

Vermont Job Gap Study: Phase 9

Economic Development: Funding, Priorities & Performance

Executive Summary

Each year there is a great deal of discussion about economic and workforce development in the legislature as various policies and programs are created, renewed, or modified. In most cases, programs are considered separately so the full extent of economic development (ED) activities and appropriations are rarely, if ever, viewed holistically. And with some exceptions, the State does not generally contract for independent performance reviews. As a result, legislators often lack objective information about the effectiveness of the programs employed.

This report focuses on State economic development funding (amounts and priorities), goals, and indicators (relevance and performance). We also consider some strategic policy choices that flow from the assumptions and goals.

We found that the State spent over \$42 million in FY05 for core ED programs (pp.5-6).

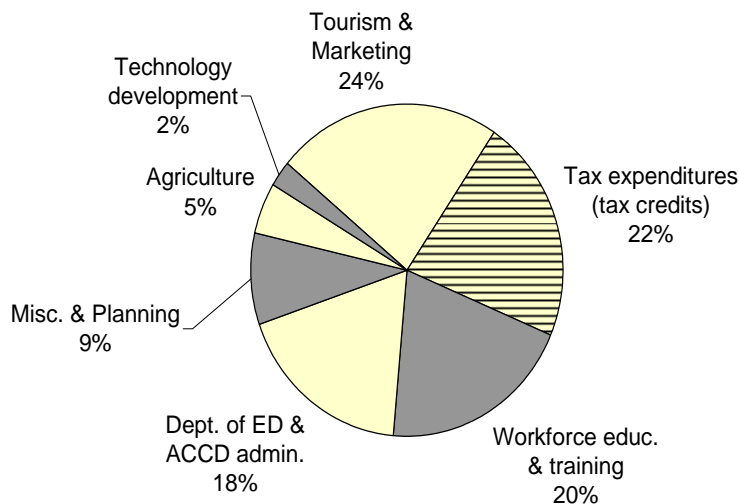
Other ED-related expenditures total another \$200 million annually (e.g., transportation, housing, higher education, unemployment insurance, the cost of regulating development and the workplace, local expenditures, Vermont's capital gains tax exemption, and loans from VEDA).

About 40% of core ED expenditures are federal but almost half was from the VT General Fund. The largest State supported strategy was Tourism & Marketing (\$5m). This is noteworthy because although tourism brings in substantial tax revenues, industry wages are low, which is contrary to the goal of creating higher wage jobs. And there is no way to measure the effectiveness of the State's contribution compared to the tens of millions spent by the private sector for advertising and marketing.

DED and the Economic Progress Council (VEPC, which produces the State's long-term ED plan) have a number of goals and performance indicators. The three most important measures are unemployment, average wages, and per capita income. All three have flaws as benchmarks for ED.

The unemployment measure ignores important aspects of labor force participation, underemployment, and job quality (p.8); average wages are misleading due to a lack of information about income distribution (p.9); and, likewise, per capita income ignores distributional issues that affect the well-being of working Vermonters (p.9-10).

FY05 General Fund Economic Development Funding
(Sources: appropriations, expenditures & tax expenditures)



In addition, the data can be deceptive. For example, the lack of progress on Vermont average wages compared to the U.S., and the comparatively low rate of unemployment (~1% < U.S. rate) are probably due to structural causes rather than specific State policies.

Some goals are not defined and have no indicators (quality of life p.10, and economic diversification p.14). Others measure the wrong things such as human resource and technical assistance capacity (instead of outcomes) and net job growth (rather than private sector job growth).

The State should also track the wages of new jobs vs. jobs lost. We found that on average the new jobs pay less than the jobs lost (p.14).

Wages of jobs gained and lost, 2000 - 2004			
Occupational titles	# of Jobs	Avg. wage	
Jobs gained	203	25,410	\$34,885
Jobs lost	189	-31,490	\$35,116
No change	28	5,140	----

A key measure for DED (tax burden per \$1,000 of income) assumes that state taxes are important for business location and expansion decisions, and that they are a burden. In fact, **there is good evidence that state taxes are not a major cost factor in such decisions. Moreover, effective state tax rates have been declining for years and the median tax payment for 98% of Vermont 'C' corps is less than \$5,000.**

What's more, state tax rankings may be misleading. A lighter tax "burden" may be associated with lower spending for education and infrastructure (critical for ED), so a better ranking may not be in Vermont's long-term interests.

Finally, "tax burden per \$1,000 of income" ignores two key issues: 1) not all income is treated equally so the "burden" varies based in part on the type of income received (e.g., IRS taxes long-term capital gains at a lower rate than wages and Vermont exempts the first 40% of capital gains);

and 2) the overall distribution of the "burden" is influenced by Vermont's dependence on regressive taxes (property & sales) that affect homeowners, workers, and businesses differently.

Concern about the "business climate" drives much of Vermont's ED policy. But this argument is common all across America. A Lexis/Nexis search found countless articles citing officials who complained about the "business climate." Is it possible that all of America is anti-business?

Equally important are the issues not addressed by the DED and VEPC: poverty, income inequality, trade balance, and gender and race inequities. Ignoring them suggests that the State's view of ED is limited to the needs of businesses, as if their success will necessarily lead to positive outcomes (i.e., trickle down). Unfortunately, the evidence shows that this is demonstrably false since GSP keeps rising while real median HH income has been virtually stagnant for the last 14 years.

Vermont is at the mercy of forces beyond its control such as the federal budget, trade deficits, interest rates, value of the dollar, NAFTA, and cheap labor overseas. So it is not surprising that conditions here mirror those around the country.

Many successful ED programs make a difference for Vermont businesses and workers. But notwithstanding these laudable efforts, we are not making progress. Therefore, **it is essential that we evaluate all of our policies and programs to determine which are working (and deserve additional resources), which need adjustment, and which should be abandoned and replaced.** And the time is right to undertake this task because VEPC is about to update the State's long-term plan.

There are limits to what we can achieve in the short-term, regardless of the policies pursued; but we should strive for more than favorable comparisons with national averages, and strategies should be based on the best available data, not anecdotes or unexamined assumptions.