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State of Working Vermont 2012

New Decade, New Thinking

by Jack Hoffman and Paul Cillo

In the midst of a slow recovery from the Great Recession, talk about the economy inevitably focuses on jobs. But before state policymakers chase jobs the old-fashioned way—with tax credits, relaxed regulations, and tax cuts for the "job creators"—they should ask two questions:

- What is the goal: Jobs or better lives for Vermonters?
- If the aim is Vermonters' well-being, how can the state use public funds most effectively to promote it?

In the last legislative session, Vermont policymakers started to shift their thinking about the state budget. In a new state law they acknowledged that tax and spending policies should be weighed by how well they meet Vermonters' basic human needs. They also adopted the Genuine Progress Indicator (GPI) as a measure of economic activity.[1]

Over time, the state's economic development policies need to embrace these broader definitions of progress so that public funds are used strategically to improve Vermonters' lives.

State of Working Vermont 2011 reported on 2010 and the previous dismal decade: lost jobs, flat incomes except for those at the top, increased income inequality and poverty, and rising costs of living. These bleak conditions were the result of forces bigger than Vermont. But state policies often produced an inadequate response or, in some cases, made things worse. The good news: Those policies can change.

This report looks at 2011, the first year of a new decade. As usual, the report contains data and analysis to help readers understand what's happening for workers in Vermont's economy. It also suggests that political leaders need more explicitly to connect indicators like these to policy. Moving Vermont toward a "people's budget" was an important step last session.[2] This report encourages officials to build on that—not just for workers but also for the unemployed, retirees and youth, children and families. The goal, after all, is a state that works for all Vermonters.

Off to a Weak Start

At the end of 2011, Vermont still hadn't recovered from the recession. Employers had 8,700 fewer people on their payrolls than in 2007.[3] Real median household income, though slightly higher than the previous year, was less than in 2007. More than 40,000 Vermonters were either unemployed, too discouraged to look for work, or working only part time when they needed a full-time job—an increase of more than 17,000 over pre-recession levels. More than 90,000 were relying on food stamps each month, up 76 percent in just four years. By November 2012, the number of people in the 3SquaresVT program—Vermont's name for food stamps—had passed 100,000.

But as reported in State of Working Vermont 2011, the problems confronting working Vermonters didn't start with the recession. During the first decade of the 21st century, even before the economy took a nose dive, employers were creating jobs at the worst rate on record in Vermont. Incomes for the typical household were stagnant, and the gap between rich and poor was widening. Now a new Vermont economic forecast predicts that the state will not reach 2007's non-farm job numbers until the third quarter of 2014.[4]

If that forecast holds, Vermont employers will have created fewer than 10,000 jobs from 2000 to 2014—too slow a rate to keep up with the growth in the working-age population.[5] By comparison, Vermont added 41,000 non-farm jobs from 1990 to 2000, an increase of 16 percent. Over the same period, the working-age population grew by 30,000, a rise of 8.5 percent.

What the State Can and Cannot Do

Given the demand for employment over the last decade, all of the talk about jobs is understandable. There is clearly a need, and political leaders want to respond to it. Gov. Peter Shumlin campaigned on job creation. So did his predecessor, Jim Douglas. Douglas's campaign slogan was "Jim = Jobs." But that promise didn't bear out. In 2002, the year Douglas was first elected, Vermont averaged 299,400 non-farm payroll jobs. In 2010, his last year in office, non-farm payroll jobs had dropped to 297,650.

In fact, state-level political leaders are limited when it comes to job creation. Some economists contend that only macroeconomic policies determined at the federal level have any significant influence on how many new jobs are created. The state can make a relatively small impact by hiring government workers—and Douglas exacerbated unemployment by laying off state employees during the downturn—but it cannot create long-term private sector jobs.

Still, policymakers can do more than they're doing for Vermonters and the economy. A state can make itself conducive to job creation by investing in public structures like transportation and telecommunications infrastructure, good schools and health care, a clean environment, and public safety—that is, by becoming a desirable place to live and work. As federal policies move the economy toward recovery, the state is more likely to share in it.

This is not the same as "attracting" business to the state. Contrary to common belief, most new businesses and jobs are not imported.[6] Good public amenities can bring people to live here who end up starting businesses. A people-friendly environment makes recruiting employees easier. But new jobs are primarily the result of expansions of already going concerns in the state or startups by people who already live here.

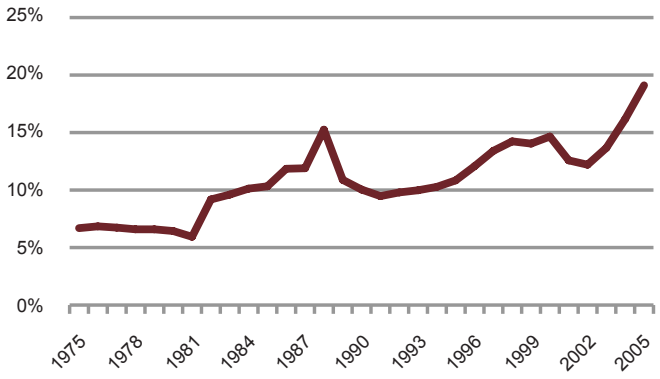
Even where jobs exist, though, they no longer mean economic security for workers.

Recent periods of strong job growth in Vermont and the nation did not deliver greater prosperity for all. In the last 30 years, economic gains have gone disproportionately to those at the top. The pattern in Vermont has mirrored what occurred nationally. Between 1981 and 2005, the share of income going to the top 1 percent of Vermonters more than tripled—from 5.9 percent to 19.1 percent. Meanwhile, the share of income shrank for the remaining 99 percent (**Fig. 1**).[7]

FIGURE 1

Vermont's Top 1% Have Been Getting More

Share of total state income, 1975-2005



Source: IRS data analyzed by Mark Frank, Sam Houston State University

A job does not necessarily provide a decent middle-class life. Not all jobs are good jobs; many don't pay enough to allow workers to support their families and also have time to spend with them. Even some good-paying jobs do not provide enough income to pay for rising child care, health care, and college costs, much less allow breadwinners to put something away for their old age. That's another reason state policies that make these necessities affordable and accessible to all Vermonters are so important.

In addition to making Vermont an attractive place to live, state policymakers can improve the quality of jobs for all employees in the state by maintaining a minimum wage that rises with the cost of living, encouraging livable wages, and requiring paid sick leave, overtime pay, and safe working conditions. And the state can provide a decent safety net for those who are out of work by adequately funding unemployment insurance and making sure that people who cannot work have the resources to pay for life's essentials.

Basic Economic Indicators

Viewing the Vermont economy as more than the total number of jobs, the rate of job growth, or even average wages requires indicators that show whether the state is moving in the right direction—toward ensuring that all Vermonters can enjoy a secure, satisfying life. To be useful, indicators need to have reliable data and address issues important to the state:

- How many Vermonters are living in poverty, and is the number coming down?
- Is income growing, and if so, is that growth broadly shared?
- Have we closed the wage gap between men and women?
- Do all Vermonters have access to affordable health care?
- Who is in the workforce, how many are really unemployed, and what kind of jobs are available?

Poverty

Vermont's overall poverty rate improved in 2011, and at 11.5 percent it was more than 4 percentage points below the national average. But the recession eroded some of the gains the state had made in the 1980s and 1990s, when Vermont succeeded in pushing the poverty rate below 10 percent during several years. Census figures released this fall showed the poverty rate for young children was about twice the overall rate in 2011. According to the Census, 23.5 percent of Vermont children under 5 lived in poverty some time during the year. That was an increase from 15.5 percent in 2007, before the recession hit.[8]

There are other signs of the difficulty working families have had in making ends meet since the economy shrank. The number of families in need of food stamps has reached an all-time high. During 2011, 3SquaresVT served an average of 93,466 people a month. That's a 76 percent increase over 2007 (**Fig. 2**).

The state saw a similar rise in the number of households needing help to stay warm through the winter. In fiscal 2007, about 21,000 households received help through the federal Low Income Heat Energy Assistance Program (LIHEAP). By fiscal 2011, that number had climbed 71%, to more than 36,000 (**Fig. 2**). Meanwhile, funding increased just 35 percent during the period—from $20.8 million in fiscal 2007 to 28 million in fiscal 2011.[9]

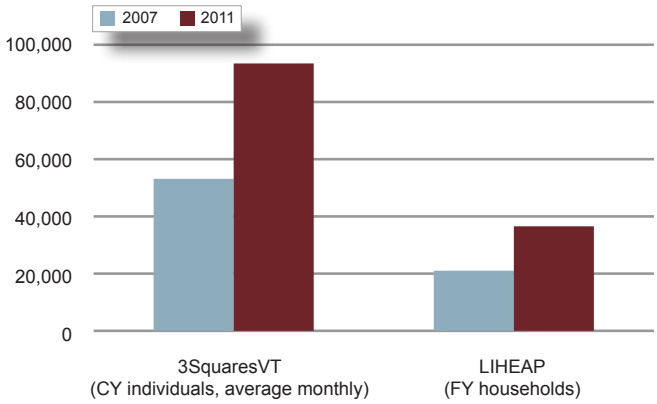
Income and Wages

When 2011 Census data were released earlier this fall, Vermont was the only state that showed a statistically significant increase in median household income over the previous year.[10] (The median is the midpoint: Half of the households in the state have incomes higher than the median and half have incomes lower.) That was a positive sign, and clearly better than a decrease, but like the jobs and employment picture, it needs to be viewed in context.

FIGURE 2

More Vermonters Need Help with Food, Heat

Food stamps, LIHEAP recipients, 2007, 2011



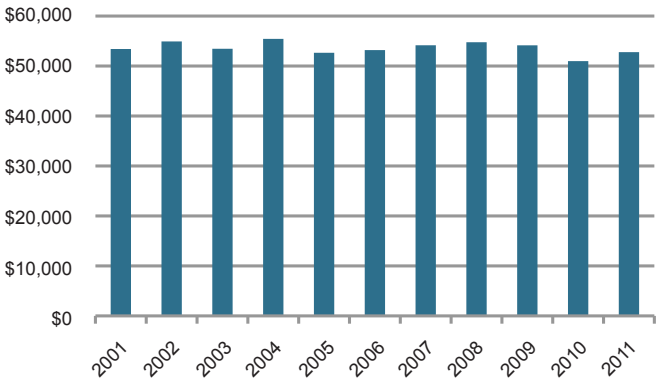
Data source: Vermont Agency of Human Services, Division of Economic Services

Vermont median household income in 2011 was $52,776. Adjusted for inflation, that number 10 years earlier, in 2001, was $53,407 (**Fig. 3**). In other words, incomes for a typical Vermont household didn't even keep pace with inflation. Meanwhile, gasoline prices rose from about $1.50 a gallon in New England to more than $3.65 a gallon—five times faster than the overall inflation rate. And health care expenditures in Vermont grew four times faster than overall inflation from 2000 to 2010.

FIGURE 3

The Typical Household is Living on Less

Real Vermont median household income, 2001-11 (2011$)



Data source: EPI analysis of Census, ACS data

Gender Gap

For the second year in a row, the gender wage gap narrowed, and median wages for Vermont men and women were closer to parity than they have ever been. But in 2011, as in 2010, the gap shrank partly for the wrong reason. The real median wage for women grew slightly, from $15.76 an hour in 2010 to $15.94 in 2011. For men, however, the real median wage dropped by nearly 4 percent, to $17.23 an hour. As a result of the increase for women and the decrease for men, the real median wage for women last year was 92 percent of the real median wage for men.

Health Care

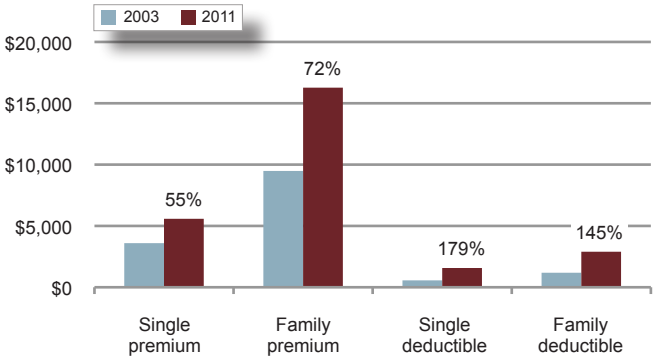
Paying for health insurance is a problem for many working families. A 2012 report by the Commonwealth Fund showed that Vermonters' health insurance premiums had risen at the same time their deductibles had more than doubled (**Fig. 4**).[11] In other words, Vermonters have been paying more for health insurance plans that expose them to higher costs if and when they actually need medical services.

One way employers and employees have responded to higher insurance premiums is to shift to higher-risk plans. Plans with high deductibles or high copayments typically have relatively lower premiums. That can mean savings—as long as the policyholder doesn't get too sick or too badly injured and have to pay high out-of-pocket costs. Higher premiums for less coverage, especially in the face of other economic pressures, lead some to drop their insurance coverage altogether.

FIGURE 4

It's Harder to Pay for Health Insurance

Premium and deductible increases, 2003-2011

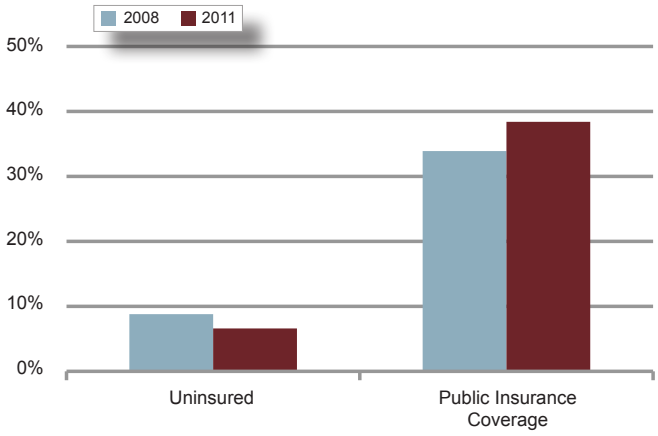


Data source: The Commonwealth Fund

Thanks to public programs, however, Vermont has been reducing the number of uninsured. Recent Census data show that the number of uninsured Vermonters dropped from 8.8 percent in 2008 to 6.6 percent in 2011. During that same time, the percent of people with public health insurance coverage rose from 33.9 percent to 38.4 percent (**Fig. 5**).

FIGURE 5

Fewer Vermonters Are Uninsured, More Are in Public Programs



Data source: U.S. Census, ACS 1-year, 2008-2011

The failure of the health insurance market to deliver a reliable, affordable product has led to reform efforts at both the state and national levels. Vermont is pursuing two tracks of health care reform: the federal Affordable Care Act, better known as Obamacare; and, far more thoroughgoing, Gov. Shumlin's single-payer health care initiative.

Obamacare is focused more on helping people purchase health insurance than it is on truly reforming the health care system. It creates a health insurance market, called the Exchange, where individuals and businesses can shop for plans that meet certain coverage requirements; it also provides subsidies, in the form of tax credits, for qualified individuals and businesses that need help purchasing health insurance. Obamacare relies heavily on the insurance marketplace to slow the growth in annual U.S. health care expenditures, in spite of the industry's long history of failure.

For Obamacare to succeed, the insurance plans offered through the Exchange must be affordable. The plans currently being considered in Vermont, however, will expose many low-income families to higher out-of-pockets expenses than they face now with state-

supported health care plans. Federal tax credits will help, but the state needs to do its part too. So far, Gov. Shumlin has said the state can't afford to continue to provide the current level of coverage for individuals and families enrolled in Catamount Health or Vermont Health Access Plan (VHAP).[12]

Once the Exchange is up and running—and assuming it doesn't sour Vermonters on the idea of health care reform—Vermont has more ambitious plans: to slow the growth of health care costs by regulating the health care system rather than focusing solely on managing the insurance market. If Vermont can begin to bring the growth of health care costs more in line with the overall growth in the economy, the next step will be to shift to a system of public financing for health care. That could produce further savings and ensure that health care is available to all Vermonters.

Workforce

In the last decade, Vermont has frequently ranked as the state with the most older workers. In 2011, it was second behind Montana, with a quarter of the Vermont labor force age 55 or older and about 5 percent 65 or older (**Fig. 6**).

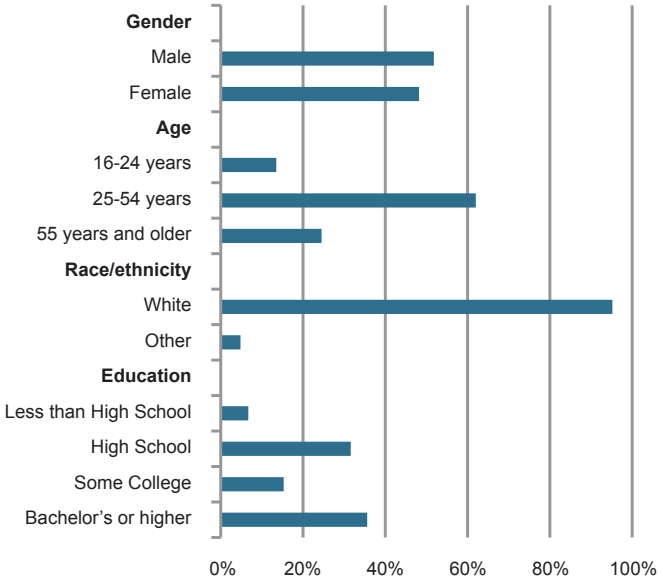
Vermont also remains among the top 10 states (including the District of Columbia) in the share of college graduates in the labor force. More than a third (35.6 percent) of the people in Vermont's labor force have at least a bachelor's degree.

However, 45.1 percent of Massachusetts' labor force has a bachelor's or higher degree, which places that state second in the country behind the District of Columbia. About 60 percent of the labor force in and around Washington hold at least a bachelor's degree.

FIGURE 6

Makeup of the Vermont Labor Force

Share of labor force by demographic, 2011

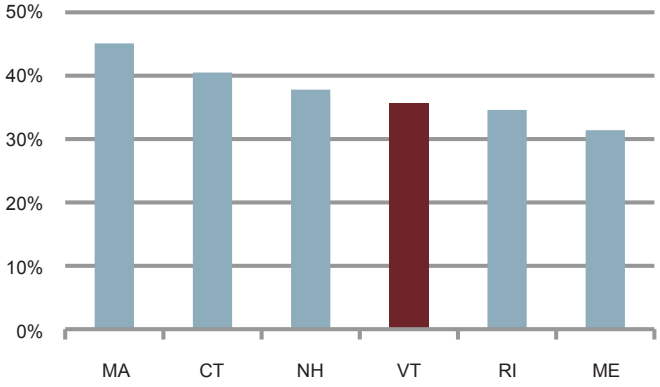


Data source: EPI analysis of Current Population Survey data

FIGURE 7

A Third of Vermont Workers Finished College

Share of labor force with bachelor's degree or higher, 2011



Data source: EPI analysis of Current Population Survey data

In New England, Vermont also lags behind Connecticut, with 40.5 percent college grads in the labor force, and New Hampshire, with 37.8 percent (**Fig. 7**).

Jobs and Employment

Vermont ended 2011 with an enviable unemployment rate. In the last month of the year, the official seasonally adjusted rate was well below the national average—at 5.2 percent, fourth lowest in the country.

But the relatively low unemployment rate masked problems for Vermont workers. First of all, the official unemployment rate counts only those who are out of work and actively looking for another job. It leaves out those who have lost hope of being rehired and stopped looking. It also doesn't count people who have had to settle for part-time work but would prefer to be working full time. When these discouraged and underemployed workers are included, Vermont's unemployment rate for 2011 was 11.6 percent.[13]

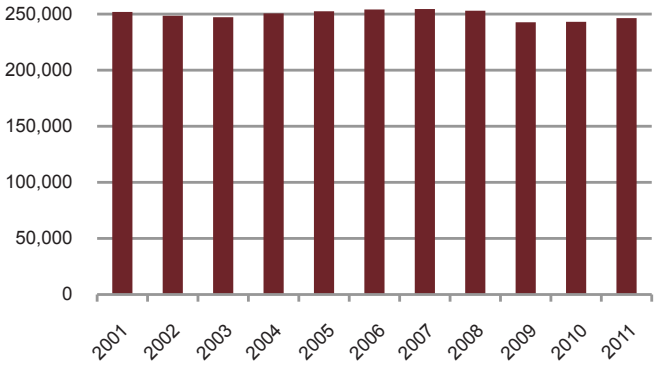
The low official jobless rate also may give the impression that the Vermont economy has been

generating enough jobs. But at the close of 2011, more than two years after the official end of the Great Recession, Vermont's private sector was providing fewer jobs than before the recession. Worse yet, there were about 5,500 fewer private sector jobs in 2011 than in 2001 (**Fig. 8**). By contrast, between 1991 and 2001, Vermont's private sector produced almost 47,000 new jobs—more than a 20 percent increase.

FIGURE 8

Private Sector Saw No New Jobs in a Decade

Vermont average annual private sector jobs, 2001-11



Data source: EPI analysis of Current Employment Statistics survey data

The recession wiped out a lot of jobs in Vermont, as it did throughout the country. But even before the recession, Vermont's private sector was producing new jobs neither as fast as it had in previous decades nor fast enough to keep pace with the growth of the working-age population.

What job growth there has been since the recession has clustered in services. Construction, manufacturing, and government all declined between 2007 and 2011. Only education services (which is separate from public education), health services, and business and professional services added jobs (**Fig. 9**).

A New Definition of Progress

In 2012, Vermont took the first steps toward reshaping its view of economic progress. The Legislature adopted new budget principles based on the People's Budget that require policymakers, when deciding how to raise and spend money, to address the needs of all Vermonters.

While it may seem like common sense that the purpose of the state budget is to meet Vermonters' needs, in fact that has not been the budget writers' focus for at least the last two decades. The state budget—the single most powerful and influential statement of policymakers' priorities—has increasingly become an accounting exercise. Legislative and administration officials have honed the revenue-estimating part, so they know with reasonable precision how much money the state will take in during the next fiscal year. They do not, however, have a similar tool for assessing Vermonters' needs. "Balancing" the budget is really rationalizing need to fit projected revenue—a disservice to Vermonters and Vermont's economic future.

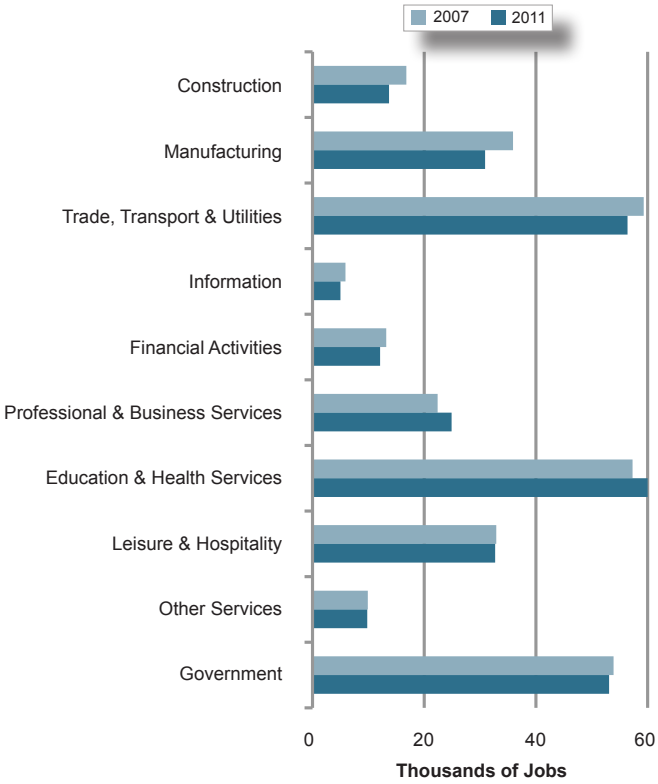
The Legislature's action last session was designed to reconnect the state budget to Vermonters' lives with a rational, equitable, people-centered spending approach.

The Legislature and the administration are also developing indicators designed to measure the well-being of the population, an essential piece of any strategic spending plan. And Vermont is now one of a handful of states that will look at GPI (Genuine Progress Indicator) alongside GSP (Gross State Product) to measure the state economy.

FIGURE 9

Only Services Added Jobs

Average annual jobs by industry, 2007, 2011



Data source: EPI analysis of Current Population Survey data

Gov. Shumlin and legislative leaders in both parties have talked about rebuilding Vermont's middle class in the wake of the Great Recession. While there is no official definition of middle class, one Public Assets used during presentations around Vermont in the summer of 2011 appeared to resonate with most audiences:

> "Middle-class Vermonters typically own a home, have a college education (or want their children to), health insurance, a decent car, and a reliable source of income that allows them to take a vacation and save money for retirement."

Building on the language of the People's Budget adopted last session, Montpelier can begin to set goals that will tell us whether struggling Vermonters are moving toward this modest vision of a middle-class life.

Conclusion

The recovery is proceeding slowly. Much of the growth is in the service sector, where jobs historically are lower paying. But there is reason for optimism: A new framework for economic and fiscal decisions is taking shape. The People's Budget initiative, the shift toward a Genuine Progress Indicator and other indicators of Vermonters' well-being, and the commitment to reform Vermont's health care financing system are all part of this evolving framework. Elected officials should expand these initiatives now. They should:

- Appropriate state dollars for fiscal 2014 to the greatest extent possible with the goal of improving Vermonters' lives based on broad indicators of economic and social well-being.
- Continue to open up the budget process to public input and develop real and regular means of assessing Vermonters' needs from the grassroots up.
- Use the research and development work already completed on the Genuine Progress Indicator and integrate this new approach into fiscal and economic decisionmaking as soon as possible.
- Ensure that health insurance and health care reforms put in place over the next several years help, not hurt, all those Vermonters who are least able to afford health care now.

By understanding the economy in terms of the real lives of Vermonters, policymakers can turn things around so that children now in middle school can enter the job market at the end of this decade with real hope for their futures.

ENDNOTES

1. GPI measures both positive and negative effects of economic activities to society and the environment. The traditional economic indicator, Gross State Product (GSP), measures all economic activity without regard to its effect. http://www.leg.state.vt.us/docs/2012/Acts/ACT113sum.htm

2. Vermont Workers' Center, People's Budget Campaign, http://www.workerscenter.org/peoplesbudget

3. Average annual non-farm jobs.

4. Jeffrey Carr, New England Economic Partnership (NEEP) Fall 2012 Forecast Update, Dec. 6, 2012.

5. Between 2000 and 2010, Vermont's working-age population (18-64) already had grown by more than 21,000.

6. David Neumark et al, "Employment Dynamics and Business Relocation: New Evidence from the National Establishment Time Series," National Bureau of Economic Research, November 2005, p. 41, http://www.nber.org/papers/w11647.pdf

7. Mark W. Frank, "U.S. State-Level Income Inequality Data," Sam Houston State University, http://www.shsu.edu/~eco_mwf/inequality.html

8. Census 2011, 1-year ACS, http://factfinder2.census.gov/bkmk/table/1.0/en/ACS/11_1YR/CP03/0400000US50

9. Fiscal 2007 actual appropriation, "Governor's Budget Recommendations Fiscal Year 2009," p. 343; fiscal 2011 actual appropriation, "Governor's Budget Recommendations Fiscal Year 2013," p. 340.

10. Census 2011, 1-year American Community Survey (ACS). The results are based on an annual survey of more than 3 million housing units nationwide and more than 9,000 in Vermont. The 1-year surveys provide the most immediate results—in this case, the change from 2010 to 2011—but have a greater margin of error than the 3-year or 5-year surveys. (These other surveys are more accurate, especially at the county or town level, but are based on data collected over several years.) In the 2011 1-year ACS, other states showed growth in median family income, but they were within the margin of error and therefore not deemed to be statistically significant.

11. Cathy Schoen et al, "State Trends in Premiums and Deductibles, 2003–2011: Eroding Protection and Rising Costs Underscore Need for Action," Commonwealth Fund, Dec. 12, 2012, pp. 20-21, 28-29.

12. vtdigger.org, "Low-income Vermonters face sharp increases in health care premiums under state exchange plan," Dec. 10, 2012, http://vtdigger.org/2012/12/10/low-income-vermonters-face-sharp-increases-in-health-care-premiums-under-state-exchange-plan/

13. Vermont's ranking in this broader definition of unemployment, known as U-6, is also lower than the national average. http://www.bls.gov/lau/stalt11q4.htm

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Public Assets Institute
PO Box 942, Montpelier, Vermont 05601 | 802-223-6677 | www.publicassets.org
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