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The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

A Monthly Publication of The Ethan Allen Institute

INSIDE:

Saving the Planet Through Higher Taxes

COMMENTARY

"Our planet's destruction" could be the consequence of Congress's failing to pass a sweeping energy tax, carbon regulation, and subsidy cornucopia bill this session, according to Senate leader Harry Reid.

The House has already passed the Waxman-Markey bill with all these features. In May Senate Democrats unveiled their version, called Kerry-Lieberman. Both sound a shrill alarm about greenhouse gas "pollution" and the Menace of Global Warming, but that increasingly derided term has now been replaced by "climate change", after Mother Earth refused to validate the UN's bogus computer models.

Both bills authorize the government to force Americans to reduce their carbon dioxide emissions by 17 percent (of 2005 emissions) by 2020, and by 83 percent by 2050.

Both bills feature new hidden taxes on electricity and products produced from the combustion of coal, natural gas, and oil. This mechanism was formerly called "cap and trade", but when the public figured out this meant "cap and tax", the sponsors retreated to using more obscure phrases such as distributing "allowance values".

However the sponsors disguise their energy tax scheme, when you flip on the lights, heat your home, or drive to work, you'll be paying – dearly – to help this left wing Congress deal with this imaginary problem.

Perhaps a case could be made for it, if there were an observable menace of human-caused global warming, and if the proposed energy tax measures were actually likely to flatten out a global temperature curve before the planet suffers destruction. But there is no observable human-caused "climate change", and no likelihood that the cap and trade scheme would produce any significant positive climate effect even if there were.

The proposed legislation will, however, extract trillions of dollars in energy taxes, collected first from utilities, industries, and carbon fuel suppliers, but ultimately paid for by consumers of energy. For example, reaching that 2020 emissions level would require gasoline taxed to sell at more than $7 a gallon, according to a Harvard Belfer Center study.

The Kerry-Lieberman bill attempts to deal with this unpleasant effect by requiring utilities and industries to buy carbon dioxide emission allowances – thus raising energy prices – and then giving them free allowances to offset a claimed two-thirds of the government-created costs of the allowances they are required to buy.

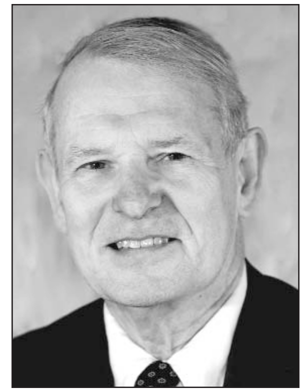
It also offers refundable tax credits and direct handouts to low-income families and some social security recipients. If you qualify, that will ease the pain of the Kerry-Lieberman taxes. If you're not in those categories, you'll get the full dose with no anesthetic for the first 13 years. After that, you might get a Universal Trust Refund handout, assuming Congress has by then solved the deficit problem, rescued Social Security and Medicare, and has no further use for

See ***Saving***, Page 6

Friedman Day Event, July 30 – See Page 6!

PRESIDENT'S MESSAGE

Things You Need to Know



This issue contains three timely commentaries. The front page one explains the vicious Kerry-Lieberman energy tax bill that Obama and his Congress hope to push through before the voters have a chance to put an end to their supermajority liberalism. Kerry-Lieberman contains many of the proposals contained in S.350, pushed by Sen. Shumlin and VPIRG two years ago.

The second one (p.4) dissects the final "Challenge for Change" act, carefully written to make sure that "change" does not harm VSEA union membership or the monopoly education and human services systems. I concede that some good may come of this, but compared to what should have been done, it looks to me like a large legislative fig leaf.

Legislators, especially the three running for Governor, don't get it. Vermont's taxpayers can't pay for the amount of government we have without further crippling Vermont's economy.

The third one (p.5) points out how our gentry-liberal determination to make Vermont the Perfect Little State pretty much rules out any serious economic growth (and tax base improvement).

The facing page promotes our American Majority activist training workshop on July 17. In just four hours, newly energized Tea Party members and other activists will be able to learn how to make their activism effective, at a time when it is desperately needed.

Finally, on page 7 we announce our annual Friedman Day event on July 30 at the Sheraton Burlington. Bill Sayre, one of our EAI directors, will tell us what he learned about freedom in Milton Friedman's classroom.

2010 will be a crossroads year. If Vermont's voters don't change the equation in Montpelier, and if the new Governor lacks the knowledge or the will to face up realistically to our own dark fiscal problem, we'll be far up the Winooski without a paddle. So do your part. We are.

President (Acting)

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.

Basic	$50
Supporting	$51-$99
Sustaining	$100-$499
Sponsor	$500-$999
Patron	$1,000-$4,999
Benefactor	$5,000 and above

Members receive the monthly Letter, invitations to all Institute events, periodic email news, and (on request) all publications. For a list of available publications or other information, please contact the Institute by phone, fax, mail, e-mail. Most publications can be downloaded from the web site.

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Let's Turn Vermont And America Around!

AMERICAN MAJORITY will present a four-hour activist training workshop

Saturday, July 17, 2010, 1-5 p.m.
Montpelier Elks Lodge

(Montpelier Elks Lodge is at 203 Country Club Road: turn north off US 2 just east of the roundabout at the Barre-Montpelier Road (US 302), up the hill 1/5-mile on the right.)

Learn from nationally known trainers:

- How to organize effective protests, rallies and vigils
- How to communicate your goals and program with the media and the public
- How to build grassroots action organizations
- How to organize to help your favorite candidate win
- How to make effective use of "Patriot 2.0" web techniques

AMERICAN MAJORITY has conducted nonpartisan training courses all over the country, to equip friends of liberty, economy, and constitutional government with the skills and knowledge they need to restore America. Now they'll bring their proven program to Vermont for the first time.

The program is sponsored in Vermont by the Ethan Allen Institute.
To register, email eai@ethanallen.org or phone 802-695-1448.
Registration fee is $10, payable at the door.
The fee includes materials and refreshments. (Space is limited to 100).

Cosponsoring organizations include Green Mountain Patriots, Vermont Campaign for Liberty, Vermont Tea Party Movement, and Vermonters for Economic Health.

Meet Your Candidates Event

... will be held for all state, congressional, and legislative candidates at 5:00 p.m. following the AMERICAN MAJORITY training program above. Candidates for all statewide, legislative, and congressional offices are invited and will have two minutes to speak and two hours to recruit activists to their cause. There is no registration or fee required for this event and it is open to the public. A cash bar will open at 5:00.

Sponsored by the Green Mountain Patriots and local Tea Party groups.

The Challenge for Change Dream World

COMMENTARY

On June 3 Gov. Douglas signed H.789, the highly touted bill to implement the "Challenge for Change" process so bravely launched back in February. A trip through its 95 pages illustrates in appalling detail why a liberal legislature cannot reform an overgrown state government that is not likely to significantly reform itself.

To review: in February the legislative leadership, with the Governor's support, decided that state agencies could reduce FY2011 General Fund spending by $37.8 million without reducing any services. How did the politicians know that that was realistic? Because they paid an out of state consulting firm $268,000 to tell them so.

And how did that firm arrive at $37.8 million in savings? It just announced that the legislature would reduce agency budgets by that amount, and the fiscally deprived agencies would reduce spending by their assigned shares of that amount, without of course reducing any services.

The consultants did no detailed review of agency programs and operations; the magic number was apparently pulled out of thin air. So why did they not announce $154 million in savings, thus eliminating the entire FY 2011 budget deficit? Good question. No answer.

The watchword for this process was "spending less money and still achieving the outcomes" declared by the legislature Thus the Agency of Human Services was told to achieve its share of the savings "without reducing government benefits, limiting benefit eligibility, or reducing personnel" unless specifically authorized by the legislature.

Maybe AHS could achieve savings by allowing competition for providing elder care services? Sorry. The act requires that no new home care providers be used – just the designated agencies monopoly.

Maybe a for-profit company (like America Works) could get non-performing welfare recipients back to work better than the host of government bureaus and "community-based organizations"? Sorry. Profit is a dirty word at AHS, regardless of better results and lower taxpayer cost.

How about saving money by a "cost effective new service model" for supporting people with developmental disabilities? Sorry. Any savings from the unspecified new service model "shall be reinvested in developmental services."

How about AHS saving $2 million by improving service delivery or client outcomes? Absolutely! – and the bill appropriates up to $2 million to pay AHS to find the $2 million savings.

Lest the monopoly mental health agencies feel constricted, a new section allows the Agency to contract with the monopoly mental health centers to gather in "children [deemed by the centers to be][some day] at risk for mental health needs [defined by the centers]". This has to be one of the most expansive categories in the entire human services field.

Corrections eats up lots of money. Here's an opportunity for probation savings: release nonviolent felons from probation after four years, no matter what the sentence required. Even more could be saved by putting them back on the street after, say, a week. Of course, Corrections is forbidden by the act to close or substantially reduce services to prisoners in FY year 2011.

Perhaps the most embarrassingly inept part of "Challenge for Change" is the education section. The Douglas administration's Challenge Czar Tom Evslin (one of the ablest people in state government) refers to this as "a total failure". The bill required the Department of Education to produce $23.2 million (out of $1.2 billion) in savings. How will it do that? The Commissioner will parcel that amount out among supervisory unions, and implore them to do something to meet the savings goal, at the risk of receiving a letter expressing the Commissioner's disappointment.

How about tossing out the whole overgrown education bureaucratic overlay, freeing every public school or supervisory union to become an innovative self-governing charter school competing for students with independent schools, giving parents vouchers to send their children to the most suitable educational program, and pocketing hundreds of millions in savings? Not likely. Not even conceivable.

And, of course, the act creates a slew of new boards and committees to oversee the process and assess the results – more likely, to view with alarm why all this hustle and bustle produced little or no taxpayer savings.

The pressure of hundreds of millions of dollars of General Fund deficits will doubtless produce some scattered efficiencies attributable to "Challenge for Change". But when the election-year smoke clears, it will be increasingly obvious that the problem of overgrown state government providing too many services to too many people, especially through monopoly human service providers and monopoly government schools, will not be solved. It will remain until a courageous Governor forces the citizenry to focus on the core functions of government, and appoints a hard nosed independent commission to slash through all the bureaucracies, programs, and monopolies to limit government to what its people can afford to pay.

Here Comes the Pro-growth Rhetoric

COMMENTARY

At a public forum on May 26 the five candidates seeking the Democratic nomination for Governor took turns waxing eloquent on the merits of spurring job-creating economic growth.

There will be a lot more of this kind of talk over the next five months, but what there will not be, at least from these five, is any concrete proposal for economic development that would conflict with the liberal anti-growth theme that has dominated Vermont public policy since Act 250 passed in 1970.

One needs only to look at the vaunted Commission on the Future of Economic Development. After three years of work the Commission presented its report in 2009. Stacked with appointees of the legislative leadership, the Commission decided that what Vermont needs for its economic future is a "comprehensive [government] economic development plan" and a "statewide economic development board".

With the controlling Plan and supervisory Board in place, we can then proceed to build the desirable "collaborative partnership" among the fellow who's risking his money in pursuit of profit, and the countless government regulators and assorted "stakeholders" who exist to defeat any pursuit of profit that might offend the refined sensibilities of the Vermont Natural Resources Council, VPIRG, the Conservation Law Foundation, and various local "Citizens Against Most Everything" groups.

In the same spirit was the Vermont Council on Rural Development's 2009 report "Imagining Vermont". It dwelled on a future Vermont with a working landscape, vigorous small industry, renewable energy, public transportation, creative arts, human scale, shared cultural values, affordable housing, excellent education and health care, more secure jobs and higher incomes, a renewed sense of community and, once again, intensified government planning and regulation to bring about the desired results.

The ever-present theme of these declarations is that there must be collective control, through government, of anything and everything significant enough to cause even locally disruptive changes in the environment, land use, transportation patterns, "community values", vested economic interests, and a host of lesser desiderata.

Approved "green" ventures and perhaps some popular existing businesses will qualify for lenient regulation and various subsidies, but promoters of new ventures will have to run the regulatory gantlet into an economically shaky future. We dare not encourage new ventures that might bring about noticeable changes in our agreed-upon Grand Plan for the Perfect Little State.

In short, the candidates and commissions proclaiming their commitment to jobs and economic growth will simply not venture beyond the gentry-liberal anti-growth consensus. Just reviewing the measures that the three Democratic Senators in the gubernatorial race have supported and opposed the past few years makes their urgent pro-growth rhetoric sound pretty hollow.

Consider a counterfactual example. Suppose Vermont proclaimed and implemented a strong pro-growth policy. Its leaders would say something like "Listen up, entrepreneurs. Our people benefit when innovative risk takers put capital to work to produce wealth. You can do that here. We won't let you unload your waste products into the public's air and water, but our regulations are swift, fair, and certain. We'll hold down the tax rates so you'll have a fair chance to make a profit and reinvest it."

"We'll have an efficient judicial system to settle disputes, we won't force you to shell out your cash flow to pay for politically imposed benefits, we'll support new low cost base load electricity generation, we'll keep our transportation infrastructure in good repair, we'll steer clear of goofy schemes like single payer health care, no-work welfare entitlements, forced unionism, and CO2 taxation, and we'll give you your chance to go for the brass ring in our free society."

That kind of talk would win applause in Hong Kong or New Hampshire or even Estonia. It might even win majority agreement in an opinion poll in Vermont. But mere poll findings will never defeat the political power of well-organized contrary interests. Until our prevailing attitudes toward economic growth change, Vermont is not likely to become the enclave of prosperity that its people have the talent to make it – if only blessed with a lot of freedom for competitive enterprise.

David Hale Dazzles Sheraton Audience

Noted international economist and St. Johnsbury native David Hale put on a typically dazzling performance at the Institute's Sheraton Economic Series program on June 9.

David Hale, at podium, with (from left) John McClaughry, Frank Mazur, Joe Blanchette, Jim Gatti, Barbara Snelling, and Mark Snelling.

Hale prophesied that the U.S. is not likely to plunge into a double-dip recession. Though the current recession produced extraordinary job losses, U.S. productivity has grown by 6 percent and corporate profits are up over 50 percent since a year ago. The U.S. is 10-15 percent more competitive globally than it was just a year ago, and the housing industry is making a steady comeback.

But, said Hale, the U.S. government is heading into the troubled fiscal waters typical of a European welfare state, with 25 percent of GDP in spending and only 19 percent of GDP in revenues. Interest on federal debt is now 1.2 percent of GDP, but as interest rates climb from the present very low levels, this will become an enormous budget burden.

Hale believes that the Obama White House is preparing to spring a Value Added Tax (VAT) to extract more money from taxpayers. This will be on top of the income tax, and will increase prices of goods by at least 6 percent (more when compounded). The income tax rates will also rise as the Bush tax rate cuts expire, and a proposed carbon tax could produce $400 billion a year.

Hale forecast the global investment focus shifting to emerging markets (such as Brazil and India), and was especially bullish on Canada (15 years of budget surpluses!).

Vermont suffered fewer job losses in this recession (3.8 percent to national 7.4 percent) and is No. 4 in exports as a fraction of state GDP. But to maintain its labor force it will need more than 30,000 new workers, especially productive immigrants from China, Korea and India. He sharply criticized Sen. Bernie Sanders for pushing through an amendment to limit the U.S. residence of foreign graduate students, thus driving many of them to return to their home countries and start businesses there instead of here. Hale said he had inquired about this of a top official of the State Department, who observed that Sanders was "a total flake".

Among the notable guests in the audience were former Lt. Gov Barbara Snelling, her son Mark Snelling (candidate for Lt. Governor), and state Treasurer Jeb Spaulding.

Saving the Planet Through Higher Taxes

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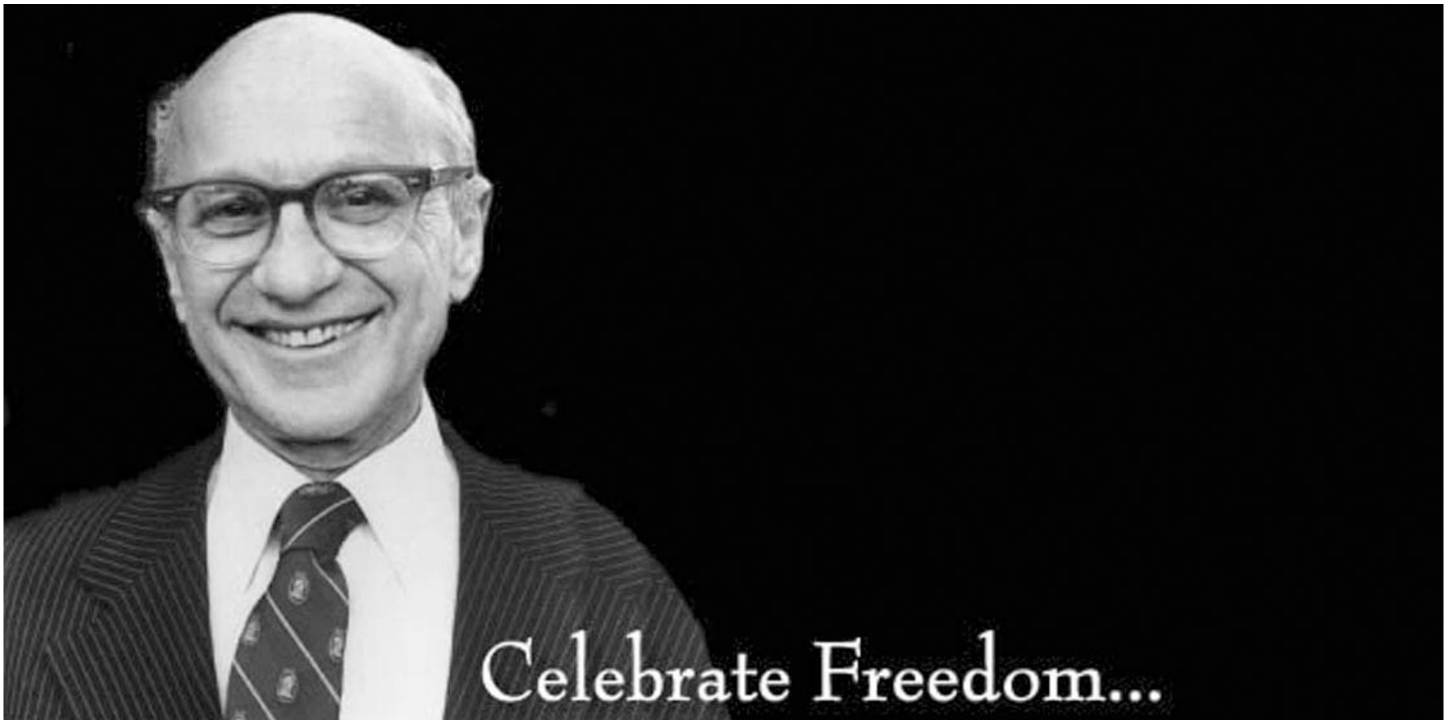
the extra money. You might also have won PowerBall by then.

A notable feature of both bills is the host of new subsidies included to buy the support of big business. Leading the corporate welfare parade is the nuclear industry, which would get more loan and insurance guarantees. The bill gives the gasoline and jet fuel industry a partial escape hatch, called a "linked fee", that would limit the threat to them from a rising carbon allowance market.

The renewable energy and vehicle industries would get new billions in subsidies, which accounts for support from Al Gore's venture capital firm and General Electric. As the *Wall Street Journal* observed, "every business or interest that could afford a half-competent lobbyist stands to benefit, at least until cap and tax is in place and environmentalists crack down over time."

Whether or not the cap and tax bill will have any effect at all on "climate change" or "energy independence" – almost certainly not – the measure will assuredly achieve a major objective of its sponsors. It will dramatically expand government regulation and increase tax revenues. Once that happens, energy sector businesses can be constantly shaken down for political support, and the new tax dollars can be used to hire more unionized government bureaucrats and buy even more votes.

Given the darkening mood of the electorate toward the party in power in Washington, a vote for cap and tax, like ObamaCare, could well be a career-ending act by many members of Congress (current public approval rating: 20 percent), who the country will be far better off without.



By Sharing the Legacy and Ideas of Milton Friedman

July 31, 2010 would have been Milton Friedman's 98th birthday. Now, more than ever, we need his vision. To honor the impact he has had on our society, and to help clarify his moral framework for freedom and free enterprise, we will celebrate the Friedman Legacy for Freedom in partnership with The Foundation for Educational Choice.

The Friedman Legacy for Freedom

EAI Director ***Bill Sayre****, a student of Friedman's at the University of Chicago and past chairman of Associated Industries of Vermont, will share his reminiscences of this great man with a passion for freedom.*

Friday, July 30, 2010 – 5:00 p.m.
Sheraton Burlington Conference Center
So. Burlington, VT (Exit 14W)

Public invited – no reservations – no admission charge

Sheraton Burlington HOTEL & CONFERENCE CENTER

This event is the latest in the Sheraton Economic Series, hosted by the Sheraton Burlington, sponsored by the Ethan Allen Institute, and cosponsored by the Lake Champlain Regional Chamber of Commerce, Vermont Business Magazine, Vermont Economy News, and Vermont Tiger

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July 2010

INSIDE:

Guest Commentary

Alexis de Tocqueville

The Despotism Democratic Nations Have to Fear

Despotism in a constitutional republic would be more extensive and more mild than in imperial Rome. "It would degrade men without tormenting them. Above this race of men stands and immense and tutelary power, which takes upon itself alone to secure their gratifications and to watch over their fate. That power is absolute, minute, regular, provident, and mild. It would be like the authority of a parent if, like that authority, its object was to prepare men for manhood."

But that is not its object. Rather, "it seeks on the contrary to keep them in perpetual childhood… for their happiness such a government willingly labors; but it chooses to be the sole agent and the only arbiter of that happiness; it provides for their security, foresees and supplies their necessities, facilitates their pleasures, directs their industry, regulates the descent of property, and subdivides their inheritances:what remains, but to spare them all the care of thinking and all the trouble of living?"

– *Democracy in America* (1840)