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State of Working Vermont 2010

The last decade's policies have not led to needed job creation. It's time for a new strategy

by Jack Hoffman

The Great Recession tightened its grip on Vermont in 2009. For the first year of the crisis, 2008, the state's private employers shed jobs at an average rate of 475 a month. In 2009, the pace quickened, and an average of 675 private sector jobs disappeared monthly. Even though the recession officially ended a year and a half ago, today Vermont has 13,500 fewer private sector jobs than it had when the recession started in December 2007.[1]

But the challenge facing Vermont is not just to restore the jobs lost in the last three years. The state's economy was not producing enough jobs before the recession hit. In fact, from 2000 through 2007 Vermont was having its worst decade for job growth in the 70 years that records have been kept.

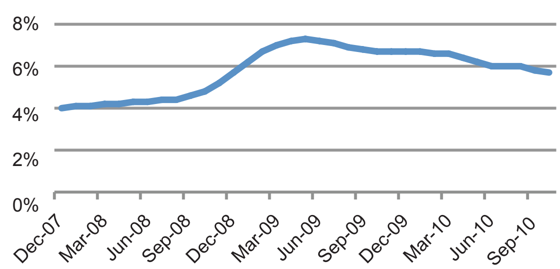
The immediate task is to get the economy moving again, so that Vermonters who lost jobs through no fault of their own can go back to work. But the state also needs to develop a new strategy to meet the demand for jobs over the long term. The policies of the last 10 years, both nationally and within Vermont, did not work. And if we look back even further, we can see that the majority of ordinary Vermonters—like the majority of people across the country—have seen little real improvement in their economic well-being in the last 30 or 35 years.

The economy is not governed by laws of nature. It is shaped by policies. If we make different decisions, we can achieve different—and better—results.

FIGURE 1

Unemployment Peaked in May 2009

Vermont's unemployment rate since start of recession, seasonally adjusted



Data source: U.S. Bureau of Labor Statistics

This State of Working Vermont report covers 2009. Although this report provides a snapshot of how Vermont workers were faring at the end of 2009, it also includes more recent data where available.

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

Unemployment Rates

In good times, Vermont's unemployment rate tends to be lower than the national average. The same has held true for the recession. For 2009, Vermont's unemployment rate averaged 6.9 percent, which placed it 37th when the states were ranked highest to lowest.

Vermont's highest monthly unemployment rate since the recession began was 7.3 percent, in May 2009 (**Fig. 1**). The U.S. rate has been above 7.5 percent for almost two years and above 9 percent for the past 19 months.

What many economists call the "real" unemployment rate is even higher. The official unemployment rate, technically known as U-3, does not include people who have gotten discouraged and stopped looking for work, those who have largely given up, or those who would like to be working more but can find only part-time jobs. By an alternative measure that includes discouraged workers and people who would like to be working more—the U-6 rate—Vermont's "real" unemployment rate averaged 11.8 percent for 2009. For the last four quarters—October 2009 through September 2010—this broader measure of unemployment has averaged 12.9 percent, double the official unemployment rate.

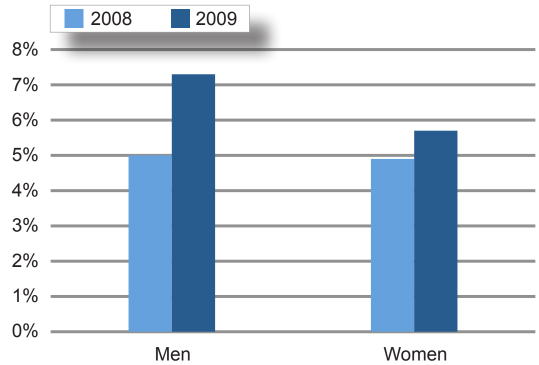
Even by this truer measure of unemployment, Vermont had the lowest rate in New England in 2009 and one of the lowest in the country. Nationally, the U-6 rate averaged 16.2 percent in 2009.

This recession has hit men harder than women (**Fig. 2**). In 2008, the unemployment rate for both men and women was about 5 percent. For 2009, the annual rate for men had jumped to nearly 7.5 percent, while women's remained under 6 percent. Unemployment rates also are above the state average for workers with less than a high school education and for younger workers, ages 16 to 25 (**Fig. 3**).

FIGURE 2

Men's Unemployment Rose Nearly 50%

Unemployment rates by sex, 2008-09



Data source: Economic Policy Institute

Longer Recession, Longer Joblessness

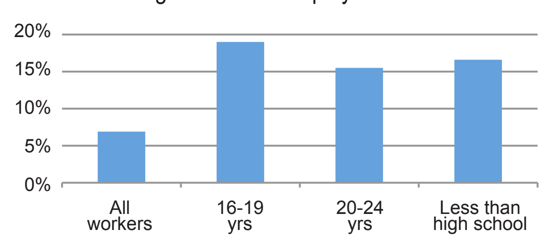
The National Bureau of Economic Research determined last September that the recession officially ended in June 2009, which means the economy contracted for 18 months before it hit bottom. That makes this recession the longest since the Great Depression of the 1920s and 1930s, which officially lasted 43 months. But while the economy is now expanding again, the rate at which new jobs are being created is not enough to meet the demand of new people entering the labor force. The economy is growing, but too slowly to restore the jobs that have been lost.

Vermont's unemployment rate has been declining, but that's largely because people have dropped out of the labor force, not because they've gone back to work. Last spring, the U.S. Bureau of Labor Statistics counted about 362,000 people in the Vermont labor force. This November, the number was about 357,000. If those missing people were officially unemployed—that is, out of work and actively looking for jobs—Vermont's unemployment rate would still be above 7 percent.

FIGURE 3

Fewer Jobs for Younger, Less Educated Workers

Vermont average annual unemployment rates



Data sources: "All workers", Vt. Department of Labor; other, U.S. Census, American Community Survey

While doing better than many other states, during this recession Vermont experienced its worst stretch of high unemployment in almost 30 years. In the early 1980s, the state's unemployment rate stayed above 6.5 percent for 19 consecutive months. During this recession, the rate was 6.5 percent or higher for 14 straight months, from February 2009 through March 2010.

Because the recession lasted so long and the recovery has been so slow, there has been a steep rise in long-term unemployment—joblessness that lasts more than 26 weeks. Prior to the recession, Vermont's long-term unemployment rate was about 15 percent of all unemployed workers. In 2009, 25 percent of workers had been out of work for more than 26 weeks. Even so, Vermont had the lowest long-term unemployment rate in New England in 2009.

Emergency Compensation

State programs typically provide Unemployment Insurance for 26 weeks for people who have been laid off because their employers have no work for them. The federal government has stepped in to provide emergency unemployment compensation, which also helped to stimulate the economy. But long-term unemployment causes more than just a loss of income. Workers also lose their job skills, which makes it even harder for them to get back to work when the economy picks up again. There also is evidence that employers are more reluctant to hire people who are unemployed, and most reluctant to hire those who have been out of work for long periods of time.[2]

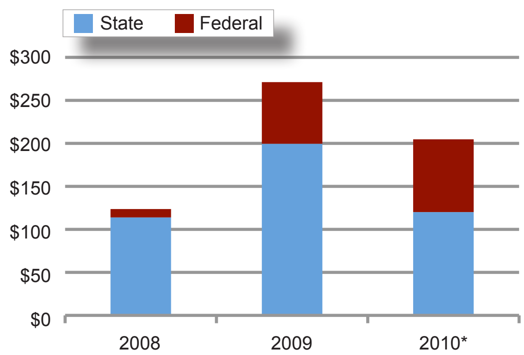
Unemployment insurance programs in Europe are designed to help people maintain their skills and at least some of their income by reducing workers' hours rather than throwing some people out of work entirely. So-called "work share" or "short-time compensation" programs exist in the U.S., which allow employers to reduce payrolls by cutting back hours for all employees instead of laying some off; the workers then receive Unemployment Insurance for days not worked. However, the programs are voluntary and so far not widely used.

As the recession dragged on, workers in Vermont and many other states exhausted the 26 weeks of unemployment compensation typically available through regular state programs. To deal with the swelling ranks of long-term unemployed workers, Congress stepped in to provide additional federal compensation (**Fig. 4**).

FIGURE 4

State's Unemployed Got Federal Boost

Unemployment compensation in millions



* Through September

Data source: Vermont Department of Labor

Depending on a state's unemployment rate, people who've exhausted their state compensation could qualify for up to four additional periods—or "tiers"—of federal emergency unemployment compensation. In the hardest-hit states, jobless workers were eligible for up to 53 weeks of emergency compensation and, in some cases, extended state payments of 13 or 20 weeks. Even with these extensions, many people have exhausted all state and federal unemployment compensation. An extension of unemployment insurance through 2011 is part of the tax cut plan President Obama negotiated with congressional Republicans, which passed this month.

The extensions allowed Vermonters to qualify for the third tier of federal emergency insurance. And for about 15 months, until July 2010, Vermont also had an extended insurance program that provided 13 weeks of unemployment compensation to those who were still out of work after the regular state program and the three federal emergency periods had ended.

Still, almost 13,500 Vermonters ran out of unemployment insurance between July 2009 and June 2010.

Unemployment compensation not only provides support for individuals and families who have been thrown out of work, it is also one of the quickest ways to get money into the economy and thus help preserve jobs.[3] Since the start of the recession, Vermonters have received nearly $600 million in unemployment compensation through both state and federally funded programs. Almost half (49 percent) of unemployed Vermonters are covered by unemployment insurance.

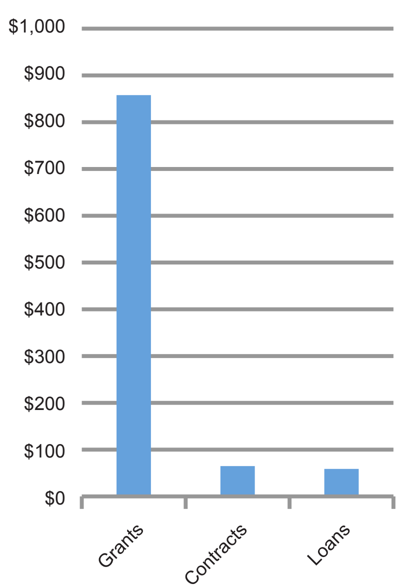
Jobs From Federal Stimulus

As in the rest of the country, Vermont's unemployment rate would have been worse without the hundreds of millions in stimulus dollars that went to state and local governments and contractors in the private sector. In 2009 and 2010, Vermont received nearly $1 billion through the American Recovery and Reinvestment Act, or ARRA (**Fig. 5**). The bulk of the money was awarded as grants, and about $120 million came in the form of contracts and loans. As of the end of September 2010, a little more than a third of the money had been paid out.

FIGURE 5

Washington Sent Vermont Almost $1 Billion

Stimulus allocations through Sept. 2010, in millions



Data source: U.S. Recovery, Accountability and Transparency Board

The federal government maintains a website to track stimulus funds and the number of jobs created or retained by the recipients of the grants, loans, or contracts.[4] According to the federal data, recipients of ARRA money for Vermont projects reported that they had retained or added almost 3,000 jobs in 2009 and 2010. If those people had instead ended up in Vermont's unemployment lines, the state's unemployment rate would have been higher. The rate, which dipped below 6 percent in September, would be above 6.5 percent without the stimulus money.

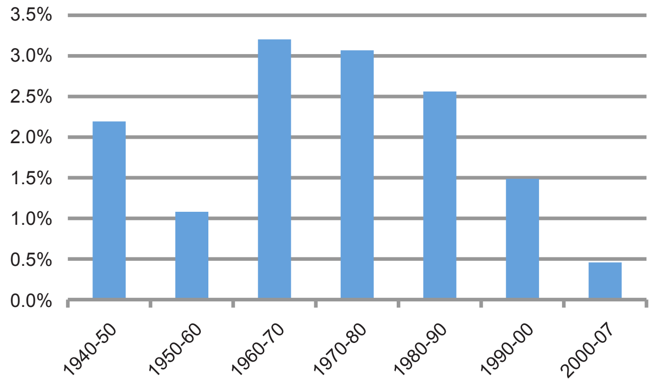
Worst Decade for Job Creation

Nationally, the first decade of the 21st century was terrible for job creation. During President George W. Bush's eight years in office, fewer new jobs were created per year than under any other president dating back to the late 1930s.[5] The huge tax cuts Bush promoted to stimulate the economy and generate jobs did not achieve what they promised.

FIGURE 6

Decade Showed Record-Low Job Growth

Compound average annual job growth rate by decade



Data source: U.S. Bureau of Labor Statistics

In Vermont, it was also a dismal decade for job creation. From 2000 to 2007, the state had the slowest period of job creation since the U.S. Bureau of Labor Statistics started keeping records in 1939 (**Fig. 6**). Between 1940 and 2000, Vermont's job growth ranged from 11 percent to 37 percent per decade. By contrast, job growth for the entire first seven years of this decade came to just 3.2 percent. By the end of 2009, after the recession had begun to take its toll, Vermont was showing a net loss for the decade. In the fall of 2010, Vermont's private employers were providing 10,000 fewer jobs than they were 10 years ago.

Vermont has not been alone. Many states saw slower job growth this decade. But most other states rebounded better from the recession of 2001 than Vermont did, especially in private sector job growth. From the end of that previous recession to the start of the 2007 recession, Vermont's private sector job growth was just 1 percent—45th in the country when the states were ranked from highest to lowest.

By comparison, between the two previous recessions —1991 and 2001—private sector jobs in Vermont increased 23 percent, which placed Vermont 29th.

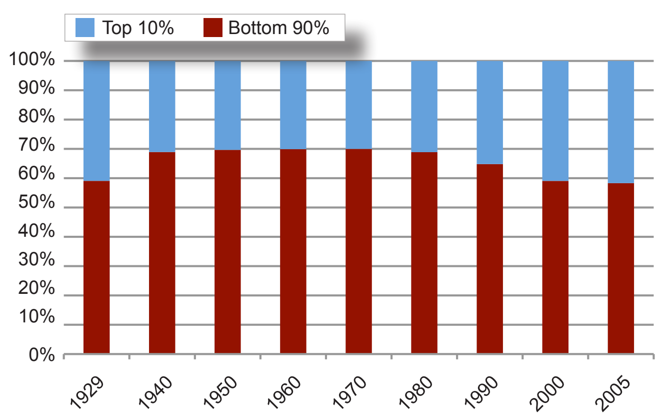
It's not only job growth that has been stagnant. Typical Vermonters did not see any gains in income during the decade, either. After adjusting for inflation, Vermont's median household income has fallen for three consecutive years. At the end of 2009, median household income was $50,619—in inflation-adjusted dollars, slightly lower than it was in 1999.

From an even longer perspective, data show that since the 1970s there has been a widening gap between the wealthiest Vermonters and everyone else. The top 10 percent of households now have a greater share of total Vermont income (42 percent) than they did before the start of the Great Depression in the late 1920s. Said another way, the 90 percent of Vermont households not at the top have seen their share of income shrink from 70 percent in 1970 to less than 60 percent in 2005 (**Fig. 7**).[6]

FIGURE 7

Income Distribution Same as Before Depression

Share of Vermont household income, 1929-2005



Data source: Mark W. Frank

Big Income Tax Cuts, Little Effect

Although Vermont did not lower income taxes in the name of job creation during the 2000s, wealthy Vermonters did get a windfall from the Bush tax cuts. Between 2003 and 2008, Vermonters with incomes of $200,000 or more paid a total of $660 million less in federal income taxes than they would have if income tax rates and other tax rules had not changed.[7]

While Vermont did not pursue broad-based tax cuts this decade, it did expand tax credits for businesses that promised to create new jobs.

It is impossible to know what happened to the $660 million in federal tax savings that went to wealthy Vermonters. Some of the money may have been invested in the new financial instruments created by Wall Street during the decade. Some of it undoubtedly was lost in the recession. But given the record over the last 10 years in Vermont and nationally, the money did little for job creation.

When the Congressional Budget Office analyzed various ways to stimulate the economy in early 2009, it concluded that cutting taxes for businesses was the least effective approach.[8] As the CBO explained, tax cuts are small compared with the cost of hiring a new employees, so employers won't take on that additional cost until they start to see increased demand for their products.

Conclusion

The most urgent task facing the state is to put Vermonters back to work so they can provide for their families and focus again on building for the future. It's time to look at new strategies for getting the economy moving again. We can think of the economy as a plane with two engines—the private sector and the public sector. As we've seen both nationally and in Vermont, the private sector engine is barely sputtering. It's going to take public investment to prevent the entire economy from crashing.

Vermont state government cannot provide economic stimulus the way the federal government can. It's true that Vermont is the only state in the Union that can run budget deficits the way the federal government can. But Vermont is far too small to affect the national economy, which is where stimulus needs to be applied.

Job creation by the private sector has slowed for the past decade

Vermont has lost thousands of jobs in the last three years, but job creation in the private sector was weak even before the recession started.

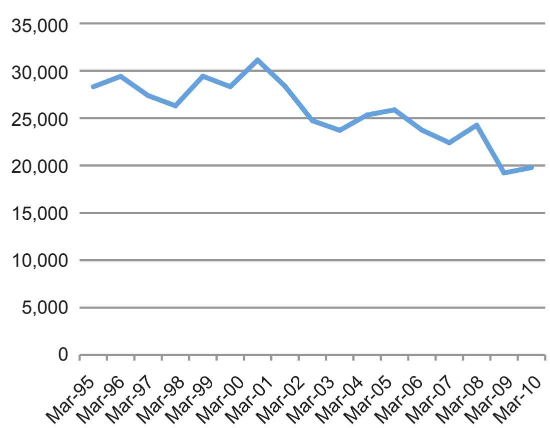
Jobs statistics are typically presented as net numbers: new jobs created minus jobs eliminated. The net number may be relatively small—plus or minus a few hundred in any given month. But what's really happening is that tens of thousands of jobs are created in Vermont every year as new companies are formed or existing business expand, and tens of thousands of jobs are eliminated as businesses or employers cut their payrolls. The new jobs being created provide a foundation for the economy. As job creation weakens, the economy is less resilient in the face of recession.

*The U.S. Bureau of Labor Statistics tracks gross job gains and gross job losses separately. For much of the 1990s, Vermont's private sector created an average of 28,000 jobs a year, either through new startups or expansions. The losses averaged about 23,000 a year. Between the recessions of 2001 and 2007, however, Vermont's private sector created an average of 24,000 jobs a year—about 14 percent fewer than in the 1990s. And for the year ending March 2009, Vermont's private sector created only 19,000 new jobs, while nearly 30,000 jobs were eliminated (**Fig. 8**).*

FIGURE 8

Vermont's Private Sector Job Creation is Sliding

Gross new private sector jobs in previous 12 months



Data source: U.S. Bureau of Labor Statistics

Some actions undertaken in Vermont would result in short-term job creation and provide tools to help the economy grow, however. A study released in August showed that Vermont, New England, and the nation prospered more in the past when collective resources were invested in things that benefited the public broadly and strengthened the overall economy—such as public infrastructure and education.[9] We have neglected these investments in recent decades. We've fallen far behind in maintaining our existing infrastructure, especially roads and bridges; and the new infrastructure we need, such as broadband, is nonexistent for too many Vermont households and businesses.

Ongoing investment in education cannot be slighted either. Although Vermont students perform well relative to the rest of the country, as a nation we've lost ground in providing our children with the skills in math and science they need to succeed. Vermont's educational achievement is due in part to voters' willingness to dig deep and support their children's education, even when the economy tanks. Still, while Vermont spends more per pupil than many other states, Vermont's education expenditures as a percentage of the overall economy are no greater today than they were in the early 1990s. To keep up with the rest of the world, we need to think about investing more, not less, to educate children and re-educate adults.

Investment that leads to sustained, long-term job growth also has the best chance of solving the state and nation's fiscal problems.[10] The recession has made it more difficult to balance the state budget because a poor economy reduces revenues at the same time as it drives up demand for state services. Tax collections shrink when people are laid off and cut back their spending. And as their incomes decrease, more and more people are forced to rely on state government for food, health care, home heat, and other essentials.

Putting people back to work reverses both of those trends. Revenues increase, the demand for public assistance declines, and the state can once again balance its books and still provide adequate funding for the public services that Vermonters need.

ENDNOTES

1. The recession officially started in December 2007, according to the National Bureau of Economic Research.
2. Catherine Rampell, "Unemployed, and Likely to Stay That Way," New York Times, Dec. 2, 2010, http://www.nytimes.com/2010/12/03/business/economy/03unemployed.html
3. Douglas Elmendorf, "Policies for Increasing Economic Growth and Employment in the Short Term," Congressional Budget Office, Feb. 23, 2010.
4. www.recovery.gov/Transparency/RecipientReportedData/Pages/RecipientReportedDataMap.aspx
5. Sudeep Reddy, "Bush on Jobs: The Worst Track Record on Record," Wall Street Journal, http://blogs.wsj.com/economics/2009/01/09/bush-on-jobs-the-worst-track-record-on-record
6. Mark W. Frank, "A New State-Level Panel Of Annual Inequality Measures Over The Period 1916 – 2005," October 2008, http://www.shsu.edu/~tcq001/paper_files/wp08-02_paper.pdf
7. Public Assets Institute calculation using effective federal tax rates prior to the Bush tax cuts and adjusted gross income reported for Vermont filers with incomes of $200,000 or more for 2003-2008.
8. Elmendorf, op. cit.
9. Jeffrey Thompson, "Prioritizing Approaches to Economic Development in New England: Skills, Infrastructure, and Tax Incentives," Political Economy Research Institute, August 2010.
10. James K. Galbraith, Robert Skidelsky, and Paul Davidson, "Statement on Evans' Stimulus Letter," July 21, 2010, http://www.newdeal20.org/2010/07/21/statement-on-evanss-stimulus-letter-from-davidson-galbraith-skidelsky-15498/

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