

**JOBS AND ECONOMIC DEVELOPMENT IN VERMONT:
THE DOUGLAS RECORD
A WORKING VERMONT¹ INVESTIGATION
Conducted by High Road Vermont**

Jim Douglas ran for governor in 2002 on the promise of Jim = Jobs. He has spoken often about jobs and the economy and it is important to understand his record. We have investigated Governor Douglas' record on jobs and economic development and we find that the rhetoric does not match the facts.

In his State of the State address this past January, the Governor said, "*more Vermonters are working today than ever before.*" Let's look more closely.

First, as the population grows, we need more jobs just to keep up. Since Jim Douglas took office, the number of 18 - 64 year olds has increased by approximately 4,101.²

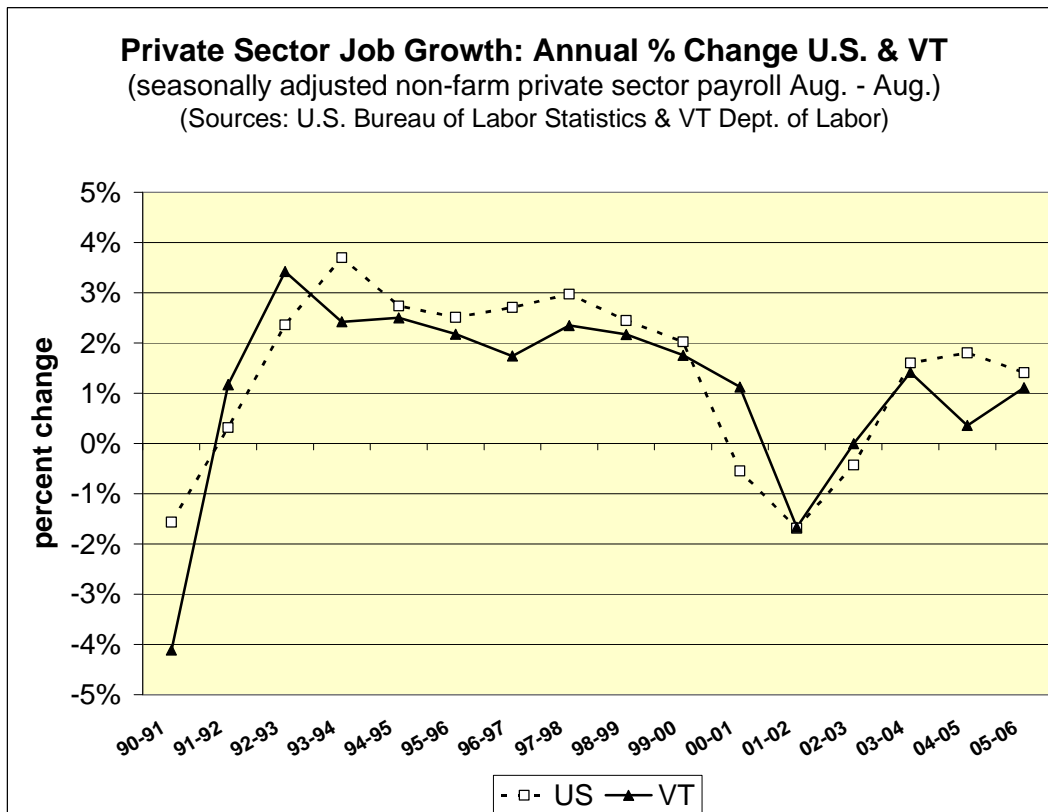
Second, how do we define work? The Governor is fond of citing the number of people "employed", which has grown by 16,100 during his tenure. But this is not the same as the number of "jobs". "Employment" includes self-employment and unpaid workers in an enterprise operated by a member of the family. Although self-employment is good for some, it is not for everyone. It has no security, no employer assisted health insurance or retirement, no unemployment insurance or worker's compensation, no paid holidays, sick time, or vacation, and it requires payment of double payroll taxes (FICA & Medicare). Moreover, almost a third of all self-employed earn less than a livable wage (more than private for-profit, non-profit, or government).³ Most Vermonters need a steady job.

We should look instead to "non-farm payroll". But even payroll figures can mislead because they include federal, state, and local government jobs - which are 17% of all jobs.⁴ This is important because economic development policy is not directed to the public sector, and because a governor has no control over federal or local government hiring. Moreover, it would be ironic for a self-styled fiscal conservative to take credit for more state workers.

So we should really be talking about private sector non-farm payroll jobs. Since Jim Douglas took office, we've gained 7,900 private sector jobs (net) for an average of 180 per month (less than half the average for the period prior to the last recession).⁵ If we subtract for the 4,101 new working age Vermonters, we have about 3,800 net new private sector jobs in almost 3½ years. This is a decidedly different picture than 16,100 more "employed":-

	Jan. 2003	August 2006	Change
Population 18 - 64 (estimates based on Census data)	401,172	405,273	4,101
Employed (seasonally adjusted)	334,700	350,800	16,100
Non-farm payroll (seasonally adjusted)	298,700	308,300	9,600
Private sector (seasonally adjusted)	247,100	254,500	7,900
Net new non-farm private sector jobs 2003 - 2006			3,799

And how does Vermont compare to national private sector job growth during this period? As the graph below shows, Vermont mirrors national trends, but our annual rate of growth has been lower for two of the last three years. As a small state, it is not surprising that Vermont is at the mercy of larger forces. But if we can't keep up with the national economy (background growth), we're losing ground. **If Vermont had simply kept pace with the national rate of private sector job growth, there would be an additional 3,195 jobs in Vermont today.**⁶ This puts Douglas' campaign rhetoric in a different perspective.



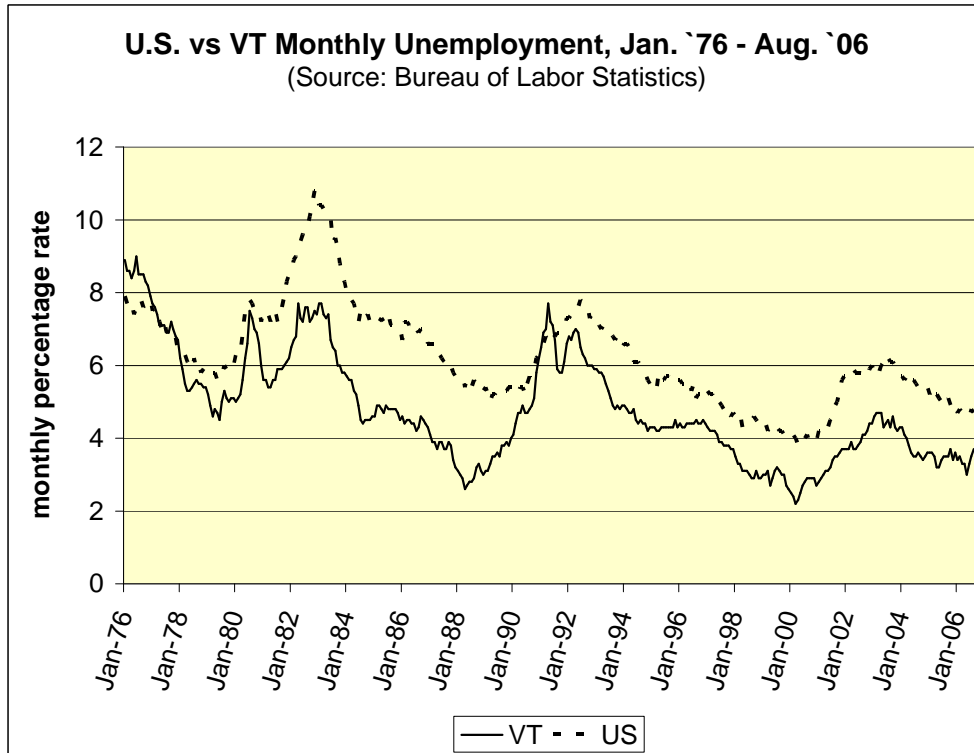
And what kinds of jobs have we gained and lost? During this period, we lost 1,980 manufacturing jobs, while a large percentage of the new jobs are in low-wage sectors such as retail, leisure & hospitality, non-hospital nursing & residential care, and social assistance.⁷ Indeed, a recent study estimated that on average the new jobs pay less than the jobs we're losing.⁸ To some extent, this is not surprising because, **notwithstanding all the talk about "21st Century jobs," over 40% of the jobs in Vermont require nothing more than short-term on-the-job training, and this is not expected to change in the near future.** And, for the most part, these jobs are much less likely to offer benefits or opportunities for advancement.

Top 10 Vermont Occupations by Annual Job Openings, 2002 - 2012⁹			
Occupational Title	Annual job openings*	Median annual wage**	Educational / Training Requirement
Cashiers	642	\$16,970	Short-term on-the-job training
Retail Salespersons	413	21,250	Short-term on-the-job training
Waiters and Waitresses	392	15,820	Short-term on-the-job training
Child Care Workers	281	19,060	Short-term on-the-job training
Registered Nurses	256	47,600	Associate degree
Teacher Assistants	234	20,870	Short-term on-the-job training
Combined Food Prep. & Serving Workers (incl. fast food)	219	17,390	Short-term on-the-job training
Janitors & Cleaners (except maids & housekeepers)	164	20,720	Short-term on-the-job training
Food Preparation Workers	160	18,090	Short-term on-the-job training
Maids and Housekeeping Cleaners	152	20,010	Short-term on-the-job training

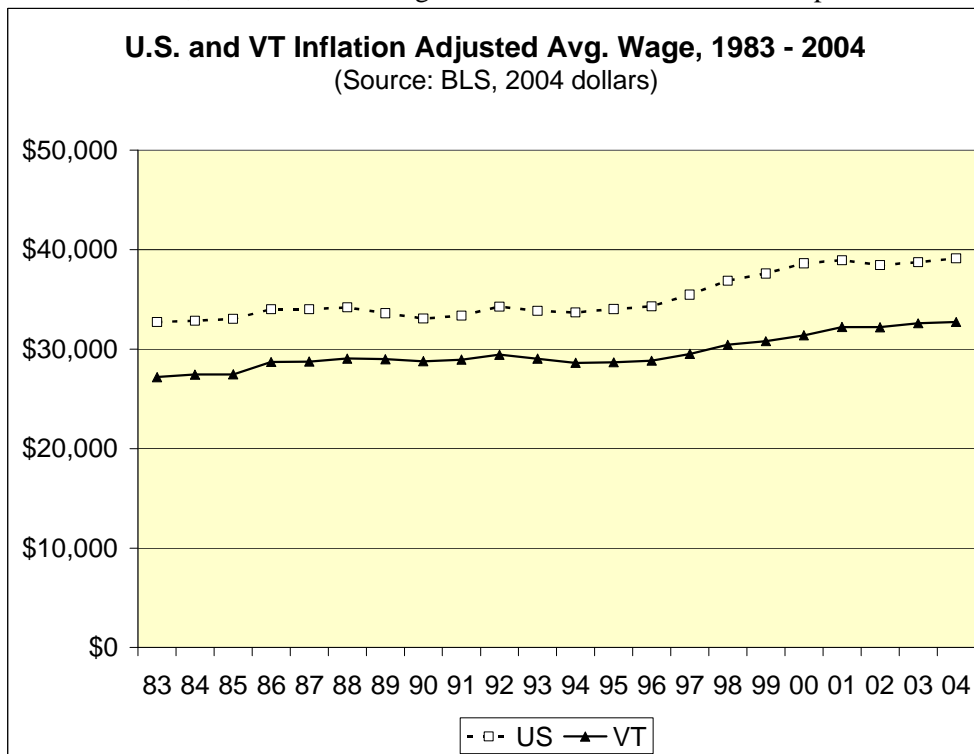
* Includes growth and net replacement.

** Wages for November 2004

The Governor also said, "we have among the nation's lowest unemployment rates."¹⁰ But comparing Vermont and U.S. unemployment rates does not reveal much by itself. **Vermont has been below the U.S. unemployment rate for all but six months since 1978, so this simply cannot be a result of recent economic development strategies.**



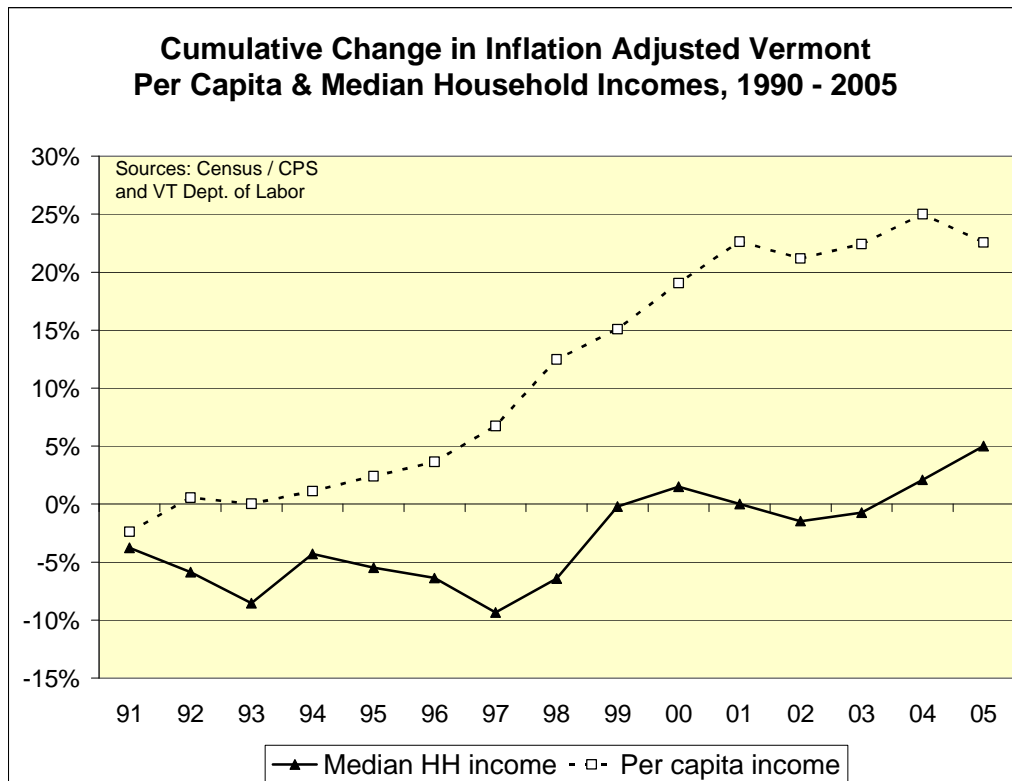
Although the Governor tries (unconvincingly) to take credit for relatively low unemployment, he prefers not to take responsibility for Vermont's continuing failure to achieve parity with the national average wage. He shouldn't be able to have it both ways (i.e., low unemployment – "My good"; low wages - not "My bad"). The point is that state policies appear to have no impact whatsoever. Twenty years of the same policies have not made a dent in either measure, but Governor Douglas continues to follow the same path.



In his budget address this year, the Governor stated that, "*incomes are rising.*" But whose?

The Governor's allies often rely on per capita income as proof. But per capita income (total income ÷ by total population) is misleading because it ignores the distribution of income. For example, total income includes (and is heavily influenced by) non-wage income such as capital gains, dividends and interest (43% of which went to the top 1% in 2003¹¹). In reality, most Vermonters live on wages, so including non-wage income skews the result.

This is not just a theoretical problem for dueling economists. The failure to consider income distribution distorts our perception of the health of the economy. For example, inflation adjusted per capita income in Vermont increased 23% since 1990, while inflation adjusted median household income grew by only 5%. **Vermonters - like most Americans - are not getting ahead.**



The Governor also stated in January that, "*we have one of the nation's lowest poverty rates.*" While true, the real issue is whether Vermont is making progress eradicating poverty (which, presumably, is the goal). On that score, we're failing.

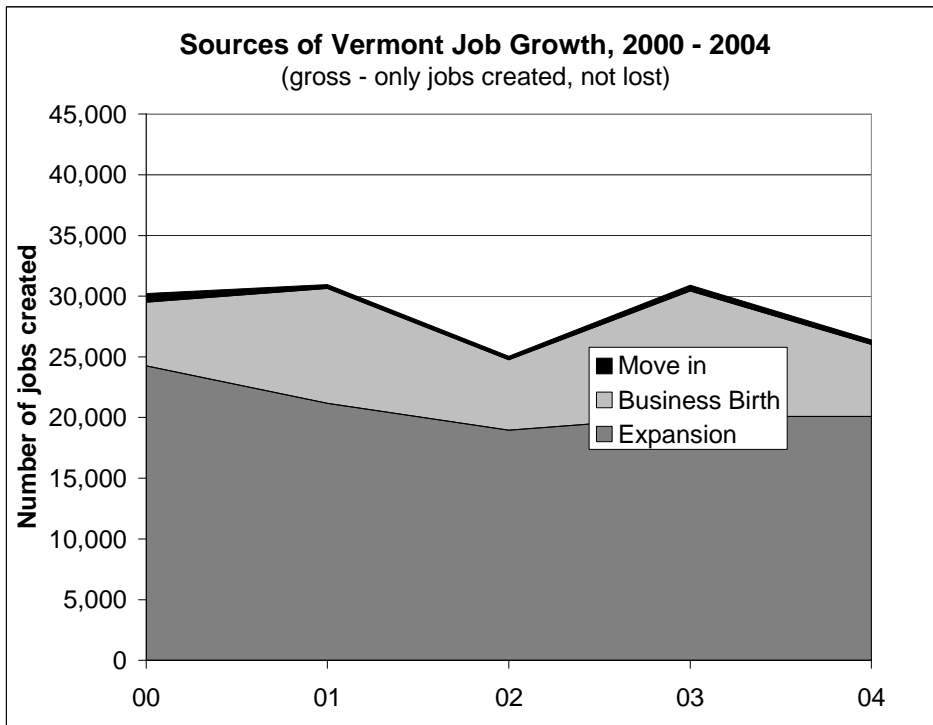
According to the Census Bureau, Vermont's poverty rate has risen since 2000 and has only declined by 0.7% since 1989.¹² This looks like a permanent underclass, and the fact that Vermont's rate may be lower than other states is no comfort to the 60,000 citizens living with this burden.

We should also note that the outdated poverty threshold is well below the cost of basic needs, so this measure significantly understates the problem (41% of jobs pay less than a livable wage¹³). Note also that, according to the Census, the 2003 poverty rate in five Vermont counties was above 10%, including Orleans at 13.2% (one of every 8 residents). The variances by county are stark and this too appears to be a permanent fixture in Vermont.

The Governor's approach to economic development is predicated largely on one flawed assumption: the high cost of doing business hinders job creation. This simplistic view is contradicted by the facts. It assumes that a significant number of jobs are created by businesses moving from state to state shopping for the lowest costs. But a recent report found that "the net effect on [Vermont] employment from interstate business relocation is negligible".¹⁴

Vermont Poverty Estimates* (Census, SAIPE)	
1989	9.9%
1993	12.2%
1995	11.2%
1996	11.0%
1997	9.7%
1998	9.6%
1999	9.3%
2000	8.8%
2001	8.9%
2002	9.3%
2003	9.2%

* only years available



All businesses are concerned about costs, but taxes, electricity, and Worker's Comp are dwarfed by the cost of labor & benefits. This is why manufacturers go overseas. Indeed, the number of firms that have left or been affected by overseas competition just since Jim Douglas took office is alarming (see table below).

Recent manufacturing losses have little, if anything, to do with cost differences between Vermont and other states (although they did in the '70s and '80s). So the Governor's reliance on the "hostile business climate" argument looks like ideology trumping analysis.

But the mantra remains. In response to a question about corporate taxes, the Governor said, "We have the fifth highest marginal rate in corporate income taxes in the nation and that's a competitive issue when companies are deciding where to go."¹⁶

We expect corporate executives to complain about taxes to a governor who has come-a-callin', but such self-serving statements are not the same as evidence.

For example, an executive with one of the nation's largest business location specialists (Deloitte & Touche / Fantus) reviewed 5 years of company files to determine the relative importance of each cost factor for their client's location decisions. He found that taxes were a "low priority and [had] minimum cost impact"¹⁷ because effective corporate tax rates¹⁸ have been declining for years due to federal tax changes, state tax incentive competition, and corporate tax sheltering.

Companies Certified for Trade Adjustment Assistance Since 2003 ¹⁵		
Agilent Technologies	S. Burlington	9/30/2005
Alburg Door and Window, Ltd	Alburg	4/30/2003
American Papermills	Gilman	3/4/2003
Belden CDT	Essex Jct.	9/20/2004
Bogner of America	Newport	11/18/2004
Burlington Futon Co.	Burlington	7/1/2005
Capital City Press	Barre	1/29/03 & 10/21/05
Ethan Allen	Beecher Falls	11/12/2003
Geiger of Austria	Middlebury	5/6/2005
George F. Adams Co.	Moscow	8/4/2003
Husky	Milton	8/18/2005
International Stone Products	Barre	10/24/2003
Lavallee and Ide	Winooski	7/6/2004
Luzenac America	Windsor	2/23/2004
M.J. Wood Products	Morrisville	8/25/2004
Parks & Woolson Machine Co.	Springfield	12/5/2003
Rehau	Springfield	4/19/2004
Relax-R Corp.	Milton	9/22/2003
Specialty Filaments	Burlington	9/14/2005
Solo Cup	St Albans	4/21/2006
STS Weaving	St Albans	1/11/2005
Tubbs Snowshoes Co.	Stowe	9/9/2004
Turtle Fur	Morrisville	3/31/2005
U.S. Tsubaki	Bennington	12/22/2003
Velan Valve Corporation	Williston	5/30/2003
Vermont Tubbs	Brandon	10/9/2003
Vestshell Vermont	St. Albans	7/25/2003
Waterbury Companies	Randolph	8/4/2003
Wyeth Nutritional	Georgia	3/12/2004
York Capacitor	Winooski	4/20/2005

Taxes matter, but their relative importance is low. The location expert cited above found that, of the major cost factors in location decisions for manufacturers, taxes were the lowest (labor 36%, trans. 35%, utilities 17%, occupancy 8%, taxes 4%).

This is evident from state tax records. In 2003 the median tax payment for 98% of Vermont C corporations was under \$5,000, and 80% paid no more than \$250. Only 242 C Corps (of 11,835) paid at the top marginal rate and their median was \$44,381 (i.e., only 121 paid more than that amount).

The Governor also said, "*Vermont has the nation's third highest tax burden as a percent of personal income.*"¹⁹ Like per capita income, this tells us nothing about the distribution of the burden. Per capita tax payments do not reflect the experiences of average households since the majority of income taxes are paid by the wealthy (i.e., the richest 8% paid half of all state income taxes in 2004).²⁰

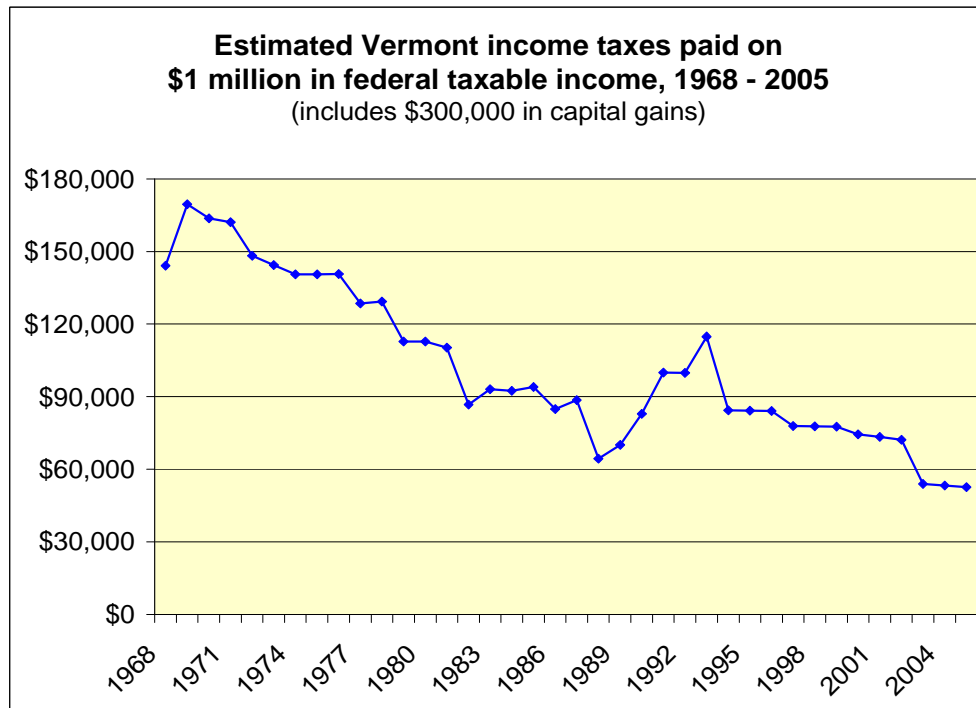
Some say this shows the wealthy are already paying their share. But the top 8% earn 35% of all reported income, and we have a progressive income tax. When we consider all state and local taxes, the richest Vermonters pay a lower percentage of their income than moderate-income families.²¹ The point is that the Vermont income tax structure is not a burden for the vast majority of filers, but our dependence on the property tax is a burden for low- and moderate-income households. So rather than complain about the alleged burden on the wealthy, the Governor should focus instead on the inequality in the tax system due to regressive taxes.

Changes in federal and state tax codes have made life much easier at the top end. For example, state tax liability for someone with \$1 million in taxable income has declined by 64% since 1968, a savings of over \$91,000 per year.²² In part, this is because Vermont exempts 40% of capital gains from taxation altogether.

The Governor says we shouldn't raise the top rate because it will deter business owners. But the number of businesses moving out of Vermont from 1990 - 2004 was nearly identical to the number moving in, and nearly as many companies move into Vermont from low tax states as move to low tax states.²³ So we have another policy based on a myth.

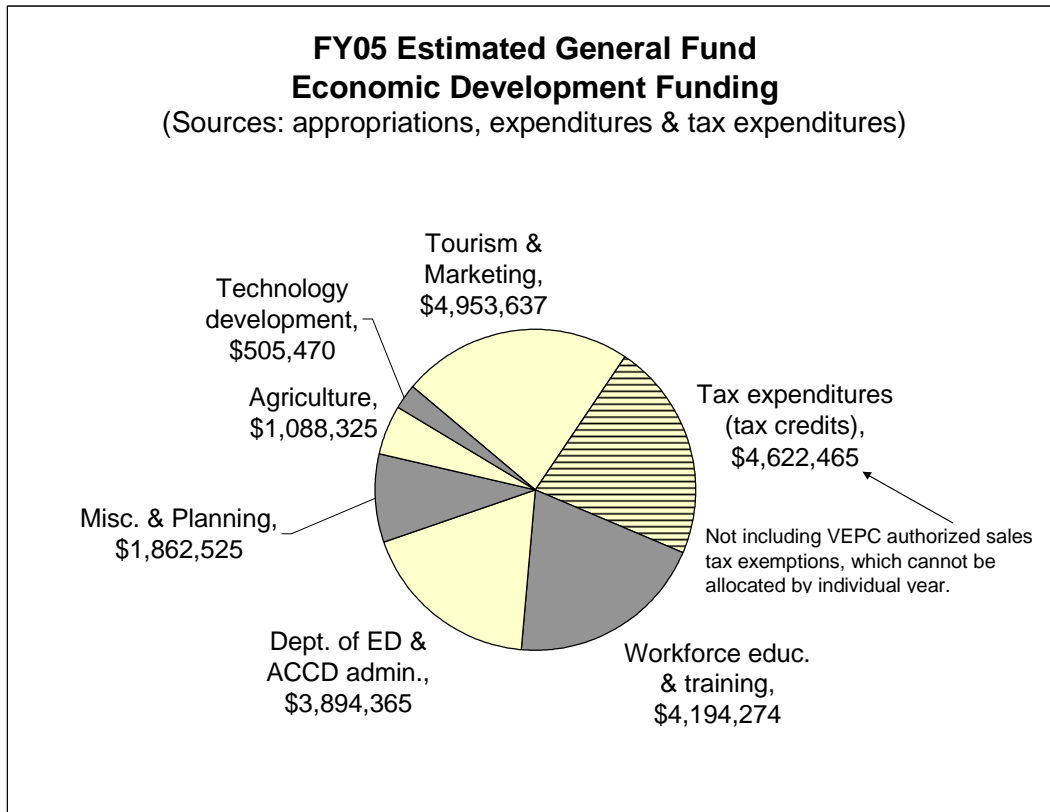
VT State Income Tax - C Corporations				
All returns with non-zero VT tax in 2003 (tax year)				
Taxable Income Class	Tax rate	Returns		Median Tax
		#	%	
Negative	Min. \$250	3,542	29.9%	\$250
\$0	Min. \$250	3,754	31.7%	\$0
\$0 - \$3,750	Min. \$250	2,252	19.0%	\$250
\$3,751 - \$10,000	7.0%	535	4.5%	\$425
\$10,000 - \$25,000	8.1%	542	4.6%	\$1,134
\$25,001 - \$250,000	9.2%	968	8.2%	\$4,899
\$250,000 +	9.75%	242	2.0%	\$44,381

Source: VT Tax Department



In the end, the foundation of the Governor's strategy is without merit, but he stubbornly insists on using discredited old policies to fight new problems.

Since Jim Douglas took office, the state has spent over \$145 million on core economic development (ED) programs.²⁴ "In addition, other economic development-related expenditures total another \$200 million annually (e.g., ED-related 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)."²⁵



"About 40% of core ED expenditures are federal but almost half is from the Vermont General Fund. The largest State supported strategy [is] Tourism & Marketing (~ \$5m per year). This is noteworthy because, although tourism brings in substantial tax revenues, industry wages are low (and many jobs seasonal or part-time), 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."²⁶ We do know that **during Jim Douglas' tenure, the state has spent over \$20 million on tourism and marketing but we have fewer jobs in leisure & hospitality that we started with.**²⁷

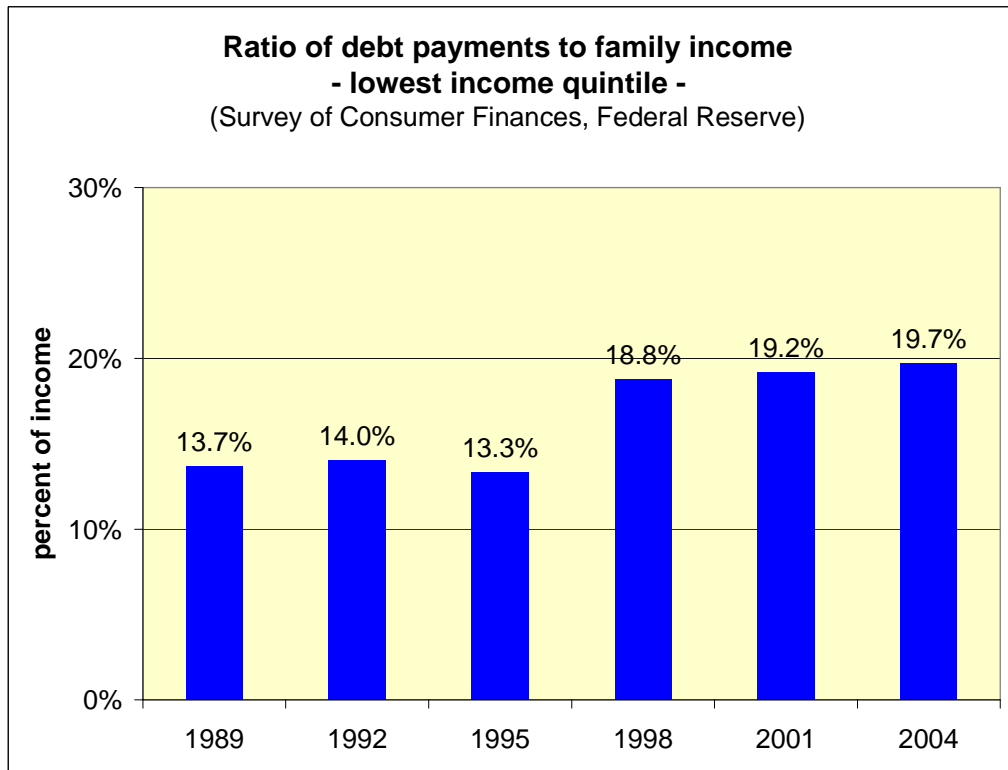
The next largest state funded strategy is business tax credits, including VEPC-authorized economic advancement tax incentives (EATI) and financial services tax credits. Although the figures for FY05 are not final, these tax credits probably cost about \$4.6 million.²⁸

The EATI (VEPC) program has already cost the state over \$18 million since 1998. However, not only is the premise of the program questionable - that businesses would not expand without the credits (the so-called "but for"), but three state audits have severely criticized the program (which was just changed significantly by the Legislature in response).

The **financial services tax credit program** has now cost the state over \$7 million in lost revenue (not including 2005 for which figures are not yet available).²⁹ Among other questionable aspects of this program is the fact that **the state gave away almost \$4 million in credits from 2002 - 2004 while we lost 89 jobs in the financial services sector.**

Is this the most effective use of our limited economic development funds?

While some Vermonters were benefiting from tax breaks and tax credits, others were sinking under the weight of too much debt. **For those with the least income**, the situation is especially difficult. For this group, **debt payments now represent almost 20% of their income.**³⁰



An increasing number of Vermonters have no option but bankruptcy (often the result of expenses related to catastrophic illness). **Over 6,200 Vermont families and businesses have declared bankruptcy since Jim Douglas took office.**³¹



ENDNOTES

- ¹ Members of Working Vermont include union locals affiliated with the: Teamsters; United Electrical, Radio, and Machine Workers of America; United Nurses and Allied Professionals; United Professions/AFT Vermont; Vermont Alliance for Retired Americans; Vermont-National Education Association; Vermont State Employees Association; and Vermont State Labor Council.
- ² For 2003, we used the Census population estimate multiplied by the percentage of 18 - 64 year olds from the 2004 American Community Survey (ACS). For 2006, we projected from the 2005 Census estimate by adding the average annual number of new residents from 2000 - 2005, and multiplied by the ACS 18 - 64 age group percentage.
- ³ Source: 2000 Census micro-data. See Phase 8 of the Job Gap Study, p.5.
- ⁴ Source: VT Dept. of Labor (DoL), Current Employment Statistics (CES), seasonally adjusted non-farm payroll.
- ⁵ Source: VT DoL, CES, seasonally adjusted non-farm private sector payroll.
- ⁶ Sources: Bureau of Labor Statistics and VT DoL, CES, seasonally adjusted non-farm private sector payroll.
- ⁷ Source: VT DoL, CES, seasonally adjusted non-farm private sector payroll.
- ⁸ Source: Phase 9 of the Job Gap Study, pp. 14 & 16.
- ⁹ Source: VT DoL, Occupational Employment Survey (OES).
- ¹⁰ Governor's State of the State Address, January 5, 2006.
- ¹¹ In 2003, the top 1% of VT taxpayers earned \$487 million from capital gains, dividends, and interest (43% of the total).
- ¹² Source: Census Small Area Income & Poverty Estimates (SAIPE), more reliable than estimates based on the Current Population Survey.
- ¹³ Based on the single person livable wage (JFO 2006) and the Vermont Department of Labor, May 2005 OES, (released May 2006).
- ¹⁴ Source: National Establishment Times Series (NETS). Addendum to Phase 9 of the Job Gap Study, April 2006.
- ¹⁵ Source: U.S. Dept. of Labor, Employment & Training Administration.
- ¹⁶ Rutland Herald, *Talking Business: Douglas says Vermont's economy is on the mend*, March 29, 2004.
- ¹⁷ Ady, New England Economic Review (NEER), March/April 1997, p.79.
- ¹⁸ Actual tax paid ÷ by net taxable income before taxes, expressed as a % (as opposed to marginal tax rates).
- ¹⁹ Governor's State of the State Address, January 5, 2006.
- ²⁰ Source: VT Tax Department.
- ²¹ Source: *Who Pays: A Distributional Analysis of Tax Systems in All 50 States*, Institute on Taxation & Economic Policy, January 2003.
- ²² Federal tax bracket data from the Tax Policy Center/Brookings Institution. To simplify, we ignored all of the possible deductions and credits available to high income filers and just assumed \$1 million in taxable income. We also assumed that 70% of income is from wages, taxable interest, dividends, etc., and 30% from capital gains (based on data from IRS/SOI).
- ²³ Source: Addendum to Phase 9 of the Job Gap Study.
- ²⁴ Source: For FY04 and FY05, see Phase 9 of the Job Gap Study, pp. 5 & 6. For FY06, see the Big Bill.
- ²⁵ Phase 9 of the Job Gap Study, p. 7.
- ²⁶ Phase 9 of the Job Gap Study, p. 1.
- ²⁷ Source: VT DoL, CES, seasonally adjusted non-farm private sector payroll.
- ²⁸ Based on the average of preceding years.
- ²⁹ Source: VT Tax Department.
- ³⁰ Source: Federal Reserve, Survey of Consumer Finances, 1989-2004.
- ³¹ Source: American Bankruptcy Institute.