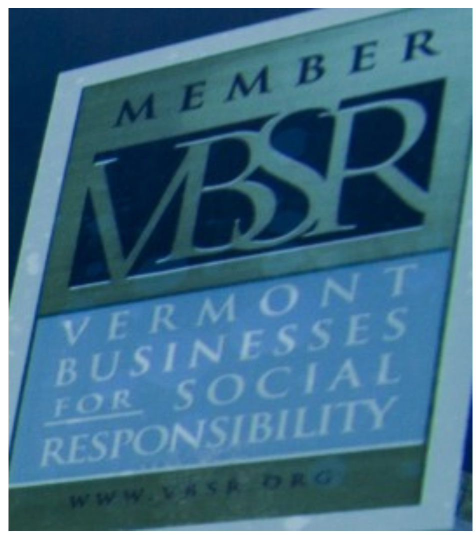
Ethan Allen Institute

Newsletter - November 2017 (Printer Edition)

Top Story: There's Nothing "Responsible" About Supporting a Carbon Tax.

by Rob Roper

VPR covered a two-hour meeting hosted by Vermont Businesses for Social Responsibility, in which the public policy director for the group, Dan Barlow, proclaimed, "VBSR is especially interested right now in how we can price carbon in a way that will grow our economy."



So, if you see the sticker pictured here on the window of a local business, make sure to ask the proprietor why he or she supports a tax that will raise gasoline, home heating fuel, etc. on hard working Vermonters by roughly a dollar a gallon. There is nothing "responsible" about supporting a Carbon Tax.

There's nothing economically advantageous to swapping a cheaper, more reliable source of energy that can exist on its own merits for ones that are more expensive, less reliable, and would not exist were it not for government mandates and subsidies.

Vermont does not need more jobs that require taxpayer dollars to stay afloat. We need more jobs that can support themselves and generate tax revenue. That is, jobs that provide products and services that have an intrinsic value to their customers and can exist organically, without government forcing them to purchase (and/or not purchase) something. If wind and solar can survive and thrive under those conditions, great! We wish them every success.

VBSR is well-funded organizations with significant membership and political pull in the State House. Their support guarantees that the Carbon Tax will be back as a major issue in 2018.

School Choice Advocates, Tell Your Story!

ExcelinED is conducting a video contest, called "Choices in Ed". The grand prize is **$15,000!** Video submissions, open to anyone, can be on topics of "How educational choice made a difference in my life" and/or "Why I need access to educational choice options." Submissions may only feature the entrant and their family members. You can find more information on their website at http://www.choicesined.org/.

Good luck to anyone who enters! And we hope many of you do.

Commentary: The Next Solar Bailout

By John McClaughry

“Free electricity from the sun” has been a dream for decades. Although solar photovoltaic cells have been used for 40 years in spacecraft, the growth of the solar PV industry began around 1990, spurred by concerns about global warming from fossil fuel combustion.

“Clean, green” solar PV electricity can charge radios and cell phone batteries, but it’s challenged by powering a refrigerator or home freezer. That’s because sunlight is diffuse and intermittent.

“Diffuse” means that the amount of direct sunlight that falls on a PV cell, even in a cloudless desert, is pretty weak. Overcoming the “diffuse” problem requires lots of collector area – full roof coverage for a home, or acres of solar panels for supporting the power grid.

“Intermittent” means that most solar PV electricity is produced during six or eight hours of a cloudless day, and almost none with heavy overcast. The “intermittent” problem for a home or neighborhood system can be solved (at considerable cost) by battery storage, but solar PV can’t realistically power the grid. It can only augment baseload power generated by hydro, nuclear, geothermal, tidal, biomass or fossil fuels like coal, oil or natural gas.

Beyond the political rhetoric about stopping climate change, the driver for solar PV deployment is profit. And the fact is that, except for remote and unique locations, there would be precious little if any profit in solar PV were it not for the cornucopia of special benefits offered by the federal and state tax and regulatory laws.

The big hitter is the 2005 solar investment tax credit of 30 percent of installed cost, used to offset the solar company’s income tax liability. When this credit was slated to expire at the end of 2016, the solar industry went into overdrive to postpone the deadline. It won a six-year phase-out, ending in 2022.

Vermont offers a parallel tax credit at 24 percent of the federal rate, plus exemption of solar equipment from the sales tax and from the education property tax.

There are two major solar PV models. One is the large-scale solar farm. The other is the homestead “rooftop” or backyard system. The profit driver is net metering.

This is a special deal where the solar installation inverts the DC electricity from the panels and runs it back through the utility meter, reducing the electric bill. The subsidy occurs when the homeowner is credited not at the wholesale generation price, but at the maybe 40 percent higher retail price. The net metering customer thus pays little or nothing toward the costs of maintaining the utility’s transmission and distribution systems, or its management. The other “ordinary” customers have to pay for that.

A common solar industry deal is structured as a limited partnership. The partnership installs and owns the solar panels, claims the tax credit, sells the renewable energy credits, and routes the generous depreciation deductions to the partnership's high income tax shelter-seeking partners.

The homeowner enjoys net metering for a specified number of years, which under some circumstances can result in zero-cost electricity. When the partnership has pocketed the upfront tax credit and the declining depreciation for (typically) five years, the homeowner can buy the system for a nominal price, and own and maintain it thereafter.

How important is net metering? The New York Times (July 26, 2013) quoted the executive director of the advocacy group Vote Solar as saying, "Net metering right now is the only way for customers to get value for their rooftop solar systems." That is to say, unless taxpayers and other ratepayers can be made to cover the subsidies, homestead solar installation will be attractive only to those who are willing to spend their own money to display green energy virtue.

The price of solar PV panels has dropped gratifyingly over the past decade. But last month the International Trade Commission found that solar panels are being "imported in such increased quantities as to be a substantial cause of serious injury to the domestic industry." The two plaintiff companies, one bankrupt and one insolvent, are urging President Donald Trump to impose a big tariff on imported panels, mainly from China.

News of the petition caused a rush by speculators to stockpile panels before the price shoots up. A significantly higher price for panels, along with the disappearance of the investment tax credit in 2022, will dramatically change the economics of net metering deals, meaning that the solar boom may well peter out, except in off-grid locations. This would also seriously undercut Vermont's (actually Peter Shumlin's) Comprehensive Energy Plan, which declares that 90 percent of all Vermont energy must come from renewables by 2050 (or else what?).

That's the risk solar PV entrepreneurs may be facing. If the higher price of panels and the declining investment tax credit undercut the viability of their business plans, expect the next phase: an urgent appeal for a taxpayer bailout for solar installers, to counter the government tariff bailout of the solar panel makers.

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

Commentary: Repeal Vermont's CON Laws

By Rob Roper

Kevin Mullin, chairman of the Green Mountain Care Board (GMCB), appeared on the WDEV radio program Open Mike (10/11/17) to discuss Certificate of Need (CON) laws in the wake of a controversy regarding Copley Hospital and their highly successful orthopedic surgery center. Copley is, apparently, generating too much revenue as the result of being highly efficient, performing more surgeries (they have not raised prices), and delivering what is recognized as superior service and outcomes for their patients. In the screwy world of CON laws, this is bad.

CON laws essentially require a special permission slip from the government, in

Vermont's case the Green Mountain Care Board, to start providing or to expand healthcare services. CON laws are supposed to control costs by limiting access to care, and are a malignant anachronism with roots in a failed federal healthcare policy of the 1970's. Most states have done away with CON laws for good reason: they don't work. In fact, they make every important aspect of healthcare demonstrably worse.

States that have ditched their CON laws have on average lower healthcare costs, better health outcomes for patients, and greater access to care. Vermont, however, as one might suspect, subjects more aspects of the healthcare industry (30) to the CON process than any other state. The results: as a recent study by the Kaiser Foundation determined, between 1991 and 2014 hospital expenditures in Vermont have increased faster than any other state in the US. That's a pretty epic fail for a policy that's supposed to keep hospital expenditures in check.

So, why do we still have CON laws? There are no good reasons. But the bad reasons are cronyism and that Vermont's guiding principal regarding healthcare today is to ration access to it.

Politicians will deny that their goal is to ration access to care, but here's what Mullin said when asked why we need a GMCB:

> *We are the regulators… we have to be the ones who are putting the breaks on utilization. And so that is our role.*

"Putting the breaks on utilization." That's rationing. It means denying care to someone who thinks they need it. Maybe they do, maybe they don't, but is a six member panel of politically appointed bureaucrats in Montpelier really who we want making that decision? Mullin further reinforces the rationing argument when he says:

> *The cost of healthcare isn't just what it costs for a given set of procedures, because you can hold that constant, but if people had more use of those procedures you can still have rising healthcare costs.*

It's not the cost of the procedure that's driving up cost, it's the number of patients utilizing the procedure. Sure. 2 x10=20 and 3×10=30. This is what was happening at Copley. But if three people need a procedure, the way the GMCB will go about "bending the cost curve" is to make sure only two people get it. Rationing.

And then there's cronyism.

Although the original intent of CON laws was to prevent the "overbuilding" of healthcare infrastructure, the unfortunate misuse of the laws, where they continue to exist, has been to block competition from taking business away from the politically favored. Mullin laments,

> *What I have concerns about is when hospitals – and they hate it when I use this term… -- is "poach" on another hospital.*

What Mullin calls "poaching" is, by another name, healthy competition -- one provider attracts customers by providing better outcomes, lower cost, shorter wait times, etc. This is the case at Copley, where the orthopedic surgical center has earned an outstanding reputation, and patients want to get their care there. Other examples of healthy competition include Vermont MRI, which had to get a CON to provide a cheaper alternative for medical imaging, and the new surgical center in Colchester that had to spend $250,000 and waste years going through the CON process.

The opposite of the "poaching" scenario is government picking winners and losers, which is what we have now. And, to paraphrase Napoleon, government is on the side of the biggest lobbing firms. This is why instead of rewarding Copley Hospital for exceptional efficiency and superior quality and using it as a model example to others, the GMCB is instead threatening to revoke Copley's CON altogether. Is it any wonder our healthcare system is a mess of rising costs and increasing wait times?

It's time to subject our CON laws and the Green Mountain Care Board to a Certificate of Need process. I think we'll find we don't need either of them.

- Rob Roper is president of the Ethan Allen Institute. He lives in Stowe.

Commentary: Suter Misjudges the Impact of a $15 Minimum Wage

by David Flemming

Recently, Raise the Wage Coalition member Nathan Suter wrote an editorial entitled "Economic Evidence Points to Broad Benefits of a $15 Minimum." The letter makes several dubious claims in support of Vermont raising the minimum wage to $15/hour. To make his case, Suter relies on four Berkeley studies, one of which was subjected to political interference by the pro-minimum wage Seattle mayor, and four Economic Policy Institute studies (EPI received 27% of its funding from labor unions, which often peg their contracts to a minimum wage baseline).

If Vermont's experience with a $15 minimum wage is anything like Seattle's experience, workers are in for a rude surprise. The University of Washington discovered that Seattle businesses adapted to an increase in the minimum wave to $13 minimum wage by reducing the hours for workers in low-wage jobs ($13-$19/hr.) by about 9 percent. The result was a loss of 14 million hours annually. Hourly wages in low-wage jobs did increase by 3 percent, but the net impact was that low-wage earners lost an average of $1,500 annually because of the cut in hours. And Seattle's minimum wage has not even reached its zenith of $15/hour in 2021.

While Suter claims that past research shows "little negative impact on employment or hours," Vermont's Joint Fiscal Office (JFO) estimates that Vermont's economy will have 2,830 fewer jobs by 2028 if Vermont enacts a $15 minimum wage. The Heritage Foundation estimates that Vermont could lose as many as 11,000 jobs. It is difficult to estimate the job loss because the "academic literature" has been confined to minimum wage increases "affecting 10% or less of those employed," according to the JFO, while the $15 minimum wage increase is projected to impact 25% of Vermont's workforce.

To compound the risk, there is the possibility that the Vermont-New Hampshire border could become what the JFO calls the "largest historical (wage) spread on record." Should New Hampshire keep its minimum wage at $7.25 (and they show no signs of changing), this would be less than half of the proposed $15/hour minimum for Vermont.

According to 2015 data from the Census Bureau, all six Vermont counties that share a border with New Hampshire have a lower median household income than the Vermont average. This suggests Vermont businesses along the border are less able than other counties in Vermont to afford a minimum wage increase. Vermont businesses will be forced to lay off workers in order to remain competitive with their New Hampshire counterparts who will have far lower labor costs.

The JFO notes that a $15 minimum wage's "positive effects will be largely offset" by 1) lower quantities of products produced at Vermont businesses (not the "boost in business sales" Suter claims) 2) fewer federal transfer payments that the State has no control over, 3) higher Federal income and payroll tax payments for Vermont employers and workers, 4) higher local prices resulting in lower quantity demanded, and 5) an increased reliance on technology to take over work that is too expensive to pay employees to accomplish.

So, far from "offset(ing) a significant portion of the higher cost for employers" as Mr. Suter claims, a $15 minimum wage would not only make Vermont employers lives more difficult, it would make the lives of Vermont workers more difficult.

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

Events

November 14. EAI president Rob Roper will give a presentation on *The History & Benefits of School Choice in Vermont* in Ludlow, 6-8 pm at the Community Center. If you would like to bring this or another EAI presentation to your organization or community, contact Rob Roper at rob@ethanallen.org.

November 16. There will be a showing of our film "A Shining City on a Hill," which compares the modern immigrant experience to that of our early Pilgrim settlers at an International Thanksgiving Dinner at the Williston Central School cafeteria from 6:00 PM to 8:00 PM.

News & Views

Job Numbers Encouraging. "The Vermont Department of Labor announced … that the seasonally-adjusted statewide unemployment rate for September was 2.9 percent. This reflects a decline of one-tenth of one percentage point from the revised August rate (3.0 percent). The number of employed increased, the number of unemployed decreased and the Labor Force, which has been an ongoing weakness in the state economy the last few years, also increased. The year-to-year numbers were not quite as strong, as the Labor Force lost ground as the other data points improved." (Vermont Business Magazine, 10/20/17)

Vermont Corporate Tax Revenues See Huge Drop. Overall state revenues failed slightly to meet expectations in September. However, the Corporate Tax is alarmingly down. It missed its forecast by 10.74%, and is down year-over-year by 17.62%. The corporate tax had been a steady performer. Time will tell if this is a blip or a trend.

Prepare for Skyrocketing Property Taxes. The Vermont Education Fund is looking at a potential shortfall of as much as $80 million. Filling that gap could mean property owners face a 7- to 9-cent increase in the statewide property tax (a 5 percent rate increase). The alternative is significant cuts in local school budgets.

Welfare State. According to MSN, "Vermont was one of the states with the highest percentage of welfare recipients in 2012. Nearly 5 percent of households received public assistance, over 50 percent more than the national average of 2.9 percent that year." http://www.msn.com/en-us/money/markets/states-that-spend-the-most-and-least-amount-on-welfare/ss-AAsM9OL?li=BBnb7Kz#image=8

Vermont Politicians Have Totally Screwed Up Healthcare. "After 30 years of trying to reduce the number of uninsured, Vermont's policies have had little impact. Nor have they had much any impact on containing the growth in health care costs. Indeed, they have had the opposite effect. The Kaiser Family Foundation reports that in 1991 Vermont's health care spending was 12 percent below the national average and Vermont ranked 42nd in the nation in per capita health care spending. If some other state was looking for a model of a state with low health care spending and a low percentage of uninsured, Vermont would have been a good model. That's not the case today." Art Woolf, Burlington Free Press, 10/11/17

The Annals of Duplicity. "We used to call it a carbon tax, until we realized that it gave individuals the impression that they would be taxed for their carbon emissions." Bennington College climate activist Sabrina Melendez (VTDigger, 10/4/17). Why yes, it did give people that impression, because it explicitly taxed the carbon emissions from burning heating oil, gasoline, diesel, natural gas and propane.

Scott Reaffirms Carbon Tax Veto. "Imposing a carbon tax on our workforce would be detrimental for Vermonters and our state's economy. As I've said many times before, I will veto a carbon tax if it comes to my desk because we cannot make Vermont more affordable by making it less affordable. I created the Vermont Climate Action Commission to make recommendations to address climate change while setting Vermonters on a path to affordability and driving economic growth. Input from the public is important to those efforts. But, as I've said in the past, real solutions will strengthen the economy and not add to the crisis of affordability many families and businesses are facing." – Phil Scott, press release, 9/26/17

On Burlington Teachers' Strike. "We think teaching is a noble profession. But guaranteed raises on top of a $72k average salary; health care that most Vermonters can only dream of; free grad school; summers off; and a generous lifetime pension doesn't seem terrible enough to warrant taking of hostages." - Caledonian Record editorial (9/15/17)

Citizens United Revisited. Remember the Vermont Congressional delegation and Gov. Shumlin raging against the Supreme court's 2010 decision that upheld political speech by corporations, labor unions, and nonprofit advocacy groups? Remember the delegation's urgent support for amending the Constitution to restrict that speech (that happily failed)? Constitutional lawyer Floyd Abrams (WSJ 10/16/17) shows that, after seven years, Citizens United triggered barely a trickle of corporation funds into political issues. He helpfully lists the 20 top donors to SuperPacs. By far the largest is left wing climate change warrior Tom Steyer ($89 million). The despised (by liberals) Koch brothers didn't even make the list.

Paris Climate Agreement Failing Already. Writing in the leading science magazine Nature ("Prove Paris was more than Paper Promise", 8/1/17), David G. Victor and co-authors complain that "No major advanced industrialized country is on track to meet its pledges to control the greenhouse-gas emissions that cause climate change. Wishful thinking and bravado are eclipsing reality. Countries in the European Union are struggling to increase energy efficiency and renewable power to the levels that they claimed they would. Japan promised cuts in emissions to match those of its peers, but meeting the goals will cost more than the country is willing to pay."

U.S. the New Argentina. "At 77 percent of gross domestic product (GDP), federal debt held by the public is now at its highest level since shortly after World War II. If current laws generally remained unchanged, growing budget deficits would boost that debt sharply over the next 30 years; it would reach 150 percent of GDP in 2047. (CBO Budget report, March 2017)

Chicago Teachers Union Speaks Out. After the Democratic-majority Illinois House approved the bill to give 75% tax-credit for contributions to a private school scholarship fund (plus millions of dollars to bail out failing Chicago public schools), "the Chicago Teachers Union declared that the (Illinois) Democratic Party has crossed a line which no spin or talk of 'compromise' can ever erase.'" (WSJ 8/31/17).

Americans Support Free Speech, Oppose SPLC Smears. "Even in the wake of the Charlottesville violence only 9.3 percent of respondents say that speech should be restricted if it is offensive. A plurality of Americans also oppose Internet companies' use of the Southern Poverty Law Center's (SPLC) "hate group" labels, which have led to attacks on the Christian group Family Research Council and conservative social scientist Charles Murray." (CRC 9/09/17)

On Australia's Renewable Energy Policy. "We (Australia) have reached this appalling position — high-cost, unreliable electricity affecting, in particular, the competitiveness of our heavy industries — because of very poor government policy." The Australian, (9/14/17)

Bernie? "If we expanded Medicaid [to] everybody. Give everybody a Medicaid card— we would be spending such an astronomical sum of money that, you know, we would bankrupt the nation." - Bernie Sanders, 1987

How Capitalism Fosters Empathy. "The reason why I use the word 'empathy' is because the business we are in is to meet the unmet, unarticulated needs of customers.

That's what innovation is all about. And there is no way you're going to do that without having empathy and curiosity." Satya Nadella, CEO of Microsoft.

Book of the Month

The Half Has Never Been Told

Slavery and the Making of American Capitalism

By Edward E. Baptist

Basic Books, 2014 (528 pages)

https://www.amazon.com/Half-Has-Never-Been-Told/dp/046500296X

With all the recent controversy over Confederate flags and statues, *The Half Has Never Been Told* caught my curiosity. Edward E. Baptist uses an economic analysis of slavery and the cotton industry as the foundation for this fascinating book, but also provides an insightful look at the political history of the early nation, particularly from Andrew Jackson's presidency to the War, and a truly horrifying picture of the "peculiar institution" from the perspective of the enslaved.

Baptist makes a pretty compelling case for the profitability of slavery, not just for the Southern plantation owners (he calls plantations "slave labor camps"), but also for the Northern and European textile mill operators who benefited mightily from cotton prices lowered through use of slave labor. The capital saved on cotton, Baptist argues, allowed the Northern industrial states to invest in more machinery and to create a diversified economy. As such, slavery was the single greatest energizing economic factor for the growing nation, not just the South.

Slavery, according to Baptist, also defined the nation's politics from the Declaration of Independence, to the Constitution, to the Civil War. Slavery, he argues, was at the heart of banking policy, geographic expansion, trade, and war. Again, he makes a pretty good case.

The most moving aspects of the book are the first hand accounts of slaves. Baptist brings to life the dehumanizing effects slavery had on both the people held in bondage and their overseers. He describes the brutal efficiency of extracting labor from slaves as "the whipping machine," and recounts in gruesome detail how the process worked. But, as dehumanizing as slavery was, Baptist also describes the many ways in which slaves salvaged pieces of their humanity, creating histories for themselves and shaping the culture of their day as well as ours.

My biggest issue with the book is with the subtitle and its knock on "capitalism," which is a cheap but, sadly, probably effective way to gin up some sales. Capitalism, specifically "free market" capitalism, is a system in which individuals make decisions "free of force or fraud." This, by definition, cannot and does not allow for an institution wholly based on force, such as slavery. I think what Baptist calls capitalism would better be defined as "finance."

But, that said, this is a very important, well-written book and a must read for anyone interested in economics, finance, and history.

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

The Final Word

November Survey: 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

October Survey Results: Teacher Strikes

Should Vermont teachers have the right to strike?

- No. Teachers should not be allowed to strike, BUT school boards should not be able to impose contracts. Binding arbitration should settle disputes. (Proposed Legislation) – 70.73% (29)
- Yes. Teachers should be able to strike, AND school boards should be able to impose contracts if there is an impasse. (Status Quo) – 4.88% (2)
- Another solution. – 24.39% (10)