



The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

A Monthly Publication of The Ethan Allen Institute

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The Good, the Bad and the Ugly

COMMENTARY

From the standpoint of preserving the state's solvency, making life easier for revenue-generating businesses, and defending our liberties, the 2010 legislature's work is a mixed bag of the good, the bad and the ugly.

Facing a \$154 million deficit in January, the legislature produced what it claims is a balanced budget without broad-based tax increases. In fact, in the face of Gov. Douglas's not so veiled veto threat, it even lightened the business tax burden by allowing many Vermont businesses to claim the full 9 percent domestic production credit against state taxes as well as federal. It also liberalized capital gains treatment for investments in Vermont businesses.

To reach a putatively balanced general fund budget, the legislators made changes in the two state re-

irement plans (\$17 million), and continued a state employee pay freeze (\$9 million). But the remainder of this apparent fiscal miracle contains two highly suspect elements.

Internal human service program changes are credited with a \$39 million spending reduction, and the "Challenges for Change" initiative is "assumed" to produce another \$38 million. The former is too complicated to grasp, and the latter – amusingly touted by Gov. Douglas as "reforming government" – is highly speculative.

The "Challenges" effort was conceived as a way of streamlining state government and thereby saving money without reducing any programs or services. The \$38 million in "assumed" savings put forth by the highly overpaid consultants last January was apparently based on no analysis at all. Next January, when another \$122 million in savings must be found, be prepared to hear that much of the "assumed" Challenge for Change savings failed to materialize, and it was the other guy's fault.

Perhaps the most notable achievement, other than avoiding a veto battle, was putting the Unemployment Insurance program back on track, after recession-incurred payouts drove it well into the red. Businesses saw their taxable wage base rise from \$8,000 to \$16,000 (in 2012); unemployed workers saw their benefits delayed a week, and then frozen at the present \$425 a week maximum. This issue will have to be revisited again, as early as next year.

The legislature agreed to bond \$10 million for a new mental health facility for – get this – the 15 most difficult or dangerous patients. The Federally-decertified Vermont State Hospital has been a costly sinkhole for a decade, mainly because the bureaucracy cannot conceive of "treatment" that does not involve "facilities" staffed by certified professionals and unionized workers.

One bright spot was the disappearance in the Senate of the House passed-bill to force Entergy to set millions aside to restore the

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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.

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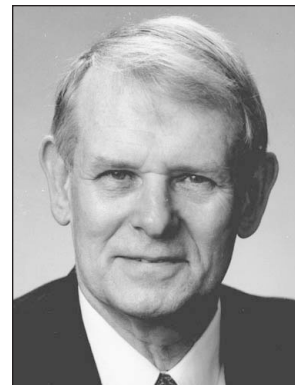
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PRESIDENT'S MESSAGE



Requiem for the Legislature

The 2009-2010 legislature has faded into history, and none too soon. It's a strong candidate for the most liberal (i.e. worst) legislature ever assembled in our State House. One shudders to think what it would have sent to the Governor had the fortuitous recession not reduced the available revenues.

Vermonters can be thankful that Gov. Jim Douglas, in his last year in office, made a serious and moderately successful effort to rein in the legislative leadership's penchant for raising taxes, imposing new mandates, expanding government programs, destroying our energy future (see page 4), and exterminating parental choice in education. At this writing he has not indicated whether he will veto Sen. Racine's government health care takeover design project (S.88), or the Education Blob's proposal for bigger school districts, more centralized control, and less choice (H.66). Let's hope he does.

What the legislature and governor have not done, despite the hoopla over their shared "Challenges for Change" illusion, is face up squarely to the hard fact that Vermont has more government than its revenue producers – that would be businesses and people – can afford to pay for. Applying more grease to state government to improve its efficiency is worthwhile, but it does not solve this overriding structural problem.

With the legislative threat in remission for the moment, Vermonters need to focus on the coming election festivities. EAI will host a training workshop for assorted activists, probably on July 17 in Montpelier (see page 6).

Enclosed in this issue is our *Vermont Voter's Report Card 2009-10*. It was extraordinarily difficult this biennium to find clear-cut and important votes, but we did the best we could. Contact us for more copies to distribute.

(ACTING PRESIDENT)



**Sheraton
Burlington**
HOTEL & CONFERENCE CENTER

The Sheraton Economic Series presents –

The Global Challenge for Change How Not to Be Greece or Toast

David Hale

Wednesday, June 9, 2010 – Sheraton Burlington

Social (half) hour at 5:00, Program at 5:30



David Hale, a St. Johnsbury native, is one of the world's leading economic consultants, with clients in the U.S., UK, Australia, South Africa, Japan, Hong Kong, and China, where he is chair of China OnLine.

This is the seventh time that the Ethan Allen Institute has had the pleasure of presenting David Hale to the Vermont business and finance community and the general public, in cooperation with the Sheraton Burlington Conference Center.

The Sheraton Economic Series is co-sponsored with the Lake Champlain Regional Chamber of Commerce, Vermont Economy Newsletter, Vermont Business Magazine, and Vermont Tiger.

Public invited – reservations not required.



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MORE COMING EVENTS

Saturday, July 17-----“**Advancing Freedom and Responsibility**” Workshop, Essex Grange Hall (tentative), 1:00-5:00. See page 6.

Friday, July 30-----Annual **Friedman Day** presentation celebrating the life and thought of the great economist Milton Friedman, presented by one of his University of Chicago students, Vermont business leader (and EAI Director) Bill Sayre (Sheraton Economic Series).

Wednesday, August 18 ----(tentative) Former U.S. Comptroller General David Walker, **America's Fiscal Wake-Up Tour** (Sheraton Economic Series).

Vermont's Looming Energy Sinkhole

A sizable and vocal group of Vermont activists can't wait to see the legislature shut down the Vermont Yankee nuclear plant. Alas, they have no idea how to replace its energy and economic contribution to the state.

Voting Yankee off the island will not get rid of the need for the 285 megawatts of dependable base load power that it delivers to Vermont utilities each year at bargain prices. Despite over \$30 million extracted each year from electric ratepayers to finance Efficiency Vermont, energy savings from conservation are not likely to cancel the growth in electricity consumption as the region emerges from the recession. Tell us again, where will that energy come from?

"Wind power!" they proudly declare. Well, let's see. Proposed wind projects have already been stymied by local opposition in Londonderry, Sutton and Ira. A strong proposal for four turbines at the abandoned radar base on top of East Haven Mountain was killed off by a PSB requirement that the promoter spend tons of money to assess the potential threat to birds and bats.

VELCO, the state's transmission utility, estimates that inland wind turbines deliver about 15 percent of their rated capacity. That means the New England ISO power grid operators have to have lots of reserve power readily available when the wind inconveniently stops blowing.

Howard Axelrod, an independent power grid consulting engineer, has

estimated that Vermont would need at least 800 Mw of installed wind power to replace Yankee's 285 Mw. That indicates at least 400 2 Mw-rated turbines would need to be erected on Vermont ridgelines, plus all the transmission lines and access roads.

It would take at least five years to replace Yankee with a combined cycle natural gas plant, burning gas brought up by nonexistent pipelines from Massachusetts. Such plants work well, but put the grid at the mercy of fluctuating Midwest or Canadian natural gas prices. Past proposals to extend natural gas lines northward into Vermont have been hooted down by the enviros.

Yankee now supplies 6 percent of the electricity in the New England grid. Unless demand nosedives, that 6 percent (600 Mw in all) of base-load power will have to be found somewhere. Where? Coal-fired plants in the Ohio Valley? Somebody else's (unbuilt) nuclear plant?

When the New England ISO is unable to put enough juice into the grid to meet the New England Reliability Commission's performance standards, either some large users have to be cut off, or New England will suffer a brownout. To avoid this result, the ISO has to make desperation purchases at, frequently, astronomical prices.

Bringing in power from distant generators brings its own set of problems. There is presently not enough long-distance transmission capacity to keep 285 Mw of additional power flowing reliably into Vermont. Building more high-voltage transmission lines, of course, brings out the enviros and their lawyers.

What will happen to Vermont's economy if Yankee winks out in 2012? Its 669 employees (average wage: \$104,000) will start disappearing. The \$93 million Yankee injects into the Vermont economy will start heading south. The state's desperate General Fund will lose \$7.6 million a year, and the Education Fund will lose \$6 million a year.

These economic facts, and more, are contained in a report prepared last January for the International Brotherhood of Electrical Workers Local 300 by the highly reputable Vermont Economic Consulting Inc. The study used payroll data in a well-established economic model, and did not inflate its findings by adding in speculative benefits.

Vermonters should be shocked at the militant attitude of one of the three anti-nuclear Democratic Senators running for Governor on promises of creating good new jobs for Vermonters. According to George Clain, head of the IBEW Local, the unnamed Senator (it's doesn't take a genius to figure out which one) informed the labor leader that "your members [at Yankee] have two years notice – they should be looking for other jobs."

Former Gov. Tom Salmon, a Democrat, told a Vermont Energy Partnership conference in Montpelier last month: "The loss of Vermont Yankee would be a profound and unmitigated blow to Vermont and its people." Next January the 2011 legislature will have one last chance to avert that blow. Voters concerned about living in a brownout world ought to put every candidate on the record early on. The size of this looming economic and energy sinkhole is far too important to overlook.



VERMONT TRANSPARENCY

Reaching a budget agreement with Governor Douglas was one of the Legislature's final acts before adjourning on May 12. All of the details are available on Vermont Transparency at www.vttransparency.org. Click on the "current session" tab to see a comparison of the 2011 budget the governor proposed back in January and the final version passed by the Legislature. On the "state spending" page, you can compare the fiscal 2011 budget with budgets back to the early 1990s. You can click on a specific spending function and bring up a line chart showing spending for that function since 2001.

Coming soon (we hope) are the long-awaited vendor files, so you can learn who got taxpayer dollars, when, how much, and for what purpose. This has been gestating for a year because the State data files do not show this information in one place, and combining the databases awaits the attention of Finance & Management.

– JMc

www.vttransparency.org

Wrapup

Continued from Page 1

Vermont Yankee site in Vernon to the "greenfield" condition once enjoyed by the Abenakis. Let's hope this madness has finally passed, and the next legislature comes to grips with the need of Vermont businesses, farms, schools, governments and ratepayers for Yankee's 285 Mw of reliable, bargain priced base load electricity. If they don't, you'll know who to blame for the brown-outs.

Another bright spot was the disappearance of the shopworn mandatory seat belt bill. Both chambers did agree on a texting-while-driving ban on under-18 drivers, and primary seat belt enforcement for them only. If the police abuse this provision, only non-voting teenagers will feel the brunt of it.

The really ugly provision was the passage of Sen. Racine's latest government health care takeover bill (S.88). This politically motivated proposal will shell out yet another quarter million dollars to yet another consultant to design three more plans, all of them coercive, bureaucratic, expensive, and destructive of our health care providers. This "taxpayers must pay for my human right to enjoy all the health care I think I deserve" issue will be fought again starting in January, if vetoed or not.

The other really ugly provision was a "voluntary redistricting" measure for public schools, supposedly in the name of cost efficiency (undocumented and highly dubious). The parents in every tuition town school district whose voters agree for it to join a new Re-

gional Education District – other than a remarkable mega-district that operates no schools at all – will find that their cherished educational choices have been handed over to the regional educrats who view parental choice as a mortal threat to their careers and job security.

Tuition towns will be allowed to go it alone and keep their parental choice, but continual official pressure and the enticement of property tax rate reductions will eventually extinguish, rather than expand, this popular Vermont practice.

The 2010 legislative outcome was, as usual, a mixed bag. Let's hope that next biennium there will be a lot less of the bad and the ugly. That of course will depend on who Vermonters elect in November.

The Commissioner Speaks: “My recommendation [to meet the Challenge for Change] was to ... increase our adult-to-student ratio”. Education Commissioner Armando Vilaseca (Rutland *Herald*, 4/29/10).

Increase the “adult-to-student” ratio? Vermont has the second highest adult-to-student ratio in the nation: lots of teachers, not many pupils (1:11). What in the world does he want to increase it to? And how will that save money, again?

And then this: “If something does not occur soon, schools will be forced to make harmful cuts for the sake of reducing costs.” Yes, that would be the reason for making the cuts.

Dishonest Statement of the Year (So Far): From House Education Chair Johanna Donovan, following passage of the school consolidation bill: “I vote yes on H.782 ... The school choice that exists in Vermont today will continue to exist the day after this bill is enacted into law.”

Yeah, and maybe for another year or so – before the bill’s machinery deliberately snuffs it out.

Value-Added Tax Grab: “A Value-Added Tax is the political class’s recourse when the resources of the minority that is targeted by the envious

NEWS & VIEWS

are insufficient to finance ravenous government.” – George Will (JWR, 4/18/10).

Overpaying for Green Power: “The evidence from Europe is in. Feed-in tariffs don’t appreciably cut greenhouse gas emissions and are not every effective at accelerating energy innovation. Yet American states [like Vermont] and municipalities appear to be adopting this failed renewable strategy just as the Europeans, who invented it, are scaling it back.” – Ron Bailey (*Reason*, May 2010).

NASA on “Global Warming” Models: “Global records of surface temperature over the last 100 years show a rise in global temperatures (about 0.5° C overall), but the rise is marked by periods when the temperature has dropped as well. If the models cannot explain these marked variations from the trend, then we cannot be completely certain that we can believe in their predictions of changes to come.” (NASA Facts NF-122, 4/98.)

Washington on Duty and Virtue: “There exists in the economy and course of nature, an indissoluble union between virtue and happiness; between duty and advantage; between the genuine max-

ims of an honest and magnanimous policy, and the solid rewards of public prosperity and felicity; since we ought to be no

less persuaded that the propitious smiles of Heaven can never be expected on a nation that disregards the eternal rules of order and right, which Heaven itself has ordained.” (George Washington, First Inaugural Address, 1789.)

Conservative Compassion: “If liberals and moderates gave blood at the same rate as conservatives, the blood supply of the United States would jump about 45 percent.” – Arthur Brooks, *Who Really Cares* (2006).

Of course, if you allowed liberals to count blood extracted from taxpayers by their politicians to fund their compassion bureaucracies, they’d be well ahead.

Reagan on Government: “We must remove government’s smothering hand from where it does harm; we must seek to revitalize the proper functions of government. But we do these things to set loose again the energy and the ingenuity of the American people. We do these things to reinvigorate those social and economic institutions, which serve as a buffer and a bridge between the individual and the state – and which remain the real source of our progress as a people.” (Address, 3/20/81.)



The Ethan Allen Institute will host an activist training workshop for advocacy group and tea party members and campaign workers. The program will be conducted by the staff of American Majority, and held on **Saturday, July 17**, 1-5 p.m. in (probably) Montpelier. Full details coming soon via internet and in the July *EA Letter*. The workshop will be followed at 5 p.m. by a “Meet the Candidates” rally hosted by Green Mountain Patriots and other groups. Save the date!

Lisman Speaks to Packed House at Sheraton

Over a hundred people packed into the 60-seat University Amphitheater at the Sheraton Burlington May 13, to hear distinguished Vermonter Bruce Lisman speak on “Finding Skin: How Vermont can become its own version of an economic powerhouse without abandoning its values.”

Starting out as a file clerk on Wall Street, Bruce rose to the top levels of finance as global equity group manager of Bear Stearns and JP Morgan Chase, and as a board member of Merchant Bancshares, National Life Group, and CVPS, and his alma mater UVM.

An enthusiast for the future of his native state, Bruce argued that economic growth and prosperity are of the first magnitude of importance for the people of Vermont, and that fact must be reflected in a sense of purpose among our policymakers.

Vermont government needs to be transparent, with accountability built into every structure. The government should refrain from trying to choose and favor winners. Expand opportunity for all, the winners will select themselves. In doing so, the poverty problem will begin to shrink to a minimum.



Vermont needs to retain its traditions of solicitude for the less fortunate, kindness and caring, frugality, and investment in education and workforce development. As the state’s leading university, UVM needs to put more emphasis on commercializing its research and innovation.

To achieve the needed growth, the legislature should lower the corporate tax rate and the capital gains rate, reduce the estate tax, and find ways to encourage more

capitalization of new enterprises. This, Lisman said, could be Vermont’s moment if we work together toward this shared vision.

Among the notable attendees were National Life CEO Mehran Assadi, Merchant Bancshares CEO Mike Tuttle, Union Mutual CEO Josh Fitzhugh, Auditor Tom Salmon, and candidates John M. Mitchell (House), Matt Dunne (Governor) and Chris Roy (Secretary of State.)

Spirit of America

Four years ago, Institute members raised over \$2,000 for Spirit of America, the organization that uses American donations to assist Army, Navy and Marine units to set up sewing projects, construction training, soccer leagues and schools in Iraq and Afghanistan.

Spirit of America has won profuse praise from American soldiers and Marines on the front lines. It’s not just about being nice to the less fortunate. It’s about building trust relationships that yield actionable intelligence

against Al Qaeda and the Taliban. With 1,400 Vermont National Guard soldiers now deployed in Afghanistan, SoA is even more worthy of your support.

EAI President John McClaughry recently met with deputy chief of staff BGen Pidgeon to put VTANG units in Afghanistan in touch with SoA. EAI members who didn’t get in on that first round can help by going to www.spiritofamerica.net and making contributions directly.



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WDEV Radio Commentary

May 2010

Jefferson on the Alien and Sedition Acts

MEDIA In 1798, alarmed by the activities of French agents in the new nation and fearful of voices raised against the Adams administration, the Federalist Congress enacted the Alien and Sedition Acts. The most shocking of these authorized a \$2,000 fine and up to two years in jail for anyone who uttered or published false or scandalous statements about the Congress or the President.

One Thomas Cooper of South Carolina was tried and convicted for publishing a handbill critical of overgrown government, wasteful spending, and questionable statements by the President.

The Democratic-Republican Party was shocked and horrified. Here's what Thomas Jefferson himself had to say at the height of the controversy.

“The spirit of 1776 is not dead. It has only been slumbering. The body of the American people is substantially republican. But these virtuous feelings have been played on by some fact with more fiction; they have been the dupes of artful maneuvers, and made for a moment to be willing instruments in forging chains for themselves.”

Two years later the Democratic-Republican Party swept to power. Jefferson was elected President. The Alien and Sedition acts expired. Jefferson denounced them as “a palpable and unqualified contradiction to the Constitution” and pardoned men convicted under it.

There's an inspiring lesson here for today's Americans, who revere the Constitution, are alarmed by ever expanding government power, have their own resistance movements, and are looking for their Jefferson.

– John McClaughry