

Comments on Secretary Dorn's October 24 Presentation to the CFED
Doug Hoffer / Public Assets Institute
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Secretary Dorn presented a great deal of useful information at the first meeting of the Commission. The presentation was lengthy and he covered a lot of ground so some of the data sets and program descriptions received only limited discussion. Therefore, we are providing additional information and context for some of the key issues. In some cases, this is especially important since the Commission has been asked to develop a set of indicators and benchmarks for the final report. And finally, some of the information we provide represents a different perspective on a few policies that will undoubtedly be considered by the Commission as it develops recommendations. We hope this is helpful.

1. Unemployment: Comparisons to other states and the U.S. (p.5) are helpful but only up to a point. Vermont has been at least 1% below the national rate since the late 1970s. It appears, therefore, that there is a structural explanation having nothing to do with the state's economic development (ED) policies.¹ Therefore, although we should continue to track unemployment, by itself, it is not a good indicator of the effectiveness of our economic development policies. Furthermore, it has a number of shortcomings (see Note below) so we should consider presenting it as part of a group of measures that together provide a better picture of the health of the labor market. I hope to offer suggestions about this when I testify.

Note: Although unemployment is an important measure, it has limitations. First, the "labor force" only includes those who are working or who have looked for work in the last four weeks. Thus, it excludes "discouraged workers"² and the "marginally attached".³ Second, it does not distinguish between full-time (FT) and part-time (PT) work which is significant because thousands of Vermonters want FT work but are unable to find it.⁴ Third, it doesn't tell us about the duration of unemployment (which has increased since the recession⁵), and does not account for the under-employed who can't find work in their chosen field. In addition, the number "employed" includes the self-employed, many of whom have no security and no paid health insurance, holidays, or sick time. And finally, focusing solely on the statewide unemployment rate ignores the continuing higher rates in several rural counties.

2. Poverty: Data for a single year is important (p.2) but provides no historical perspective. Presumably, our shared goal is the eradication of poverty (or at least significant reductions). In fact, the rate of poverty in Vermont has changed little in almost 20 years. The source used in the presentation (American Community Survey, Census) is excellent but relatively new. As a result, there is no historical data using the same sampling and methodological approaches. If we look at the Small Area Income & Poverty Estimates (Census) we find that the rate in 2003 was 9.2%, while the rate in 1989 was 9.9%. This is a modest improvement but suggests whatever we're doing is not working.

¹ I am not aware of any in-state research on this issue but some of the contributing factors may include: 1) VT's rate of self-employment, which is much higher than the U.S.; 2) the % of women in the workforce is very high in VT; and 3) VT has a lower % of people age 20 - 29. All of these factors affect the numerator (# working) and the denominator (total labor force - those working and those seeking work) in the calculation.

² Temporarily stopped looking because no jobs are available or they lack the necessary skills or experience

³ Not actively seeking work for non-market related reasons such as ill health, family responsibilities, or lack of transportation or child care

⁴ Involuntary PT workers ("PT for economic reasons") work less than 35 hours/wk because of business reasons (slack work or lack of FT opportunities) rather than because of personal constraints or preferences. BLS estimates there were 9,000 involuntary PT workers in VT in 2004.

⁵ Nationally, the number unemployed for 27 weeks or more has doubled since before the recession.

Note: Virtually all economists agree that the poverty measure is outdated. The common use of multiples of the poverty measure for public assistance eligibility is a testament to that (e.g., 125%, 150%, 175% are common thresholds for program eligibility). Therefore, although reporting poverty levels has value (historical consistency); we need another measure to better understand the number of households and families that can't meet their basic needs. In 1999, the legislature agreed that the livable wage (LW) is the appropriate alternative and the Joint Fiscal Office (JFO) now produces estimates every other year. Unfortunately, producing good estimates of the number of households that do not earn a livable wage can only be done once every ten years with micro-data from the decennial census. The only available data for the years in between is the number of jobs that don't pay a livable wage for a single person (as opposed to household data). This data comes from the Vermont Dept. of Labor's annual occupational wage data. So these two measures (households earning a LW, and jobs that pay a LW) can help supplement the poverty measure as part of a larger "progress index" for the economy.

3. Per capita income: This measures total income divided by total population (p.3). As such, it provides no insight into the distribution of income. For example, according to the IRS, in 2003 only 74% of total Vermont AGI was from wages. The rest came from capital gains, taxable interest, dividends, business income, retirement, and social security. Most of the non-wage income is heavily concentrated in the top 1% of households (43% of all non-wage income) so we don't learn much from this measure without more information.

Personal income: This is simply total state income and is the basis for per capita income. Any comparison to New England or the U.S. should take account of the prevalence of high income households. That is, if a state like Vermont has a relatively high percentage of households with significant non-wage income, personal income will grow faster than other states or regions when the market is expanding. Therefore, in addition to the limitations due to the lack of distributive data, this measure is heavily influenced by the extent of economic stratification.

4. Median household income: In light of the limitations of per capita income, median household income is a better measure of the well-being of Vermonters. But here too, there was no historical perspective (p.2). Adjusted for inflation, median household income has only increased 5% in the last 15 years. That's just 5% more buying power in 15 years. This is in stark contrast to per capita income, which has increased 25% over the same period; an example of measuring different things.

Note: Census also publishes median family income. But family is defined as those related by blood, marriage, or adoption so it excludes 34% of all households.

5. Average wage: The use of industry average wages is problematic for two reasons. First, as the graph makes clear (p.4), there is long history of Vermont's average wage being lower than the national average wage. Like unemployment, this suggests structural issues having little to do with state ED policies. In addition, industry average wages can be very deceptive.

For example, p.34 of the presentation stated that the average wage for the financial services industry was \$90,969 in 2004. But this number is not published by the VT Dept. of Labor because it is derived from a selected sub-set of the Finance & Insurance sector (which also includes and is dominated by retail banking, insurance, and real estate; none of which are included in the calculation). Here is how one arrives at that number.

NAICS code	SECTOR 52, Finance and Insurance (not including banks or insurance companies)	Annual average employment	Average annual wage	Gross wages
521-525	Monetary authorities - central bank/Funds, trusts, & other financial vehicles	58	\$53,939	\$3,128,478
523	Securities, commodity contracts, investments	777	\$106,785	\$83,007,189
5511	Mgt of companies & enterprises	307	\$57,884	\$17,751,125
	Total	1,142		\$103,886,792

Source: VT Dept. of Labor

The overall average wage for the sub-sector was \$90,969 ($\$103,886,792 \div 1,142$). But as the data shows, almost a third of the jobs averaged well under \$60,000. Furthermore, the occupational employment statistics show that there were only 370 "Securities, Commodities, and Financial Services Sales Agents" in 2004 (less than half the 777 shown) and their average wage was \$77,120. Not surprisingly, the firms that employ (or are owned by) the securities & commodities brokers have other employees, including (among others) receptionists and secretaries who averaged \$22,000 and \$25,000 respectively. In the end, it's clear that some percentage of the 370 brokers earned a great deal of money while the majority of workers in the field made much more modest salaries. This is a perfect example of the problem with industry average wages and why this information should be used with caution. A better measure is median wage by occupation, which is reported annually by the Dept. of Labor for hundreds of occupational titles.

Note: Secretary Dorn referred briefly to the financial services tax credit program that is up for reauthorization this year. FYI: From 2002 to 2004, this program cost the state \$4 million in tax credits (foregone revenue) but the sector actually lost 89 jobs.

6. Job change: First, the table on p.7 shows figures for total non-farm payroll jobs. This includes public sector jobs (federal, state & local) that are not influenced by state ED policies. Second, it only shows comparisons back to 2001. If we are interested in the effectiveness of state ED policies, a better measure is net private sector growth over a longer period. Since 1990, Vermont has not kept pace with the national rate (19.4% vs. 24.3%).

The big picture: Historic data on private sector job growth shows that Vermont tracks very closely with national trends. Not surprisingly, this suggests that state level efforts have not overcome powerful national forces and that we are vulnerable to the vagaries of the national and the global economies. Therefore, we should ask ourselves if there are strategies available that would reduce our vulnerability and allow us to better control our future. In my view, greater self-reliance is one such strategy and I hope to provide testimony on the subject.

Note: It is noteworthy that most (if not all) of our ED strategies are devoted to for-profit enterprises. According to Census micro-data, only 60% of the jobs in Vermont are in the for-profit sector - and it is not growing. The rest are about evenly divided between non-profits, self-employment, and the public sector, all of which have grown since 1990.

7. Recruitment: The text on p.15 suggests that there are a significant number of companies moving from state to state. However, there is no public data to support this contention. On the other hand, we have data on the businesses that have either left the country or been seriously impacted by foreign competition (see Appendix). The point is that businesses move when they can save

substantial sums of money. Real savings are in labor costs, not in those areas typically identified as critical to a state's "business climate" (taxes, electric costs, etc.). I hope to present information on this issue that shows clearly that there is very little interstate movement of businesses into and out of Vermont and that the overall impact on jobs is negligible.

Note: The presentation included information about Ethan Allen and efforts to lower their energy costs. The steps taken were sensible and undoubtedly a good investment. However, the suggestion that electric costs are a significant cost factor for a large furniture manufacturer is not supported by the available data (see Appendix). Using data from the 1997 Economic Census (I did the work before the 2002 Economic Census was available), it appears that cutting electric costs by 15% for a furniture manufacturer would represent less than two tenths of 1% of total sales. Obviously, any savings helps the company's margins, but savings of this size cannot reasonably be seen as determinative in location decisions.

8. Tourism & Marketing: There is no question that tourism is big business in Vermont. The issue for planners and policy makers is whether the state's expenditures are cost-effective. For example, the state spent almost \$23 million on tourism & marketing from FY02 through FY05, but we gained only 200 jobs in "leisure & hospitality" (an increase of ½ of 1% in four years). In addition, notwithstanding the substantial revenues from sales and rooms & meals taxes, we have no way to measure the effectiveness of the state's contribution to marketing. That is, the private sector spends tens of millions each year on advertising and marketing, while the state spends approximately \$2 million on direct advertising and marketing (about half the Dept. budget is for salaries). There is no available methodology to measure the value of this increment of spending so we don't know to what extent, if at all, it really helps. Thus, should we double the budget (as some have argued), or eliminate it altogether? We have no basis on which to make the decision.

Note: The presentation did not mention the wages of those who work in the core sectors of the industry. The average wage for the 33,000 people who work in "leisure & hospitality" was \$16,262 in 2005 (although close to 7,000 are tipped employees whose income is undoubtedly somewhat higher). No doubt the seasonal and part-time nature of the work is suitable for some, but for others it's a tough road.

9. VEPC: The presentation included seven pages on the VEPC / EATI tax credit program (pp.52-58), which has just been changed. But it did not include any discussion about a little known part of the Council's work. A review of VEPC's monthly meeting minutes from Nov. 2004 to Jan. 2006 shows that the Council now spends a great deal of time reviewing company performance. That's the good news. The bad news is that many companies are not meeting their performance expectations.

As the table at right shows, of the 63 reviews undertaken by the Council during that period, only 7 companies (11%) were allowed to use the credits previously awarded. That is, 89% of the companies reviewed had either not gone forward with the project (rescind) or not met their performance expectations. This suggests that **the availability of tax credits is not a sufficient incentive to enable companies to overcome market forces.** The premise of the program is that the credits are a significant factor in location and expansion decisions. This data suggests that we should honestly reconsider the wisdom of this type of state subsidy.

VEPC actions / recommendations Nov. 2004 -	
Allow credits	7
Rescind credits	21
Disallow credits	15
Defer recapture or mitigation	4
Extend deferral to 36 months	2
Mitigate	6
Recapture	6
Warning	2

10.

Manufacturing: The presentation noted a number of success stories, and they are a welcome change from stories of plant closures. But we need to remind ourselves of the losses because they are instructive. As is clear from the list in the Appendix, a significant number of companies have left or cut back because they moved out of the country or were adversely affected by foreign competition. This contradicts the idea that differences in the so-called "business climate" within the U.S. are responsible for a lot of job gains and losses. And if the influence of the domestic "business climate" is exaggerated, we should re-examine our policies developed in response. In the end, business owners make decisions based on the numbers. If they can save 50% or more on labor costs (usually the company's largest expense), it is rational to do so. But that calculus helps provide context for efforts to save 10% on a cost factor that represents only 1% or 2% of total costs (like state taxes or electricity). The former might be an overall savings of 15% - 20% while the latter a more modest 0.1% to 0.2%.

11. VEDA: The presentation included a brief discussion about VEDA (pp.63-65), including estimates of jobs created and wages paid. While VEDA provides a valuable service, it is noteworthy that the figures for jobs and wages come from the applications, rather than actual data collected after the loans were made. This may seem a small difference, but a program of this size and importance should make the effort to obtain more accurate data.
12. WOTC: The presentation about the VT Dept. of Labor included reference to the Work Opportunity Tax Credit program (WOTC), a federal income tax credit (p.72). Although no data was provided about its use in Vermont, the implication was that WOTC is a useful tool that helps disadvantaged working people. In fact, both WOTC and its predecessor (the Targeted Jobs Tax Credit, TJTC) have been the subject of criticism. In 1994 the Inspector General of the U.S. Department of Labor urged Congress to discontinue TJTC after his research found that employers would have hired 92% of the of the workers even without the tax credits. In addition, the jobs were "unremarkable."
 - one in three employees was paid the minimum wage allowed by law;
 - two of three employees worked part-time;
 - two of three employees received no fringe benefits; and
 - three of four employees were no longer employed by the TJTC employer five quarters after being hired.

The Inspector General "concluded that the TJTC program is not an effective means of helping target group members find employment [and] cost three times the amount that it returned in economic benefits." A more recent report on WOTC by the GAO stated, "67% of certified employees separated from their employers after earning less than \$3,000."⁶ Moreover, GAO admitted that it "did not determine the extent to which employers may have received 'windfall' credits for employees whom they would have hired anyway." Large companies dominate the use of WOTC credits. According to the GAO report cited above, in 1997 companies with gross receipts of \$1 billion or more claimed 66% of WOTC credits.

13. Telecom: The presentation included comments about telecom initiatives (pp.87-91) and was consistent with the recent DPS draft report on telecom (Act 172). Both focused on policies and programs that assume the private sector is the only vehicle for achieving our goals and that the primary role of the state is to facilitate private investment. But it is clear that on balance this has not worked for much of VT. Understandably, for-profit entities will always invest where there is the greatest possible return on investment. Therefore, Verizon & Adelphia/Comcast will devote

⁶ Source: GAO-01-329 at <http://www.gao.gov/>

their resources to more densely populated areas and rural VT will continue to wait for backbone infrastructure. Furthermore, the federal government has insulated cable providers from any obligation to provide access to their wires (as opposed to the telephone companies) so even when Adelphia/Comcast expands, it will have monopoly control over services. Thus, it is evident that we are at the mercy of market forces and government policies that aren't working for us. Therefore, modest subsidies of one kind or another are not sound "investments" and leave us with no hard assets and no control. This is not a good use of taxpayer funds and is not likely to lead to success.

Note: The current situation is similar to rural electrification in the `30s and `40s. At that time, the for-profit utilities wired the easy to reach areas and often ignored the more remote areas. This led to the creation of rural electric co-ops, whose capital costs and overhead were (are) much higher because they had many fewer accounts per mile. Unlike the earlier example, the federal government seems disinclined to help support rural telecom access so there is an unmet need that could (should) be filled by state government.

Energy Costs and Potential Savings for Furniture Manufacturers

	NAICS 337121 Upholstered household furniture (national total)	% of total revenues	Hypothetical \$100 million annual sales	Potential savings as a % of total revenue @ 15% reduction	
Value of shipments	\$8,398,652,000		\$100,000,000		
Cost of Materials	\$4,145,011,000	49.35%	\$49,353,289		
Payroll	\$2,022,565,000	24.08%	\$24,082,019		
Fringe Benefits	\$384,756,000	4.58%	\$4,581,164		
Depreciation	\$70,978,000	0.85%	\$845,112		
Advertising	\$49,272,000	0.59%	\$586,666		
Rent - buildings	\$45,699,000	0.54%	\$544,123		
Electricity	\$39,961,000	0.48%	\$475,803	\$71,370	0.07%
Rent - machinery & equipment	\$28,753,000	0.34%	\$342,353		
Purchased services for repair of mach. & equip.	\$23,361,000	0.28%	\$278,152		
Contract work	\$11,467,000	0.14%	\$136,534		
Fuels	\$10,266,000	0.12%	\$122,234		
Communications	\$9,438,000	0.11%	\$112,375		
Cost of purchased services for repair of buildings	\$9,337,000	0.11%	\$111,173		
Software & other data processing	\$6,162,000	0.07%	\$73,369		
Legal	\$5,287,000	0.06%	\$62,951		
Refuse removal incl. hazardous waste	\$3,934,000	0.05%	\$46,841		
Accounting & bookkeeping	\$3,924,000	0.05%	\$46,722		

	NAICS 337122 Nonupholstered household furniture (national total)	% of total revenues	Hypothetical \$100 million annual sales	Potential savings as a % of total revenue @ 15% reduction	
Value of shipments	\$11,252,749,000		\$100,000,000		
Cost of Materials	\$4,634,910,000	41.19%	\$41,189,135		
Payroll	\$2,677,569,000	23.79%	\$23,794,799		
Fringe Benefits	\$580,379,000	5.16%	\$5,157,664		
Depreciation	\$263,347,000	2.34%	\$2,340,290		
Electricity	\$139,007,000	1.24%	\$1,235,316	\$185,297	0.19%
Purchased services for repair of mach. & equip.	\$70,971,000	0.63%	\$630,699		
Rent - buildings	\$58,519,000	0.52%	\$520,042		
Advertising	\$58,195,000	0.52%	\$517,163		
Contract work	\$46,806,000	0.42%	\$415,952		
Rent - machinery & equipment	\$41,308,000	0.37%	\$367,093		
Software & other data processing	\$29,386,000	0.26%	\$261,145		
Fuels	\$27,653,000	0.25%	\$245,744		
Cost of purchased services for repair of buildings	\$18,957,000	0.17%	\$168,466		
Communications	\$15,134,000	0.13%	\$134,492		
Refuse removal incl. hazardous waste	\$14,682,000	0.13%	\$130,475		
Legal	\$8,987,000	0.08%	\$79,865		
Accounting & bookkeeping	\$7,871,000	0.07%	\$69,947		

Source: 1997 Economic Census - Business Expenses Survey

**VT Companies that sent jobs overseas (or were affected by foreign competition)
U.S. Dept. of Labor - Trade Adjustment Assistance**

AcoustiPhase	Proctorsville	7/19/1982
Alburg Door and Window, Ltd	Alburg	4/30/2003
Alpine Designs Corp	Newport	3/22/1991
American Papermills	Gilman	3/4/2003
Belden CDT	Essex Junction	9/20/2004
Bijur Lubricating Corp.	Bennington	12/19/2002
Bijur Lubricating Corp	Bennington	6/24/1997
Bijur Lubricating Corp.	Bennington	3/12/1992
Black Diamond Sportswear	Barre	10/6/1999
Bogner of America	Newport	11/18/2004
Bogner of America	Newport	3/6/2002
Bryant Grinder Corp	Springfield	1/16/2001
Capital City Press	Barre	1/29/2003
Concord Mfg	Morrisville	1/30/1990
Cone Blanchard Corp	Windsor	6/12/2002
Crescendoe Gloves	St Johnsbury	2/28/1977
DSB	S.Burlington	8/26/1980
Ethan Allen	Beecher Falls	11/12/2003
Ethan Allen	Orleans	11/26/2002
Ethan Allen	Randolph	11/26/2002
Ethan Allen	Island Pond	10/15/2001
Fair Rite Products Corp	Springfield	2/9/1999
Fellows Corp.	N. Springfield	6/21/2002
Fellows Corp.	Springfield	2/21/1984
Gca (general Signal)	Williston	8/6/1993
General Electric Aircraft	Rutland	2/4/1993
Geophysical Service	Bennington	2/9/1989
George F. Adams Co.	Moscow	8/4/2003
GK Technologies	Pownal	1/5/1981
Goodyear Tire & Rubber	Windsor	2/12/1987
Goodyear Tire & Rubber	Windsor	4/28/1983
Goodyear Tire & Rubber	Windsor	4/13/1979
Green Mountain Marble	Windsor	4/19/1990
Hardwick Knitwear	Hardwick	4/13/1992
H Hasbro Games Group	Fairfax	3/11/1997
International Stone Products	Barre	10/24/2003

Johnson Controls, Globe	Bennington	3/15/1994
Kennametal	Lyndonville	9/4/2002
Lavallee and Ide	Winooski	7/6/2004
Luzenac America	Windsor	2/23/2004
Marty Sculpture	Milton	5/12/1995
Milton Bradley Wood	Fairfax	1/31/1995
M.J. Wood Products	Morrisville	8/25/2004
Parks & Woolson Machine Co.	Springfield	12/5/2003
Pownal Tanning Co.	North Pownal	3/21/1988
Rehau	Springfield	4/19/2004
Relax-R Corp.	Milton	9/22/2003
Sheftex USA	St. Johnsbury	12/19/2001
Shellcraft Industries	Winooski	5/25/1990
Slalom Skiwear	Newport	3/22/1991
Sound Research	Proctorsville	7/19/1982
Stanley Tools	Shaftsbury	11/20/2000
Thompson Mfg.	Bennington	12/3/1985
Toni Totes of Vermont	Londonderry	5/19/1982
Tubbs Snowshoes Co.	Stowe	9/9/2004
U.S. Tsubaki	Bennington	12/22/2003
Velan Valve Corporation	Williston	5/30/2003
Vermont Marble Co.	Proctor	4/21/1988
Vermont Tubbs	Brandon	10/9/2003
Vermont Wood Craft	Proctorsville	7/19/1982
Vestshell Vermont	St. Albans	7/25/2003
Waterbury Companies	Randolph	8/4/2003
Weidmann Systems Intl.	St. Johnsbury	11/25/2002
EHV-Weidmann Indus.	St. Johnsbury	11/25/2002
Wyeth Nutritional	Georgia	3/12/2004

NAFTA - Transitional Adjustment Assistance (certified)

Fair Rite Products 2/8/99 Shift production to Mexico
 IBM 1/15/03 Shift production to Canada
 Precision Rotary Instruments 8/8/97 Shift production to Canada
 Sheftex 12/19/01 Shift production to Mexico
 Sportrack Accessories 12/6/01 Shift production to Canada