Ethan Allen Institute

Newsletter - December 2017 (Printer Edition)

Help give the Ethan Allen Institute a strong voice in 2018

Please make your 2018 membership contribution today!

Dear Friend of EAI,

The Vermont legislature will be back in session in a month, and they are lining up quite the big-government, high-tax, nanny-state agenda. We need your help to be a strong voice for Vermonters who value individual liberty, limited Constitutional government, low taxes, and economic opportunity. Among the many battles we will need your support to fight this coming year are:

Carbon Tax. Though overt support for a Vermont Carbon Tax seems to have cooled in the legislature (thanks in great part to our actions!), activist efforts on behalf of this awful concept have gone into hyperdrive. VPIRG and its allies, including Vermont Businesses for Social Responsibility, are more determined than ever to make Vermont a national precedent for some form of Carbon Tax. Four new Carbon Tax bills were introduced in the waning days of the 2017 session with anticipation for some sort of action in 2018, and just this past month a new proposal, The ESSEX Plan, has been unveiled by a high-powered group of business and political activists.

- **$15 Minimum Wage**. Majority party leadership in the legislature has declared passing a $15 minimum wage – a job-killing policy that will raise prices for all Vermonters – will a top priority for 2018. There is already considerable concern within the business community about the potential impact of going to $15. Can you imagine what the economic damage would be if Vermont adopted a $15 minimum wage while New Hampshire's remains $7.25? No employer would start or keep a business on this side of the Connecticut River.
- **Mandatory Family Leave Insurance**. This costly, nanny-state initiative is half way there. The House passed H.196 in 2017, which mandates employees buy into a government-run, family leave insurance program via a payroll tax. Estimated costs for the program ranged as high as $80 million. One House member suggested making this plan voluntary, to which a supporter responded, "Because if it were voluntary, no one would buy it!" That pretty much says it all.
- **Right to Work/Agency Fees**. Given the current composition of the legislature, passing Right to Work legislation is unlikely. However, events on the ground in Vermont and nationally will allow us to raise the profile of the issue and, if as many suspect, SCOTUS will rule favorably in Janus v. AFSCME, lay the groundwork for a future campaign to educate union members about their rights and the procedures they need to take to opt out of a union if they so desire.

- **School Choice/Property Taxes**. Act 46 continues to threaten 150 years of school choice for 90-plus Vermont "tuitioning" towns, and EAI will continue to play a major role in educating the public about options for saving and expanding Vermont's unique and wonderful school choice system, and its potential role in reducing property taxes while delivering stronger educational opportunities.

In addition to giving us the resources to lead the fight on these issues in the State House, in local communities, and in the media, your contribution will allow us to continue to provide our core public services, such as:

- **Roll Call Reports**. These alerts, issued within 72 hours of each vote, contain a short but detailed description of the legislation, analysis of the potential impact on Vermonters, links to original documents (bills and journals), and a record of how each legislator voted. These have proven to be a very popular facet of our educational mission and play a big part in our social media outreach campaign through "sharing."
- **Roll Call Profiles**. In what is becoming our signature project, EAI provides an individual profile for each of our 150 House and 30 Senate members detailing how they voted on key issues. This is a user-friendly format that devotes a unique web page to each legislator, each with its own link. These links can now be shared singly or custom-bundled for our users depending upon their needs.
- **Common Sense Radio**. Bill Sayre hosts our liberty-oriented radio program airing weekdays, 11-noon, on WDEV. Bill is an economist with an M.B.A. in finance and economics from the University of Chicago, where he studied under Milton Friedman. If you're out of radio range you can stream live shows from wdevradio.com/stream/.
- **Weekly Op-Eds**. Look for weekly op-eds in your local papers by John McClaughry, Rob Roper and David Flemming. We spread the free-market message through rougly forty Vermont publications. Let us know if they are (or aren't!) appearing in yours.

2018 marks the 25th anniversary of the Ethan Allen Institute. We couldn't have lasted this long or come this far without a large family of like-minded, freedom oriented Vermonters such as yourself. We are so grateful for your generous support. Thank you.

Rob Roper, President
John McClaughry, founder and Vice President
David Flemming, Policy Analyst

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Commentary: Tax Reform And Fiscal Responsibility

By John McClaughry

Republicans in Congress have decided that with their embarrassing failure to "reform and replace" Obamacare, they absolutely must produce one popular legislative achievement to present to voters a year from now. Tax reform is an imperative. There's not much else coming down the legislative pipeline.

The one tax law change that almost everyone agrees on is reducing the corporate tax rate for repatriating $2.6 trillion in overseas profits that American multinational corporations have stashed away in foreign accounts, to avoid having to pay the present 35% tax for bringing it home (and investing it here.) At one time or another, even Democratic leaders Sen. Chuck Schumer and Rep. Nancy Pelosi have proposed some reduction of the repatriation tax barrier as well as the corporate tax rate on domestic profits.

But Republicans and Democrats are playing the partisan game of "OK, we'll agree to do that, but only if it's in a package that includes A, B, C and D." And of course, each party lists different A, B, C, and Ds.

If the Democrats stand united against the Republican bill, and it fails, the Democrats win big, because the Republicans are likely to take a beating in the 2018 elections. The Republicans must hold all of their own to squeak something through to the President's desk. They'll attempt to do this by inserting and removing provisions, raising or lowering percentages, shortening or lengthening time frames, and when all else fails, resorting to pork barrel spending or even less savory political arrangements to buy needed votes.

The opposition (Pelosi) has already charged that "The GOP will give the wealthiest one percent tax breaks worth trillions of dollars, but Republicans want to force millions of hard working American families to pay more in taxes." This is not factually supportable, but the Democrats are pushing this line hard to generate maximum outrage among voters.

To counter this, the Republicans have agreed to keep the top (Obama) individual income tax rate, paid by taxpayers with over $480,000 in taxable income, at 39.6%. Their bill also doubles the standard deduction (to $12,200 for individuals, $24,200 for couples), which will give real relief to middle income families without large deductions.
The Republican bill also increases the refundable child tax credit from $1000 to $1600 per child, plus $300 for each non-dependent adult. Trump has boasted that the

Republican plan will increase the number of households that owe zero federal income tax from the present 40 million to 71 million.

Not a surprise: the rich will benefit too. The repatriation amnesty offer and the permanent 20% rate on corporate profits will make stocks more valuable and dividends more likely. The estate tax exemption, now $5.6 million, will increase over the ten year period, and then the tax will expire. The unworkable alternative minimum tax will finally be repealed. Taken all in all, the bill's combination of benefits and loophole closings are well-chosen and defensible.

The estimated revenue loss from these provisions (and many others) totals to $1.5 trillion over ten years. Greg Ip of the Wall Street Journal correctly observes that "Administration officials assert the tax cuts will spur so much growth they will pay for themselves, an argument largely lacking in historical precedent or empirical support."

Will spending cuts, plus revenues from new growth cover the revenue losses of "tax reform", whatever they turn out to be? Ip observes, mildly, that "Congressional Republicans say they'll cut spending, especially on entitlements. Yet they have shown little appetite to do so and Mr. Trump has ruled out tampering with Medicare or Social Security."

Nick Gillespie of Reason fingers the ignored problem. “For decades now, the feds have been spending far more in any given year than they take in via taxes. Last year, for instance, the government spent 20 percent more than it took in, and between 2009 and 2013, it spent 33 percent more than it brought in. Hence annual deficits [$666 billion in FY 2017] and ballooning national debt [now 77% of Gross Domestic Product, heading toward 91%].”

George Will succinctly explains: “(We have a) bipartisan consensus: …We shall have a generous entitlement state and not pay for it. Instead, we shall offload onto future generations a substantial portion of the costs of our current consumption of government.” That’s the sobering, indeed shocking, summary of the abandonment of national fiscal responsibility.

We are, alas, well into the era of bitter partisan conflict with high stakes, improbable revenue projections, irreducible Federal spending, and steadily growing national debt. The current bill will make large and worthwhile changes in the tax code, but falls short of restoring a bright fiscal future.

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

Commentary: A $15 Minimum Wage Would Be Disastrous

By Rob Roper

When the legislature returns in January, it appears that passing a law mandating a $15 minimum wage in Vermont will be a top priority. This is what Senate President Pro Tem Tim Ashe (D/P-Chittenden) has promised, and a six member summer study committee voted 4-2 along party lines to recommend moving forward with some pathway to a $15 an hour.

Don’t do this.

Ashe said in an interview with VPR, “There is no policy right now that I’m aware of that compares with the potential magnitude of benefit of as increasing the minimum wage.” Actually, the opposite is true. It’s hard to imagine a policy that would do more damage to the economy in general or to the low-income workers the policy is intended to help.

Consider that if Vermont were adopt a $15 minimum wage, the cost to hire unskilled or entry-level labor here would be more than double what it is in New Hampshire, where the hourly minimum wage is and is likely to remain $7.25. This, described by the Joint Fiscal Office as “the largest historical spread on record,” would be a crippling competitive disadvantage for Vermont employers. Who in their right mind would start (or keep) a business dependent upon low-skilled workers in Vermont given this disparity?

We know the sales tax differential between Vermont and New Hampshire (6% vs. 0%) has been a powerful motivator driving economic activity across the border, but a $15 minimum wage would be explosively so. Think of it as a 107% tax on Vermont labor. This would not only drive employers to New Hampshire, but more customers as well. With wages at half the rate of their Vermont competition, New Hampshire businesses would be able to offer products and services at much cheaper rates – as well as tax free! This dynamic will not end well for Vermont.

While we can understand, respect, and sympathize with the desire to help our friends and neighbors who are struggling to make ends meet, mandating a $15 minimum wage will be more harmful than beneficial to most.

The Vermont Joint Fiscal office warned that were this to pass between two and three thousand low-wage workers would lose their jobs. The Heritage Foundation did a study estimating that number could be as high as 11,000. Everybody on the summer study committee agreed that a large number of Vermonters will see their hourly wage go to zero as a result of this increase, not $15.

Proponents, however, believe sacrificing these folks is worth it because many more will benefit. But will they? Seattle, which raised its minimum wage to $13 on the way to $15 in 2021, has already witnessed workers who made $19 an hour or less lose an average $1500 a year in income as a result of employers cutting hours to compensate for the higher rate. According to a study conducted by Washington State University, Seattle businesses adapted to the minimum wage increases by reducing the hours for workers in low-wage jobs ($13-$19/hr.) by about 9 percent.

Moreover, of those who do manage to keep their jobs and pocket the benefits of the higher wage, many will end up losing state benefits with a greater value than their increased wages. Although one would hope moving people off of public assistance would be an objective of this policy, proponents of the $15 wage don't necessarily see it that way.

VPR reports, "Ashe says the Legislature can devise ways to insulate low-wage workers from undue losses in benefits." What that means, according to the summer study committee report, is increasing the threshold for benefits to negate harm. This "would cost between $4.8 and $12.8 million annually," and, of course, would have to be funded by a reduction in spending in other parts of government or a tax increase.

We all want to see our economy succeed and our fellow Vermonters pocketing more money. But, the $15 minimum wage is a policy that will certainly cost thousands of low-income Vermonters their jobs, put our businesses as a historically severe competitive disadvantage with New Hampshire as well as other states, will increase the cost of local goods and services, and could require a $12.8 million tax increase to ensure people who are getting higher wages won't lose benefits.

Is this really a policy we want to embrace? The warm fuzzy feeling advocates will get if this passes won't last much longer than the celebratory press conference.

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

Events

January 8. *The Carbon Tax in 2018*. EAI President, Rob Roper will give a presentation on where Carbon Tax legislation and the movement to pass a Carbon Tax in Vermont stands as we head into the new session. This event is sponsored by Addison County Republicans. Details TBD. If you would like to bring this or another EAI presentation to your community, contact Rob Roper at rob@ethanallen.org.

January 24. Vermont National School Choice Week. Mark your calendar for a day of action in Montpelier. Details to follow.

News & Views

State Business Tax Climate: The Tax Foundation's State Business Tax Climate Index enables business leaders, government policymakers, and taxpayers to gauge how their states' tax systems compare. The Index is designed to show how well states structure their tax systems, and provides a roadmap for improvement. The results: New Hampshire 7th. Vermont 47th.

Personal Income Tax Revenues Down Big. Vermont personal income tax revenues were down $5.69 million in October, and, for the fiscal year (2018) that began in July, they are $6.41 million below expectations. With national GDP growth at a robust 3 percent or better for the past three quarters and the stock market at record highs, we need to ask some serious questions about how and why Vermont is falling behind.

Why Are So Many Vermonters Unable to Work? The Vermont Joint Fiscal Office reported that since 2001 the number of Vermonters qualifying for Social Security Disability based on mental illness rose by 6 percent. Across the rest of the country, that rate fell by 2 percent. Out of all Vermonters receiving SSDI payments, nearly half (46 percent) do so due to mental illness, and Vermont has "one of the highest rates of enrolling young people, under the age of 35." (Source: Times Argus). None of this is good news for Vermont's work force.

Does This Sound Like Vermont? The Wall Street Journal recently looked at IRS data and noticed "an accelerating flight from high-tax states." The editors conclude, "The liberal tax model is to fleece the rich to finance spending on entitlements and government programs that invariably grow faster than the economy and revenues. IRS data on tax migration show this model is now breaking down in progressive states as the affluent run for cover and the middle class is left paying the bills." Though the editorial focused on larger states, such as Illinois, New Jersey and Connecticut, Vermont lawmakers should take warning.

Fighting Back on Education Finance Policy. Vermonters fed up with ever higher education costs and loss of local control are increasingly taking their complaints to the courts. The Town of Whitingham is the latest. According to the Brattleboro Reformer, "The suit alleges that "the state's education funding and property taxation systems violate the state constitution," according to the press release. The plaintiffs say "the state is violating Whitingham students' right to equal educational opportunity and Whitingham resident taxpayers' right to not be taxed disproportionately." Earlier this fall Orange County resident Brooke Paige launched a suit against the state on the grounds that Act 46 is unconstitutional.

Turbine Noise Levels Set. The Public Utilities Commission settled the argument about how much noise wind turbines can emit: 42 decibels during the day and 39 at night. This level is described as "a quiet suburban neighborhood, a quiet conversation or a library." Neither side is claiming complete victory. Opponents of the noisy turbines say that the low sound levels don't account for how the sound affects people who have to live with a constant thrumming. Austin Davis of Renewable Energy Vermont said, “This will certainly have a chilling effect on wind-energy in the state," said Davis. "However, the fact still remains that wind-energy is the cheapest new renewable energy available to New England. So, we'll have to see where things go from here," (Source: WCAX, 11/22/17).

Swanton Wind Project Shuts Down. At least for now. According to Seven Days, the developers cited “anti-wind sentiment among state officials and uncertainty around potential changes to the federal tax code.” This would confirm the facts that there is little real demand for these projects coming from consumers, and no profitable business model that doesn’t include government subsidies. Good riddance. Come back when you have a product people want to buy at a price their willing to pay without having to gouge the taxpayers to fill your wallets.

Renewable-Industrial Complex Champion Reflects. “At least three times during the talk, [now-retired House Natural Resources and Energy Chair] Tony Klein claims that he and his compatriots believed that they were “angels, doing God’s work.” He expresses a fair amount of contrition for leading an energy supply revolution that seems to be failing with uncomfortable consequences. He explains how he decided not to run for another term because he just couldn’t deal with all of the negativity and finger-pointing that was growing in intensity as the results of his numerous legislative efforts became increasingly apparent.” – Rod Adams, Atomic Insights 11/22/17, (based on Klein’s Osher Institute address at UVM 11/8/17, available online by ORCA)

Carbon Tax Fail. “Since 1990, European countries without carbon taxes have seen per capita greenhouse gas emissions decrease 37.5 percent faster than those countries with carbon taxes. And since 2005, non-carbon taxing countries’ emissions have fallen almost twice as fast. Looking only at the numbers, carbon taxes appear to cut a country’s ability to decrease emissions in half.” - Skyler Bailey (VTDigger.org 11/29/17)

The Greening Earth. “NASA says the globe has 14% more green vegetation than 33 years ago, largely because of extra carbon dioxide in the air, which makes plants grow faster and use less water doing so, in all ecosystems from the Arctic to the tropics.” – Matt Ridley (blog 11/19/17)

Phew, We’re Off the Hook. “French President Emmanuel Macron said Wednesday that France would cover the amount the U.S. contributed for climate science research to a United Nations panel after President Trump signaled America would exit the Paris climate change pact.” (The Hill, 11/15/17) Last spring, Governor Scott joined Vermont with a group of states called the United States Climate Alliance, which promised to fulfill the requirements of the Paris Climate Agreement regardless of whether or not the United States took part. No need now. France has got this!

Who Needs Paris When You Have Fracking? Climate alarmist were apoplectic when President Trump pulled the US out of the Paris Climate Agreement. However, a recent report by the U.S. Energy Information Administration shows that since 2005 the U.S. has decreased its carbon emissions by 12%. Canada, on the other hand, has only reduced its carbon emissions by 2% (their target was 17%). The reason for the U.S.’s success: fracking, and the resulting replacement of coal with natural gas for electric generation.

The Senate Tax Bill: “Liberals are denouncing Republican tax reform as a giveaway to big corporations, as they always do. But the irony is that the Senate and House bills would do far more to stop corporate tax gaming than anything the Obama Administration did in eight years. This includes preventing tax avoidance, levelling the tax field for U.S. multinationals, and stopping corporate inversions.” (WSJ Editorial 11/19/17)

David Walker Update: In August 2010 former GAO director David Walker spoke on America’s approaching fiscal crisis to over a hundred business and economic leaders at an EAI program at the Sheraton Burlington. He is now running for Governor in fiscal-crisis Connecticut. For more, see Alice Lloyd, “Can This State Be Saved?” (Weekly Standard, 10/16/17)

Franklin Still Rocks It. "I am for doing good to the poor, but I differ in opinion of the means. I think the best way of doing good to the poor, is not making them easy in poverty, but leading or driving them out of it. In my youth I travelled much, and I observed in different countries, that the more public provisions were made for the poor, the less they provided for themselves, and of course became poorer. And, on the contrary, the less was done for them, the more they did for themselves, and became richer." Ben Franklin. 1766

Book of the Month

Vanishing Vermonters
Loss of a Rural Culture
By Peter Miller
Silver Print Press, 2017 (168 pages)

Vanishing Vermonters: Loss of a Rural Culture is the title of a new heavily illustrated book brought out by Waterbury photographer and journalist Peter Miller. Miller went on a journey around Vermont to interview those who might explain what was happening in and to the state. He interviewed former governor Howard Dean, Jen and John Kimmich of Heady Topper beer fame, commentator and writer Bill Schubart, UVM political-science professor Frank Bryan, and many others including store proprietors, owners of auto repair garages, lumber mills, and a former vegetable gardener now known as the Pickleman. Also featured is EAI’s John McClaughry, who contributed four pages spliced together from his better writings of the past thirty years.

The description on the author’s website describes Vanishing Vermonters as “the newest and most important of Peter’s five books on his home state. He recorded 23 Vermonters on how they cope in one of the most expensive states in the Union. Includes 168 pages and 91 photographs that display life in Vermont rather than its iconic beauty.

“This book came about due to the number of letters and emails Peter received after writing a short history of the changes he’d noticed while photographing Vermont between 1950 and 2013.” The book includes 93 black and white photographs including portraits of the Vermonters interviewed and photos of Vermont as it is.

Vanishing Vermonters is available in Vermont independent bookstores, gift shops and on www.petermillerphotography.com. A great gift idea for this holiday season!

- *Reviewed by John McClaughry, vice president of the Ethan Allen Institute.*

The Final Word

December Survey: ESSEX Carbon Tax Proposal

Do you support the new “ESSEX” Carbon Tax proposal? This would ultimately be a $240 million tax on gasoline (32¢/gal), heating oil and diesel fuel (though not dyed diesel) (40¢/gal), and natural gas and propane (24¢/gal). Fifty percent of this revenue would be used to subsidize Vermont’s electric utilities for the purpose of lowering electric rates, and the other half would be redistributed to low-income and rural Vermonters via a rebate scheme.

Yes.
No.
I don’t know.

November Survey Results: The EB5 Scandal

Should Governor Scott appoint an independent prosecutor to investigate the Jay Peak EB5 scandal?

Yes.

No.

Is Attorney General T.J. Donovan right to invoke the state’s “sovereign immunity” to shield government employees from prosecution?

- Yes, government officials should be shielded from prosecution when doing their jobs.
- No, government officials should be held legally accountable for fraud or negligence.

Take the Survey: https://www.surveymonkey.com/r/MFP3XM9