

The State of Working Vermont 2008

by Jack Hoffman and Doug Hoffer

Officially, the economy was still growing in 2007, but it probably didn't feel that way to many Vermonters. There was no job growth. After adjusting for inflation, the median wage for Vermont workers remained flat, and median household income declined. Only workers at the top of the pay scale saw real gains in their wages. Meanwhile, the cost of basic necessities, particularly food and energy, climbed sharply.

The Vermont labor force aged a little in 2007, and workers 55 and over comprised the biggest share of the labor force of any state in the country.

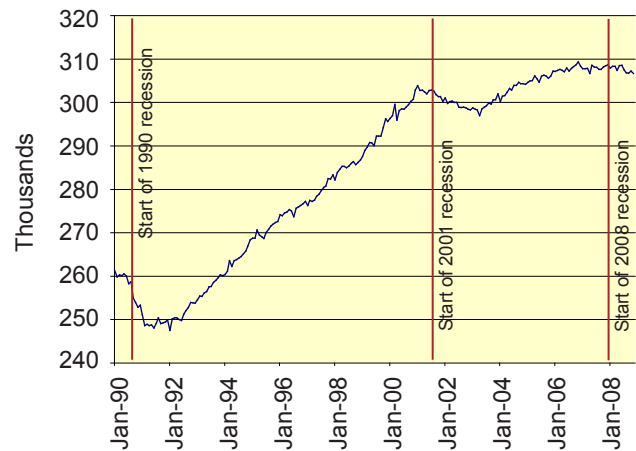
The data in this report paint a picture of the state of working Vermont at the end of 2007. Since then, Vermont, along with the nation and the entire world, has been gripped by a sharp economic decline. While the current crisis is the focus of immediate attention, it is important to keep sight of how the state's economy was performing—or not—leading up to the recession. Even before the bottom fell out, the state's policies were not producing the number or quality of jobs needed to meet demand—or to lift Vermonters out of poverty and strengthen the middle class.

This report is presented in cooperation with the Economic Policy Institute in Washington, D.C.

Private Sector Staggers

Vermont had no job growth in 2007. Average non-farm employment for the year was 307,800, which is where it stood the previous year.¹ Over the longer term, the number of new jobs has not kept pace with the demand from new people entering the labor

Figure 1. Total Jobs, 1990-2008



Note: Graph is not to full scale. It depicts the relative difference in job growth during the last two economic cycles.

Data source: Vermont Department of Labor, total non-farm employment, seasonally adjusted monthly figures, Jan. 1990-Nov. 2008

force. And while there was some job growth in Vermont since the recession of 2001, it was anemic compared to the recovery after the recession of the early 1990s (**Figure 1.**)

The picture is more troubling when it focuses on where the limited job growth occurred.

The private sector—both for-profit and non-profit—accounts for just over 80 percent of the jobs in Vermont: about 254,000 jobs. By December 2007, Vermont had only 1,300—0.5 percent—more private-sector jobs than it had in December 2000, just before the beginning of the 2001 recession. By contrast, federal, state, and local government jobs, which

Recession Update

Most working Vermonters knew the economy was in recession in 2008, but the official announcement didn't come until late in the year, when the National Bureau of Economic Research declared that the last business cycle peaked in December 2007.

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account for less than 20 percent of the total, increased by 4,500—9.1 percent—over the same period.²

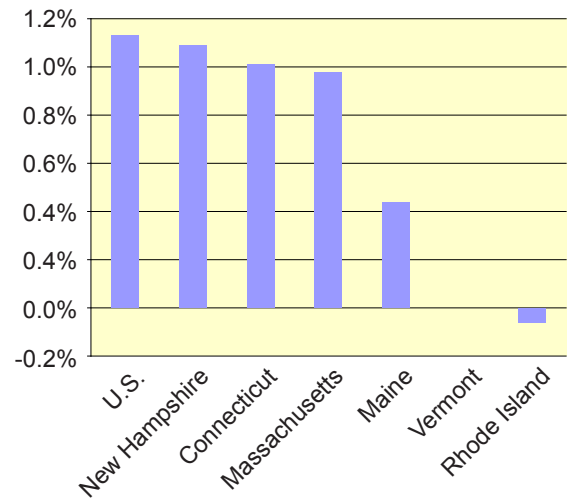
New data available from the National Establishment Times Series (NETS) provide some information on the source of jobs lost and jobs created in Vermont. These data show that between 1993 and 2007, nearly all new jobs came from within Vermont—either through the expansion of existing businesses or from start-ups. Only 1 percent of the new jobs during this period were created by companies moving into the state (**Figure 2**).

These facts suggest that Vermont might want to re-examine tax incentives and other policies designed to attract companies from other states. The NETS data show a similar pattern for job losses. For the same period, nearly two-thirds of the losses (63 percent) were the result of business closures, and another 35 percent came from lay-offs or other job cuts by existing business. Business moves out of state, which are often blamed on Vermont’s allegedly poor business climate, accounted for just 2 percent of the jobs lost from 1993 to 2007.

Demand Outstripped New Jobs

Vermont is not alone in the struggle to create new jobs. Its job growth for 2007 was one of the lowest among

Figure 3. Change in Non-farm Employment 2006-2007

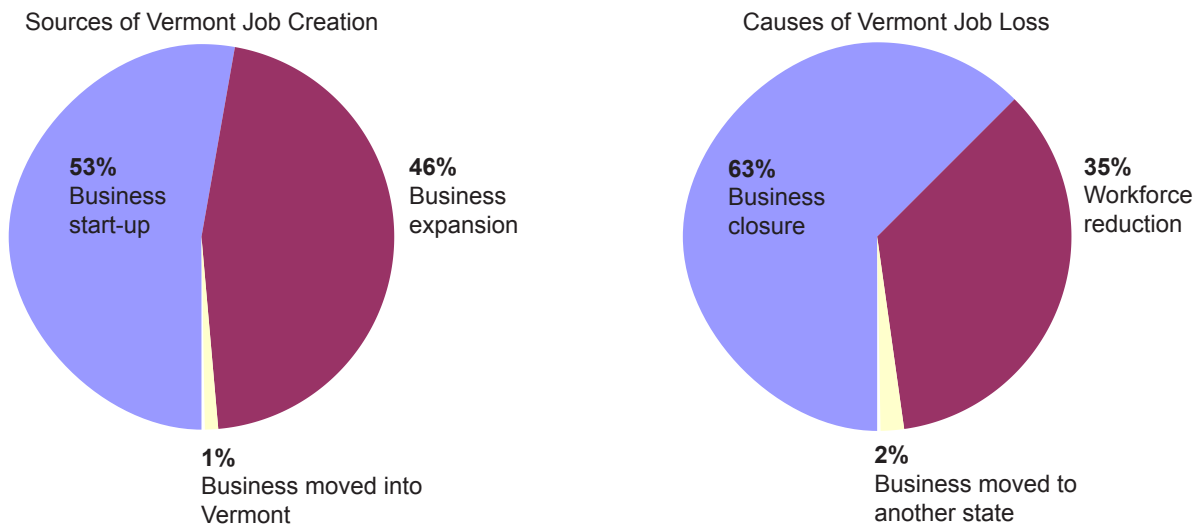


Source: Economic Policy Institute analysis of Current Employment Statistics survey; Vermont Department of Labor

the New England states, which lagged behind most other regions in the country (**Figure 3**).

While it helpful to see how Vermont stacks up against its neighbors, another factor is important to consider: How many jobs does the state need to produce to meet the demand?

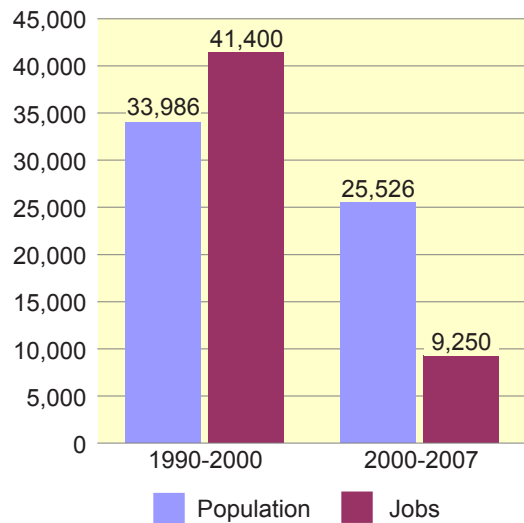
Figure 2. Sources of Job Creation and Causes of Job Loss 1993-2007



Source: Public Assets Institute analysis of National Establishment Time Series data, Edward Lowe Foundation

According to the 2000 Census, just before the start of the last recession in 2001, 71 percent of Vermonters between the ages of 16 and 69 had jobs. Since then, the working-age population has increased more than 25,000. That means Vermont should have created roughly 18,000 new jobs to maintain the same participation rate. Instead, the labor market met only about a half of the new demand (**Figure 4**).

Figure 4. Change in Working-Age Population and Jobs



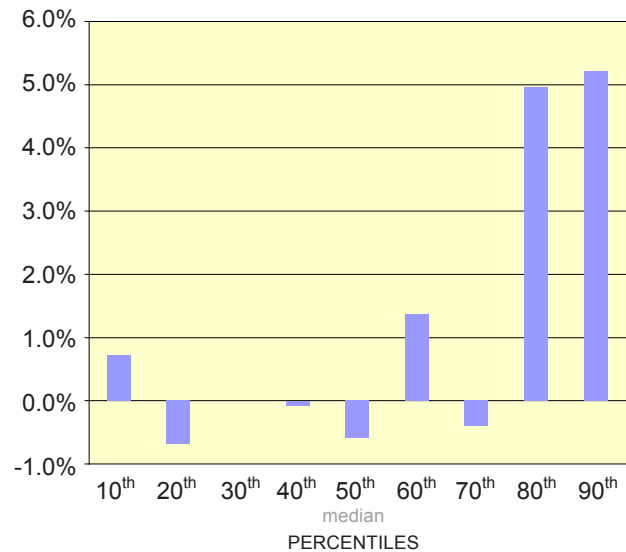
Source: Public Assets Institute analysis of U.S. Census Bureau population data (1990 and 2000 census) plus population estimates; Vermont Department of Labor, annual average non-farm employment

In contrast, job growth exceeded population growth during the 1990s. According to the Census, the working-age population increased by nearly 34,000 between 1990 and 2000. During that time, Vermont gained 41,400 jobs. The workforce participation³ rate climbed from 66 percent in 1990 to almost 71 percent in 2000, but has slipped back more recently to 67 percent.

Only Top Earners Saw Wage Gains

Looking at wage gains across the entire workforce, only those at the top end of the scale saw any real increase. The median hourly wage, after adjusting for inflation, remained essentially unchanged, as it has for the last five years. Hourly wages for those in the top 20 percent rose at least 5 percent, even after adjusting for inflation (**Figure 5**). For women, however, the real median wage dropped for the first time in 11 years.

Figure 5. Growth in Wages 2006-2007 By Decile, Adjusted for Inflation



Source: Economic Policy Institute analysis of Current Population Survey data, 2007 dollars, CPI-U-RS

Cost of Living Rose

Information about wages and jobs help to tell the story about what's happening to Vermonters on the income side. But that's only half the story. The other side of the equation is the outflow, the cost of living.

The price of housing, food, and gasoline rose faster than average wages in 2007 (**Figure 6**). The rising price of oil was a worry for many households, especially in the second half of the year. The latest figures from the Federal Highway Administration show that the average Vermont driver travels about 13,700 a year, including commutes to work.⁴ That's less than drivers in many other states, but it's still expensive when gas reaches \$3 and \$4 a gallon.

Workers: Older and Well Educated

The profile of Vermont's 2007 labor force reconfirms what other recent studies have shown: the state has more prospective workers in the upper age bracket than other states: 22 percent of Vermont's labor force is 55 or older, compared to 17.5 percent nationally.⁵

People alarmed about the graying of Vermont's population have called for new policies to attract and retain

younger workers. They worry that without such workers to fill the jobs being created the state's tax base will be insufficient to support services for the older population. As noted above, however, since 2000 Vermont's economy has not been creating enough jobs to meet the demand of the growing population: the workers are here, but the jobs are not.

Also, the data on the number of older workers suggest that they are available to fill new job openings. Whether by choice or necessity, a higher percentage of baby boomers remain in the labor force in Vermont than in any other state (**Figure 7**).

Vermont's labor force is also among the best educated. It ranked eighth nationally in the percentage of eligible workers with at least a bachelor's degree. Just over a third (36 percent) of workers have at least a bachelor's degree; nationally, the rate is 30 percent. Despite the negative stereotypes about the competence or qualifications of people who go into government service, Washington, D.C. has the best-educated labor force by a wide margin. In 2007, 58 percent there had at least a bachelor's degree—nearly twice the national average. Massachusetts ranked second, with 44 percent.⁶

While Vermont's labor force is better educated than most, the jobs of the future may not require such high levels of education. The Vermont Department of Labor estimates that only 27 percent of new jobs created between 2006 and 2016 will require a bachelor's or post-graduate degree.⁷

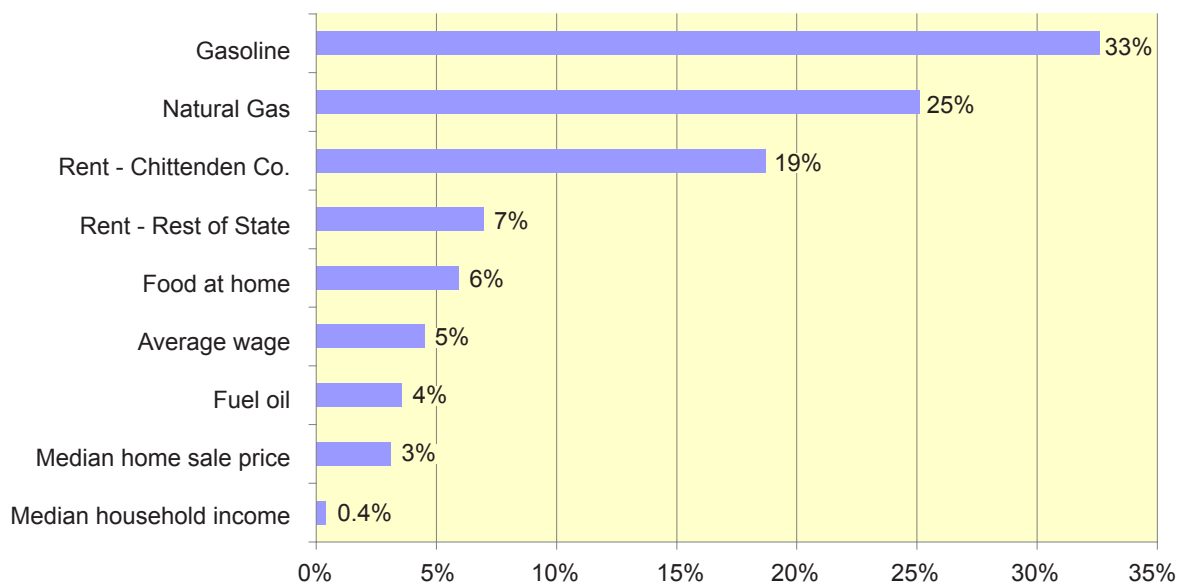
Poverty Also On the Rise

As with job creation, Vermont's poverty rate started heading in the wrong direction even before the current recession hit. The poverty rate rose in 2007 after four years of steady decline. The three-year-average poverty rate increased to 8.4 percent in 2007 from 7.7 percent in 2006. The changes mean more than 4,000 people sank below the poverty line (**Figure 8**).

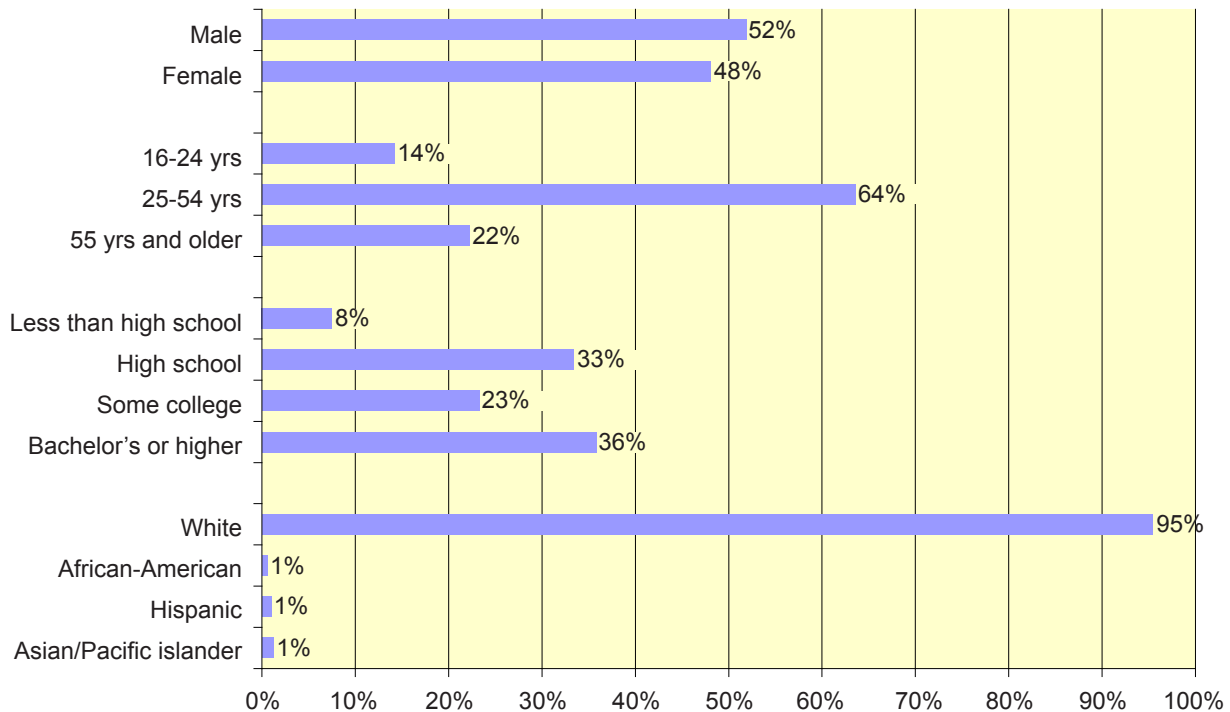
Vermont's efforts to reduce poverty over the past 20 years have shown some success. While the poverty rate has gone up and down over this period, the overall trend has been toward reduced poverty. But it's also true that Vermont's poverty rate today is about where it was in the late 1980s.

It remains to be seen whether the rise in poverty in 2007 was the start of a new trend. But it's important to note that the increase occurred before the start of the

Figure 6. Changes in Living Costs 2006 - 2007 (not adjusted for inflation)

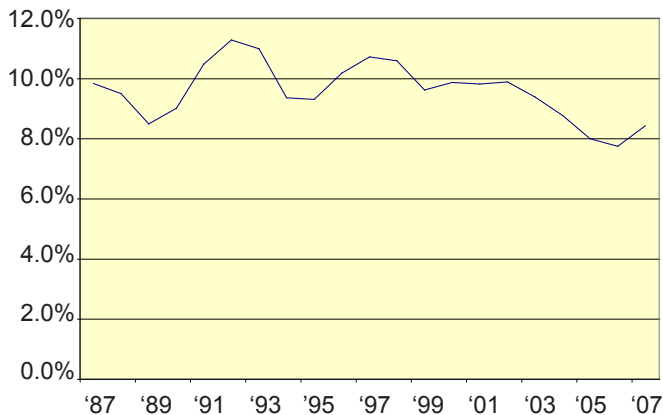


Sources: U.S. Department of Energy, Energy Information Administration; U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Housing and Urban Development, Fair Market Rents; Vermont Department of Labor; Vermont Department of Taxes; U.S. Census.

Figure 7. Profile of Vermont Labor Force, 2007

Source: Economic Policy Institute analysis of Current Population Survey data

current recession. Experience has shown that the poverty rate increases quickly when the economy sours, so it is likely we will see more Vermonters sinking into poverty in 2008 and 2009.

Figure 8. Percentage of Vermonters Below Poverty Line, 1987-2007

Source: Public Assets Institute analysis of U.S. Census Current Population Survey, three-year averages of annual poverty rates

Conclusion: Beyond Recovery

The Legislature and the governor are struggling to close actual or projected gaps in the 2009 and 2010 fiscal year budgets. Unemployment is rising sharply. Help could be coming soon if President Obama and Congress deliver on the massive economic stimulus package under consideration. But there are no signs that the decline is slowing, and at least one prominent economist has predicted that the recession will last until the summer of 2010.⁸ Given the current climate of uncertainty and fear, it is not surprising that most people are focused on the crisis at hand.

But the problems with Vermont's economy did not start in December 2007, the official beginning of the current recession. Vermont barely recovered from the last recession. Much of the job growth between 2000 and 2007 was simply regaining what had been lost. We don't know yet how many jobs will be lost before this recession hits bottom. But one goal of the next recovery cycle has to be a net increase in jobs—real growth over where Vermont was at the start of the

downturn. The state also needs to find ways to match the performance of the 1990s, when new job creation kept pace with the supply of new workers entering the labor force.

Improving the quality of Vermont jobs should be another goal of the next recovery. Nationally, income data show that the divide between rich and poor has grown wider in the last 30 years. Wage data from Vermont tell a similar story. From 1979 to 2007, those at the top have seen their wages grow three times faster, on an annual basis, than those at the bottom of the wage scale.⁹ Government and business also need to increase the income of low- and middle-income Vermonters—or reduce their costs for major expenditures like health care—so that when prosperity returns, all residents can share in it.

Maintaining essential public structures—courts, highways, public education, health services, a safe food supply, affordable and renewable energy, modern communications, and a sound regulatory system—will be key to rebuilding a sustainable Vermont economy as we pull out of the recession. But the kinds of budget cuts proposed by the administration and legislative leaders in response to the recession threaten these structures. Making deep cuts now risks wasting years of effort and millions of dollars of resources that have gone into building these public structures. And neglecting—or worse, dismantling—this public infrastructure will just leave Vermont further behind when the recovery begins.

Recession Update *(continued from page 1)*

A full picture of how badly people have been hurt by the downturn won't be available until well into 2009. No doubt, that will be the focus of next year's State of Working Vermont report.

In the meantime, some indicators are available. We know, for example, that unemployment rose 48 percent in the first 11 months of 2008. There were 6,600 more unemployed Vermonters in November 2008 than there were in December 2007.¹⁰

Unemployment figures often don't tell the whole story, however, because they don't include people who have given up looking for work. Jobs figures give a clearer indication over time because they indicate the number of jobs the economy is producing. By that measure, too, Vermont took a hit in 2008. Through November, Vermont had lost 2,000 jobs—all of them in the private sector.¹¹

The one bright spot—although it's also a symptom of a staggering economy—was the sharp drop in gasoline prices in the second half of 2008. The price of gas peaked in July at just over \$4 a gallon in Vermont. By December, it had plunged to less than half that. The average price was just under \$2 in December, and as low as \$1.65 a gallon in some places.¹²

Heating fuel also has dropped, but not quite as dramatically. The peak average price reached \$4.65 a gallon in July. It has since fallen to \$2.87 a gallon.

The recession also is taking a toll on revenue needed to support public services. In the first six months of the 2009 fiscal year, which began July 1, the official estimate of anticipated revenues has been lowered. So far, the only response of the administration and the Legislature's Joint Fiscal Committee has been to propose cuts to deal with a potential budget gap of more than \$100 million. But the cuts, which have targeted more than 600 state jobs, will exacerbate the recession and increase unemployment.

ENDNOTES

- 1 Vermont Department of Labor, annual average non-farm employment 2006, 2007.
- 2 Vermont Department of Labor, non-farm employment, seasonally adjusted.
- 3 “Workforce participation” used here is the number of jobs divided by the number of working age Vermonters, 16-69 years old. This estimate of the percentage of working age people who are working differs from the “labor force participation” definition used by the Vermont Department of Labor and cited in *The State of Working Vermont 2007*, which includes people who are unemployed but does not include those too discouraged to seek work.
- 4 Federal Highway Administration figures for 2005, the most recent available, show Vermont ranked 37th among the states in vehicle miles traveled per driver.
- 5 Economic Policy Institute, analysis of U.S. Census current population survey data.
- 6 Ibid.
- 7 Vermont Department of Labor, Occupational Projections 2006-2016, Vermont statewide, released July 10, 2008.

8 Mark Zandi, chief economist, Moody’s Economy.com, “When Will It End?,” speech delivered to Center on Budget and Policy Priorities Conference, Nov. 19, 2008.

9 EPI data: average annual growth of real wages in 10th percentile was 0.4 percent 1979-2007, average annual growth of real wages in 90th percentile was 1.2 percent for same period.

10 Vermont Department of Labor, local area unemployment statistics, seasonally adjusted.

11 Vermont Department of Labor, non-farm employment, seasonally adjusted.

12 Vermont Department of Public Service, Vermont Fuel Price Report.

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