

**Doug Hoffer Testimony / Talking Points to
The Commission on the Future of Economic Development (ED)
8 January 2007**

Focus on State ED funding, goals, indicators, and performance (page references to Phase 9).

Phase 9 UDB: **The State spent over \$42 million in FY05 for core ED programs** (pp.5-6). **Other ED-related expenditures total another \$200 million annually** (e.g., transportation, housing, higher educ., UI, the cost of regulating development and the workplace, local expenditures, Vermont's capital gains tax exemption, and loans from VEDA; p.7).

Half of core ED expenditures are GF (40% federal). The largest State supported strategy was Tourism & Marketing (\$5m - 24%; p.7). Although tourism brings in substantial tax revenues, industry wages are low, which is contrary to the goal of creating higher wage jobs. And there is no way to measure the effectiveness of the State's contribution compared to the tens of millions spent by the private sector for advertising and marketing. Note UVM study.

The three most common State performance indicators are unemployment, average wages, and per capita income. All three have flaws as benchmarks for ED.

Unemployment: Ignores key aspects of labor force participation (FT/PT, discouraged workers & duration of unemployment), under-employment, and job quality. While some point to VT's rate being comparatively low (implying that we're doing something right), it's been that way for decades (p.8) and is probably a structural issue having nothing to do with the current administration or those that preceded it. Note U-6 vs. U-1.

Another approach is to use net private sector job growth (DED uses total). 30% of seasonally adjusted job growth in the last 4 years came from gov't. jobs (federal, state and local). If the intent is to measure the performance of the State's ED policies, counting government jobs is misleading. In fact, the private sector growth rate tracks closely with U.S., so what are we getting for the \$40m/year? [See graph and note distribution: for-profit, non-profit & public] We should also track the wages of new jobs vs. jobs lost. We found that on average the new jobs pay less than the jobs lost.

Average wages: Misleading because they include too many occupations within each industry (e.g., top engineer to janitor). Plus, VT avg. wages have been well below the national avg. for decades; again, it's structural. Can't have it both ways: low unemployment = my good, while low wages = not my bad. And even if we achieved parity with the national avg., that tells us nothing about whether it's sufficient to meet basic needs. Better alternatives are median household income (MHI) and the % of jobs that pay a livable wage.

Per capita income: Includes unearned income (cap. gains, interest & dividends), which are not common for most families, and it ignores the distribution of income. For example, adjusted for inflation, per capita grew by 25% since 1990 while MHI increased by only 2%

Interestingly, DED & VEPC offered no goals or indicators for poverty, income inequality, or gender pay disparities. Poverty has not changed significantly in decades and income inequality is growing. We're not making progress.

Some goals are not defined and have no indicators (quality of life, p.10 and economic diversification, p.14). Others measure the wrong things such as human resource and technical assistance capacity (instead of outcomes, p.13) and net job growth, rather than private sector job growth.

A key measure for DED (**tax burden per \$1,000 of income**) assumes that state taxes are important for business location and expansion decisions, and that they are a burden. In fact, there is good evidence that state taxes are not a major cost factor in such decisions (p.11). For example, an executive with one of the nation's largest business location specialists (Deloitte & Touche/Fantus) reviewed five years of company files to determine the relative importance of each cost factor for their client's location decisions. He found that taxes were a "low priority and [had] minimum cost impact." And after a review of the literature on the impact of state taxes on economic development, a respected economist found that "taxes do not appear to have a substantial effect on economic activity among states." (NEER / Federal Reserve Bank of Boston) This is not surprising since the effective corporate tax rate has been declining for years due to federal tax changes, state tax incentive competition, and corporate tax sheltering. State corporate income taxes as a proportion of profits have declined from 9% to 5.9% since 1989 (Multi-State Tax Commission).

Moreover, the median tax payment for 80% of Vermont 'C' corps is less than \$5,000. And a significant % of the largest businesses in VT pay only \$250 per year (see draft JFO Tax Study).

This is not to say that taxes do not matter, only that their relative importance is low. The location expert cited above found that of the major cost factors in location decisions for manufacturers, taxes were the lowest (labor 36%, trans. 35%, utilities 17%, occupancy 8%, taxes 4%).

Furthermore, state tax rankings are misleading because they look at only one side of the ledger. A lighter tax "burden" may be associated with lower spending for education and infrastructure (critical for ED), so a better ranking may not be in our long-term interests.

Finally, "tax burden per \$1,000 of income" ignores two key issues: 1) not all income is treated equally so the "burden" varies based in part on the type of income (e.g., IRS taxes long-term capital gains at a lower rate than wages and VT exempts the first 40% of capital gains); and 2) the overall distribution of the "burden" is influenced by our dependence on regressive taxes (property & sales) that affect homeowners, workers, and businesses differently. Indeed, according to ITEP and in contrast to those who focus on rates, high-income filers in VT pay a smaller % of income for all state & local taxes than low- and moderate-income filers.

Concern about the "business climate" drives much of our ED policy. But this argument is common all across America. A Lexis / Nexis search found countless articles citing officials who complained about the "business climate." Is it possible that all of America is anti-business? We need data rather than anecdotes.

But there is no public data set on the movement of businesses into and out of VT. We used NETS and the Findings were instructive (BTW - similar to CA; see CA PPI).

- The number of businesses moving out of VT from 90 - 04 was nearly identical to the number moving in.
- Net jobs impact from interstate business relocation was negligible as a % of the total.
- Nearly as many companies moved into VT from low tax states as moved to low tax states.
- Employment change is driven primarily by business contraction and expansion, and by business start-ups and closures.

Thus, the data show no evidence of interstate business flight from VT, or reluctance by companies to come here or expand here. Claims that VT is unfriendly to business and that the climate dissuades companies from locating or expanding here are not supported by this data. [Of course during negotiations, it is logical for business reps to play one state against another and to take whatever is offered. But that's just the game.]

Second, the negligible effect on employment from business relocation argues against the continued investment of significant public resources for recruitment and "retention" strategies. This is not a path to the promised land. We will not be "saved" by another IBM.

Since the vast majority of new employment in VT is the result of business expansion and start-ups, the State should direct available resources to foster new businesses and help those already here prosper and grow.

Such programs include efforts to provide technical assistance (SBDC & SJF), improve the workforce (VT Training Program) and operational efficiency (VT Mfg. Extension Ctr.), reduce energy consumption (Efficiency VT), support leadership development (VT Business Ctr. & SJF), and promote industry networking (SJF & others).

As we know, VT is at the mercy of large forces beyond its control such as the federal budget, trade deficits, interest rates, value of the dollar, NAFTA, and cheap labor overseas. So it is not surprising that conditions here mirror those around the country. Furthermore, the data shows clearly that the real threat is from overseas. There are few instances these days of large job losses from interstate moves while foreign competition is killing us (see TAA data).

So what can we do? In addition to shifting resources from tax credits driven by exaggerated concerns over the business climate, we must maximize the value of the resources we control.

We hear a lot about exports because they bring money into the state - and that's appropriate (although 85% of exports are from only one company). But what about the value of retaining money in the state? **A dollar retained has exactly the same economic and fiscal benefits as a dollar earned from exports.** The point is not to de-emphasize the export sector, only that we should acknowledge its limitations. At the same time, we should investigate opportunities for import substitution to maximize the use of local resources, retain money in the local economy, and reduce our vulnerability to outside forces.

Opportunities include preferential state purchasing (70% out), ETI's (see report for Treasurer), agriculture and energy. "Buy local" should be more than a slogan; it should be state policy.

Many ED programs make a difference for VT businesses and workers. But notwithstanding these laudable efforts, we are not making progress. Therefore, **it is essential that we evaluate all of our policies and programs to determine which are working (and deserve additional resources), which need adjustment, and which should be abandoned and replaced.** There are limits to what we can achieve in the short-term, regardless of the policies pursued; but we should strive for more than favorable comparisons with national averages, and strategies should be based on the best available data, not anecdotes.

Vermont is powerless to shape the global economy, and that's exactly the point. What we can do is think clearly about how it affects us, what choices we have, and what opportunities exist for independent action. Import replacement is not a panacea but it is a useful tool for increasing our self-reliance and achieving a greater measure of control over our future.

US Dept. of Labor - Trade Adjustment Assistance
VT Companies that sent jobs overseas or were affected by foreign competition (date of certification)

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|-----------------------------|---------------|--------------------|
| Crescendoe Gloves | St Johnsbury | 2/77 |
| DSB | S.Burlington | 8/80 |
| GK Technologies | Pownal | 1/81 |
| Toni Totes of Vermont | Londonderry | 5/82 |
| AcoustiPhase | Proctorsville | 7/82 |
| Sound Research | Proctorsville | 7/82 |
| Vermont Wood Craft | Proctorsville | 7/82 |
| Thompson Mfg. | Bennington | 12/85 |
| Goodyear Tire & Rubber | Windsor | 4/79, 4/83, 2/87 |
| Pownal Tanning Co. | North Pownal | 3/88 |
| Vermont Marble Co. | Proctor | 4/88 |
| Geophysical Service | Bennington | 2/89 |
| Concord Mfg | Morrisville | 1/90 |
| Green Mountain Marble | Windsor | 4/90 |
| Shellcraft Industries | Winooski | 5/90 |
| Alpine Designs Corp | Newport | 3/91 |
| Slalom Skiwear | Newport | 3/91 |
| Hardwick Knitwear | Hardwick | 4/92 |
| General Electric Aircraft | Rutland | 2/93 |
| Gca (general Signal) | Williston | 8/93 |
| Johnson Controls, Globe | Bennington | 3/94 |
| Milton Bradley Wood | Fairfax | 1/95 |
| Marty Sculpture | Milton | 5/95 |
| H Hasbro Games Group | Fairfax | 3/97 |
| Fair Rite Products Corp | Springfield | 2/99 |
| Black Diamond Sportswear | Barre | 10/99 |
| Stanley Tools | Shaftsbury | 11/00 |
| Bryant Grinder Corp | Springfield | 1/01 |
| Sheftex USA | St. Johnsbury | 12/01 |
| Fellows Corp. | Springfield | 2/84 & 6/02 |
| Cone Blanchard Corp | Windsor | 6/02 |
| Kennametal | Lyndonville | 9/02 |
| EHV-Weidmann Indus. | St. Johnsbury | 11/02 |
| Bijur Lubricating Corp. | Bennington | 3/92, 6/97 & 12/02 |
| American Papermills | Gilman | 3/03 |
| Alburg Door and Window, Ltd | Alburg | 4/03 |

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|------------------------------|---|---------------------|
| Velan Valve Corporation | Williston | 5/03 |
| Vestshell Vermont | St. Albans | 7/03 |
| George F. Adams Co. | Moscow | 8/03 |
| Waterbury Companies | Randolph | 8/03 |
| Relax-R Corp. | Milton | 9/03 |
| Vermont Tubbs | Brandon | 10/03 |
| International Stone Products | Barre | 10/03 |
| Ethan Allen | Beecher Falls, Orleans, Island Pond, Randolph | 10/01, 11/02, 11/03 |
| Parks & Woolson Machine Co. | Springfield | 12/03 |
| U.S. Tsubaki | Bennington | 12/03 |
| Luzenac America | Windsor | 2/04 |
| Wyeth Nutritional | Georgia | 3/04 |
| Rehau | Springfield | 4/04 |
| Lavallee and Ide | Winooski | 7/04 |
| M.J. Wood Products | Morrisville | 8/04 |
| Tubbs Snowshoes Co. | Stowe | 9/04 |
| Belden CDT | Essex Junction | 9/04 |
| Bogner of America | Newport | 3/02 & 11/04 |
| STS Weaving, LLC | St. Albans | 1/05 |
| Turtle Fur Company | Morrisville | 3/05 |
| York Capacitor | Winooski | 4/05 |
| Geiger of Austria, Inc. | Middlebury | 5/05 |
| Burlington Futon Co. | Burlington | 7/05 |
| Husky Injection Molding | Milton | 8/05 |
| Specialty Filaments | Burlington | 9/05 |
| Agilent Technologies | S. Burlington | 9/05 |
| Solo Cup Co. | St. Albans | 4/06 |
| Capital City Press | Barre | 1/03, 10/05, 6/06 |
| Fulflex of Vermont | Brattleboro | 8/06 |

| NAFTA - Transitional Adjustment Assistance | | |
|---|-------|----------------------------|
| Fair Rite Products | 2/99 | Shift production to Mexico |
| Precision Rotary Instruments | 8/97 | Shift production to Canada |
| Sportrack Accessories | 12/01 | Shift production to Canada |
| Sheftex | 12/01 | Shift production to Mexico |
| IBM | 1/03 | Shift production to Canada |

Net Private Sector Job Growth, Dec. - Dec.

(Source: VT DoL, seasonally adjusted non-farm payroll)

