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The Ethan Allen Letter

IDEAS FOR VERMONT'S FUTURE

A Monthly Publication of The Ethan Allen Institute

INSIDE:

Tax Raising Mania Seizes the Legislature

COMMENTARY

The legislature is heading at flank speed for an epic showdown with Gov. Jim Douglas. The issue is raising our taxes.

Our overspending state government has had quite a few lucky years. With a rising economy, its legislatures could keep on adding to government benefits, and gaining the political benefits. And they did, until the economy started to sink.

The new Federal "stimulus" law seemed to promise salvation from a projected FY2010 General Fund deficit of more than $200 million. "Stimulus" is where Congress borrows hundreds of billions more dollars from (mainly) the Chinese, allocates $234 million of it to Vermont to keep our overextended state government from crashing, sends the bill to everyone's grandchildren, and then quits after two years, leaving state government back where it started, and probably worse off.

When even "stimulus" transfusions prove insufficient, the liberals in the legislature, faced with the choice of cutting back state spending and employment or raising taxes, invariably raise income tax rates.

There are several arguments offered in defense of the House's recent passage of income tax rate increases expected to yield $65 million in new revenues over three years. Then the "surcharge" is supposed to sunset, as it did on a similar income tax increase 15 years ago.

Let's start with "There's no spending left to cut." Put another way, "we can't agree to anything that results in fewer state employee jobs, because the state employees' labor union worked hard to put us in power and we don't dare honk them off." That latter formulation is at least candid.

A more imaginative argument is this one, offered by Peter Sterling, executive director of the Vermont Campaign for Health Security. Says he, cutting back on state spending programs "is the same as raising a tax on the people who would have received the spending. That's a tax on people making less than $38,000 a year." Sterling did not explain how he happened to arrive at that earnings figure.

Then there's this one, from the Public Assets Institute. It notes that Congress has passed legislation that provides tax credits for 250,000 Vermont taxpayers. A single worker earning up to $75,000 will get a $400 tax credit.

Since Vermont workers now have all this new money from Federal tax cuts, PAI argues that "Vermont [now has] an opportunity to avoid devastating budget reductions and layoffs of state workers" by increasing Vermont income tax rates to produce $60 million over the next three years.

PAI also observes that the Federal "tax cuts are intended to put money into the hands of people who are likely to spend rather than save it." How can these workers spend their tax cut, when the State of Vermont rushes in and snatches it away from them to cover its deficit?

Ah, now we are at the eureka point of tax analysis.

The taxpayers who get the Obama tax credits to "make work pay" (as if work didn't pay previously) are those with incomes below $75,000 ($150,000 for couples). Almost all of the new tax dollars that the Vermont legislature expects to collect from its tax rate increases will come from taxpayers with incomes above $75,000.

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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

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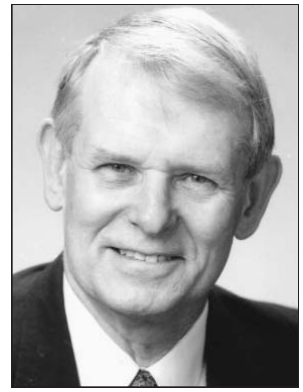
PRESIDENT'S MESSAGE

Go Forth and Spread the Word!



Included in this newsletter you will find the Institute's new four-color brochure, ***Is Vermont on the Right Track … for Prosperity, Responsibility and Liberty?***

Please take a minute to digest its important message – and note especially the words in red: "Join us in advancing the cause of freedom in Vermont".

Our Board, whose members contributed much time and effort to this production, believe that EAI ought to increase its membership – now – to 1,200. So we are asking YOU, our members, to a) renew for 2009 if you have neglected to do so, and b) take the brochure to a like-minded friend and ask them to "join us in advancing the cause of freedom in Vermont".

With the coming of the recession and the perfectly predictable Montpelier budget crisis, what EAI has published and preached over the past 16 years – especially our *Off the Rails* report – is more relevant now than ever.

We need the stronger voice that you can make possible, now. Your efforts as always will be deeply appreciated.

A quick succession report: We have four well-qualified candidates to be our new President and CEO. The Board will make its choice at its meeting on May 27. We expect to make an announcement in June.

Finally: you have heard me describe the current Vermont legislature as the most liberal ever elected in any state in this country (except possibly California's). Its current production of new taxes, mandates, subsidies, and regulations strongly confirms that dismal prediction.

Tom and Ethan Together – for the First Time

Gov. Jim Douglas, Dr. Nick Muller, and former Gov. Tom Salmon discuss old times at the Institute's Jefferson Day dinner.

"Thomas Jefferson, a prodigy of talents, defined his age. The first paragraph of the Declaration of Independence enshrined him forever as the Apostle of Americanism and embraced in his view the whole future of Man."

"Ethan Allen was primarily a guerilla leader, and a brash polemicist who wrote with passion on his sleeve."

"Both were grounded in the liberal philosophical thinking of their age: Jefferson learned at the foot of George Wythe and Ethan at the foot of Thomas Young."

"But there were notable differences. Ethan was a bold soldier, Jefferson never put on a uniform. Jefferson was a paragon of integrity; Ethan lied whenever it promised an advantage. Ethan declaimed against slavery; Jefferson, for all his anguished thought, lived his entire life surrounded by slaves."

That's just a sampler from Dr. Nicholas Muller's talk on "Tom and Ethan" at this year's EAI Jefferson Day dinner at the Windjammer in South Burlington. It was enjoyed by some 48 members and friends, including two governors: Thomas P. Salmon and Jim Douglas. Also present were the executive directors of the Vermont Historical Society and the Vermont Humanities Council, and Vermont's Auditor of Accounts, Thomas M. Salmon.

This was the Institute's 15th annual Jefferson Day event, presented every April to honor Mr. Jefferson's timeless principles of liberty, opportunity, and democracy.

EAI Director Art Woolf, Joe Juhasz, Auditor of Accounts Tom Salmon, John Stewart, Ron Court and Joyce Errecart.

Outside the Center Ring

COMMENTARY

The legislative circus is now in its month-long countdown to adjournment, and the gay marriage issue has dominated the center ring. But there are also side rings, and what happens there can profoundly affect the future of Vermont.

Last week the House passed the FY2010 appropriations bill (H.441). With revenues shrinking, the budgeteers have an exceptionally challenging task. It is all the more challenging because, despite occasional recognition of the need, neither the Governor nor the Democratic legislature have made any effort to undertake a performance review.

The performance review was first conceived a decade ago by Texas Controller John Sharp, a Democrat. It requires time and money, but it produces rational plans for restructuring state programs to maximize efficiency in getting measurable results from taxpayer dollars.

Without a review, legislators and the governor are left whacking away here and there to try to make the budget come out even.

The budget the House passed failed that test. When the budgeteers couldn't agree on reducing spending to the level of expected revenue, they simply declared that they would increase income taxes by $24 million and – somehow – reduce the state payroll by another $14 million.

The state budget is far from the only strange piece of work wending its way toward the governor's desk.

The Senate has just passed a bill (S.89) directing the unelected and unwilling Milk Commission to impose a milk tax on handlers, which grocers will of course pass straight through to consumers. The proceeds so extracted will be handed out to subsidize all of the dairy farmers who produced the milk.

And in an interesting twist, the Senators who opposed a referendum on gay marriage insisted on a referendum approval of the "premium"- not by the consumers who will get hit with the tax, but by the farmers who will pocket the proceeds. The result is likely to resemble the result of Saddam Hussein's last election victory.

Another Senate-passed bill (S.54) will make Vermont the first state in the country to initiate a PURPA program for new renewable energy generation in the state. PURPA, passed by Congress in 1978, required utilities to buy power from small hydro dams at prices well above market. Thus Green Mountain Power was forced to buy power produced from the Winooski One hydro plant at around three times the market price.

This of course socked ratepayers, but it was so lucrative for the plant's owners that one of them became a major contributor to VPIRG, which has been lobbying aggressively for more renewable energy subsidies ever since.

The House has already passed the Vermont Yankee decommissioning bill (H.436). It requires the nuclear plant's owners to put up $460 million in cash or credit to make sure the producer of the state's lowest cost base load electricity dismantles the plant immediately upon license termination.

The real purpose of this bill, vetoed last year by Gov. Douglas, is to drive Vermont Yankee out of business in three years. Its 350 Mw of dependable electricity can then – supposedly – be replaced with more expensive and completely unreliable power from (subsidized) wind turbines, solar panels, and landfill gas.

The House has passed a transportation bill (H.438) that includes a nickel a gallon increase in motor fuel taxes. But the Democratic majority couldn't stop with that defensible step. A truly scandalous provision in the bill puts motor fuel tax increases on autopilot starting in 2012. That way legislators will never have to vote on motor fuel tax increases again.

The House is also moving a bill (H.382) to mandate that Vermont businesses provide seven days of annual paid leave for employees to cope with physical or mental health problems. Disputes about legitimacy of requested leave will of course entangle the employers in more workers compensation-type enforcement actions. A normal person might conclude that right now is not a good time to lay yet another costly mandate on small businesses.

This year's House bill (H.140) to expand Catamount Health, the faltering program for giving subsidized health care to the uninsured, would eliminate exclusion of preexisting conditions. This will assure that people can wait until they get sick or injured, and then sign up for taxpayer-subsidized insurance coverage.

Bear in mind, these proposals, and many others, are not off the wall ideas of their respective sponsors. These are very much in the mainstream of this very left wing legislature, backed by aggressive left wing lobby groups, and most will be sent to the governor's desk.

So stop and think: how will Vermont struggle out of the recession if all this stuff becomes law?

An important Sheraton Program on the Economy:

"Crawling Out of Recession? America's Next Two Years"

David Hale

Thursday, May 28, 2009 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., U.K., Australia, South Africa, Japan, Hong Kong, and China, where he is chair of China OnLine. This is the sixth time that the Institute has had the pleasure of presenting David Hale to the Vermont business and finance community and the general public, in what we hope will be the beginning of a series of such programs at the Sheraton Burlington.

Public invited – Reservations not required.

Campaign For Liberty

EAI President John McClaughry was the leadoff speaker at the Campaign for Liberty's Taxpayers' Tea Party on the state house lawn on Tax Protest Day (April 15). His eight-minute speech is available in audio at www.ethanallen.org, and also as a text document there.

The Vermont Campaign for Liberty is a non-partisan citizens' group whose mission is to promote and defend the great American principles of individual liberty, constitutional government, sound money, free markets, and a noninterventionist foreign policy, by means of educational and political activity. Please visit www.campaignforliberty.com for more information.

For more information on the Campaign for Liberty in Vermont, contact Steven Howard by phone at 802-779-4447 or vtgadfly@comcast.net, or Jessica Bernier at 802-279-1261 or jessicabernier@gmail.com.

Tax Raising Mania Seizes the Legislature

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The Obama beneficiaries are not the same taxpayers as the Vermont victims. The former will get to spend their tax cut, while the Vermont legislature raises the tax take from taxpayers who aren't eligible for the Obama tax cut.

This is called wealth redistribution through progressive taxation. It's almost an obsession with modern liberalism, here and in Washington.

The top ten percent of Vermont households (earning above $105,000) are now paying 62 percent of all income tax collections, an all time high. The bottom 50 percent of all tax filers contribute less than 2 percent of income tax collections.

When a liberal majority is seized with the wealth redistribution mania, it will jack up the tax rates on fewer and fewer taxpayers at the top of the heap, and use the revenues to pay for more and more benefits from people who are paying little or no income taxes.

Where does this end? The leaders of such a majority ought to recall that Gov. Howard Dean, later to become the darling of the "Democratic (left) wing of the Democratic Party", never failed to recognize the crippling economic effects of runaway wealth redistribution through progressive taxation. In 1994 and for eight more years in office, he stood as firmly against it as Gov. Jim Douglas is thankfully doing today.

On April 23 the Senate passed its version of the tax bill (H.442). It removed the income tax surcharges in the House-passed bill, eliminated the 40 percent exemption for capital gains, slightly reduced the income tax rates, and increased a host of "sin" taxes on tobacco, liquor, and clothing over $110. The differences will now be worked out by a House-Senate conference committee.

NEWS & VIEWS

House Energy Bill: Columnist Jim Jardine of *The Caledonian-Record* penned a brilliant analysis of the House-passed energy bill, H.446, in that paper's edition of April 25. As of April 26 it wasn't posted on www.caledonian-record.com, but it's well worth searching for.

Vermont #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 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 states were DE, TX, CO, GA, and NC. The worst were WV, MS, ME, NM and MT.

She's Coming After You… "Cynthia J. Giles was nominated to be EPA Assistant Administrator for Enforcement and Compliance Assurance. Giles is currently Vice President and Director of the Conservation Law Foundation's Rhode Island Advocacy Center, where she has focused on state and regional advocacy to combat climate change." (AgNet, 3/23/09.)

Read This Carefully: "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.)

See *News & Views*, Page 7

The Milk Tax/Price Control Bill

(This is a condensation of EAI's Policy Brief 26 on the Milk Tax and Price Control Bill currently pending in the House. The full text may be found at www.ethanallen.org.)

Summary: A Senate-passed bill (S.89) directs the Vermont Milk Commission to immediately reopen regulatory proceedings to adopt a rule requiring dairy handlers to pay Vermont dairy farms an "equitable minimum price" for milk ...

On April 15 the Senate passed, on voice vote, yet another version of S.89. This version removed the retail price controls of the introduced bill, and replaced them with a mandate to the Milk Commission to immediately revive the rejected "proposed Order" of September 2008. S.89 as passed by the Senate also affirms the Commission's power to establish an "equitable minimum price" to be paid to dairy producers from assessments collected from handlers.....

The bill's advocates and critics agree that the controlling Federal milk marketing order plan, in effect in various forms since 1935, needs reexamination. They also agree that the concentration in the milk processing and marketing sectors can leave producers at the mercy of large cooperatives and handlers.

But the critics make these points:

1. However attractive it may be politically to pass legislation imposing taxes and fixing prices supposedly for the benefit of Vermont dairy farmers, that will not solve the real problems they face, at least without penalizing Vermont grocers and consumers. Instead, it will simply create new inequities.

2. Over 90% of Vermont's milk goes outside Vermont to a regional and national market. There is no way that taxing milk sold at retail in Vermont can generate revenues that will, when distributed pro rata based on milk production, keep struggling Vermont dairy farms in business.

3. A Commission-ordered "assessment" on handlers is a poorly disguised tax on fluid milk. No unelected body, unaccountable to the people, should ever be given the power to levy taxes. If taxes are to be raised on Vermonters, only our elected representatives have the power to do so, and they must stand accountable for their actions through frequent elections.

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NEWS & VIEWS

Ditto for Sen. Shumlin's 2008 cap-and-trade bill for Vermont (S.350).

And This: "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 on the order of about $3,000 per family." (SEPP, 4/17/09.)

Duly Noted: "Rep. Janet Ancel (House Ways & Means) told the House Democratic Caucus last week that the committee 'looked behind every tree, under every rock, for new revenue without a broad-based tax.' Apparently looking for new revenue was so hectic it left no time to look for savings." (Jim Jardine, *C-R*, 4/11/09.)

I Have a Bridge To Sell You: "More than half of the savings in the [U.S. House energy] bill comes from the inclusion of a Federal Energy Efficiency Resource Standard (EERS), which would require utilities to reduce electricity demand by 15 percent and natural gas demand by 10 percent by 2020. [Or else what?] This provision alone will create 222,000 net jobs … and is a key policy for achieving the savings possible from energy efficiency." (ACEEE, 4/21/09.)

George Will on the Climate Crusade: "I've never seen anything quite like this in my now 40 years in Washington. I've never seen anything like the enlistment of the mainstream media in a political crusade – and this is a political crusade, because it's about how we should be governed and how we should live; those are the great questions of politics.

"It is clearly for some people a surrogate religion. It's a spiritual quest. It offers redemption. But what it also always offers, whether it is global cooling or global warming, is a rationale for the government to radically increase its supervision of our life and our choices. Whether the globe is cooling, whether it's warming, the government's going to be the winner and the governing class will be the winner." (Pittsburgh *Tribune Review*, 3/9/09.)

They've Heard of Us in Florida: "The fundamental issue of freedom is at stake … If people want that kind of [big government picking winners and losers], then I suggest that they move to France or Venezuela or Vermont". – Florida House Speaker Marco Rubio, considering a run for U.S. Senate. (HE, 4/20/09.)

Obama Promises Change! "We need to simplify a monstrous tax code that is far too complicated for most Americans to understand but just complicated enough for the insiders who know how to game the system." (4/15/09.)

The rumored Obama Plan: "Line 1: enter your total income from all sources. Line 2: Deduct barely enough to live on. Line 3: Subtract Line 2 from Line 1. Send to the IRS."

The Cap and Trade Vision: "[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.)

"Reagan's Main Idea was the main idea of the American founding – the idea of individual liberty – and the policies he supported grew from that. America was founded on the idea that our individual freedoms derive from God, not from government, and that government should protect those freedoms.

"To argue that the Reagan era is over is to argue that the era of freedom is over." – Rush Limbaugh (12/4/08.)

Earth to Shumlin: Global warming dead last, 20 out of 20, in new Pew survey; Rasmussen Reports survey finds majority of U.S. Voters – 51 percent – now believe that humans are not the predominant cause of climate change. – (Pew Poll, 1/20/09.)

Bruce Shields Wins NELA Award

The Northeast Loggers Association presented its "Outstanding Leadership in Industry" award to Bruce Shields of Eden at its awards banquet in Bangor, Maine, April 30. The award is in recognition of his many years of time, talent and energy dedicated to the betterment of the forest products industry.

Bruce, a member of the Ethan Allen Institute's Advisory Council, is a Director of the Vermont Forest Products Association and serves with the Vermont Forestry Foundation, the Vermont Wood Marketing Council, the Vermont Farm Bureau and the Vermont Traditions Coalition. Congratulations!

The Ethan Allen Letter

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May 2009

INSIDE:

Brattleboro Reformer *May 2009?*

Letter of the Month

MEDIA

The purpose of the [Tax Protest Tea Party] demonstrations was to announce to our elected representatives that we are not pleased with the enormous debt being incurred by the present Congress and Administration. The prospect of trillions of dollars of debt being dumped on our children and grandchildren is very disconcerting, and the truth is, it is unnecessary.

As John F. Kennedy and Ronald Reagan found, the reduction of taxes on every citizen rapidly restores the economy to a full and functional state. As FDR found out, government spending prolongs recession (in his case for 10 years).

The proposal to give tax money to those who do not pay taxes (half the people) or contribute to the economy, takes that money from those who do produce. The inevitable conclusion is a welfare state, wherein the populace becomes dependent on government.

That's not America. We are a free people, and our government can not become the supplier of our needs. We have earned the right to be whatever we want to be, to try to achieve those goals we desire, and to stand on our own two feet.

I stand with those who protest this wasteful spending and enormous debt, and I condemn the Congress and the Administration who have foisted this burden on us and our children ... and their children.

STEPHEN MCCONNEL, Townshend