

# Ethan Allen Institute

Newsletter - February 2015 (Printer Edition)

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## Carbon Tax Campaign Success

EAI wrapped up our January Carbon Tax Survey campaign with great success. 1498 people responded to the online survey. 1355 (90.45 %) were opposed to Vermont enacting a Carbon Tax. 128 (8.54%) were in favor of the tax. 15 (1%) didn't know.

974 respondents chose to leave a comment regarding the tax. You can read their unedited (profanity warning) responses [HERE](http://ethanallen.org/wp-content/uploads/2014/12/Carbon-Tax-Survey-Comments.pdf). <http://ethanallen.org/wp-content/uploads/2014/12/Carbon-Tax-Survey-Comments.pdf>

The survey was advertised for two weeks from January 5-16 on radio stations broadcasting from Brattleboro, Rutland, Waterbury, Rutland and St. Johnsbury, and on Facebook to Vermonters aged 25 and up, limiting one response per computer.

For now, the Carbon Tax looks like it isn't going anywhere. The Governor and the Speaker of the House have expressed that "now is not the time," and Rep. Tony Klein, chair of the Natural Resources and Energy Committee and lead proponent of the tax, has backed way off his initial bravado of introducing and debating a bill this year. So far, no Carbon Tax bill has been introduced.

However, Rep. Janson Willhoit (R-St. Johnsbury), a freshman legislator, noted on his facebook page, "Well it appears the carbon tax is not dead yet. I've now heard testimony in my committee [Fish & Wildlife] from multiple organizations including the Vt League of City and Towns and the Mayor of Rutland supporting a gas tax in Vt to help pay for portions of the proposed Water clean up legislation."

So, as Jefferson warned, we must be eternally vigilant.

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## Please Renew Your Support for EAI in 2015!

Thanks to all who have already made a donation to our 2015 campaign! For those who haven't yet, please help us fight all the potential taxes mentioned above and other encroachments on our liberty. Be generous. We're only as strong as you make us. Thank you!

Make a contribution to EAI today.  
P.O. Box 543

Montpelier, VT 05672

P.S. EAI is a 501c(3) nonprofit, educational organization that neither solicits nor accepts government funding. Contributions are TAX DEDUCTIBLE for businesses and individuals.

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## Commentary: School Choice and Lower Property Taxes

*By John McClaughry*

Finally alarmed by voter resentment at high school property taxes, the Vermont legislature is hot on the trail of some kind of “solution”. It’s not likely to be productive unless legislators crawl out of the box that confines their thinking.

One obvious (non)”solution” is to ship more money from the General Fund to the Education Fund. The GF already sends \$300 million a year to the EF. Increasing that transfer would reduce the homestead school property tax. Great!

But not so fast. The General Fund is \$100 million in deficit, largely because of Medicaid expansions. This “solution” can’t happen.

Another obvious (non) “solution”: Raise new taxes for education. Gov. Shumlin’s proposed new payroll tax will if enacted go toward financing government health care, not education. An increased income tax? Sales tax? The VPIRG carbon tax? The sugary beverage tax? Not a prayer.

A more likely “solution” is “enforced frugality”. The state Agency of Education would command the school districts to increase pupil/staff ratios, shut down small schools, cap salaries, and implement whatever other cost-cutting steps Montpelier might mandate. This could bend education spending downward, but only by creating “One Big School System”. Vermonters will not like this.

Then there’s the “governance reform” solution. This requires consolidation of school districts into Regional Education Districts, similar to multi-town waste management districts. The REDs would then have to do the dirty work of enforcing frugality to the State’s satisfaction. This model may achieve some cost savings, but they are likely to eaten up by adding deputy and assistant superintendents and incurring higher transportation costs. Even the backers of “governance reform” are very careful about claiming any significant spending savings.

All of these solutions and non-solutions are founded on the idea of maintaining our very costly near-monopoly public school system, in which school districts send their budgets to the Education Fund for payment. Is there an alternative?

The problems with our traditional form of public education have been getting more obvious over the past half century – let’s say from 1971, when the Vermont Education Association converted itself from a professional association of educators into the Vermont-NEA labor union.

Now many Vermont parents have become disenchanted with having the government assign their children to the centrally-controlled, union-dominated state-financed educational system. They view it as having an intellectually fatuous and/or morally deficient culture and curriculum. They see public schools as all too often catering more to the desires of those employed in the system, instead of the consumers.

Understandably, the parents want to send their children to their choice of public or independent schools whose culture, values and curricula are more responsive to the parents' aspirations for their children.

Vermont pioneered parental choice as far back as 1869 by allowing towns without their own high schools to tuition students to public and independent schools chosen by parents. Now in the 21st century the time seems to be ripe for expanding that choice program to more towns, more schools, more children and more diverse opportunities. Choice makes the consumer king, not the provider, and the competition will invigorate, not destroy, public schools.

But will giving all parents choice for their kids drive down K-12 spending? Quite possibly, yes. With empowered choice, many parents – probably thousands of them - will opt for independent schools and programs that cost much less than the public schools. This will clearly reduce education costs while increasing parental satisfaction.

How to do that without giving independent schools an incentive to increase their tuitions to claim the voucher payments is an important issue. Another is preserving opportunities and parental choices for special education students, for which Florida's MacKay scholarships have been a highly successful model. Yet another is relaxing state mandates to encourage public schools to compete effectively for tuition dollars.

Reps. Vickie Strong (R-Albany) and Mike Hebert (R-Vernon) are about to introduce a bill to expand parental choice in a way designed to hold down education costs and thus school property taxes, better serve the needs of students, and put parents in the driver's seat.

Their bill will attract lots of attention – especially from the Vermont-NEA and other invested “stakeholders” of the state's Education Establishment. They view competition for student vouchers as a threat to their security and tranquility.

Now is the time for parents and taxpayers to have their say. They are the true “stakeholders”.

*- John McClaughry is vice president of the Ethan Allen Institute*

## **Commentary: Vermont's Renewable Energy Policy Worse Than Worthless**

*By Rob Roper*

The Vermont Legislature has long been bent on saving the planet through government micromanagement of energy policy. The big issue this year appears to be passing a renewable portfolio standard (RPS) that would require utilities to sell a set percentage renewable power (and thereby forcing customers to buy the more expensive product). The other issue, likely debated but not moved on this year, is a carbon tax designed to make fossil fuel use artificially expensive.

According to a recent report by Ross Koningstein and David Fork, engineers at Google who worked on the company's groundbreaking renewable energy project RE<C, this is exactly the wrong thing to do.

In 2007, Google launched RE<C to “tackle the world's climate and energy problems.” The goal was to figure out how improve renewable technologies to the point that they could deliver renewable energy more cheaply than a coal fired power plant

could. In 2011, Google pulled the plug on the project. The science just didn't work. As Koningstein and Fork concluded, "Trying to combat climate change exclusively with today's renewable energy technologies simply won't work; we need a fundamentally different approach."

The engineers concluded that even if we were somehow able to shut down every fossil-fueled power plant immediately, it still wouldn't stop the planet from warming. "We decided to combine our energy innovation study's best-case scenario results with Hansen's climate model to see whether a 55 percent emission cut by 2050 would bring the world back below that 350-ppm threshold. Our calculations revealed otherwise."

A totally new technology will be necessary. What is it? Koningstein and Fork don't know, but they do offer some ideas for what characteristics it must embody and principles upon which it must be developed. Topping the list: Profit motive.

Profit has wrongly become a dirty word for many in Vermont, but it is the only efficient fuel, if you will, that can ultimately effectively propel technology forward far enough to achieve the environmental goal of cheap, abundant, reliable, renewable energy.

After spending half a decade studying this issue as part of a well-funded project by one of the most tech-savvy, environmentally conscious companies in the world today, Koningstein and Fork concluded:

Let's face it, businesses won't make sacrifices and pay more for clean energy based on altruism alone. Instead, we need solutions that appeal to their profit motives.

Across the board, we need solutions that don't require subsidies or government regulations that penalize fossil fuel usage. Of course, anything that makes fossil fuels more expensive, whether it's pollution limits or an outright tax on carbon emissions, helps competing energy technologies locally. But industry can simply move manufacturing (and emissions) somewhere else. So rather than depend on politicians' high ideals to drive change, it's a safer bet to rely on businesses' self interest: in other words, the bottom line.

Let's apply these realities to Vermont. If shutting down all the fossil fuel power plants in the world today won't solve the warming problem, Vermont's goal of reaching 90 percent renewable energy by 2050 in our little state alone is really a worthless endeavor. Worse than worthless. It's potentially damaging to our economy as well as our natural environment while providing nothing in return.

Meredith Angwin of Vermont's Energy Education project calculated that in order to generate 90 percent of Vermont's energy requirements from local, renewable sources, which is the goal, it would require developing as much as 700 miles of ridgeline, all on the scale of the Lowell wind project. Vermont is only 154 miles long, and only a fraction of that number is suitable for wind turbines.

Alternatively, we would have to cover an area one quarter the size of the Green Mountain National Forest with solar panels to achieve the same result. Driving through much of the state today and passing acres of unsightly panels where Woody Jackson's cows used to graze it seems like we're already approaching that mass, but, despite the perception, we're not even close.

This kind of industrial development, essentially turning thousands of acres of our pristine landscape, pastures, ridgelines and wildlife habitats into power generation

factories, will have a devastating environmental and aesthetic impact on Vermont. The artificially high costs of energy will drive away businesses and jobs. The damage to the landscape will repel tourists. And, even in the best case scenario, this policy will do nothing to solve the issue of global warming.

So, rather than plow forward with expensive and invasive policies we know won't work, perhaps Montpelier might take a page from Google's book: pull the plug for now, at least until a real solution has been identified. Our pristine landscape and the children who inherit it will thank you.

*- Rob Roper is president of the Ethan Allen Institute.*

## Commentary: Why Electricity Costs Spiked

*By Meredith Angwin*

A Valley News letter writer was speaking for many recently when he asked about huge electric rate increases this winter and paltry explanations for them. David C. Montgomery of Hanover New Hampshire said his electricity bill had increased by 72 percent, even as petroleum products have dropped in cost. "All we have seen," he wrote, "is a rather unconvincing claim about the need for more natural gas pipelines in New England and a series of what seem to be diversionary workshops on insulation."

His letter states the problem succinctly. Oil prices are down. Gasoline prices are down to levels not seen for years. Natural gas prices are still low. "The need for more pipelines" does seem a rather weak claim, compared to the cheapness of the commodity carried in them. Also, why would we need more pipelines now, when we didn't need them five years ago? The demand hasn't changed that much.

The answer is that the grid itself has changed in our region. Power plants have been retired: Salem, Mt. Tom, Vermont Yankee. When coal and nuclear plants shut down, existing gas plants run longer and use more fuel, to make up for that power. More gas-fired plants are also being planned for the future.

### More Gas Needed

Around 2000, about 15 percent of New England's electricity was made by burning natural gas. It was expensive, and used only during times of peak demand. The rest of the time, electricity was supplied by a mixture of coal, nuclear, oil and hydro. Back then, with only 15 percent of electricity coming from natural gas, pipelines to the Northeast were adequate.

Now, the price of natural gas has fallen, and nearly half of our electricity demand is met with the newly inexpensive natural gas. With increased demand, the pipelines are no longer adequate. Particularly during very cold weather, when homes use more natural gas for heating, there isn't enough available for power plants.

Last year, when temperatures plummeted and natural gas ran short, power plants burned oil, diesel and even jet fuel. The price on the grid went up as utilities bought power produced with more-expensive fuels. Last year, bulk electricity prices often soared past 40 cents per kWh (kilowatt hour) during times of high demand. (It's usually 3 to 8

cents per kWh.) You can track realtime prices on the grid operator site (ISO-NE) on the Web.

Other costs also go up when power plants retire, but these aren't so easy to track. For example, capacity payments go up. So far, I have described prices for kWh . . . that is, for power produced. There's also something called a "capacity payment": a payment for a plant to be available to produce power. The capacity payment auction takes place three years in advance. In 2013, the auction yielded \$1 billion for power plant operators. Then a number of plants retired. With more scarcity, the 2014 auction brought \$3 billion to plant operators. These billions are not as visible as the "price on the grid," but the money comes from ratepayers and raises everyone's cost of electricity.

## Winter Reliability

Then there's the reliability issue. The grid operator will do whatever it must to ensure reliability. For the past two winters, our grid operator has run "winter reliability programs" and frankly, that program saved us last winter. Last winter, the operator paid about \$70 million to power plants that could burn oil. The plants used this money to stock up — with a supply on site, they had fuel available when they were called upon. Indeed, when gas-fired plants could not get gas, the oil-burning plants went online.

Last year, the Winter Reliability Program cost \$70 million in the Northeast. This year, it is budgeted at \$80 million. These multimillion dollar programs get translated into our winter power bills and winter price rises. However, there is a bit of hope for the future. This has been a milder winter, with low oil prices. To date, the grid's Winter Reliability Program has spent far less than last winter, and that is a hopeful sign for the future.

## Renewables

What about renewables? I will not focus much on renewables or their costs, because they are a very small portion of the electricity supply. I have been watching the hourly fuel supply on the grid rather closely, and wind has never been more than 2 percent of the supply. Renewables, including biomass and refuse, are about 6 percent of the supply. Renewables are not the cost-drivers on the grid.

## Solutions, Maybe

I've explained the reasons for recent price rises, but do I have a solution? Well, a partial solution, maybe. First, I believe in conservation, and I just invested a great deal in improved insulation for my house. (And I want to thank Efficiency Vermont for picking up part of the cost.) To me, workshops on insulation are not merely diversionary. They are terribly important.

Being in favor of insulation is about as controversial as favoring real maple syrup. My second point is a little more controversial. Supposedly, we need more pipelines because gas is the fuel of choice . . . now. It's abundant and cheap. But I don't think it will remain cheap. Should we be building more pipelines because of low-priced gas? I am not sure. If the price of gas goes up, the pipelines will not be fully used.

Instead of more pipelines, I think we need a diversified grid. If we choose, we can build more renewables with a diversified grid, just as we can build them with a mostly-

gas grid. And with a diversified grid (yes, I mean keeping our nuclear, coal, oil, Hydro-Quebec power as well as gas), we won't have all our eggs in one basket.

If we are going to have a heavily natural-gas grid, we could keep our costs more stable (for now) and our grid more reliable by building more gas pipelines. But I think it would be better to choose conservation and grid diversity. With that, perhaps we could have reliability and prevent further drastic price rises in the future.

- *Meredith Angwin of Wilder is a physical chemist who worked for electric utilities for more than 25 years and now heads the Energy Education Project of the Ethan Allen Institute.*

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## Events

**February 5.** EAI president Rob Roper will debate Ben Walsh of VPIRG on the issue of a Carbon Tax: Is this a good idea for Vermont. The debate is being hosted by and for the Randolph Rotary Club.

**February 5.** *School Choice in Vermont: How to Lower Property Taxes and Improve Student Outcomes*, by EAI president Rob Roper, WHERE: The Bixby Memorial Library, in the Community Room, 258 Main Street, Vergennes, Vermont 05491. WHEN: Thursday, February 5, at 7:00pm. If you have any questions, contact Peter Briggs at: peterbriggs@Reagan.com, 802-759-2272 (H), 802-349-3888 (M)

**March 13:** *School Choice in Vermont: How to Lower Property Taxes and Improve Student Outcomes*, by EAI president Rob Roper. WHERE. Bristol, Vermont. Details forthcoming.

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## Eye on the State House

Taxes: Payroll tax. Sugar Tax. Carbon Tax.

Education: Holcomb's response to Pennsylvania study shows that they are committed to small school closures and consolidation.

Energy:

Second Amendment:

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## News & Views

**Another State Revenue Downgrade.** Peter Shumlin's address regarding the FY16 budget told of a \$94 million budget shortfall the state would need to cover. Days after

the speech, revenue was downgraded again by \$18.6 million more for a total \$112 million budget gap. Watch out for new taxes.

**Please die. Montpelier needs the money.** Some on the House Ways & Means committee are hoping Vermont's graying population will translate into a windfall in tax revenue for them to spend. As one member put it, "There is some virtue in the number of people dying." – Rep. Alison Clarkson (D-Woodstock). VIDEO <https://www.youtube.com/watch?v=cfCujB-FJrU>

**Fossil Fuels Give Vermonters a "Raise."** State economist Tom Kavet testified that lower oil/gasoline prices mean Vermonters are will save about \$600 million in 2015. That translates into \$2,500 per family in spending money. "It is bigger than any raise that anybody's gotten for a long, long, time," Kavet added." (Source: Vermont Press Bureau) So, of course Montpelier's policies will do their best to eliminate the benefit....

**Good News on Jobs.** The labor force grew from 351,900 to 352,300 (November to December), employment increased from 336,600 to 337,300, unemployment declined by 300 people and the unemployment rate ticked down from 4.4% to 4.2%. (Source: Bureau of Labor Statistics) <http://www.bls.gov/eag/eag.vt.htm>

**Vermont's Economic Prospects:** "As Vermont loses young adults who seek their fortunes in bigger cities, baby boomers are aging, creating an increasingly older population that's less and less in the workforce. With fewer laborers available, companies are less likely to locate or expand in the state, said Art Woolf, co-founder and editor of The Vermont Economy Newsletter." (VtDigger 1/11/15)

**Existing Gun Laws Make Vermont Safest State in the Nation.** According to FBI statistics from 2013, Vermont is the Safest State in the Nation. Violent crimes per 100,000: 114.9, Total 2013 murders: 10 (the lowest). Violent crime in the state has also fallen dramatically. Vermont's violent crime rate fell 19.2% in 2013 from 2012, the largest improvement in the country. (Source: 24/7 Wall Street)

**Obamacare: The Gift That Keeps on Taking.** The Legislature's Joint Fiscal office estimates that the Obamacare "Cadillac Tax" on high quality insurance policies will cost the Vermont \$9 million the first year (2018) and \$40 million by 2023.

**The Black Hole That Keeps on Swallowing.** "Vermont Health Connect is expected to cost \$9.7 million more than what's in the current budget, largely because of a mid-year change in vendors and labor intensive processes that underpin the incomplete exchange, officials said Thursday." – VtDigger 1/22/15.

**Doctor Shortage?** The Association of American Physicians and Surgeons has published an article ranking the states as "best locations to practice medicine, based on taxation and regulation of medicine. Vermont ranked 38th\* - the "\*" refers to a footnote: "will likely be last in 2017 when single payer is established – could ban private medicine." (JAAPS Winter 2014).



**Good News Despite State And Federal Energy Policy.** Jeffrey Carr, the Shumlin administration's economist, and Tom Kavet, the economic adviser for the Vermont Legislature, estimate that Vermonters will have roughly \$2,500 more to spend this year due to falling oil and gas prices. "We're looking at the economy finally starting to pick up steam like we haven't seen in some time," Kavet said. "A big part of that is the drop in oil prices." (VTDigger, [1/20/15](#)). So, naturally our politicians are doing everything they can to raise energy prices....

**The Craven, Unprincipled Hypocrisy of Bernie Sanders.** "[A]ccording to an email chain inadvertently sent to Seven Days. And in an exchange with campaign and Senate staff members planning the Citizens United anniversary, Sanders appeared focused on raising money from Washington, D.C., political action committees [in connection with the Citizens United anniversary and Sander's own proposal of a Constitutional Amendment to get big money out of politics]. "YES. Let's do it," the senator wrote his advisers, referring to a Citizens United-focused fundraising pitch. "How are you doing on the DC PAC fundraiser? Thanks. B." – Paul Heinz, [Seven Days](#).

**Top MIT Climate Scientist: 'Senate's Climate Change Vote Is Ludicrous'.** "In the case of Bernie Sanders, a socialist, he is undoubtedly dreaming about nationalizing the energy industry. For the U.S. Senate to accept guidance from Sanders' bizarre dreams is ludicrous." - MIT climate scientist Richard Lindzen

**Sanders Socialism:** "Time was, socialism meant government ownership of the means of production, distribution and exchange — or at least of the economy's "commanding heights." Sanders says his idea of socialism exists in Europe's social democracies, which he considers hugely successful. Never mind the European Union's 10 percent unemployment rate and 0.3 percent growth rate, Greece's prostration, etc." – George Will (Washington Post 1/24/15)

**Progressive Policies Are Driving Inequality.** "For blue state urbanites who toil in low-paying retail, food preparation and service jobs, for the journeyman tradespeople who once formed the heart of the middle class, for teachers, civil servants, students and young families, the American dream of homeownership — or even an affordable rental apartment — is increasingly out of reach." – Richard Florida, *Is Life Better in America's Red States?*

**Who Pays Taxes:** "Government raises most of its taxes from the upper middle class and the wealthy. In 2011, the richest 1 percent of Americans paid 24 percent of all federal taxes (income, payroll and excise) and the richest 20 percent, including the top 1 percent, paid 69 percent of taxes, says the Congressional Budget Office." –Robert Samuelson, (Washington Post 12/30/14)

**Undeniable.** "Fossil energy companies did not take a safe climate and make it dangerous. They took a dangerous climate and made it vastly safer." - Alex Epstein, director of the Center for Industrial Progress

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## Book of the Month

### **Who Killed Health Care?**

*America's \$2 trillion medical problem and the consumer driven cure*

By Regina Herzlinger

McGraw Hill, 2007 ( pgs.)

It's probably a safe bet that no one among Vermont's health care policy wizards has ever encountered this book, not to mention similar works from Harvard Business School professors Regina Herzlinger, Clay Christensen, Michael Porter, and their co-authors.

Why not? Because Vermont's single payer wizards begin with the premise that the government must control a unified, integrated, health care system to achieve universal coverage, "cost control", and "savings". This mindset considers irrelevant, if not dangerous, any approach to health care as an array of enterprises competing to meet the needs of customers. It is exemplified not only by Vermont's wizards, but by the New England Journal of Medicine, which enthusiastically published articles by PNHP single payer promoters Himmelstein and Woolhandler (both onetime aides to Bernie Sanders), while trashing Herzlinger's earlier book *Consumer Driven Health Care* (2004).

Regina Herzlinger, who holds an endowed chair at Harvard Business School and sits on boards of half a dozen large health industry companies, is one of America's leading authorities on the business of health. Her major contribution to the health policy debate has been the argument that consumers and entrepreneurial institutions can transform health care to produce better health care and lower cost.

As she puts it, "consumers who shop in free markets for differentiated products steadily drive down the price and increase quality even for complex goods"... We must get back the money our employers and government now take from our salaries and taxes to buy health insurance on our behalf so that we can choose it for ourselves. Our innovative, caring doctors must be empowered to design better, cheaper health care. Our poor should be subsidized by the rest of us, so they can buy health insurance just like everybody else. All the other busybodies must get out of the way – the empire building hospitals, the micromanaging insurers, the self-serving academics."

Herzlinger's prescription includes focused factories, integrated information, personalized medicine, catastrophic coverage, health savings accounts, and entrepreneurial providers. She has little use for single payer systems, as in Canada, noting that they in variably produce poorer care along with rationing and long wait times. She does favor making health insurance mandatory, which I do not, but there is a way of getting the same result without threatening delinquents with fines and jail time.

*Who Killed Health Care?* Is an invigorating read, not too dense with statistics, but rich in the author's personal experience and teaching health care entrepreneurship for many years. I would buy copies for the House and Senate health care committees, if I thought any of their members would actually read it (or anything else like it.)

- Review by John McClaughry, founder and vice president of the Ethan Allen Institute.

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## The Final Word

### Match the Legislator to the Newspaper!

Here's a fun game we need your help with. There are 150 state representatives and 30 state senators. They will all tell you that if they receive five letters from constituents on a particular issue it will have an powerful impact on their vote. Even better is a letter to the editor in their local paper.

For the past two years, EAI has been publishing Roll Call Profiles of Vermont's legislators, which include detailed contact information for each one, including snail mail and email addresses. This year we would like to add a feature: links to the "Letters to the Editor" email address of their local paper. But, we need to know which paper or papers that is. Who better to ask than their constituents. That's you!

Please take two seconds to fill out the online form linked to in your original February Newsletter email, or just shoot me an email at [rob@ethanallen.org](mailto:rob@ethanallen.org), letting us know who your legislators are, and what local papers have the most influence in their districts. Your help is greatly appreciated. Thank you.