The Return of Reactionary Liberalism

COMMENTARY

Some years ago the columnist Charles Krauthammer penned a column on the evocatively-labeled "reactionary liberalism".

The old and true liberalism identified a social good – welfare, nutrition. housing assistance, health care for the aged, etc. It boldly declared that no civilized society could neglect such essential ingredients of social justice.

When old and true liberalism gained a legislative majority, it enacted government programs to meet those perceived needs – and it unashamedly raised taxes on the better-off to pay their costs.

"Reactionary liberalism" recognizes the same needs, but its practitioners lack the political courage to raise the taxes to pay the bills, and face the wrath of the taxpayers.

So reactionary liberalism contrives to use the power of government to force third parties to shoulder the costs of its liberal agenda. Those third parties – usually private businesses – are then forced to raise their prices to cover the additional burden of supporting the mandated benefits.

Those additional costs are thus transferred from the business to its customers or ratepayers. And the perverse beauty of this, from the reactionary liberalism standpoint, is that the victims who are paying can't figure out who to blame for having less money in their pockets. What a sweet deal!

A flagrant example of reactionary liberalism is now moving through the state house. This year's chosen program is the forced promotion of renewable energy.

Enviro-liberals love the idea of renewable-source electricity for several reasons. Most of them believe, with far more fervor than evidence, that human carbon dioxide production has created the Menace of Global Warming, and will eventually boil the planet in its own juices.

Coal-fired power is anathema, due to its acid rain-causing emissions and environmentally destructive mining practices.

There are no significant hydroelectric sites left in Vermont, and liberals have always been uncomfortable with HydroQuebec's giant power dams because they alter the environment (in northern Quebec) and discomfit the Cree Indians.

Nuclear power? Certainly not. Liberals hate everything about the Vermont Yankee plant and the Louisiana-based corporation that owns it. Thirty-seven years of producing clean, reliable, low-cost, zero-carbon electricity weighs nothing in their scales.

Thus the electricity of choice comes down to renewable wind, solar, and to a lesser extent, landfill methane. And reactionary liberalism has a nifty technique for promoting these hopelessly inefficient energy sources. Its House majority just passed a bill (H.446) that requires the utilities to purchase all the electrical output of small scale (2.2 Mw or less) wind and solar projects, up to a cumulative total of 50Mw.

` This the utilities must do at a price, fixed by politicians, that guarantees the renewable power operators enough revenue to pay off their investment and operating costs, and yield a "reasonable" profit.

Of course, the renewable operators cannot produce electricity at anywhere near the going market price. So the House proposes to mandate that the utilities pay wind power operators

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The Ethan Allen Letter

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

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

MEMBERSHIP

The Ethan Allen Institute relies upon the generous support of its more than 600 members to support its work. Contributions to the Institute, a 501(c)(3) educational organization, are tax deductible to individuals, corporations, and foundations. The Institute neither solicits nor accepts funding from government sources.

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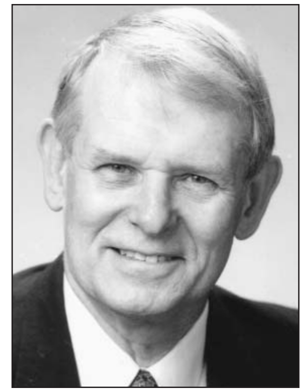
PRESIDENT'S MESSAGE

A Dark Day for Vermont



We held this Letter over a week to await the results of the June 2-3 special session of the legislature. Now we know the outcome. By a 100-50 vote the House overrode Gov. Douglas's unprecedented veto of the FY2010 budget.

In his veto message the governor had pointed out that this bill paves the way to a projected $208 million in deficits in the following two fiscal years. He criticized the $26 million in increased taxes, a burden that will fall heavily on senior citizens, small business owners, farmers and loggers. He concluded, "I will not support increased taxes on our people so that state government can grow at an unsustainable rate."

I think that the governor had much the better of the argument, although there were ingredients in his proposal that were, to put it gently, questionable.

Three important observations ought to be made:

1. The budget battle between a moderate Governor and a left wing legislature became bitter to a degree that shocked some old-timers who remembered how such disagreements were settled in earlier decades.

2. The budget debate largely neglected key issues: notably, the actuarial adequacy of the teachers' retirement fund and especially the unfunded health benefits of teacher and state employee retirees.

3. The debate made clear how vital it is for the state to conduct a comprehensive performance review, so that spending reductions in times of economic stress are anticipated and planned for. (See my commentary on page 5.)

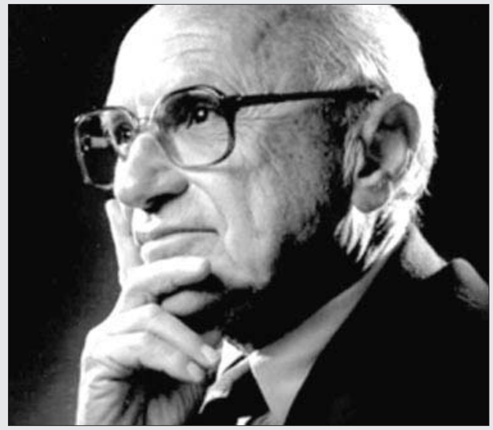
Friends of Ethan Allen Institute on FaceBook! One of our tech-savvy members has created a FaceBook site that he says now has 62 "friends of EAI" posted. If you'd like to get to know other EAI members, there's a place for you to do it. (EAI does not make its membership list public).

An Ethan Allen Institute Dinner Invitation

Join Us for a Celebration of the Life and Ideas of

Dr. Milton Friedman

on the 97th anniversary of his birth



Friday, July 31, 2009

Social Hour 6 p.m. – Dinner at 7 p.m.

Elks Club, Downtown Barre, Vermont

The late Dr. Milton Friedman, a former resident of Ely, Vermont and a Nobel Laureate in Economics, was a great champion of human freedom. At this third annual celebration in his honor, the program will focus on the major cause of his final decade, advancing parental choice in education.

This subject is particularly relevant to the Barre-Montpelier area, with its tradition of strong independent schools.

The kickoff talk will be by **Bernier Mayo**, former headmaster of St. Johnsbury Academy, superintendent of a parochial school, and Vermont Senator. He'll discuss different ways of generating support and funding for faith-based schools.

Responding to Mr. Mayo's remarks are two well-known education leaders:

David Bisson of Barre, until recently chair of the Vermont Catholic School Board, and

Rev. Al Collins of Websterville, founder and long time principal of Websterville Baptist School.

Please reserve your seat by calling or emailing the Ethan Allen Institute (802-695-1448, eai@ethanallen.org). The price is $15, and may be paid either in advance or at the door.

The Return of Reactionary Liberalism

Continued from Page 1

20 cents/kwhr, and solar electric generators 30 cents/kwhr, for 20 years. This is four and six times the price the utilities are now paying for a kilowatt-hour from Vermont Yankee.

If this turns out to be not enough to produce "sufficient incentives for the rapid development and commissioning of plants," the Public Service Board, wholly unaccountable to rate payers and voters, can jack up the mandated prices. And the next legislature can easily remove the 2.2 Mw and 50 Mw cumulative caps.

Who will eat the cost of this mandated high-cost electricity? Everyone who uses electricity – but they will not understand why their power bills went up three percent (for openers), and who to hold accountable at the polls. That's the beauty of reactionary liberalism to its practitioners. It combines hidden taxation with corporate welfare.

The House bill also provides that if a utility experiences grid reliability difficulties due to erratic generation from a mandated flock of off-again, on-again wind and solar plants, as recently happened in wind-intensive west Texas, "the state is not liable for the consequences". Very thoughtful.

Meanwhile CVPS, under full-throated pressure from the enviro groups, grudgingly agreed to tear out the sixty year old Peterson Dam in Milton. Good riddance to that clean, renewable two-cent/kwhr power plant! Hurray for the fish! Is it any wonder that Vermont has become the butt of jokes among people with some grasp of economics, energy, and common sense?

Gov. Douglas has said that he does not support this shabby scheme. If there are enough reactionary liberals in the Senate to advance the House bill to his desk – highly likely – hope for another veto.

That hope proved to be ill founded. On May 27 Gov. Douglas allowed H.446 to become law without his signature. In his letter the Governor said "The rates set out in H.446 are well beyond the current market price for electricity, and worse, also beyond the price that utilities in Vermont are paying for renewables in the competitive market. If we want additional renewables in our supply, that can be accomplished at a fraction of the prices set out in H.446."

Despite this compelling argument for a veto, the governor begged off by hoping that the (unelected) Public Service Board might modify the negative impact of the bill.

Exploring the Nether World of Politics

COMMENTARY

Well under the radar during the current battle over the state budget, a small bill moved through the legislative process to passage. A review of how this bill (S.89) made it through to the governor's desk reveals some of the nether world of politics.

Ever since arriving in the legislature in 1979, Bobby Starr has had one great legislative passion: to get dairy farmers more money. In 1988 he pushed through a provision that simply handed $7.5 million of the (then) surplus to all dairy farmers. The purpose of this handout was to buy dairy district House votes for Gov. Kunin's land use planning bill, Act 200.

A year later the surplus was spent. Starr needed a new scheme. This was the Northeast Interstate Dairy Compact, largely designed by Starr's legislative counsel, Dan Smith. The Compact was a multistate government cartel to force dairy handlers to pay farmers above-market prices for their milk (and pass the cost on to consumers).

It took until 1996 for Compact supporters to win Congressional approval of this regional government for milk. But the Compact expired in 2001, and Congress declined to reauthorize it. In its place a taxpayer-financed price support program called MILC put a floor under fluid milk prices, but not at a high enough level to satisfy Starr.

By 2008, after a year of record high market prices for dairy farmers, it became apparent that changing global market conditions would drive milk prices down in 2009. So Starr and his leading co-conspirator, Senate leader Peter Shumlin, engineered an appropriation to support a new scheme, to be imposed by the then-inactive Vermont Milk Commission. The appropriation provided funds for the Commission to hire as counsel Starr's favorite staff member, Dan Smith.

In September 2008 Smith presented to the Commission a draft order levying a 38-50 cents per gallon tax on milk handlers. The tax would of course increase the cost of milk to supermarkets, general stores and convenience stores. The proceeds – like Starr's Act 200 bonus of 1988 – would be handed out to every dairy farm in Vermont. Sweet!

The majority of the nine-member Commission, including Agriculture Secretary Roger Allbee, was decidedly cool to the proposal, as were the dairy coops and Farm Bureau.

Then Smith came up with a solution to a major problem: the passthrough of higher milk prices to consumers. Let's couple the milk tax with price controls on the grocers! That way the government would confiscate the "surplus profit premium" enjoyed by the handlers, consumers wouldn't pay more, and farmers would enjoy big handouts. Brilliant!

Unfortunately for Starr and Smith, the Commission concluded its business without approving Smith's handiwork.

In response, on February 11 Starr and Shumlin introduced a bill that – strangely – offered no benefit to farmers at all. It authorized the legislature to impose milk price controls on the retailers. This bill, Shumlin said, "takes a step toward addressing the economic pain that Vermonters are facing."

On April 15 the Starr/Shumlin price control bill emerged onto the Senate floor. Gone were all of its price control provisions. Instead, the bill now mandated the Milk Commission to reconsider Smith's failed milk tax and subsidy scheme (that would increase the economic pain of consumers).

But by this time the $50,000 contract to pay Dan Smith as "special counsel" was used up. So Starr and Smith came up with the idea of making the bill authorize the Commission to levy a milk tax on handlers, not to subsidize farmers, but to employ (presumably, at least by Starr) Dan Smith to devise more Marxist theories, milk taxes, price controls, and subsidies.

The Senate passed the amended bill on a voice vote. The House Agriculture Committee, however, stripped out all of Starr's milk tax language, leaving only a dairy antitrust study by the Attorney General plus some miscellaneous handler bonding provisions. The bill then went to conference.

Apparently under strong pressure from the House leadership, the House conferees agreed to reinstate the substance of the Senate-passed language, with the significant amendment that the Milk Commission "may" – instead of "shall"- tax the handlers up to $35,000 to finance the Commission's further consideration of Smith's rejected handiwork.

The Milk Commission may choose not to levy the milk tax to finance its ongoing deliberations. It may choose not to hire Dan Smith again to promote Starr's grand idea, a decision that would certainly send Starr into orbit.

But this misbegotten scheme – a hidden milk tax on families with young children, to be levied by an unaccountable commission, the proceeds distributed to members of Bobby Starr's special interest group, and a special tax provision intended to finance Dan Smith's continued employment – richly deserved termination by veto.

On May 22 Gov. Douglas signed S.89 without comment.

Ending the Budget Whack-a-Mole Game

COMMENTARY

The 2009 legislature has gone home – at least for now. It will return on June 2 to attempt to produce an amended FY 2010 budget bill that Gov. Douglas will agree to sign.

If governor and legislature fail to reach an agreement by June 30, the state will face an unprecedented fiscal and legal crisis. That crisis would command the attention of the agencies that decree credit rating agencies, and the investment houses that market Vermont bonds. Not good.

In terms of actual spending for FY2010, the two sides do not appear to be far apart. In a general fund budget of $1,086 million, the gap is only $38 million. The differences lie in the distribution of the spending, and in particular the political need of the Democrats to protect unionized state workers against layoffs.

The fact that at least four of the key actors in this exercise aspire to be elected Governor in 2010 makes resolving this disagreement a highly political exercise.

Every player in this drama knows full well that next year's budget, painful as it is, is not even the greatest problem. The greatest problem is the combined FY2011 and FY2012 budgets.

Taken together, without new tax increases, they are currently projected to produce $207 million in deficit spending – and that assumes a dubious 3.5% revenue growth rate. The relatively easy spending cutbacks have been made.

Finding another $207 million to balance the budgets in the following two years is a truly staggering proposition – especially since federal stimulus funds run out in FY2011.

In the budget sent to the governor, the Senate Democrats cleverly provided for a reduction in the five personal income tax rates. This will be paid for largely by ending the 40% exemption for capital gains realized in excess of $5000 a year. Terminating the exemption and reducing the tax rates was first proposed by Gov. Douglas in 2004, but rejected by the legislature. The Democratic ploy now puts the governor in the position of objecting to his own proposal.

Both legislature and governor are alarmed by the first-ever reduction of the statutorily required transfer of funds from the General Fund to the Education Fund. This $14 million revenue reduction will increase the education property tax burden. Neither side likes this idea, but both will probably agree to it.

The Democrats have taken to styling themselves as the friends of the property taxpayers, and this year even lowered the base state property tax rates by a nominal one cent. At the same time the same Democrats are firmly against any effort to reduce educational spending, for instance by introducing competition and choice into the unionized government-monopoly school system.

Looking past the battle of the budget, there is a thin silver lining. A growing list of leaders in both parties are showing signs of getting the message that good fiscal management requires more than playing budget whack-a-mole when revenues come up short. It requires a concerted strategic plan to reassess what state government does and how it does it, in light of the tax revenues the state's taxpayers can realistically be asked to pay.

Secretary of State Deb Markowitz, a Democrat considering a run for governor, recently agreed that the state needs "rational plans for restructuring state programs to maximize efficiency in getting measurable results from taxpayer dollars."

Democratic Auditor of Accounts Thomas M. Salmon, a CPA often mentioned as a future candidate for governor, goes further. He cites the successful experience of Washington State, that faced a $1.5 billion deficit in 2002. With the support of both parties, Democratic Gov. Gary Locke initiated a ten-week process to shift the focus from spending cuts and tax increases to finding a better and more lasting result for the people of their state.

They identified the tax dollars available, set priorities on what the people most wanted their government to do, paid for those programs, and stopped.

By June 30 the Vermont budget crisis of 2009 will most likely be over. It is also likely that all parties involved in that exhausting process will be more open to a better way of prioritizing what government does, finding more efficient ways of doing it, dropping low priority programs, and living within the revenues produced by the present tax structure.

This will mean stepping on some powerful interest group toes, but it has to be done – or Vermont will simply slide toward eventual insolvency.

NEWS & VIEWS

Coming Event: The National Conservative Student Conference will be held this year from August 3-6 at George Washington University, Washington. For early bird registration ($325 tuition, meals, lodging) go to www.yaf.org.

Legislators Take Pay Cut! Senate President Peter Shumlin, congratulating the Democratic legislature for leading the budget cutting parade: "We [finished] in 16 weeks and as a result took an 11.5 percent pay cut, larger than anyone else in state government." (BFP, 5/10/09.)

Of course, it's not like they worked 16 weeks for pay, plus two weeks for free. After they quit getting paid, they quit work and went home (leaving a $14 million General Fund deficit).

Who Said the State is Out of Money? "School receives grant to ease walking, biking." (TA headline, 5/19/09.)

NTU Rankings: The National Taxpayers Union rankings for the 2008 Congress are out, and our Vermont delegation doesn't look so good. Of course we're not surprised.

Ready? Rep. Peter Welch: 13 percent – F. Sen. Patrick Leahy 4 percent – F. And our most conservative member, socialist Bernie Sanders, 18 percent – D.

Vermont No. 1 Again: "Vermont levies the nation's largest tax burden on individuals. Ask anyone living there if the Green Mountains, popular ski slopes and quaint bed and breakfasts are enough to soften the blow of $3,861 per person kicked up annually to the state government. You'll likely get a lot of "nos." (*Forbes*, 4/09.) (Tax data from FY2008.)

At Last, A Good No. 1: Arizona, Idaho, Utah and Vermont offer the most open and competitive regulatory environments for property insurance, according to a forthcoming state-by-state survey conducted by the libertarian Competitive Enterprise Institute. The report cites Vermont as having the most competitive regulatory environment in the nation, a spot the state also

See *News & Views*, Page 7

Cap-and-Trade Roundup

Cap and trade is a scheme whereby the federal government sets a cap on the amount of greenhouse gas emissions, then requires emitters to buy tickets (licenses) to emit. The current plan in Congress , Waxman-Markey ACES, gives 85% of the initial tickets away to emitting industries (to buy votes for the package). The remaining 15% are designated to offset the higher energy costs on (certain) consumers – but the net effect will be an enormous energy cost increase for most Americans. Here are some recent comments on this sweeping big government scheme:

"Sen. Benjamin L. Cardin (D-MD) called cap-and-trade "*the most significant revenue-generating proposal of our time,*" and said it would be difficult to pass without use of 'budget reconciliation' because Democrats would be forced to accommodate a handful of Republicans as they did in the debate over the president's stimulus package. (*Washington Post*, 4/2/09).

"Under my plan of a cap-and-trade system, electricity rates would necessarily skyrocket." (Barack Obama, Jan. 2008). An MIT study looked at a cap-and-trade scheme that projected revenue of $366 billion in a single year… [That yields a] tax burden of about $3,000 per family." (SEPP, 4/17/09).

The [Waxman-Markey cap and trade bill] is a badly flawed piece of public policy. It is so broad in its reach and complex in its details that it would be difficult to implement even in Sweden, let alone in a diverse and contentious country like the United States. It would create dozens of new government agencies with broad powers to set standards, dole out rebates and tax subsidies, and pick winning and losing technologies, even as it relies on newly created markets with newly created regulators to set prices and allocate resources. Its elaborate allocation of pollution allowances and offsets reads like a parody of industrial policy…. The opportunities for waste, fraud and regulatory screwup look enormous." *Washington Post*, business columnist Steven Pearlstein (5/22/09).

"[Under] Obama's cap-and-trade global warming plan, [Americans would] suffer with less energy costing much more. That means smaller, weaker cars, less driving and other transportation, less consumption of energy-intensive meat and dairy products, colder homes, workplaces and stores in winter, hotter homes, workplaces and stores in summer, and less of everything that uses electricity." – Peter Ferrara (*American Spectator* online, 4/15/09).

"Question: So what's your reaction to the Waxman-Markey climate bill now on the table, which calls for cap-and-trade?"

Ralph Nader: "I'm really astonished, because I would have thought they would have gone for a carbon tax. I mean, it's not going to work. It's too complex. It's too easily manipulated politically." (Climate Depot, 5/11/09.)

Continued From Page 6

NEWS & VIEWS

held in the institute's inaugural survey in 2008. The captive capital was cited for its ability to attract new companies and its choice to allow insurers to use broad territorial rating factors in determining rates.

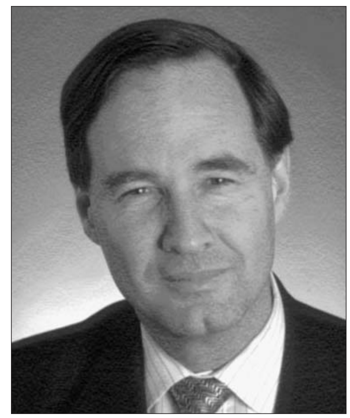
Now when it comes to health insurance rules and mandates…..

On the Other Hand: The Fraser Institute's *Economic Freedom of North America* report (2008) ranks states and provinces on size of government, taxation levels, and labor market freedom. Vermont, not surprisingly, ranked 43rd. The best U.S. states were DE, TX, CO, GA, and NC. The worst were WV, MS, ME, NM and MT.

Energy Subsidies: "In spring 2008 the U.S. Energy Information Administration (EIA) sought to standardize the cost of public subsidy per megawatt hour. It found that coal was subsidized at 44 cents, natural gas at 25 cents and nuclear power at $1.59. Wind power came in at $23.37 per energy unit. As high as it is for wind, subsidy for solar, however, is even higher at $24.34 per megawatt hour." (AT, 5/21/09.)

It Does Make Us Wonder: "Does anyone else find it amusing that citizens opposing the Staples project in Middlebury are from MARS (Middlebury Area Residents for Sustainability)?" (Kevin Blakeman).

David Hale Event Overflows Ballroom



EAI's May 28 presentation of internationally known economist David Hale produced a crowd of 130, overflowing the Sheraton Burlington's Crystal Ballroom.

Hale came to Burlington fresh from a private luncheon with Fed Chairman Ben Bernanke, and numerous other visits with U.S. and foreign economic leaders. His rapid-fire analysis of the U.S. and global economy and their near term prospects produced a host of audience questions. This is the sixth time that EAI has hosted a David Hale talk.

State and Local Government Transparency Web Site to Go Live in June

On April 30 EAI hosted a statehouse presentation of its new government transparency web site. The site, developed in cooperation with the Public Assets Institute, will allow Vermonters to find out an enormous amount of information about the taxing and spending of the state and local governments and school districts, plus easy access to legislative votes and much other important information.

In the photo at right, Project Manager Jack Hoffman of PAI walks Auditor of Accounts Tom Salmon through a data search Salmon is an enthusiastic proponent of government transparency, as is House Speaker Shap Smith. (See the complimentary *Free Press* editorial on page 8.)

Members will be alerted via email when the site goes live later in June.

Auditor Tom Salmon takes a tour of the new web site from PAI's Jack Hoffman

The Ethan Allen Letter

ETHAN ALLEN INSTITUTE
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June 2009

INSIDE:

Burlington Free Press *May 5, 2009*

Open Government Goes Beyond Access

MEDIA

There's little point in opening government records to the public if the information is too difficult to find, sort through or taxes the everyday understanding of the average Vermonter. Too often that's the case with what we get from Montpelier, especially when it comes to the budget…

With billions of dollars at stake, Vermont's state budget is difficult to navigate for all but the true policy wonk or professional Montpelier watcher. Access to information that tells us what our government is up to is indispensable in a democracy.

Yet the complexity of policy debates today means that access is only the first step…

In our busy lives, time often is the deciding factor in what we choose to do. If tracking down government documents takes too long, that might be disincentive enough for too many people.

That's why we applaud liberal Paul Cillo [of PAI] and conservative John McClaughry [of EAI] for recognizing their common interest and working to create a Web site that aims to make it easier to see where state government gets its money and where that money is spent…

Making it easier to understand the whys and whats of the budget can only help Vermonters be better informed about and more engaged in what happens in their state capital.