Ethan Allen Institute

Newsletter - January 2016 (Printer Edition)

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As the Ethan Allen Institute prepares for an aggressive 2016 campaign, we need your help. It's time to renew your support for liberty, common sense, and constitutional government in Vermont. We are only as strong as our members make us! Thank you.

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EAI vs. VPIRG Carbon Tax Debate (Video)

On December 3, Rob Roper and John McClaughry of the Ethan Allen Institute took on Paul Burns and John Erickson representing VPIRG in a debate over proposals for a Vermont State Carbon Tax. In case you missed it, here are some short highlights of the debate, as well as a link to the entire ninety minute debate. It was a good show! Enjoy.

Highlight 1: Rob Roper presents an alternative pro-environment vision while explaining why the Carbon Tax is actually anti-environment.https://youtu.be/XI87o4H_5F4

Highlights 2:. John McClaughry explains why we should not trust that revenues from the Carbon Tax will be used as advocates are currently promising.
https://youtu.be/3BAseSq7J5c

Highlight 3: Paul Burns of VPIRG admits that solar panels and wind towers are "blight" -- and that Vermonters should be forced to look at them. https://youtu.be/5cpvhRbS-wE

See the entire debate at https://www.youtube.com/watch?v=OuWP1rlSFp4

Commentary: Vermont's Shaky State Government

By John McClaughry

In two short weeks the Vermont legislature will be back in Montpelier. The central issue will be contriving some way to produce a balanced General Fund budget for 2017 – without any visible increases in taxes.

Every year for the past five the legislature has faced nagging deficits. For the current fiscal year (FY16) the legislature will have to find at least $28 million to fill the gap, plus withdrawing at least $10 million from the Human Resources Reserve Fund.

But solving the FY16 budget problem will be a minor chore compared with the FY17 problem, especially since Gov. Shumlin has (so far) ruled out new taxes for that purpose.

The Joint Fiscal Committee, the legislature's budget monitor, projects what's called "the hungry alligator": a FY17 deficit of $58.5 million. For FY18: $80 million. For FY19: $75 million. For FY 20: $95 million.

Former finance and tax commissioner Tom Pelham has pointed out that the "2011 to 2016 spending increase of 22.1 % compares to a state population growth of three tenths of a percent, inflation growth of 7.7%, and an estimated Gross State Product growth of 15.4%… State spending has grown by a staggering and unsustainable amount over the past five years."

The Vermont State Employees Retirement System is only 74% funded, and the retirement fund for teachers is only 58% funded. For the first time the state is borrowing $30 million from its own cash flow to cover unfunded retired teacher health benefits. This gives the state a slightly higher interest rate return than does the credit market, but also opens a tempting opportunity for fiscal mismanagement.

Looking beyond the General Fund, the Transportation Fund spends about $250 million a year. JFO observes that of four thousand bridges in the state, 569 are obsolete and 279 are structurally deficient. Gov. Shumlin wants more incentives for (affluent) people to buy electric vehicles which, whatever their merits, do not pay the motor fuel tax that is the main revenue source of the T-Fund.

Each year for the past six years the legislature has increased one or both of the two school property tax rates that feed the Education Fund. In the coming election year, legislators are likely to be asked to explain why public education spending has increased 42% over the past 10 years, while the number of pupils has decreased by 21.5% over the same period.

Many voters who pleaded for homestead property tax relief last election day are disappointed – if not angry – to learn that the legislature's "solution" is not property tax relief, but consolidation into mega-districts. Last spring the legislature and governor offered homestead property tax rate reductions to prod school district voters to rapidly consolidate (Act 46). The reductions for districts that accept the offer will have to be made up by taxpayers in the districts that do not.

These new unified districts may (conceivably) be more efficient, when they shut down smaller high-cost schools. Whether those savings will survive the inevitable growth of educational bureaucracies remains an open question. Many people believe that the combination of tax incentives and pressure from Montpelier to consolidate will have the practical effect of shrinking parental choice in education.

As a backdrop to the budget struggle, consider that Vermont now exhibits the second lowest fertility rate in the country (the lowest six states are all in New England). And despite a reported unemployment rate of less than four percent, the trend of Vermont's age 25-64 labor force population has been negative since 2010.

This is a picture of a high-tax fiscally stressed state, fewer babies being born, its working population shrinking, and the over-65 share of the population growing, with their increased medical costs.

Vermont does offer some economic advantages – a clean environment, good schools, low crime rate, reliable labor force. Whether those advantages can overcome cold weather, high taxation, regulatory excess, artificially high electricity costs (to combat "climate change"), deferred infrastructure maintenance, unfunded pension obligations, and a regrettable reputation for being the incubator for advanced governmental experiments remains to be seen. One has a right to be skeptical.

- John McClaughry is the founder and vice president of the Ethan Allen Institute (www.ethanallen.org).

Commentary: A Carbon Tax Will Not Help the Vermont Economy

By Rob Roper

Why would Vermont enact a Carbon Tax that would add roughly a dollar per gallon to gasoline, diesel, home heating oil, natural gas and propane? One claim proponents make is that such a tax will somehow benefit the Vermont economy. Will it?

The primary support for this notion comes from a study prepared by Regional Economic Models, Inc. (REMI). This was released through the "Energy Independent Vermont" coalition, but paid for in part by David Blittersdorf of All Earth Renewables, who would likely receive considerable subsidies for his solar projects from Carbon Tax revenues. For that reason alone it should be taken with a grain of salt.

But even REMI describes the anticipated job creation resulting from a Carbon Tax as "relatively small when up against the macroeconomic baseline." Indeed, REMI only predicts an increase of about 2,300 jobs by the year 2040 in an economy that currently generates 450,000 jobs.

These modest benefits are based in great part on an assumption that 23 percent of the total revenue raised through the Carbon Tax would be used to reduce Vermont's corporate income tax rate. Another 22 percent would fund rebates to employers. (That's 45 percent of total revenues according to the breakdown on page 10 of the study). But the legislation being discussed in Montpelier (H.412) does not include any corporate income tax cut whatsoever. The latest version of the bill:

> *… proposes to offset 90 percent of the revenues from this carbon pollution tax through reduction of the sales and use tax, a refundable tax credit to personal income taxpayers, a low-income taxpayer rebate, and a per employee rebate to employers.*

What legislators are proposing is that after the state takes 10 percent off the top for new or expanded programs, and after the sate covers the bureaucratic costs of implementing and collecting the tax, and after the reduction to the sales tax takes place, a portion of the remaining revenue would be allocated to a per employee rebate program. So, overall, the legislature is discussing a much smaller economic stimulus package than REMI accounts for. It's safe to assume it will not yield the results predicted by the study.

The real lesson here is to remember what politicians do to an idea (and with our money) once they get their hands on it.

Interestingly, one word never appears in the REMI study at all: "tourism." There is no accounting for how significantly higher gasoline prices will affect people's willingness to drive or fly to Vermont, nor how the impact of industrializing our ridglines and pasture lands with wind and solar facilities, which the Carbon Tax would in part be subsidizing, will impact one of our largest economic drivers (not to mention real estate values and sales). A rather bizarre omission from an economic impact analysis of Vermont!

In this vein, REMI anticipates there will be zero impact on air transportation insofar as it affects gross state product. The assumption is that having to pay an extra dollar per gallon for aviation fuel will not impact airlines' decisions to either terminate routs through Burlington International Airport or raise the cost of flights, making BTV less desirable than alternatives in New York and Canada. Roughly one third of BTV travelers are from Canada. This is a silly assumption.

And, while the report does consider impacts to transportation businesses (they will be significant), the analysis doesn't appear to take into account the many Vermont businesses that, while not cab or trucking companies, require pick-ups, vans, or tractors, to do their work, such a plumbers, electricians, landscapers and farmers. It also fails to account for the fact that many of our citizens need to commute many miles a day just to get to and from their jobs.

A Carbon Tax in Vermont would give Vermonters just one more reason to cross the Connecticut River. Even if the current proposals pan out in regard to reducing the state sales tax from 6 percent to 5 ½ percent and, over time, down to 5 percent, that would hardly be an incentive to stop shopping in tax-free New Hampshire, especially when you add the new incentive to save $15 to $20 dollars per fill up, as well as to save on fuel for your lawn mower, chain saw, space heater, grill, etc.

And, lastly, the REMI study reminds us that the government does not have any obligation to redistribute any of the revenue generated by a Carbon Tax, and has every right to spend it however it sees fit. Is this too big a temptation for legislators dealing with a $100 million structural deficit, and a programs wish list that is seemingly endless? Who wants to find out?

- Rob Roper is president of the Ethan Allen Institute.

Commentary: The Perils of Dr. Dynasaur 2.0

By John McClaughry

In December 2014 Gov. Peter Shumlin concluded four years of passionate advocacy for single payer health care by announcing that there was, alas, no way that

Vermonters could be made to part with the $2 billion in new taxes required to make that idea work. Since then, he has devoted his energy and leadership to creating an Accountable Care Organization, probably on the theory that combining all Vermont health care providers into one giant government-controlled organization will make single payer more likely somewhere down the road.

But the single-payer advocates won't accept this uncertain prospect. They are back with a cut-down variant called Dr. Dynasaur 2.0. Dr. Dynasaur 1.0 appeared in 1989, when the Kunin Administration recoiled from the enormous price tag of her preferred single payer option. It offered state-financed coverage for children from families with incomes below 200% of the Federal poverty level. A few years later it was incorporated into Medicaid, which now pays for health care for 188,602 of Vermont's 625,000 residents. The new idea - Dr. Dynasaur 2.0 - is to have the state provide health care for everyone under 26, without regard to income, and pay for it with Medicaid funds, 55% of which are Federal matching payments. Single payer advocate Richard Davis hails this as "the resurrection of reform - brilliant in its simplicity".

The advocates offer as a selling point the removing of 120,000 young people from private insurance into Medicaid. That would produce 308,000 people dependent on Medicaid - almost 50% of the state's population. The advocates claim - correctly - that (mostly) "free" government health care will decrease the uninsured rate among 19-26 year olds. It would also reduce premiums for families by shifting their under-26 children to Medicaid.

On the other hand - not admitted by the advocates - removing healthy young people from the private insurance pools will necessarily cause premium rates for everyone over 26 to increase. But the real crunch is: who do the advocates expect to pay for the state's 45% share of adding 120,000 new people to Medicaid? Sending 188,602 people to get "free", comprehensive health services at a forced 50% discount means that the providers have to shift their costs, where they can, to private insurance premiums. This makes those premiums much higher.

Gov. Shumlin observed just last week, "You can't just keep signing folks up, saying 'we want to expand coverage'. and then say 'we're not going to pay for it and therefore providers, it's going to have to come out of your pocket'." He added "We are in denial as a state if we don't accept that as we've expanded Medicaid and taken care of the uninsured and refused to pay for it, every other agency of state government has been robbed to pay for that service." And that's the case even though the state is paying only half of the actual Medicaid provider costs.

Independent doctors and dentists are hit especially hard by these forced discounts. Last month four pediatricians in Franklin County alone closed up shop and moved because they can't keep going when so large a fraction of their patients are on Medicaid. Many if not most remaining doctors limit the fraction of Medicaid patients that they can afford to accept.

The Dr. Dynasaur 2.0 coalition commendably recognizes that this can't go on. They say that "the State of Vermont must increase [Medicaid] reimbursement rates for providers." But if the state can't pay more than half the costs of Medicaid for the 188,602 people now receiving those benefits, how do they expect to increase provider reimbursements for 120,000 new enrollees?

The answer of course is: more taxes! The advocates lamely explain that giving away lots of free health care will produce "savings" for certain people and groups. But unlike the Hsiao study of 2011, that promised that a universal state-run single payer system would produce an astonishing "$590 million in savings the first year", Dr. Dynasaur 2.0 wouldn't radically change the delivery system to achieve enormous "savings". It would just shift health care costs from some people to other people, known as "taxpayers". The most mentioned funding source is an increased payroll tax, that the legislature rejected when Gov. Shumlin asked for it a year ago.

The advocates want the 2016 legislature to underwrite a $400,000 study to "model" their program. The fix is in, and they'll get it. They promise that if the study finds that more taxes are needed than there are savings to Vermonters in health care costs, they will drop the proposal. You can bet that the study commissioned by this legislature will not reach that conclusion.

About the only protection for taxpayers from this latest single payer adventure would be to allocate $40,000 of the $400,000 study to a hard-nosed and independent economic group to critique the pro-single payer findings. Its findings would probably put an end to Dr. Dynasaur 2.0.

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

Events

January 8. Rob Roper will be on the WNTK (99.7 FM) Morning Show with Ben Sarro to discuss minimum wage issues in Vermont. Tune in at 7:15 am!

January 13. Rob Roper will speak to the Mad River Rotary Club about why a Carbon Tax is a bad idea for Vermont. If you would like this presentation made to your own organization, please contact rob@ethanallen.org, or call 802-999-8145.

News & Views

The Unanswerable Question: "A 1100 Mw coal plant emits about 8 million tonnes/year of carbon dioxide. The New York Times reported (11/15/15) that China has permitted 155 new coal plants in 2015, totaling 123 thousand Mw. That's equivalent to 112 1100 Mw plants. If Vermont somehow eliminated all 8 million tonnes of its CO2 emissions, wouldn't all of those emission reductions be cancelled out by one Chinese 1100 Mw coal plant?" – John McClaughry's question to VPIRG at the December 3 debate.

New Year's Gift from Vermont Tax Department. "Effective for year-end filing 2015, the Vermont Department of Taxes has mandated that the aggregate cost of employer-sponsored healthcare print on the employee W-2 in box 12 for all employers. Previously only employers with over 250 employees were required to provide this information." (Paychex customer bulleting 12/15)

Doctors Quitting Vermont Over Medicaid. Four out of eleven pediatricians are quitting their practices in Franklin County (that's 36 percent) leaving 6000 patients without a doctor. Vermont Digger explained one doctor's reasoning. "At Mousetrap [Pediatrics in

St. Albans], 69 percent of [Dr.] DiMichele's patients in Vermont paid with Medicaid, and he said his income went down about 40 percent this year when reimbursements went down under the Affordable Care Act." Therefore, the current calls in Montpelier to further expand Medicaid are beyond irrational.

New Hotel Tax On the Way? In order to raise $12 million to pay for childhood poverty programs, some are calling for a $2 surcharge on hotel rooms in Vermont. This, in lieu of analyzing why childhood poverty is rising in arguably the most Progressive state in the union…

More Opposition to Solar Projects. A 155 acre solar project (20 megawatts) in Ludlow by New York based Ranger Solar is facing opposition from local residents – but most interestingly from Governor Shumlin.

Congress Continues Wind and Solar Handouts. Congressman Peter Welch won a victory when House Democrats insisted that the just-approved Congressional tax package extend the Production Tax Credit for Big Wind and the 30% investment credit for Big Solar, although the PTC will be diminished starting in 2017 and the solar credit in 2019. The promised phase-out accentuates the appeal by ex-VPIRG SunCommon advocate James Moore that Vermont needs carbon tax revenues to make up for diminished Federal subsidies to Big Solar.

Yup. "Vermont's renewable policy seems to have been structured to make some quick money for a few people, and has little to do with saving the planet, less to do with protecting ratepayers." – Don Peterson, Vermont Environmentalist, commenting on Vermont Digger
http://vtdigger.org/2015/12/09/scott-woodward-bridging-the-renewable-energy-divide/

Preschool Flunks Again. Yet another study of universal preschooling, conducted by Vanderbilt University and involving a thousand Tennessee kids, found some early learning gains for preschoolers, but "by the end of their first year in school (kindergarten) there were no longer significant differences between the two groups on any achievement measures." By the end of the second grade, the children who had been assigned to the pre-K programs performed slightly worse than the control group. (Peter Suderman, Reason, 1/16)

We Tried to Tell Them: "The Canadians basically ignored cost containment when they adopted a universal, government-financed plan, and it drove them to rely on queuing to manage costs. Access to health care in the Canadian system is by far the worst in the developed world."- Hamilton Davis, formerly Gov. Kunin's single payer architect. (VTDigger 12/10/15.) We credit Ham Davis being honest enough to agree with what we've said for twenty years.

Antarctic Ice Report: "Overall Antarctic ice increased by 112 billion tons per year between 1992 and 2001 and increased by 82 billion tons per year between 2003 and 2008… NASA scientists concluded that increasing Antarctic ice is decreasing the world sea level." (AtE 10/15, citing NASA study in Journal of Glaciology.)

Plan Won't Work, Let's Do It Anyway! "The fact is that even if every American citizen biked to work, carpooled to school, used only solar panels to power their homes, if we each planted a dozen trees, if we somehow eliminated all of our domestic greenhouse gas emissions, guess what – that still wouldn't be enough to offset the carbon pollution coming from the rest of the world. If all the industrial nations went down to zero emissions –- remember what I just said, all the industrial emissions went down to zero emissions -– it wouldn't be enough, not when more than 65% of the world's carbon pollution comes from the developing world." – John Kerry, U.S. Secretary of State, speaking at the Paris Climate Summit.

Who Are the Fascists? "For those of you keeping track, the Democrats and their allies on the left have now: voted in the Senate to repeal the First Amendment, proposed imprisoning people for holding the wrong views on global warming, sought to prohibit the showing of a film critical of Hillary Rodham Clinton, proposed banning politically unpopular academic research, demanded that funding politically unpopular organizations and causes be made a crime and that the RICO organized-crime statute be used as a weapon against targeted political groups. They have filed felony charges against a Republican governor for vetoing a piece of legislation, engaged in naked political persecutions of members of Congress, and used the IRS and the ATF as weapons against political critics." – Kevin D. Williamson
http://www.nationalreview.com/article/428793/democrats-and-totalitarianism-2016

Happy New Year from the Founding Fathers! "Be at war with your vices, at peace with your neighbors, and let every new year find you a better man." -Benjamin Franklin

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Book of the Month

Turning Point

Saving Our Kids' Future and Our Own
By Mike Seely
Shires Press, Manchester VT, 2015, 150 pages.

Mike Seely is a high level financial executive who retired to enjoy life in Vermont in 2002. After a somewhat frustrating experience getting to know how Vermont works, and a dismaying thirteen years watching how Washington works, he wrote this book mainly to explain to our Millennial children how their elders have made a sorry mess of their opportunities – and how they can make the most of what they have inherited.

"We Boomers," he writes in the Foreword, "stood by, absorbed in our own lives, jobs, and concerns, while we mortgaged your future." We ran up government debt to astronomical levels. We left it to you to pay our Social Security and Medicare benefits, which you are unlikely to enjoy when your time comes. Now, "our Long Hustle is coming to an end."

Seely visits a lot of grief on his adoptive state, whose politicians have taxed and regulated out growth (as noted so often in EAI publications). He is no kinder to the U.S.

government, whether managed by Republicans or Democrats. In addition to its endless spree of deficit spending, Congress has repeatedly raised the racist minimum wage law, the Federal Reserve has almost abandoned its focus on sound money in a futile effort to promote greater employment, Obamacare is a disaster steadily happening, and the purported statist remedies for "inequality" general make it worse.

Much of this can be found in many other recent works. Where Seely really shines is in advising young people how to protect themselves while their governments are making a mess of their economic prospects. His expert advice – probably the first such that most twenty-somethings have ever encountered - explains how to build net worth through IRAs, 401ks, Health Savings Accounts, and holding Exchange Traded Funds instead of trying to beat the market.

"We must each face up to the biggest issue of our time, he writes. "[We have] a choice between a society in which we relinquish ever more power to government, local, state and federal, for more and more decisions over our lives – or we reaffirm the values that have endowed America from its beginning and propelled our success. Chief among those values is the primacy of individual freedom and responsibility."

Vermont author Geoffrey Norman, Seely's neighbor in Dorset, writes that "it is impossible to read Mike Seely's book and not admit that the fortunes of the next generation are hostage to those who came before them and have been living high by running up debts their kids will be stuck with…. Perhaps this book will be a wake-up call as well as a compelling read." I surely hope so.

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

The Final Word

January Survey: Your New Year's Prediction!

What's the dumbest thing the Vermont Legislature will do in 2016?

- Legalize Marijuana
- Pass a Carbon Tax
- Mandate Paid Sick Leave
- Snuff Out School Choice
- Expand Dr. Dynasaur (Medicaid) to 26 year olds
- Take Over Medicare Payments Through "All Payer Waiver"
- Pass a payroll tax to cover Medicaid funding shortfall
- Other (Please Specify)

Make your voice heard. Take the survey! https://www.surveymonkey.com/r/C3BVXMR

December Survey Results:

> Should the legislature revisit in January 2016 giving towns “substantial deference” when siting renewable energy projects, this time passing the measure into law?

YES. Local communities should have final say over renewable project siting. 96.88%
NO. No. The Public Service Board should retain total authority.0% (3.12%)
Don't Know. 0% (0)