



# The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

*A Monthly Publication of The Ethan Allen Institute*

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## Muddling Through the Looming Deficit

### COMMENTARY

The struggle is well under way in Montpelier to shave the FY2011 General Fund budget down by \$150 million. It is instructive to explore just how the Governor thinks this ought to be done, in a “balanced, compassionate, and sustainable” way, of course.

First, a fair-minded critique of the Governor's proposed budget must recognize that budgeting is always a difficult business. Governor Douglas deserves credit for courageously proposing some choices that will surely be unpopular.

Having said that, let's look at the first big item: \$38 million in expected “Challenge for Change” savings. These savings will hopefully be achieved by telling certain state agencies to reduce spending or else. This is reminiscent of Gov. Dean's deficit solution in 1993, when he decreed that every agency must lop off one percent of it spending. Problem solved!

That technique, however, forces agency heads to find savings from programs and practices that have the fewest political defenders, or will least interfere with the management of the agency. These savings are not necessarily those that a rational analysis, built upon a prioritization of state government functions, would likely yield. In short, it's likely to be more of a fig leaf than a reform of lasting value.

Consider the welfare program. The Governor's budget says we ought to “remove recipients from the [ReachUp] program when they chronically refuse to complete their family development plans or to meet work requirements.”

The Agency of Human Services, heavily influenced by the notion that poor people are victims, has long exhibited a reluctance to enforce serious sanctions for refusal to work. Vermont is long overdue for achieving the welfare reform successes of Wisconsin, Florida, and Wyoming where, in effect, the government told applicants “No more free ride. Prepare yourself, show up at the job we found for you, work conscientiously, and start climb-

ing the ladder toward economic security. (We'll help you).”

With money tight, maybe AHS will now start doing this. Whether it will save much money is another question, partly because there are lots of escape hatches from actually having to work, and entry-level jobs are regrettably scarce just now. The state won't move toward a Wisconsin model by telling AHS to reduce its budget by X%. To his credit, Gov. Dean wanted to go down this path in 1992, as did the Democratic-controlled House – but liberal Sen. Doug Racine stopped it dead in the Senate.

The Education Fund budget proposal (\$1.32 billion) says “pressure needs to be exerted that not only inhibits such [education spending] increases, but actually results in staffing decreases to affordable levels.” Will the state, now in total control of public education finance, tell local school districts that the Education Fund won't pay districts what their voters approved, until the district achieves mandated pupil-teacher ratios? Possibly, but not likely.

See **Muddling**, Page 5

*EAI's Sheraton Economic Series continues March 18 – see p. 3*

# The Ethan Allen Letter

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

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

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# PRESIDENT'S MESSAGE

## Digging Out of a Large Hole



Take a look at the JFO chart on page 8. It shows the expected General Fund deficits for FY11 and the following three fiscal years.

The legislators and governor are struggling to close a \$154 million gap for FY11. Last year, aided by Federal "stimulus" money, they produced what they fervently hope is a balanced budget for FY10. (That was the legislature's budget, passed over the governor's veto).

After FY11 there won't be any more "stimulus" money. Vermont will be largely on its own. The legislature and governor have persuaded themselves that they can reduce spending by \$38 million (of the needed \$154) through "efficiencies", to be identified and implemented by bureaucrats. (AHS will be given \$1 million to figure out how to save its \$18 million.)

A normal person would be excused for believing this is an act of desperate imagination.

What should they be doing? Look at the "Golden Oldie" item on page 7. It's the conclusion of a commentary entitled "Beyond Restructuring State Government". It appeared in August 1995. (Read it all on our web site.)

They still don't get it, but I am constantly seeking new ways to explain it.

President (Acting)

PS: If you think EAI's voice is needed now more than ever, please remember to renew your contribution for 2010, if you're not one of the 350 who have done so already.

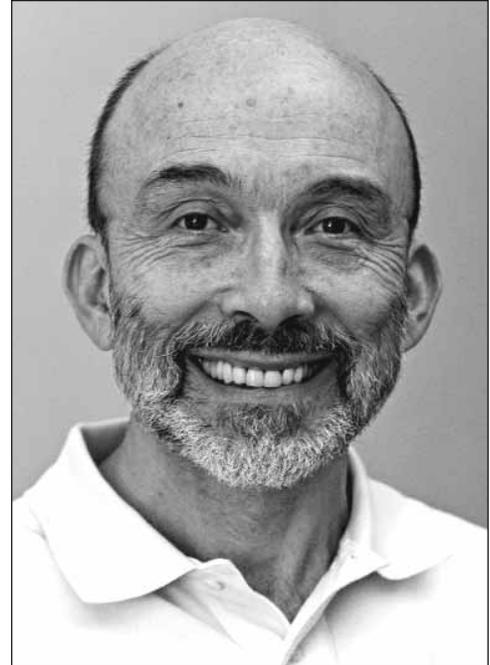
*The Ethan Allen Institute presents*

**SHERATON ECONOMIC SERIES 2010**

# Regulating the Banks: LESSONS FROM THE RECENT CRISIS

*featuring* **DR. MEIR G. KOHN**  
Professor of Economics, Dartmouth College

**Sheraton Burlington – Emerald Ballroom**  
**Thursday, March 18, 2010 – 5:00-7:00 p.m.**



An internationally known expert in finance, markets, banking and regulation, Prof. Kohn will autopsy the bodies left from the “Crash of 2008” and answer questions from the audience. His presentation is part of the ongoing Sheraton Economic Series.

Prof. Kohn will also address the regulatory proposals currently before Congress, and look ahead to what those changes are likely to mean for financial markets, banks, brokerages, and the economy as a whole.

Prof. Kohn is the author of three textbooks on financial economics and has taught at Dartmouth College since 1979. He serves on the Academic Advisory Panel of the Federal Reserve Bank of Boston and has been a consultant to the World Bank, Hebrew University, Bell Communications Research, and the RAND Corporation.

Prof. Kohn was born in the present Czech Republic, raised in the United Kingdom, and educated in Israel and the United States. He earned his bachelor’s and master’s degrees at Hebrew University in Jerusalem, and his PhD at MIT.

***“An excellent speaker on a crucial economic issue.”***  
– Dr. James F. Gatti, Professor of Finance, UVM College of Business

The Sheraton Economic Series is sponsored by the Ethan Allen Institute, hosted by the Sheraton Burlington Conference Center, and cosponsored by the Vermont Economy Newsletter, Vermont Business Magazine, Vermont Tiger, and the Lake Champlain Regional Chamber of Commerce.

Reservations not necessary – no admission charge



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# Think Again: Vermont's Nuclear Future

## COMMENTARY

On February 24 the liberal Vermont legislature voted a potential death sentence for Vermont Yankee, the source of one-third of the state's electricity. In doing so it became the first time in American history that politicians voted to shut down a safe, reliably operating nuclear reactor. In fact, Vermont is the only state in the union where legislators have ever given themselves the power to order a shutdown.

The anti-nuke people, led by Senate President Peter Shumlin, have for years been trying to shut down Vermont Yankee solely because they believe nuclear energy to be an unsafe and indeed immoral blight on humanity.

In recent years, Entergy Nuclear Vermont Yankee, since 2002 the licensee of the plant, has given encouragement to its opponents. The Vernon plant has had a series of maintenance embarrassments – none of them consequential, but together enough to give the public the idea that the plant is a threat to fish, groundwater, bystanders, and future generations. Most recently, the opponents seized on a careless statement by an Entergy vice president (now departed) to charge that the company was lying about the existence of underground piping.

Let's look at the consequences if Shumlin's forces ultimately succeed in voting Vermont Yankee off the island.

By late 2012, the cheapest and most reliable third of Vermont's electricity will disappear. There is zero possibility that it can be re-

placed by any believable combination of conservation, wind turbines, solar panels, cow power, and landfill methane. Moreover, the wind and solar kilowatts come with a price tag from three to five times the price of Vermont Yankee's nuclear electricity. Furthermore, keeping the power grid stable when a third of the supply comes from unreliable sources remains an unsolved engineering problem.

We might be able to double the power purchased from HydroQuebec – if its management has forgiven Vermont for its ill-advised lawsuit aimed at breaking its supply contract after the ice storm of 1998. But that would leave Vermont with two-thirds of its power from a single supplier, not a good idea.

More likely, we would end up going to the New England electric grid operator (ISO) and asking it to send up whatever we need from wherever they can find it – mainly coal-burning plants – at whatever price they can get it for. This would not only be expensive, but it would defeat our self-imposed goal of cutting carbon-dioxide emissions back to 75 percent of 1990 levels (!) by 2012, and 50 percent by 2028.

In 2002 ENVY and the PSB agreed that after decommissioning the Yankee site would become a "greenfield", such as the Abenaki once roamed. That will cost an estimated \$900 million.

Since there is only \$427 million currently in the decommissioning trust fund, the plant will have to go into SAFSTOR for a decade or two until the fund's earnings grow to cover the work. That might produce an opportunity even after an ill-advised legislative death sentence.

SAFSTOR is estimated to cost about \$40 million per decade, for

monitoring and security. Ten years after 2012, when much of the residual radioactivity has disappeared, the reactor core and piping systems would be removed. All the spent fuel rods would be removed to a storage area.

By 2022 new Generation IV nuclear systems ought to be on line. With the Yankee site's good location, 125 acres, rail spur, cooling towers, switchyard, security, shops, and land use permits intact, what better place to site an Integrated Fast Reactor, coupled with a pyroprocessing facility to recover the 95 percent of energy stored in spent fuel rods? Or a high temperature Pebble Bed Modular Reactor, whose very hot steam facilitates efficient electrolysis to produce hydrogen for our non-polluting fuel cell vehicles?

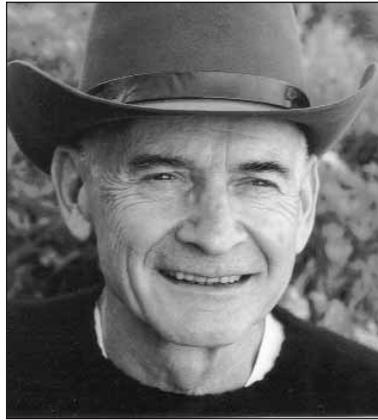
Thirty-four Republican legislators, led by Rep. Pat O'Donnell of Vernon, have introduced a resolution (JRH41) that envisions such a conversion, notes that President Obama is a new fan of advanced nuclear energy, and recognizes the importance of the high-skill jobs that would come with a new generation reactor station in Vermont. It calls on the legislature and PSB to start planning for it now – regardless of whether Vermont Yankee is relicensed.

And here's a kicker: not having to "greenfield" the plant in Vernon in, say, 2022 would make it unnecessary to spend a ton of money – possibly into the hundreds of millions of dollars. If the current PSB order remains in force, the licensee would have to return any leftover funds after decommissioning to ratepayers. If the plant is converted to a new use, that provision could be amended, and the excess used to restore the Unemployment Insurance fund for years.

## Paul Preseault, 1933-2010

Paul Preseault was a great American. He was a man with character and principles. When his country called, he served. When a greedy government tried to take his land, he stood up and fought them to a standstill over 21 years, and finally cashed their check.

Paul told me once that at the beginning of the Burlington rail trail ordeal, he was willing to reach some workable compromise. But when he found that the city and the Governor were determined to take what was his, he said “like Hell they



will.” That was the moment, in my mind, when Paul became not just a good American, but a great American.

He was willing to stand up for his principles, not just when his own land was at stake, but when everyone’s property rights were threatened. Through his service to Citizens for Property Rights and his unwavering support of the Ethan Allen Institute, and doubtless through channels that I do not know of, Paul helped all of us lift the torch of liberty and keep it burning bright. R.I.P – JMc

## INSTITUTE NEWS

At its meeting on February 20, the Board enthusiastically elected **Frank Mazur** of South Burlington as its newest member. Frank was for many years an executive at IBM, chairman of the Chittenden County Transportation Authority, and a Representative from South Burlington. He served as chair of the House Transportation Committee and is a recognized expert on transportation issues. Frank has served on EAI’s Advisory Council since 2005. Welcome aboard!

The Board also welcomed Brad Zuber of Pawlet to its

Advisory Council. Brad, a CPA and CFO of a growing firm in Bennington County, was a longtime associate and speechwriter for Gov. Pete duPont of Delaware, and a candidate for Mayor of Wilmington.

In other business the Board re-elected Directors Chris Robbins, John Cueman, and Art Woolf, Vice President John McClaughry (acting President), and Secretary-Treasurer Anne McClaughry. The Board is developing a comprehensive strategic plan for 2010-2013, and expects to be seeking candidates for President/CEO in the near future.

## Muddling Through the Looming Deficit

Continued from Page 1

If the governor wants to reduce education spending, he could propose to relocate special education responsibility from school districts to the state Department of Education. Let the state give tuition vouchers to parents to be used to the child’s best advantage (the McKay Scholarship program in Florida), and defend against lawsuits demanding exorbitant expenditures.

Then give vouchers to the remaining parents to choose the public or independent educational program that they believe best suits their kids – many of which charge tuition well below that of the increasingly costly public schools.

No one in Montpelier dares to propose any meaningful parental choice

out of fear of the public education lobby. Instead, the state’s “solution” is likely to be more command-and-control decrees from Montpelier to local school districts, and the creation of regional education districts. That consolidation would assuredly not save any money. It would, however, make life easier for bureaucrats and please the teachers union by extinguishing school choice for thousands of kids who now have it.

A third example: the Housing and Conservation Board, for which the Governor proposes level funding but an overall \$3.9 million spending increase. The HCB runs one of the state’s five housing assistance programs, and buys up land rights in the name of conservation. The obvious re-

form is to consolidate the housing programs (together paying 130 employees \$9 million), stop buying land rights, and terminate the HCB. That won’t happen this year.

Basic point: the legislature can shave spending here and there, raise minor taxes and fees here and there, and maybe – maybe – close this year’s huge budget deficit. That’s called muddling through.

What Vermont really needs is a bold strategy to shrink the size and cost of government to what our overcharged taxpayers can afford, and stimulate our economy to wealth producing growth. There won’t be much of that this year.

*(See the JFO deficit graph on p.8.)*

# NEWS & VIEWS

## FEE Summer Seminars:

The Foundation for Economic Education is, for the 48th year, hosting summer seminars in history, economics, and liberty generally. If you're accepted for these stimulating programs, FEE pays all expenses other than airfare. High school and college students and adults attend. To apply: [www.fee.org](http://www.fee.org).

## Unraveling Education Spending

is the title of a five-part mini-seminar series by Hugh Kemper of Vermont Tiger ([www.vermonttiger.com](http://www.vermonttiger.com)). Kemper presents incisive and readily understandable tables on screen, with a voiceover that explains just why we are spending so much on public education.

Sample: From 1997 to 2008 public school enrollment declined at 1.1% a year, while staffing increased by 1.9% per year. Vermont current expenditures per pupil increased by a compounded 7.4% per year over this period – 139% of the U.S. average, and more than twice the rate of inflation.

**Memo to Senate Education:** On February 25 EAI President John McClaughry, formerly vice chair of the Senate Education Committee, presented written testimony on the pending bill (S.252) to reorganize the state into regional education districts.

Conclusion: “Do not swallow ‘reorganization’ unless its advocates go on the record that it will reduce taxpayer expenditures; put in consequences for failing to keep their promises; and protect and enlarge parental choice wherever possible.” (Memo available on our web site.)

**Who Took the Hit:** “From 2007 to 2008, total adjusted gross income earned by Vermonters fell by \$598 million. The AGI earned by those earning over \$200,000 fell by \$614 million, which means these high-income people accounted for all of the income decline experienced by state residents.

“In calendar year 2008, the total net income taxes paid by Vermonters fell by \$36 million ... Taxes paid by those

earning over \$200,000 declined by \$37 million. All of the income tax decline came from those at the top.” (VEN, 2/10.)

## Free Press Ignorant of First Amendment Law

Your editorial of January 15, opposing “tax dollars to aid religious schools”, displays a regrettable ignorance of First Amendment law.

In the Cleveland school voucher case of 2002, the U.S. Supreme Court held that the Establishment Clause of the First Amendment does not prohibit a state from giving children tuition vouchers to enable them to transfer to private schools, including religious schools, that their parents believe to be academically stronger, safer, and more committed to character values.

The key factors in the Court's decision were that the Cleveland voucher program had a valid secular purpose; was neutral with respect to religion; provided assistance to a broad class of citizens; and allowed those citizens to make their own private choices about their children's education.

I agree that for the state to give money to religious schools entangles the parties in a relationship unhealthy for both. But there is no longer any “difficult First Amendment questions” when the state gives money to empower parents to choose among many education providers, secular and religious, in the best interest of their children.

*John McClaughry (1/27/10)  
Ethan Allen Institute*

## AIV on the Yankee Vote:

“If Yankee is not relicensed, employers planning their future in Vermont can expect significant cost increases in

replacing its power, utilities will be in a poorer position to negotiate favorable contracts with other providers even beyond replacing Yankee, and the state will be hit by the loss of a major employer.” – AIV VP Bill Driscoll (2/25/10).

**Shumlin on “Jobs”:** Sen. Peter Shumlin, architect of the “kill Yankee” vote, explained that shutting down Yankee would be a boost for “jobs”. That means we'll have to find 640 high-paying jobs to make up for shutting down Yankee, and then more. How? By invoking “renewable energy”. This fatuous explanation ranks along with Secretary of State James Baker's explanation that the first Gulf War was about “jobs, jobs, jobs”.

In 2002 the leading Douglas campaign slogan was “Jim = Jobs”. This year's may turn out to be “Shumlin = Shutdown”.

**How New Zealand Did It:** “We eliminated all of the Boards of Education in the country. Every single school came under control of a board of trustees elected by the parents of the children at the school, and by nobody else. The parents had an absolute right to choose where their children would go to school. We converted 45,500 schools to this new system all on the same day [in 1985].” – former NZ cabinet minister Maurice McTigue (February 2004).

Results: PISA 15-year-olds in science, 2006: 47 – country average score: 500. New Zealand 530 (4th). U.S. 489 (21st.) (2009 reading results not yet published.)

**Cap and Trade Handbook:** Heartland Institute has published an attractive, concise (8 p.) explanation of what the Waxman-Markey cap and trade bill would cost consumers (not pretty). Download from [www.heartland.org](http://www.heartland.org).

*Continued on Page 7*

# NEWS & VIEWS

**Obama on Cap and Trade:** “I’m capping greenhouse gas [emissions] ...

That will cost money. They [utilities] will pass that money on to consumers under my plan ... Electricity rates would necessarily skyrocket.” (SF *Chronicle* interview, 2008.) Ouch!

**Grievous Error of the Month:** “When student enrollments decline, school revenues decline.” – Rutland *Herald* editorial, 2/17/10.

In fact, student enrollment has nothing whatever to do with school revenues. It does figure into cost per pupil, which in turn affects the residential property tax rate, but the state pays out what local voters voted regardless of enrollment.

**Sam Adams on Liberty:** “If ye love wealth better than liberty, the tranquility of servitude better than the animating contest of freedom – go home from us in peace. We ask not your counsels or your arms. Crouch down and lick the hands which feed you. May your chains set lightly upon you, and may posterity forget that you were our countrymen.” (Philadelphia, August 1776.)

**Golden Oldie:** “Reform is not paying more for more of the same stuff. Reform is changing systems so that they become user-friendly, distribute useful information, promote individual responsibility, maximize con-

sumer choice, circumvent and shrink unresponsive bureaucracies, conserve the taxpayers’

dollar, and put the people the systems are supposed to be serving in the driver’s seat instead of the back seat, or even the trunk.” (EAI Commentary, 1995.)

**Minimum Wage Insight:** To avoid political unrest over urban unemployment, the Indian government has declined to set minimum wage rates high enough to justify the use of wheelbarrows rather than head-baskets for earth-moving. Because wheelbarrows cost more than baskets, an investment in such high-tech equipment can’t be justified when wage rates are low. (MH, 2/14/10.)

## REVIEW

### Terrestrial Energy

Last month author William Tucker took the pro-nuclear side of a debate at UVM’s Janus Forum. That appearance ought to have increased demand for his book *Terrestrial Energy: How Nuclear Power Will Lead the Green Revolution and End America’s Energy Odyssey* (Baltimore: Bartleby Press, 2008, pp. 388).

Tucker ably explains the science, history, and current politics of nuclear-generated electricity. He is particularly good at explaining California’s electricity crisis of the 1990s (the state’s politicians bought into the Shumlin renewable energy mantra, and put price controls on retail electricity that dragged its leading utilities into bankruptcy.)

The book is also quite good on the Three Mile Island and Chernobyl accidents. No one was injured at

Three Mile Island, and most of the 53 Chernobyl fatalities were workers forced by Moscow to enter the ruined plant to cool off the wreckage.

The author takes a fascinating tour of the efficient French nuclear reprocessing facility, and observes that the U.S., thanks to Jimmy Carter and enviros, is missing the boat on converting spent fuel rods into a major new energy source.

Tucker is especially good and blowing up outlandish anti-nuke claims, pointing out the impracticality of renewable energy sources, and the hypocritical regulation of the dirtiest fuel, coal.

If you only read one book on nuclear energy, make it this one. – JMc

### Do we have your email address?

If you are not getting our occasional emails announcing events, publications, etc., please send an email to [eai@ethanallen.org](mailto:eai@ethanallen.org) with subject line “add to email list” – and also telling me who you are in case it isn’t obvious from your email address. (I’m still trying to figure out who “Little Buzzard” is.)

We try not to flood members’ email boxes – usually we send out messages about once a week. You can also unsubscribe at any time by sending that in the subject line. – JMc



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## March 2010

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