Ethan Allen Institute

Newsletter – November 2018 (Printer Edition)

Top Story

Election Day is Tuesday, November 6th!

Be Informed. Before you vote, make sure you know how your legislators voted and that they are truly representing your interests on the floor of the State House with EAI's Legislator Profiles. CLICK HERE.

Register. Vermont law now allows for citizens to register to vote up to and on election day. So, if you haven't already registered to vote, there is still time! You can register on line through the Secretary of State's website HERE.

VOTE! Don't think for a minute your vote doesn't count. In 2010, David Ainsworth lost his seat to challenger Sarah Buxton in the Royalton/Tunbridge district by one vote. In 2016 Buxton lost the seat back to Ainsworth by one vote. Though not all as dramatic as this example, many elections in Vermont are decided by a small handful of votes. Yours can make a difference!

Watch for Vote Fraud. The greatest amount of outcry and headlines goes to the issue of voter ID at the polling place, but the most dangerous avenue of voter fraud comes with absentee ballots. We honestly have no idea who is actually filling them out (or under what influences). While the vast majority of absentee ballots are likely legitimate, in the last election they accounted for roughly one third of all ballots cast. If only a small fraction of this large percentage is illegitimate, we have a big problem.

Recently a vote fraud ring in Texas was caught targeting senior citizens. The ring would request the absentee ballot on the senior citizens' behalf, intercept it in the mail, fill it out without the voter's consent, and send it in. So, please keep watch for older relatives, adult children, or other vulnerable people who might be taken advantage of in this way.

Commentary: The Big Hammer to Force Everyone to Buy Health Insurance

By John McClaughry

The 2018 legislature, alarmed by the repeal by Congress of the Obamacare tax on persons who failed to buy government-approved health insurance, decided to impose a state mandate to do the same thing, to take effect for the 2019 insurance year.

But the legislature balked at announcing the penalty needed to enforce its new mandate. It created a working group to recommend “a financial penalty or other enforcement mechanism” by November 1. That group’s inconclusive draft report is now out. It’s encouraging that some of the seven members balked at inventing a new Big Hammer, leaving open the precise method for enforcing the mandate.

Whatever Big Hammer the legislature and governor select to drive people into buying government-approved insurance, some will necessarily be exempted. The Obama administration created fourteen classes of mandate exemptions, notably “hardship”, and millions of people escaped from having to pay the penalty tax.

The Federal law explicitly exempted from the tax families participating in four recognized Health Sharing Ministries. These voluntary networks of Christian concern do not offer insurance; instead, their participants agree to pay every month their calculated share of the medical expenses of all participants. These ministries are superb examples of a civil society of shared concern, whose members cooperate in meeting their health care needs. They ought to be strongly encouraged, and their enrolled participants exempted from any mandate. The legislature would do well to ignore Blue Cross Blue Shield of Vermont’s disgraceful opposition to exempting sharing ministry members.

No matter what exemptions are agreed upon, the Big Hammer will still fall on thousands of Vermonters. This will be an unfair Robin Hood in Reverse scheme, and an intolerable intrusion upon the liberty of Vermonters.

Vermont laws dating back to 1991 rescued Vermont Blue Cross Blue Shield from impending insolvency, by driving out almost all of its competitors in the individual and small group (under 100 employees) markets. This was achieved by imposing age-based “community rating” of premiums in those markets – all ages pay the same. Young, healthy Vermonters, just starting out in their careers and families, were thus saddled with subsidizing the higher health insurance costs of their older, sicker, but richer grandparents.

In addition, everyone with private health insurance is forced to absorb the costs of the State’s drastic provider underpayment of Medicaid services that cover 30% of the state’s population.

Many self-employed younger, healthier families with limited incomes, faced with high premium costs caused by forced subsidies for their elders and the required cross-subsidy to keep providers from exiting Medicaid, gamble and go without insurance. The state mandate is required to deny them any escape.

The working group, focused on designing a Big Hammer, regrettably ignored a workable liberty-respecting alternative: no insurance mandate, but an income tax-based recapture of unpaid medical bills from those who can afford to pay for what they received.

Here’s another reason why the mandate law enacted this year should be repealed: Gov. Scott has appealed for programs to attract healthy working age immigrants into the state, productive people “who share our values and want to raise their family in the safest and healthiest state in the country.”

If the legislature adopts a Big Hammer to force everyone into buying state-approved health insurance, we’ll need to add a candid extension to that appeal:
“For those of you who are young and healthy, choose to come here, and want to start your own enterprise, I should remind you that unless you go to work for an employer that offers approved coverage, you will have to purchase health insurance having rather expensive ‘minimum essential coverage’”.

"The premium rates you'll pay don't take into account that you're young and healthy. In fact, our community rating rule taxes people like you to subsidize the old and sick, even though our older generation is notably wealthier than yours. Why? Because the legislature wanted to subsidize the medical bills of the older and more politically influential generation, and decided to make your generation provide the subsidies through much higher premiums."

"What happens if you don't buy the required insurance? Don't worry – you won't go to jail. You'll just be hit with a tax or fine sufficient to make you reconsider your choice not to buy coverage (or your choice to come to Vermont in the first place)."

"Our website for prospective immigrants will show you the price list for self-employed health insurance policies that you must select from, to avoid the annoyance and expense of the penalties imposed on the non-compliant."

"Yes, there are other states with lower taxes, fewer regulations, more opportunities, a warmer climate, lower energy costs, lower health care costs, and no insurance purchasing mandate, but they can't offer "our socially responsible culture!"

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

Commentary:
Will Credit Rating Downgrade Spark Pension Reform?

By Rob Roper

On October 23, Moody's, the investors credit service, downgraded Vermont's bond rating from AAA to Aa1. This has significant implications for the state's ability to borrow money and the cost of doing so. The reasons Moody's cited for the downgrade were "low growth prospects from an aging population," and "debt and unfunded post-employment obligations relative to GDP…." This last point is in reference to Vermont's unfunded pension liabilities of $4.5 billion.

The pension crisis is an issue has been simmering below the public radar for years. Although huge in its potential consequences, it has not received a lot of critical attention for a number of reasons. One, politicians want to avoid it because it is expensive to fix, which can only anger taxpayers and/or beneficiaries of cut programs, and politically complicated as it affects the powerful public employee unions, who don't want the system, which provides very generous benefits, changed. The other is it is not a particularly sexy issue for the press; about as fun and interesting for most people as figuring out your taxes, and for most of us more complicated.

Hopefully this credit downgrade provides the shock necessary to change this denial dynamic and spur all parties to get serious about reforming the system. It can be done. Look at Rhode Island.

Rhode Island is a state that has a lot in common with Vermont. It is a small New England state with an aging population and an overall population that is in decline. (In the last Census, Vermont and Rhode Island were the only two states that experienced an actual population loss.) It has little economic growth, and its governance is overwhelmingly dominated by Democrats.

In 2011, Rhode Island found itself dealing with a pension crisis similar to Vermont's today: long neglected, politically challenging, but ready to explode. The state of a little over one million residents had unfunded pension liabilities of $6.8 billion, compared to Vermont today of 623,000 residents and $4.5 billion in liabilities. Rhode Island also had a moderate Republican turned Independent Governor and a Democratic Treasurer who, either out of good governance or sheer necessity, were willing to take up the challenge of fixing the problem.

What they accomplished was a complete overhaul of the state's pension system in The Rhode Island Retirement Security Act (RIRSA) of 2011, which went into effect in 2012. According to an excellent forty-two page summary of the process and the end product done by The Reason Foundation, RIRSA had five major planks: "1. A suspension of cost-of-living adjustments until the pension system reaches a combined 80 percent funding level; 2. A new defined-contribution plan to work in tandem with the current defined-benefit pension plan; 3. An increase in retirement age for current employees; 4. A change to the amortization rate of liabilities, and 5. A plan to help local governments bring their unfunded pension liabilities under control."

Not to say that this was without controversy. After RIRSA passed, several state and municipal unions sued to block the law from taking effect. This led to a settlement in 2015, which "included two one-time stipends payable to all current retirees; an increased cost-of-living adjustment cap for current retirees; and lowering the retirement age, which varies among participants depending on years of service." (Pensions & Investments 5/29/18) Even this settlement was challenged and only just resolved in favor of the state this past spring.

But, for those politicians worried about the electoral consequences of tackling a tough "third rail" issue, it's worth pointing out that the state treasurer in 2011, Gina Raimondo, is now Rhode Island's governor.

For all its similarities, Rhode Island is different than Vermont and a Vermont solution would necessarily have to be tailored to fit our own unique circumstances. I offer this example only to illustrate that reform can and should be accomplished. As David Coates, Vermont's local guru on pension issues, warned last February that, "in 2008 [Vermont's] pension payment was 2.25 percent of revenues, in 2012 6.4 percent, in 2017 9.4 percent and in 2019 it will increase to 11.5 percent." (VTDigger, 2/11/18) This is unsustainable, and the implications for all aspects of our government are dire. In that same piece, Coates also warned that failure to address these problems would inevitably lead to a downgrade in our state's credit rating. Guess he was right! Hope our politicians take notice.

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

Commentary: Essex Carbon Tax Carnage

By David Flemming

A few months ago, Paul Burns of VPIRG proclaimed about the latest carbon tax scheme that "the ESSEX Plan (would make) the wealthiest and large corporations (to) pay their fair share as Vermont's biggest polluters– while low- to moderate-income Vermonters would save money."

Call me skeptical, but a plan to tax everyday Vermonters in order to subsidize large companies like Ben & Jerry's doesn't seem likely to save Vermonters much money.

Burns continues, "the ESSEX Plan proposes lowering electricity bills by 25-30 percent for residential ratepayers and businesses. Rural and low-income Vermonters would receive additional rebates. This would give Vermonters who want to transition to cleaner heating and transportation options a financial incentive to do so."

While ESSEX does offer low income and rural rebates, these rebates are not nearly enough to offset the increased tax expenses and overhead costs for all but the wealthiest of Vermonters, who can afford to buy electric vehicles, solar arrays, electric heat pumps, etc. This policy is "revenue neutral" for no one. It is revenue positive for the 'greenest few' and revenue negative for most Vermonters, if a recent fossil fuel survey is any indication.

The Ethan Allen Institute surveyed over 80 Vermont households about their fossil fuel usage and electricity usage in order to create "profiles" representing how this tax/rebate scheme would impact real people in the real world.

We selected six real low and middle income households from the 80 original households. These six reflect a diverse range of family situations spread across the geography of the state. All rely on fossil fuels for heat, which is the case for 3 in 4 Vermont households. None could afford to invest in an electric vehicle or expensive renewable energy options.

Since 2000, Vermont has provided millions of dollars to Vermonters to "transition to cleaner heating and transportation" through Efficiency Vermont. By now, the Vermonters who are most financially able to purchase renewable energy have already done so. Realizing this, Burns is asking Vermonters to combine the "financial incentives" from Efficiency Vermont with "financial threats" from the ESSEX Plan. If Vermonters don't adopt renewable energy, they will pay the price.

Of the six households, four of these households received the rural rebate or the low income rebates, according to the numbers provided when the ESSEX Plan was introduced. Two received both rebates. In the end however, the rebates mattered little. The carbon tax (and the ESSEX Plan is a carbon tax) ate up all of the rebates, and then some.

Bob Yandow (a pseudonym) is a single, low-income retiree living in rural Orange County. Bob fared the best out of our six examples, but even he would still lose an annual net of nearly $70 by 2026, when the ESSEX Carbon Tax would be fully phased in. Mike Evans, a house-rich, income-poor resident of Windham county who lives on $21,000 a year, would have to pay a whopping $1,250 in taxes by 2026. Sure, Mike would receive $570 in lower electric rates, a rural rebate and a low-income rebate. Unfortunately, he would still end up paying $680 on net.

ESSEX targets Vermonters who are least able to change their spending habits. The only ones who stand able to avoid the fossil fuel tax are the wealthy, who might be able to escape this carbon carnage in an electric car. I would like to think the best about those who embrace ESSEX. At some point however, ignorance is no excuse for bad policy. If the ESSEX Carbon Tax is passed, its advocates will struggle to explain why they are siphoning away money from Vermonters' budgets. We should reject ESSEX before it can do real damage to Vermont.

- *David Flemming is a policy analyst at the Ethan Allen Institute*

Events

November 6. ELECTION DAY! Make sure to vote!

News & Views

Moody's Downgrades Vermont's AAA Credit Rating. "The downgrade of the ratings [from AAA to Aa1] incorporates an economic base that faces low growth prospects from an aging population. At the same time, the state's leverage, measured by debt and unfunded post-employment obligations relative to GDP, is high among states and especially so among the highest rated states. With slower than average growth, Vermont's long-term liabilities will weigh more heavily on its economic base and may manifest in growing cost pressures." - Moody's Investor Services, 10/23/18.

Car insurance rates to increase in states with legal marijuana. "Car insurance rates are likely to increase 4-6% in states with legal marijuana, a leading insurance industry actuary says. "You're looking at an increase of around 4 to 6 percent in overall coverage," James Lynch, chief actuary of the Insurance Information Institute told the Boston Herald October 24, 2018. Even if drivers don't smoke pot themselves, their insurance rates will increase regardless, Lynch said. A 6 percent increase in insurance premiums on all 615,950 registered vehicles in Vermont would cost about $28.3 million. The average Vermont car insurance premium is $764, according to Reviews.com. A 6% increase would add $46 in annual premiums, for a total of $810." Guy Page, Statehouse Headliners

Keurig Dr. Pepper to lay off 10% of VT Workforce. "Keurig Dr Pepper is laying off 118 people from its Vermont operations…. Vermont Labor Commissioner Lindsay Kurrle confirmed the cuts in Vermont are part of 500 layoffs worldwide…. Eighty-two of the Vermont job cuts will happen in the Waterbury early production center…. This is the second round of layoffs for Keurig this year. Thirty-five Vermonters were let go back in May. (WCAX, 10.25/18)

On Bernie's Nutty Healthcare Scheme. "Maybe Democrats should have looked at the results in Vermont when Bernie's home state tried to set up single payer. A Democratic Governor abandoned the idea in 2014 once he was looking at an 11.5% payroll tax, plus a 9.5% income tax, and more increases to come. Progressives couldn't even get single payer up and running for about 625,000 people in a state with a decent health profile." – WSJ Editorial Board, 10/11/18

The Frightening Ignorance of Left Wing Reporter. In the aftermath of the Kavanaugh confirmation, NBC reporter Ken Dilanian tweeted he believes we should end equal state representation in the U.S. Senate. According to an article in the Daily Caller, Dilanian said, "It may not happen in our lifetimes, but the idea that North Dakota and New York get the same representation in the Senate has to change." Clearly, this reporter and others who think like him have no understanding of checks and balances placed in our

Constitution and why they were put there. That someone in his position is this ignorant is truly alarming. Sadly, he's likely not alone.

Something to Consider Regarding Immigration Policy. "… when the economy no longer rewards low-skill labor, when automation and globalization and offshoring have in fact made it harder and harder to do well as a manual worker in the U.S., the equation surely shifts. And that's what has happened in the last few generations, as technology and trade and cheap travel have revolutionized the world. What you're doing by sticking with the current immigration system in such an economy is creating a permanent pool of unskilled, poorly paid workers who cannot get ahead very easily. Worse, this class of workers — by virtue in part of its sheer size — will be more likely to form homogenous ethnic enclaves, will be less capable of integrating through the workplace, and be more easily exploited." Andrew Sullivan, NY Times Magazine, reviewing Reihan Salam's new book on immigration policy, Melting Pot or Civil War?

Insightful and Accurate. "The recent turn to the criminalization of politics and the politicization of all of our institutions has degraded our democracy and, in the long run, only benefits those who want to get rid of democratic institutions altogether." – Mark Penn, former Clinton pollster, The Hill, 10/19/18

Americans Hate Political Correctness. "Among the general population, a full 80 percent believe that 'political correctness is a problem in our country.' Even young people are uncomfortable with it, including 74 percent ages 24 to 29, and 79 percent under age 24. On this particular issue, the woke are in a clear minority across all ages. Youth isn't a good proxy for support of political correctness—and it turns out race isn't, either. Whites are ever so slightly less likely than average to believe that political correctness is a problem in the country: 79 percent of them share this sentiment. Instead, it is Asians (82 percent), Hispanics (87percent), and American Indians (88 percent) who are most likely to oppose political correctness." - Yascha Mounk in The Atlantic on Hidden Tribes: A Study of America's Polarized Landscape

What Climate Scientist's Actually Say: From the scientific section of the IPCC Third Assessment Report (AR-3, 2001): "In climate research and modelling, we should recognize that we are dealing with a coupled non-linear chaotic system, and therefore that the long-term prediction of future climate states is not possible." This is the conclusion of the scientists of the UN IPCC, not the government flacks who craft the IPCC's Summary for Policy Makers, on which the media bases its scare stories about "climate change". (Ball & Harris, Washington Times, 10/15/18)

Get Used to This Bad News: Over the next 30 years, Social Security and Medicare will run a $100 trillion deficit. Social Security will run an $18 trillion deficit, Medicare $41 trillion, and the interest on that debt will be $41 trillion more. The rest of the budget is going to run a $16 trillion surplus over the next 30 years. In other words, our long-term deficit is 100 percent the result of Social Security and Medicare. – Brian Riedl, Manhattan Institute, Reason.com 10/19/18

The Real Poverty Rate: "The [Census] bureau measures poverty using what it calls 'money income', which includes earned income and some transfer payments such as

Social Security and unemployment insurance. But it excludes food stamps, Medicaid, the portion of Medicare going to low-income families, Children's Health Insurance, the refundable portion of the earned-income tax credit, at least 87 other means-tested federal payments to individuals, and most means-tested state payments. If government counted these missing $1.5 trillion in annual transfer payments, the poverty rate would be less than 3%." – Phil Gramm & John Early, (WSJ 11/11/18.)

CO2 Taxation: "The (IPCC AR-6) report emphasizes the potential role of a tax on carbon dioxide emissions. 'A price on carbon is central to prompt mitigation,' the report concludes. It estimates that to be effective, such a price would have to range from $135 to $5,500 per ton of carbon dioxide pollution in 2030, and from $690 to $27,000 per ton by 2100." (Washington Post 10/8/18). The ESSEX carbon tax plan for Vermont calls for a tax of $40 per ton of CO2 emitted by 2026. How's that going to defeat climate change?

Latest Climate Absurdity: "The IPCC says carbon emissions need to peak right now and fall rapidly to avert catastrophe. Models actually reveal that to achieve the 2.7-degree goal the world must stop all fossil fuel use in less than four years. Yet the International Energy Agency estimates that in 2040 fossil fuels will still meet three-quarters of world energy needs, even if the Paris agreement is fully implemented." – Bjorn Lomborg, (Copenhagen Consensus, WSJ 10/10/18). And that assumes one believes the models.

The Meat Menace: "Though the figures vary, World Bank scientists have attributed up to 51 percent of human-caused greenhouse gas emissions to the livestock industry. "The cows, pigs, chickens and other animals raised for food across the globe — and the industry of which they're a part — contribute more to rising temperatures and oceans than all the planes, cars, trucks, boats and trains in the world." (Huffington Post, 12/1/14)

Tocqueville on Socialism (1848)
"Democracy extends the sphere of individual freedom, socialism restricts it. Democracy attaches all possible value to each man; socialism makes each man a mere agent, a mere number. Democracy and socialism have nothing in common but one word: equality. But notice the difference: while democracy seeks equality in liberty, socialism seeks equality in restraint and servitude."

Book of the Month

The (Honest) Truth About Dishonesty

How We Lie to Everyone---Especially Ourselves
By Dan Ariely
Harpers (2012), 304 pages.

If you're a fan of Dan Ariely and his books on behavioral economics, as I am, you will find some of the stories and studies in *The (Honest) Truth About Dishonesty* familiar, but packaged in a different and very interesting context. There is a lot of new material as well. As the subtitle suggests, the author explores how and why we lie, cheat, and steal, and what factors both internal and external contribute to our behavior.

At the heart of the book is the conflict between our desire to have more stuff at no cost (the incentive to cheat or steal), and our emotional need to feel in our heart of hearts that we are good, moral people. If the former impulse dominated, we'd take every opportunity to walk off with unattended purses, unlocked bikes, unwatched candy, etc. But, most of us don't do this, even if we could clearly get away with it, so this is not a cold, calculating cost/benefit analysis. But, we do lie, cheat and steal a little bit. And when almost everybody cheats a little bit, it can add up to a big problem for society.

A typical experiment Ariely runs to form his thesis involves asking people to take a test for which they will be rewarded monetarily for each correct answer completed out of twenty within a set time. The control group's tests were monitored so that cheating was impossible. This group averaged seven complete answers. The test group, however, were asked simply to tell the monitor how many answers they got correct, then shred their test so that there would be no way to catch cheaters. This group said, on average, that they completed twelve of the problems. Nobody claimed to have solved all twenty (the highest possible number). Lots of people cheated just a little.

A variant of the experiment added a plant (an actor) in the test group who after one minute or so stood up, said he had completed all twenty problems correctly, making it clear that he had cheated. The plant shredded his test and visibly collected the full amount of money for successfully completing all the problems, making it clear to the real participants that there would be no consequences for cheating. After this demonstration, the control group claimed to have solved on average fifteen out of twenty problems.

Though the book doesn't delve into these specific issues, its conclusions have strong implications for two big issues facing society today: the call to "believe women" as part of the MeToo movement, and voter fraud.

In the first case, even if women didn't lie about sexual assault before the MeToo movement came into full force, if society did adopt a policy of absolutely believing all charges leveled by women without a process of verification (the "shred your test and tell us what you got" scenario), women would take advantage of this and start cheating. If they saw others blatantly get away cheating, women would cheat to an even greater degree. This is not a good outcome.

In the case of voter fraud, Ariely's experiments show that the best way to limit or eliminate cheating is strong supervision. Binging voters back into the official polling place to cast their votes, under the supervision of election officials, will produce more reliable, legitimate results. The more we remove voting from supervised situations via absentee ballots, the more election officials telegraph that there will be no consequences for cheating because "it doesn't happen," the less honest, accurate, and legitimate our elections will be.

Ariely has a good sense of humor to go along an interesting subject matter. A good, quick read.

- *Reviewed by Rob Roper, president of the Ethan Allen Institute.*

The Final Word

November Survey: What Are Your Election Predictions?

VT Governor.

1. Phil Scott (R) will win.
2. Christine Hallquist (D) will win.
3. Other.

VT Lt. Governor

1. David Zuckerman (P/D) will win.
2. Don Turner (R) will win.
3. Other.

Sustaining the veto

1. VT Republicans will hold/gain enough legislative seats to sustain a gubernatorial veto.
2. VT Democrats will win enough seats to override a gubernatorial veto.