Ethan Allen Institute

Newsletter – February 2021 (Printer Edition)

Top Story:
The Tax Man Knocketh. Will the Legislature Open the Door?

By Rob Roper

The Vermont Tax Structure Commission released its 180 page draft report to the legislature in January. The report contains a number of recommendations, including replacing the homestead property tax for K-12 education with an income tax, implementing carbon taxes, and expanding Vermont's 6% sales tax to all goods and services except healthcare while reducing the overall rate to 3.6%.

The objectives of these recommendations are to make Vermont's tax structure more "progressive" – shifting more of the tax burden onto higher income earners and away from lower income earners while simultaneously redistributing the revenue raised – and to raise more overall revenue to fuel increased government spending. As the Commission states, "Vermonters can be justly proud that Vermont is one of two or three states that are leading the way in using the state tax code to reduce inequality." We would contend that this is not a proper use of the tax code, but rather it should be a neutral tool for raising necessary revenue and be part of a framework that allows for increased overall prosperity.

Here's an example of their logic at work: "In general, we conclude that exempting broad categories of necessities [like food, clothing and energy from the sales tax] is not an efficient way to protect low-income Vermonters from the financial burden of paying a sales tax on necessities, and that better mechanisms exist or can be developed that even at a 15% cost of administration, will hold low-income Vermonters harmless, and increase Vermont's capacity to raise revenue and/or decrease the sales tax rate… [We recommend] that the legislature look at the full financial picture for low-income Vermonters including income, transfers, and taxes in the context of our recommendations, and adjust the programs that support low-income Vermonters accordingly." (Page 67-68) In other words, raise more revenue, use a portion of it to expand welfare and the bureaucracy that supports it, and pocket the difference.

Attention now turns to the legislature to see if they take any of these ideas seriously, or just say "thank you very much" and put the document on the shelf along with the 2011 Blue Ribbon Tax Commission report that went nowhere.

EAI will do more in depth analysis on each of these major proposals as well as others being discussed in the legislature as they develop.

A Good “School Choice Week” for VT

By Rob Roper

The last week in January was the annual, national “School Choice Week.” In non-Covid times this would be celebrated in Vermont with students from our many independent schools and their parents and teachers coming to the State House to celebrate their institutions and accomplishments. Though nothing happened at the State House this year, the Court House is a different story!

A handful of lawsuits were recently launched in Vermont over school choice issues. Two have produced encouraging victories. The first ruled that the state cannot bar students at religious schools from participating in the state’s Duel Enrollment Program, which allows and funds high school students to enroll in college classes.

The second ruling, involving two cases, more significantly states that religious schools can’t be barred from participating in Vermont’s tuitioning program, in which the towns that do not have public schools (83 of them) are able to send their children to the public or independent school of choice with the money following the child.

A third case, still pending, argues that denying any child access to the school choice options under the tuitioning system while providing those benefits to other children violates the equal educational opportunities clause of the Vermont Constitution. If this case is successful, every child in our state would have access to school choice. It would be huge! So, let’s all hope good things really do come in threes.

Commentary: Retirement Fund Blues

By John McClaughry

Not the least of the fiscal problems facing the 2021 governor and legislature is the perilous condition of the two state retirement funds, for state employees (VSERS) and public school teachers and staff (VSTRS). Both of these funds are “defined benefit” funds: the state government has the obligation to pay enough into the funds each year, along with contributions from current employees, to make sure there will be enough there to pay current and future retirees the promised pension checks for the next 30 years.

That annual state payment is the actuarially determined Annual Required Contribution (ARC). The actuaries, looking years into the future, have to make assumptions about numbers of current and future retirees and crucially, the expected returns on the invested funds (now just over $4 Billion).

If the actuaries calculate that there won’t be enough in the funds to make the required payments, the shortfall is the Unfunded Actuarially Accrued Liability. Ideally, this should be close to zero.

The Treasurer’s Office recently made public the actuaries’ report of the condition of the two pension funds as of the beginning of fiscal year 2021, now half over. The accompanying Other Post Employment Benefit funds (OPEBs, mostly health care) are pay-as-you-go, requiring an appropriation each year to cover the expected retiree expenditures.

Here is the latest evaluation of the fiscal health of the two funds. (There's a third fund for municipal employees that the state manages, but state taxpayers are not on the hook for its performance.)

The unfunded liability for state employee pensions is $1.040 Billion. For teachers, it's $1.933 Billion. Total: $2.973 Billion. These two liabilities have increased by $604 million in just one year.

The state employee pension plan is 66.4% funded; the teacher plan, 51.3%.

For OPEB (unfunded), the projected expenditures for state employees are $1.425 Billion; for teachers, $1.259 Billion. Total: $2.684 Billion. The projected OPEB costs have increased by $416 million in just one year.

The total of the two pension funds and expected OPEB obligations went from $4.637 Billion a year ago to the present $5.657 Billion. That's an increase in required expenditures of over a billion dollars in a single year.

How did we get to this dismal situation? For one thing, for decades the legislature often voted less than the Annual Required Contributions, and that ran up the unfunded liabilities. Why? Because the ARCs are very large numbers in the annual appropriations bill, and reducing them produces no immediate calamities and frees up money for which other interests are clamoring.

For another, administrations played games with the crucial expected yield on the invested assets in the two pension funds. Until recently it was claimed to be an utterly unrealistic 8.25%, at a time when bond yields (around half of the funds) were around 2%. The projected yield has now been allowed to slide down to 7.0%, which accounts for much of the sharp increase in unfunded liabilities. A more realistic number would be at or even below 6%.

Further, the two unions who guard their retirees' pensions and health benefits are firmly opposed to increasing worker contributions to their respective pension funds, or retiree contributions to their OPEB health benefits. Not surprisingly, the union negotiators want somebody else – taxpayers – to pay lots more to reduce the liabilities. Woe unto the governor or treasurer who stubbornly insists on increased worker payments, because both unions (VSEA and VT-NEA) are well organized to inflict retribution at the polls.

If this problem keeps on festering, at some point taxpayers will simply not allow legislators to short other programs to make huge bailout payments to support unionized retirees who are pocketing far more than a large fraction of the (non-unionized) taxpayers.

The bond rating agencies, taking note of its growing unfunded liabilities, will start downgrading the State's overall credit. (Moody's already has, from AAA down a notch to Aa1 two years ago). That means higher interest payments on State debt. It would be costly – and disgraceful – for Vermont to become the Illinois of New England.

With tough gubernatorial leadership, some other states – Michigan and Rhode Island among them – have reshaped their retirement plans. The most important change would be to convert both pension funds into defined contribution plans, commonplace in the private sector. The unions could still lobby for higher contributions, but there would be no more actuarial underfunding. The taxpayers would still be saddled with the responsibility of paying off the legacy underfunding year after year.

Treasurer Pierce is currently engaged in closed door reform negotiations with the two unions. The Governor needs to back her up. So should the legislators, who have dismissed reform proposals from Treasurers Douglas and Spaulding in years past.

- John McClaughry is vice president of the Ethan Allen Institute

Commentary: Commission Says Expand VT Sales Tax to Services and Necessities

By Rob Roper

The Vermont Tax Structure Commission released its 180 page draft report to the legislature in January, and one of the major recommendations it makes is to expand Vermont's 6% sales tax, currently limited to non-essential goods and a few select services, to all goods and services except healthcare. Doing this would be accompanied by an overall rate reduction to 3.6%.

This move would have serious implications for Vermont's economy. In addition to adding new taxes – and thus cost to consumers -- to services like haircuts, lawn care, auto maintenance, education, plumbing, carpentry, legal aid, financial services, and education (the list goes on and on), current exemptions to the sales tax for food, clothing, and residential energy would also be repealed, making these necessities of life more expensive – and regressively so. Low income consumers spend higher percentages of their income on necessities, therefore, under this scenario, a higher percentage of their income on the tax.

This is a terrible proposal.

First of all, the service sector of our economy has been devastated by Covid restrictions. One can still sell goods through the mail or curbside if the government bans customers from your retail store (not to insinuate that retail has in any way had it easy during the pandemic), but you can't give someone a manicure, or provide physical training services at all under the same circumstances. Whacking these businesses as they try to re-establish themselves with not only the cost of a new tax but the new logistical responsibility of collecting, accounting for, and remitting the tax would be especially cruel.

As our state college system struggles on the brink of financial collapse and declining enrollment, adding a 3.6% sales tax to the tuition at Castleton University, for example, would increase cost to an in-state student by $450 and an out-of-state student by over $1000, and as much as $1400 at UVM. This is not a good way to "keep and attract" young people. Similarly, as Covid has brought new residents to Vermont who are able to telecommute to their jobs in other states – and we would presumably like to keep them here – making their services less competitive and more complicated via this tax isn't exactly welcoming.

The Commission is not oblivious to the regressive nature of their proposal, but their suggested remedy is grossly unattractive: expand the welfare state. "[W]e refer to our recommendation… that the legislature look at the full financial picture for low-income Vermonters including income, transfers, and taxes in the context of our recommendations, and adjust the programs that support low-income Vermonters accordingly. (p.68)" In other words, squeeze far more money out of taxpayers in general, and use a portion of it to expand the bureaucracy, "even at a 15% cost of administration (p.67)," and foster increased dependency on government programs. Pocket the difference.

Second, even in good times, lest we forget, our neighbors to the east in New Hampshire have zero sales tax on goods or services. We've seen what Vermont's competitive disadvantage in this area has done to retail businesses along the Connecticut River. Increasing our sales tax on services from 0% to 3.6% and adding groceries and clothing to the mix would create a similar giant sucking sound.

The Commission admits this. "[O]ur recommendation to broaden the base and lower the rate would mean that there would be a slight decrease in demand for the roughly 50% of purchases of goods and services that are not currently subject to the sales tax." (p.65) But, they argue that this would be offset by increased demand for goods where the tax is lowered from 6% to 3.6%. This is flawed logic.

As noted before, New Hampshire's sales tax is zero. Vermonters are already conditioned to jump the border to make purchases with zero sales tax – it's "FREE." Lowering the Vermont rate by 1.4% is not going to influence that dynamic. However, raising the tax on Vermont's service sector from "FREE" to 3.6% in the face of a free alternative just spitting distance away will not end well for Vermont's service sector. Our prediction: all that will happen is that Vermonters who now cross the river to buy their TV's, toasters and liquor tax free will start getting their groceries, haircuts, and nails done on those trips as well.

But, isn't it unfair to businesses that sell goods to slap them with a tax but not businesses that sell services? A strong case can be made. But let's not remedy that by equally spreading misery, and rather work to eliminate the Vermont sales tax altogether. If Alaska, Delaware, Montana, Oregon, and New Hampshire can do it, so can we!

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

Events

Hear here! Meredith Angwin is a guest on the Alex Epstein's "Power Hour" podcast to discuss her book "Shorting the Grid." You can listen to the interview HERE.

Sound Off! Rob Roper appeared as a guest on the Sound Off! Show with Linda Kirker to discuss the hottest issues in the 2021 legislative session. You can see the show HERE.

News & Views

Conflicts of Interest on the Climate Counsel. "What is concerning is that 8 out of 14 legislative appointments are either renewable advocates or industry stakeholders. Why is this a problem you might ask? Aren't these people experts in their field? Sure, absolutely they are. Chickens are also experts in chickens, but you don't want them guarding the henhouse any more than you want a fox to. This is a board that is intended to put forward policies to meet our renewable energy goals. Vermonters need to be assured that these proposals are not influenced by personal benefits to members of the commission. Those benefits may be direct, such as industry leaders, or indirect, like an advocate who might have industry donors." – Campaign for Vermont

VT Cashes in on Covid. The Peterson Foundation, that tracks government spending, recently added up all the funds shipped to each of the fifty states – to state government, to businesses, to individual checks, to hospitals and so on – in response to the pandemic. The Feds sent little Vermont $4.8 billion dollars. That comes to $7,729 per person. That sum puts Vermont second among the fifty states, trailing only New York which got $7,840 per person.

VT Businesses Hit Especially Hard by Shutdowns. The Bureau of Labor and Statistics (BLS) created the "2020 Business Response Survey" as a way to gauge how US businesses have been impacted by government-enforced closures due to Covid-19 precautions. Vermont's government temporarily shut down a higher percentage of businesses than any other New England state in 2020. Only 3 states in the US have shut down a higher percentage of businesses: Michigan, Pennsylvania and Washington. 6,067 closed Vermont businesses works out to 26.5% of all businesses, or 1 closure per 3.8 businesses. View the Business Response Survey here: bls.gov/brs/2020-results.htm

Responding to a Critic. John McClaughry's reply (in part) to a Bennington Banner reader demanding to know what John would do to deal with the climate crisis (sic): "Take a deep breath: I oppose the GWSA, the TCI, and the lavish subsidies showered on the renewable-industrial complex, all aimed at ending the use of fossil fuels through an ever-expanding network of taxes, subsidies, mandates, prohibitions, and special deals, paid for by ordinary Vermonters, that taken together will have zero detectable effect on any measure of global temperatures in this century. I have long supported phasing out the burning of coal for health and environmental reasons and replacing it and those 400 foot wind towers and those giant solar PV farms of Chinese panels, with clean, safe, economical, emission free Generation IV modular nuclear plants." (1/23/21)

Taxation Wisdom. From Ali Jalili, recently arrived in Burlington after a 23 year Foreign Service Career. Jalili favors stiffer taxation of the rich – nationally – but not in Vermont: "Vermont is already at the brink of overtaxing the rich. Our representatives should carefully consider the impacts of various proposals to further increase taxes on wealthy Vermonters. Vermont needs residents. It needs new residents and it needs to keep its current residents. And it needs upper-income residents who can pay its already relatively high taxes. At the state and local level, people can easily move, and taxes are always a factor in those decisions. Given Vermont's small population, every taxpayer counts." (VTDigger 1/22/21)

Green New Deal Gets Old Quick. Last year, Sen. Anthony Pollina (P/D-Washington), introduced legislation for a Vermont Green New Deal, to be paid for by a 1.6% income tax surcharge ($30 million total) on "the rich" Vermonters earning over $200,000. The tax would sunset after five years. (Or be renewed; we'd be willing to take bets.) Pollina has put his Green New Deal bill in again for the current biennium. Only difference: the last push had 14 co-sponsors (out of 30 potential senators), and this year's has three. That's what we call progress!

Spend, Spend, Spend. Sen. Chris Bray (D-Addison), chair of the Senate Committee on Natural Resources and Energy, is calling on the state to weatherize 120,000 homes over the next 10 years. That will require a mere $1.3 Billion. But as EAI pointed out in our comments on the Shumlin Comprehensive Energy Plan (2015): “The CEP (2011) expected that Efficiency Vermont would weatherize 8,200 homes a year – 22 a day for nine years. This will hit up ratepayers for an astonishing $85 million a year by 2020. The 2011 Plan declared a five to one return on such investments. Query: if such fabulous returns can be achieved through conserving energy, and pocketed by the favored home or business owner, why is it necessary for the rate payers to pay for it? Why don’t the home or business owners invest and pay for the energy improvements, and use their savings on their power bills to pay off their investment, without sending those bills to their neighbors? “

Understanding TCI: “Selling carbon allowances via auction will generate significant revenue for the states, amounting to billions of dollars each year across the region…” (Tufts Center pro-TCI analysis, 12/20). Uhhh, who is paying for these allowances? Hedge Funds? The Chinese? Sorry. TCI’s revenue will come from the pockets of truckers and motorists.

Government Programs as the Closest Thing to Immortality. “The U.S. Congress recently passed a massive spending bill that includes $35 billion in energy research and development programs, a two-year extension of the Investment Tax Credit for solar power, a one-year extension of the Production Tax Credit for wind power, and an extension through 2025 for offshore wind tax credits. These energy provisions are included in a $1.4 trillion federal spending and tax extension package” - IER 1/5/21

Yellen on Minimum Wage: The new Treasury Secretary Janet Yellen had this to say about the effects of jacking up the minimum wage to $15 an hour, which President Biden promises. At her Senate hearing, she was asked about the employment losses: ‘Very minimal,’ Ms. Yellen said, and cited studies comparing employment in states that raised their minimum wage with neighboring ones that didn’t. “But those studies have yielded conflicting findings, and the economic literature overwhelmingly shows that raising the minimum wage reduces employment among teens and unskilled or inexperienced workers. Ms. Yellen acknowledged as much during a Congressional hearing in 2014 when she was asked about Barack Obama’s proposal to raise the federal minimum wage to $10.10: ‘I think almost all economists think that the minimum wage has two main effects,’ she replied. One is increasing pay for some low-paid workers, and the second is ‘there would be some amount of negative impact on employment.’ How much is a matter of ‘considerable debate,’ she said, adding that she ‘wouldn’t argue’ with the Congressional Budget Office estimate that Mr. Obama’s hike would cost 500,000 jobs” (WSJ 1/20/21). No problem, so long as you’re not one of those half million low skilled mostly young and minority workers turned loose.

Put Woke-ism to Sleep! Censorship, wokeness, political correctness. It all points in one direction — authoritarianism cloaked as moral righteousness. Similar to what we’re seeing at Twitter and Facebook and Apple and on too many university campuses today. It’s not who we are. It’s not who we are as Americans…. It’s time that we simply put woke-ism to sleep.” – Sec of State Mike Pompeo, speaking on Voice of America

The Left is using "The old slave master's trick." Tellingly, leftist elites teach their own children the values of working and studying hard even as they encourage behavior among blacks that will make sure they remain uncompetitive but "authentic." By the time young blacks today discover, as did the slaves of [Frederick] Douglass's time, that freedom understood as "do whatever you feel like" is no way to build a worthwhile life, it will be too late. The fruits of the civil-rights movement's hard labor—teaching the young to be so self-disciplined that they were able to resist responding in kind to hatred and abuse from whites—will have been lost. We must turn away from the present course, which preaches despair rather than hope. Black achievement must be glorified. The crucifixion of black America by the radical left must halt. There is a grander, more fruitful future for us all. – From How the Left Hijacked Civil Rights, by By Robert L. Woodson Sr. and Joshua Mitchell, WSJ, 1/15/21

Book of the Month: The New Class War

Saving Democracy from the Managerial Elite
By Michael Lind
Penguin Random House, 2020
244 pages
https://www.penguinrandomhouse.com/books/607661/the-new-class-war-by-michael-lind/

Michael Lind's The New Class War follows similar themes to Charles Murray's Coming Apart – the fracturing of the national cultural and economic fabric along urban/rural, white collar/working-class lines. Lind takes aim at what he calls the "university-credentialed overclass," which, despite being a minority of the population, has come to dominate every lever of cultural and political power in the U.S. to the distinct displeasure of the majority. The backlash against this "technocratic neoliberalism" manifests itself, says Lind, in a dangerous form of political populism.

This is not a left/right conflict. Lind argues that both conservative and liberal elites tend to favor more libertarian views on issues such as trade, immigration, and cultural issues whereas working class on both sides of the political aisle tend to want more protectionist trade policies, restrictions on low-wage-worker immigration, and have more traditional values. However, those in the latter category have been locked out of the decision making process in all levels of society.

Adding fuel to the fire of discontent, this newly formed aristocracy of disparagingly dismisses opposition to its agenda as racist, xenophobic, etc., when in most cases it is not. For example, low wage workers who oppose immigrants coming into the country who compete with them for jobs, housing, education, and other resources are not racist. They do not care about the race of the person taking their livelihood (in fact, Lind points out that these same people favor upper income highly skilled immigrants of all races), only that laws be put in place preventing that immigrant from doing so. These working class citizens are angry when politicians don't listen to them in regard to such laws, and resentful at being called racist for holding what is an economically based opinion.

The resulting dynamic is an emotional powder keg. When that powder keg explodes, the world gets Brexit in Great Briton, yellow vest riots in France, and Donald Trump in the United States.

While Lind does an excellent job of making the case against the growing urban, educated aristocracy and the intellectual bubble they've created for themselves, his recommended solutions aren't as compelling. For the most part he sees the majority underclass as ultimately helpless in the face of overwhelming resource superiority of the managerial elites, and the only solutions like with the overlords voluntarily giving up some of their power and influence. This, in Lind's view, would take the shape of expanding the power and influence of labor unions.

According to Lind's analysis, the power sharing that existed during and just after World War II between labor and management was a voluntary concession by management to keep the peace, not a reflection of labors new found bargaining power, stemming from greatly increased demand brought about by the need to rebuild the post-war world and the loss of many tens of millions of working (military) aged laborers world-wide between 1937 and 1945.

Still, the book is worth the read, and it's a quick one to get through. I give it a thumbs up.

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

The Final Word

February Survey: Expand the Sales Tax & Lower the Rate?
The Vermont Tax Structure Commission recommends expanding Vermont's 6% sales tax to include all goods and services except for healthcare, while lowering the rate to 3.6%. Do you agree or disagree with this recommendation?

- Agree. Expand the sales tax to cover food, clothing, home energy, education, and all services except healthcare, and lower the rate to 3.6%.
- Disagree. Leave the rate at 6%, but continue to exempt food, clothing, home energy, education, healthcare, and most services from the sales tax.

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

January Survey Results: Higher Taxes or Spending Cuts?
If Vermont experiences the revenue shortfalls anticipated for FY2022 as a result of Covid's economic impact, should the legislature raise taxes or reduce spending/programs?

- Raise Taxes. 0 (0%)
- Reduce Spending/Programs. 70 (100%)

Well, no ambiguity there!