

# **The Vermont Job Gap Study**

## **Phase 4**

### **Policy Recommendations**

A report by the Peace & Justice Center.  
Ellen Kahler, Project Director  
Doug Hoffer, Research Director  
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**Vermont Job Gap Study**  
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**Fred Schmidt**, Director, Center for  
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**Stephanie Seguino**, Assistant Professor  
of Economics, UVM

**Joan Smith**, Dean, College of Arts &  
Sciences, UVM

**Laura Solomon**, Research Associate  
Professor of Psychology, UVM

**Purpose of the Study**

The Vermont Job Gap Study is an effort to investigate and better understand certain aspects of the Vermont economy. Primarily, we are interested in whether the economy is producing enough jobs that pay a livable wage (LW) defined as income sufficient to meet a family's basic needs.<sup>1</sup> The Study includes several phases that examine various aspects of the issue including:

- Phase 1** Estimates the cost of meeting a family's basic needs;
- Phase 2** Estimates the number of LW jobs in Vermont, the extent of under-employment, and the outlook for the future;
- Phase 3** Assesses the economic and societal costs of the Job Gap;
- Phase 4** Makes policy recommendations.

Through this study, we hope to: a) examine some assumptions about economic development and job creation; b) develop expanded methodology for data collection and analysis that can be replicated in the future; c) provide information to help guide decision-makers regarding economic development and public assistance policies; and, d) create new indicators to measure the performance of the economy and evaluate the effectiveness of state policies and programs.

**Phase 4 will offer a number of recommendations intended to address the issues raised in the previous phases.**

The Peace & Justice Center acknowledges the groundbreaking work of Renwick & Bergmann<sup>2</sup>, the Minnesota Jobs Now Coalition (which published the Minnesota Job Gap Study in 1995), and Stephanie Seguino.<sup>3</sup>

The Job Gap Study has been generously underwritten by the Vermont Community Foundation, USDA Rural Development, United Way of Chittenden County, Anne Slade Frey Charitable Trust, Micah Fund, Vermont State Office of Economic Opportunity, Vermont Department of Commerce and Community Development, Ben & Jerry's Homemade Ice Cream, Autumn Harp, and Gardener's Supply Company.

<sup>1</sup> We believe that, as a matter of public policy, full-time work should be adequate to ensure economic self-sufficiency and a decent standard of living. Nevertheless, we have adopted conservative assumptions for our basic needs budget. We recognize that there may be differences regarding such a standard and invite comment about our assumptions and methodology (see Phase 1 Appendix).

<sup>2</sup> Renwick, Trudi J. and Bergmann, Barbara R., "A Budget Based Definition of Poverty," Journal of Human Resources, V.28, #1, Winter 1993, p. 6.

<sup>3</sup> Seguino, Stephanie, "Living on the Edge: Women Working and Providing for Families in the Maine Economy, 1979-1993," and "Report of the Commission to Study Poverty Among Working Parents," November 1996.

## Summary of Phases 1 & 2

Vermont's economy has been characterized recently as healthy and growing. Traditional indicators such as unemployment and per capita income tend to support such an assessment. But the evidence from this Study offers a more sobering view. Key findings from Phases 1 and 2 include:

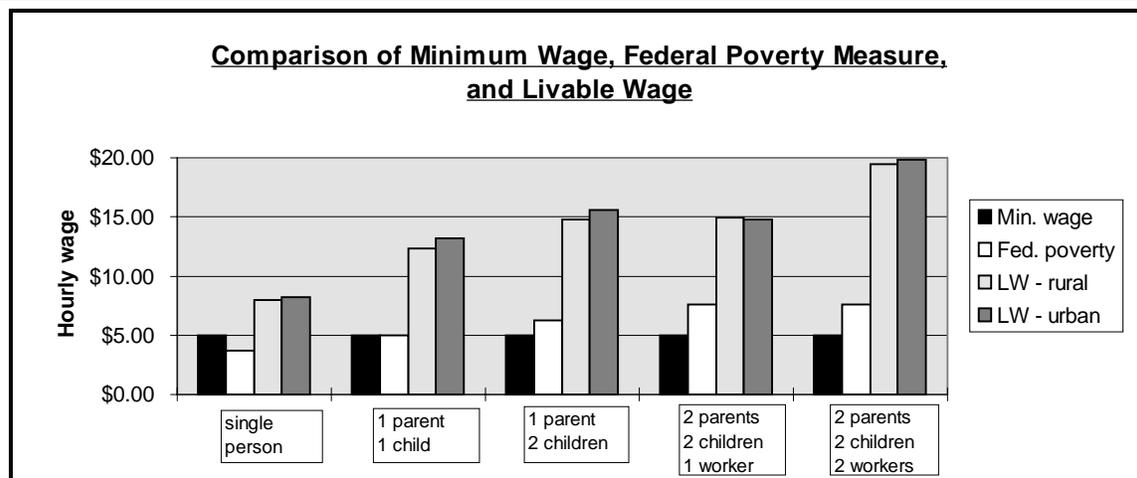
- the Federal Poverty Measure severely underestimates the cost of meeting a family's basic needs;
- depending on family size, a LW is between 52% and 197% greater than the Minimum Wage;
- a significant percentage of working families do not earn enough to meet their basic needs;
- the inflation-adjusted median wage has not grown in ten years; while aggregate income has increased, all of the growth was experienced by the top 40% of families;
- under-employment is a serious problem in Vermont; in 1995, 26,896 people wanted and were available for full-time (FT) work, including unemployed seeking FT work, involuntary part-time

(PT) workers, and discouraged workers; this was more than twice the official unemployment figure of 12,400;

- the number of net new jobs created in 1995 was 11,189 which meant there were 2.4 people competing for every job; competition for some LW jobs was even worse at 14.6 to 1 because so few new jobs were expected to pay a living wage.
- the VT economy has, and is expected to produce, a large percentage of low-skill, low-wage jobs.

Together, these findings demonstrate the inability of traditional economic indicators (e.g., unemployment, per capita income, etc.) to accurately reflect the condition of many working Vermonters. Because these indicators provide incomplete and often misleading information, they divert attention from the problems facing those suffering economic hardship. This prevents an open dialogue about how to address these issues.

<b>Livable Wage (Basic Needs + Taxes): Estimated for 1995</b>		
<i>Family Unit</i>	<i>Rural</i>	<i>Urban</i>
Single person	\$7.98 / hr (\$16,598)	\$8.21 / hr (\$17,086)
1 Parent, 1 Child	\$12.36 / hr (\$25,712)	\$13.24 / hr (\$27,546)
1 Parent, 2 Children	\$14.75 / hr (\$30,684)	\$15.61 / hr (\$32,478)
2 Parents, 2 Children (1 male wage earner)	\$14.94 / hr (\$31,082)	\$14.76 / hr (\$30,691)
2 Parents, 2 Children (2 wage earners)	\$19.46 / hr (\$40,474) Avg. \$9.73 / hr each	\$19.82 / hr (\$41,224) Avg. \$9.91 / hr each



Note: Data sources and methodology for the table and graph above can be found in Phases 1 and 2.

## Summary of Phase 3

<b>Estimated new revenues, avoided tax credits, and program savings from closure of the \$122 million income gap</b>			
Item	Vermont	Federal Gov't.	Totals
Income taxes	\$2,821,918	\$11,287,672	\$14,109,590
FICA	-----	7,606,909	7,606,909
Medicare Tax	-----	1,840,381	1,840,381
Avoided EITC	-----	3,466,127	3,466,127
Sales taxes	2,632,208	-----	2,632,208
ANFC	3,891,479	7,167,892	11,059,371
Medicaid	8,057,544	15,777,190	23,834,734
Education	6,663,522	-----	6,663,522
Food Stamps	-----	14,776,861	14,776,861
LIHEAP	-----	1,912,600	1,912,600
<b>Totals</b>	<b>\$24,066,671</b>	<b>\$63,835,632</b>	<b>\$87,902,303</b>

\* See Phase 3 for data sources and methodology.

- We estimate that, on average over the past three years, 57,637 working Vermonters who wanted and were available for FT work earned less than the LW for a single person (\$16,848).
  - The amount needed to raise the wages of all members of this group to at least \$16,848 is approximately \$122 million (the “income gap”). We estimate this to be 1.7% of the state’s total wage and salary income.
  - \$122 million in increased wages would result in approximately \$29.7 million in annual state and federal tax revenues and avoided tax credits (see Table above).
  - Closure of the income gap would reduce demand for public assistance and produce estimated annual savings of \$58.2 million (\$18.6 million for the state and \$39.6 million for the federal government; see Table above).
- The costs of closing the income gap would be borne proportionally by those sectors with large numbers of low wage jobs (those paying less than \$8.10 / hr). Fifty six percent (56%) of all low wage jobs are found in only four sectors (including Education, not shown in the Table below). The impact on operating costs and prices would be modest, however, since the new wages represent a relatively small percentage of total sales in the affected sectors.
- Note:** We do not recommend price increases as the preferred approach to closing the income gap, although it might be necessary in some cases. But by using available data, we were able to estimate the magnitude of the potential impact on prices in those sectors with a large number of low wage jobs. This type of analysis allows us to better understand the dimensions of the problem.

<b>Low wage jobs by sector, estimated new wages, and estimated impact of new wages on prices*</b>				
Sector	Number of low wage jobs	New wages (millions)	New wages as % of:	
			Payroll	Sales
Retail	18,907	\$32.9	5.8%	0.7%
Food & Beverage	10,412	\$18.1	15.3%	4.1%
Health Services	4,400	\$7.7	1.2%	0.5%

\* See Phase 3 for data sources and methodology.

Notwithstanding concerns about competitiveness, much of the responsibility for closing the income gap would be borne by sectors that are not directly threatened by low wage competitors.

For example, education and health care services are almost always provided within the community. Moreover, with the exception of border towns, the majority of retail sales are to local residents and, therefore, labor, unlike other inputs, is not subject to competitive pressures. As for the food and beverage sector, it could be argued that, as a discretionary expenditure, there is less of a need to be concerned about price impacts. In any case, the impact on these sectors is likely to be rather modest and should not result in significant price increases.

**The estimated \$87.9 million in new revenues and program savings could be considered an indirect subsidy for those sectors with large numbers of low wage workers. To the extent some sectors pay low wages resulting in lower tax revenues and the need for public assistance for their workers, the state's taxpayers pay the bill.**

**The use of taxpayer funds to subsidize certain economic activities is not uncommon or necessarily inappropriate. In this case, however, there has been no opportunity to discuss the need for or extent of such subsidies, their equity, or their cost-effectiveness.**

At present, Vermonter's pay about \$18.6 million every year to help support low wage workers and the federal government (using our tax dollars) pays an additional \$39.6 million (ANFC, Medicaid, Food Stamps, LIHEAP, etc.). This is \$58.2 million employers don't have to pay which has the effect of subsidizing the prices of their goods and services -- and the owners' profits. If these workers were paid at least \$16,848, taxpayers could avoid these costs and benefit from \$29.7 million in new tax revenues.

Another way of looking at the problem is that taxpayers now invest about \$58 million annually in public assistance for low wage workers and their families. This aid provides important benefits for needy families but produces limited direct economic return (sales taxes). If we (employers and consumers) paid \$122 million to close the income gap, the state would

get a return of about \$30 million in new tax revenues, resulting in a total cost of \$92 million. After subtracting \$58 million (formerly public assistance, now wages), **the net cost of increasing the self-sufficiency and dignity of 57,637 workers and their families is about \$34 million.** This is equal to less than three tenths of one percent of the state's annual gross product.

We have not analyzed the distributive impacts of closing the income gap but we know that the state's share of the current costs of public assistance are paid through taxes (over 60% of which are from income and sales taxes). We also know that most of the 57,637 workers who earn less than \$16,848 pay little, if any, income taxes (and some receive EITC). Therefore, the current state cost of \$18.6 million is borne primarily by the remaining 250,000 workers.

If, as we have assumed, the costs of higher wages were to be paid through increased prices, then all consumers (of those goods and services) would share the burden (regardless of their income source), including the low-income workers who formerly received public assistance. This is likely to be a much larger pool of contributors. And, finally, the investment in higher wages would result in approximately \$5.4 million in new income and sales tax revenues from the workers who benefit from the increase.

It is possible the Legislature could decide to forego a portion of the new revenues and program savings, and fund a tax cut. Such a tax cut could be used to mitigate the possible adverse impacts experienced by small businesses and middle-income working families. Although modest, the order of magnitude of such a potential tax cut is not insignificant when we consider that the state's share (\$24 million) is equal to either 9.6% of state revenues from the FY 95 personal income tax, 13.8% of sales and use taxes, or 53% of corporate taxes.

In summary, our research suggests that an increase in wages for low-income workers would have a positive effect on state revenues and dramatically reduce public assistance program costs. The resulting impacts on prices and consumer spending are expected to be quite modest.

## Recommendations

**INTRODUCTION:** The recommendations that follow are the product of our earlier research and suggestions from our Advisory Committee and other interested parties. Following the release of Phase 3, we met with over 100 people in 11 discussion forums which included representatives from government, low-income advocacy groups, grassroots community organizations and the business community. We then distributed draft recommendations and held a conference in June to solicit input from a wide range of community leaders.

While our primary focus has been on wages and the labor market, we understand that progress in these areas requires profitable businesses. The creation and retention of sufficient livable wage jobs depends on a partnership of businesses, workers, consumers, policy makers, and development officials. Although beyond the scope of this report, it is essential that we identify opportunities to help businesses increase their margins and share the additional profits with workers.

Some of our recommendations are direct and reflect a broad consensus, while others will require additional research and more debate. As with any problem of this complexity, there are no magic bullets and a combination of strategies will be needed to achieve a successful outcome. In any case, we hope this report will be used as a toolbox by all those who want to make the economy more sustainable, equitable, and responsive to the needs of all Vermonters.

The data presented in Phases 1 - 3 raise a number of questions. For example, *what is the purpose of the economy?* Clearly, the economy must meet the material needs of the people and provide meaningful opportunities for work.<sup>4</sup> For our purposes, we can say that a successful economy should provide FT work for all who want it with wages sufficient to meet basic needs.<sup>5</sup> By this measure, the economy has failed. *Have government policies contributed to the lack of livable wage jobs?* The economy is not a force of

nature but a human creation -- the product of deliberate choices. These include, among others, the tax code, labor laws, international trade agreements, property and contract law, and public health and environmental regulations. We all live and work in a society defined by these choices.

One such choice is to provide assistance to those unable to meet their own needs. To some extent, we have institutionalized what used to be called charity. But as we've shown, a significant amount of public assistance is provided to working people who should not need charity. While such assistance is compassionate, it also highlights the failure of the economy.

Providing public assistance to low-wage workers is a *de facto* economic development policy that rewards those sectors with large numbers of low-wage workers. This type of government intervention distorts the market by externalizing certain costs that would otherwise be included in the price of goods and services. The use of taxpayer funds to subsidize certain economic activities is not uncommon or necessarily inappropriate. In these instances, however, there has been no opportunity to discuss the need for or extent of such subsidies, their equity or cost-effectiveness.

Other public policies that influence wages and labor markets include: the goals and strategies of the Department of Economic Development (DED); the state's relationship with public employees and contractors; state purchasing policies and practices; management of public employee retirement funds; infrastructure investments; the tax code; and the nature and enforcement of state development and environmental regulations. Finally, the development, implementation, and evaluation of such policies depend on the quality of data collection and analysis.

**Our task is to help the economy succeed for all Vermonters. This will require us to improve our analytic capabilities and make some different choices. The recommendations that follow are intended as a catalyst for discussion about alternatives.**

<sup>4</sup> Work is an important means of self-actualization and service and should provide more than just remuneration.

<sup>5</sup> A market economy should also make it possible for entrepreneurs to start businesses and, hopefully, create LW jobs.

**CONFERENCE RESULTS:** The hard work of the conference took place in small work groups. Through a series of exercises, these facilitated groups reviewed the draft recommendations and participants expressed either support or opposition for each. We collected all of the responses and summarized the data which is presented below. We have organized the data to conform with the outline of this report.

**Strategic Planning:** There was very strong support and little opposition for these recommendations. Participants indicated a strong preference for revising DED's strategic plan (A1 & A6<sup>6</sup>), offering tax credits for businesses that raise wages for qualifying low-income workers (A8), restoring the EITC (A7), and better coordinating training and education efforts (A5). Several new ideas received significant support including import substitution (A2), preferential purchasing (A3), and the use of state retirement funds for "economically-targeted" investments (A4).

**Data Collection and Cost-Benefit Analysis:** These recommendations also received considerable support and, with one exception, virtually no opposition. The somewhat lower vote totals probably reflect the lack of a relationship to specific outcomes since these are primarily methodological rather than programmatic or policy related. Four recommendations did garner a lot of votes, however, including the need for a new poverty measure (B3), revisions to DED's proposed analyses of strategic sectors (B1), expansion of DET's reporting on labor market conditions (B2), and revisions to the State's indicator program (B4).

The only controversy was about our proposal to revise Act 250's Criterion 9A evaluation of "public costs" to include the impacts of low-wage jobs (B5).

**Wages:** Two recommendations were especially controversial. In response, we dropped one (increase top marginal income tax rate) and modified the other (index the min. wage, but no increase at this time -- C5).

Support was strong for the others, however, with only modest opposition. These include establishing a base LW for state employees (C3) and equal pay and benefits for contingent workers (C2).

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<sup>6</sup> A1 & A6 refer to numbered recommendations in this report.

**Basic Needs:** Two of these recommendations were extremely popular including an increase in child care subsidies (D5) and increased support for public transit and development in growth centers (D4). The others had fewer total votes but almost no opposition including new / expanded sources of funding for affordable housing (D1).

**Summary:** Overall, there was strong support for most of our original recommendations. We hope that the Legislature and the Administration will adopt the recommendations with broad-based support and encourage dialogue about the others.<sup>7</sup>

**Note on Public Support:** DED's Strategic Plan notes that "economic development may not be widely understood and therefore hold a negative connotation among many groups and constituencies."<sup>8</sup> There could be many reasons for this but the most notable may be a perception that traditional development strategies have not succeeded in raising the incomes of a large segment of the population.

On the other hand, having been told that the economy is booming, some people probably think there is no pressing need since things are going well. Without the perception of a crisis to generate support, economic development may not be a priority.

Unless low-income working people experience real benefits from economic development, they're not likely to embrace it. Thus, we need to acknowledge the problems of low wages and contingent work and demonstrate our commitment to addressing them.

Developing a strategy that is cost-effective and equitable requires clear goals, careful analysis, and regular reporting. Furthermore, we should avoid the use of abstractions (e.g., "business climate") which are exclusionary (what about "labor climate") and become code words in political battles.

Economic development is an appropriate and necessary role for government. People will support it if it's understandable and perceived to benefit a broad range of interests.

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<sup>7</sup> Our recommendations focus primarily on state action. Ultimately, it is the private sector that must respond, however.

<sup>8</sup> DED Strategic Plan, p. 9.

## A. Strategic Planning

**DED Strategic Plan:** The primary goal of the State's Strategic Plan is to "attain wage levels equal to the national average."<sup>9</sup> Although reasonable, it is deficient for several reasons: 1) the Plan refers to per capita wages which, as we've shown, can be very misleading; 2) the national average does not reflect the cost of living (i.e., we could exceed the national average and still be below a LW); and 3) as we've demonstrated, the number and percentage of involuntary PT jobs means that thousands of workers cannot meet their basic needs even if wages increase. Therefore, while the focus on wage growth is good, the measure chosen is not the best available and the problems of PT and contingent work have not been given sufficient weight. Finally, we can and should set our sights higher than the national average.

The Plan also seeks to improve Vermont's competitiveness. The DED acknowledged, however, that since we are unable to compete "with ... other states ... strictly on the basis [of] lower costs,"<sup>10</sup> we should promote enhanced productivity and entrepreneurial innovation instead. We agree.

Unfortunately, repeated assertions about the need for competitiveness may have stifled discussion about alternative strategies. For example, the Plan includes a strategy to stimulate exports,<sup>11</sup> but fails to note that our largest export is probably cash (e.g., the majority of money spent for transportation, food and energy leaves Vermont -- the "leaky bucket"). Moreover, there is little discussion about the extent to which we are dependent on outside forces.

The underlying assumption of the Plan is that we can only react to the needs of the global economy. Another approach is to start with different questions. For example: What are Vermonter's basic needs? How are they currently met and what needs remain unmet? Do we have the resources (human, natural, and financial) to meet more of these needs ourselves? Do we have control over decisions about how our capital is utilized? Can the economy be truly sustainable if we have little control over significant decisions that affect our lives? Consideration of these issues should lead to strategies that will help protect us (to the extent possible) from the vagaries of the global economy and increase our self-reliance and autonomy.

**Import Substitution:** Exports are valuable because they bring cash into Vermont. But keeping cash from flowing out of Vermont has the same economic impact (e.g., job creation and multiplier effect). Import substitution can help seal the leaky bucket and could help raise wages. Meeting more of our own needs would reduce reliance on out-of-state suppliers whose employment practices are beyond our control and, therefore, local employers who benefit from substitution efforts would be subject to Vermont labor policies.

<sup>9</sup> *Building Competitive Advantage In Vermont: An Agenda for Economic Opportunity* (Three Month Update), April 3, 1998, p. 2.

<sup>10</sup> op cit., *DED Strategic Plan*, p. 8.

<sup>11</sup> op cit., *DED Strategic Plan - Three Month Update*, p. 5.

### **Recommendation A 1:**

We encourage the Department of Economic Development (DED) to revise the goals of the Strategic Plan to include:

- a) attainment of a livable wage as defined by the Job Gap Study (and adjusted for inflation);
- b) a reduction in contingent labor -- broadly defined as temporary, seasonal, and involuntary PT work;
- c) increased opportunities for full-time work;
- d) use of median wage rather than per capita as the measure of choice, and
- e) adoption of specific interim targets until the long-term goals are achieved.

Finally, since the Vermont Economic Progress Council sets policy for the DED, it is essential that the Council's planning efforts be informed by our findings and recommendations.

### **Recommendation A 2:**

DED should consider developing an import substitution strategy based on the results of careful research.<sup>12</sup>

<sup>12</sup> We intend to investigate import substitution in a subsequent report.

**Preferential Purchasing:** The State should use its purchasing power to support Vermont businesses. The current system rewards low bidders, as is appropriate, but the face value of a contract ignores other relevant factors.

One method of stimulating import substitution and preventing leakage is through preferential purchasing. Such a policy could be similar to existing requirements for products with recycled content. When reviewing bids, Vermont companies that pay a LW would receive a small preference (e.g., 5 - 10% of the contract price). Obviously, it should be based on solid analysis that demonstrates a net benefit to the economy in excess of the preference.

**Resources:** The Strategic Plan notes that we have limited resources for economic development. While this may be true with regard to appropriations, it ignores other sources of “community” assets. For example, state-managed retirement funds have almost \$2 billion in assets and Vermonter’s pay millions annually in premiums to private insurers.<sup>13</sup> In both cases, little of this capital is invested in Vermont. Several other states are experimenting with the use of retirement funds for “economically-targeted” investments.<sup>14</sup> In addition to a reasonable rate of return, such programs are intended to achieve specific social and economic goals (e.g., LW jobs, affordable housing, etc.).

**Training & Education:** The current labor market exhibits a troubling dichotomy. Some employers are unable to find enough skilled workers yet almost 40% of existing jobs require nothing more than on-the-job training.<sup>15</sup> This situation is not unique to Vermont and is the result of a number of well-known factors including: 1) deindustrialization; 2) displaced workers whose skills are not easily transferable; 3) many new service sector jobs have low skill requirements; and 4) changes in technology have increased the skill requirements of some formerly low-skill jobs.

We need to invest heavily -- and wisely, in our human capital. We have many existing providers, but they have not worked together in a coordinated fashion. The Human Resources Investment Council (HRIC) can provide the necessary direction and guidance by bringing the parties together (including the new Workforce Investment Boards), developing shared (but flexible) long-term strategies, facilitating local and regional planning processes, and better coordinating the work of the providers and the business community.

**Strategic Industry Sectors:** As part of the Plan, DED conducted a “Preliminary Identification Process for Strategic Employers.” The primary variables considered were employment, wages, and the number of establishments. Industries were then classified by their performance over time. Those that met the original parameters were further analyzed based on more specific attributes. The methodology could be improved by using a more sensitive screen.

<sup>13</sup> See “The Silent Partner: The Insurance Industry’s Potential for Community Reinvestment,” Woodstock Institute, 1989.

<sup>14</sup> “Economically Targeted Investments by State-Wide Pension Funds,” The Center for Policy Alternatives, 1993.

<sup>15</sup> See Vermont Job Gap Study, Phase 2, pp. 8 - 9.

### **Recommendation A 3:**

The Legislature should consider adopting a preferential purchasing policy to support Vermont-based businesses and keep more money and jobs in-state. The preference would be used to reward businesses that pay a LW.

### **Recommendation A 4:**

- a) The State Treasurer should investigate the use of state retirement funds for economically-targeted investments in Vermont.
- b) The Legislature should consider an Insurance Community Reinvestment Act.

### **Recommendation A 5:**

Targeted and coordinated efforts at training and education must be an integral part of our development policy. This will require the support and participation of political, business, and labor leaders. The Legislature should provide DET, the HRIC and WIB’s with the resources necessary to conduct employer surveys of critical skills needs, improve outreach, develop regional plans, streamline program delivery, and expand retraining programs.

### **Recommendation A 6:**

DED should revise the strategic employer screen and:

- a) replace per capita income with median and the 25<sup>th</sup> percentile;
- b) specify job tenure (FT/PT, permanent/temporary) and skill requirements;
- c) estimate economic multipliers & net tax impacts;
- d) consider local vs. out-of-state ownership.

**Taxes:** The tax code is a powerful means of encouraging or discouraging certain practices and advancing social and economic policy goals. However, many provisions are actually “**tax expenditures**” which are “special tax provisions considered analogous to direct outlay programs [because they] have no spending limits, and which are available as entitlements.”<sup>16</sup> Some are defensible while others may actually be inefficient and inequitable.

For example, **capital gains** are treated more favorably than other types of income regardless of the societal value of the capital assets. Thus, capital gains from tobacco stocks receive the same treatment as capital gains from investments in energy efficiency. Another example is the mortgage interest deduction which promotes home ownership and supports the construction industry. But by allowing the deduction for mortgages up to \$1 million, it benefits wealthy families disproportionately and reduces revenues.<sup>17</sup>

On the other hand, the **Earned Income Tax Credit (EITC)** is an example of a carefully targeted program that benefits low-income working families, most of whom have a hard time making ends meet, and who otherwise may end up on public assistance. It is a refundable credit, which benefits even those with incomes so low that their tax liability is less than the credit. Unfortunately, when Vermont reduced its income taxes in 1994, it simultaneously cut the EITC from 28% to 25% of the federal EITC. In effect, this reduced take home pay for the lowest-income families, while everyone else got a tax cut.

Some small businesses may be willing to pay higher wages but need a helping hand. In addition to technical assistance, some may require a modest **tax incentive**. To the extent that higher wages reduce public assistance and produce new tax revenues, it may be cost-effective to provide some tax relief for businesses that adopt certain practices.<sup>18</sup> The value of the incentives should be less than the avoided costs of the State’s public assistance subsidies.

We believe the tax code can and should be used to reward work, promote responsible individual and corporate behavior and expand personal choices. Because the state income tax is piggybacked on the federal code, however, we have not used the tax system to express Vermont-specific values.

**Technical Assistance (TA):** There are many ways small businesses can improve their profit margins and pay better wages. However, many small business owners don’t have the time or specialized knowledge to implement innovative cost-saving ideas. Regional Development Corporations and Small Business Development Centers should better coordinate their efforts and provide a wider range of TA in order to improve accessibility and streamline delivery (e.g., human resources, information systems, wage enhancements, joint purchasing and marketing, and other methods of controlling costs).

<sup>16</sup> Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for FY 1995-99*, Nov. 9, 1994, cited in “The Hidden Entitlements,” Citizens for Tax Justice, April, 1995.

<sup>17</sup> Dreier, Peter and Atlas, John, “The Mansion Subsidy: Why Should Our Tax Code Underwrite The Lifestyles Of The Rich And Famous,” *The New Democrat*, Jan/Feb. 1997.

<sup>18</sup> Outstanding issues: tax credit not useful to non-profit employers; employers already paying above market wages are disadvantaged; how large an increase is needed for credit.

### **Recommendation A 7:**

The Legislature should consider revising the tax code to assist low-wage workers and encourage investment in sustainable development.

- a) restore the VT Earned Income Tax Credit to 28%;
- b) establish two capital gains tax rates using criteria that reflect broadly shared economic, social, and environmental values.

### **Recommendation A 8:**

The State should consider a pilot program of tax credits for businesses that:

- a) increase wages for low-wage workers;
- b) provide child care or pay a portion of the costs;
- c) provide transportation for low-wage workers in areas without public transit;
- d) pay for training & education for low-wage workers;
- e) distribute a larger percentage of cost-of-living (COLA) adjustments to low-wage workers;<sup>19</sup>
- f) establish profit-sharing plans; and
- g) reduce the use of contingent labor.

### **Recommendation A 9:**

DED should review the system’s TA capabilities, identify opportunities to enhance and better coordinate their services and, if necessary, seek additional funding.

<sup>19</sup> Equal distribution of COLA’s increases the difference between the highest & lowest paid workers.

## B. Data Collection and Cost - Benefit Analysis:

**Department of Economic Development:** DED’s Strategic Plan calls for a “continuous process of program evaluation ... to direct the department’s resources to actions which yield the highest rate of public return for the department’s investment.”<sup>20</sup> To accomplish this goal, the DED will “develop a set of impact-based measures ... that describe how programs affect the Vermont economy.”<sup>21</sup> We strongly support the Department’s intention to regularly evaluate program impacts and offer the following suggestions.

The measures selected for the evaluation should be based on the broadest possible definition of public investments and return. They should not be limited strictly to “the department’s investment” because there are many other types of subsidies not included in the DED budget. Furthermore, benefits (“public return”) should be measured much more precisely than is currently the case. For example, as we’ve demonstrated, it’s not enough to count jobs created without knowing more about the nature of the jobs.

**Department of Employment & Training (DET):** DET collects and reports a wealth of useful wage and labor market data. As we’ve shown, however, some traditional indicators do not accurately describe the labor market. There is additional information available that would add value to their work and help analysts, policy makers, and the public better understand the economy. For example, in addition to the limitations of the unemployment rate, the continued use of average industry wages can be deceptive since they include so many occupational titles (i.e., everything from CEO to janitor).

**Agency of Human Services (AHS):** The poverty measure is a key indicator of material well-being and is the eligibility threshold for many public assistance programs. Based on our research, the current poverty measure is not adequate for either purpose. According to the National Research Council (NRC), “the concepts and data that underlie the current measure of poverty are more than 30 years old. The current measure has weaknesses both in the implementation of the threshold concept and in the definition of family resources. Changing social and economic conditions over the last three decades have made these weaknesses more obvious and more consequential. We conclude that it would be inadvisable to retain the current measure.”<sup>22</sup>

We agree. Obviously, such a change could have significant fiscal implications so it should be phased in over time. Since eligibility for most public assistance programs is based on federal standards, AHS will need to investigate the possibility of establishing different criteria. Finally, although creation of a new measure would undoubtedly lower the bar for eligibility, consideration should be given to those families that fall in the gap between eligibility for public assistance and livable wages.

<sup>20</sup> op cit., DED *Strategic Plan*, p. 12.

<sup>21</sup> op cit., DED *Strategic Plan* - Three Month Update, p. 15.

<sup>22</sup> Citro, Constance and Michael, Robert, editors, Measuring Poverty: A New Approach, National Research Council, National Academy Press, 1995, p. xvi.

### **Recommendation B 1:**

DED’s program evaluation should include:

- a) estimates of all economic development subsidies (e.g., appropriations, “tax expenditures,” infrastructure, loans, TA, public assistance paid to low-wage workers, etc.); and
- b) appropriate measures of economic benefits (e.g., jobs -- FT / PT, median wages, tax revenues, capital investment, multiplier effects, etc.).

### **Recommendation B 2:**

The DET should consider expanding the scope of its research and reporting activities to include all major under-employment measures, more precise wage data, and information about benefits.

### **Recommendation B 3:**

The AHS should adopt a Vermont-specific poverty measure and investigate using the new measure as a way to expand program eligibility.

According to the NRC, the measure should include a new definition of family resources and be consistent and defensible. The poverty threshold should reflect actual consumer expenditures for basic needs, be adjusted for family size, and be updated annually.

The new measure will require AHS to periodically calculate the cost of meeting basic needs for various family sizes. We recommend using methodology similar to that employed in this Study.

**Vermont Economic Progress Council (VEPC):** As the entity charged with measuring the performance of the economy, the VEPC can play an important role in helping to redefine how we think about these issues. Unfortunately, the existing Benchmark program has adopted many of the indicators previously identified as incomplete, misleading or both (e.g., per capita income, unemployment, etc.).

Indicators are a necessary tool for policy makers and, if used properly, a valuable way of informing the public. But it is essential that we be clear about what we're measuring and be certain the measures selected are the most appropriate for the task.

However inadvertent, the repeated use of commonly accepted but rarely examined indicators has made it difficult to expand the discourse about the economy. And if we measure the wrong things, it's unlikely we will find the right solutions. As the primary source of information about the economy, government has an obligation to ensure that the data is relevant, accurate, and reliable.

**Travel and Tourism:** In the context of strategic planning and limited resources, it is noteworthy that the State's FY 97 Travel & Tourism budget was \$6.5 million. This may represent a sound investment, but such a large expenditure for one industry should be subject to regular evaluation. There is no doubt that the tourist industry produces significant tax revenues and provides many jobs. However, the wages, job tenure, and net tax impacts should be reviewed periodically to determine whether the industry is meeting the goals of the State's strategic economic development plan.

**Act 250:** Act 250 provides a unique opportunity to assess the economic impacts of development. Criterion 9A (Impacts of Growth) includes consideration of "public costs." As we found in Phase 3, there are considerable public costs due to low-wage work (public assistance, Earned Income Tax Credits, poverty-related education costs, etc.). In one sense, these are no different than the cost of infrastructure because they require appropriations. But unlike infrastructure, which lasts for decades, these expenditures are short-term subsidies rather than long-term investments. Therefore, it is appropriate to review the pay, benefits, qualifications, average hours, and tenure of the jobs associated with new development.

## C. Wages

**Note on Benefits:** Our research to-date has focused primarily on wages. However, we are aware of the importance of benefits as a supplement to wages and as a cost to employers. This is a rich and complex subject deserving of considerable attention by researchers but is beyond our resources in the present study. The sum of wages and benefits is the appropriate measure of total remuneration and they should not be viewed in isolation.

### **Recommendation B 4:**

The VEPC should consider revising its indicators program as follows:

- a) replace per capita income and average wages with median income and the 25<sup>th</sup> percentile;
- b) expand labor market information to include measures of under-employment;
- c) estimate all capital flows (including outflows) instead of just exports;
- d) calculate the "income gap" (see Phase 3) using the new poverty measure described above;

### **Recommendation B 5:**

DED should apply the strategic employer methodology (with our recommended revisions) to the travel and tourism industry.

### **Recommendation B 6:**

Using Criterion 9A, the Environmental Board should require detailed information about the projected jobs for each project. If some of the jobs are expected to pay less than a livable wage, an analysis should be conducted to estimate the resulting public costs.<sup>23</sup>

Criterion 9A should also include an evaluation of the increased need for affordable housing due to low-wage jobs. If there is a demonstrable public cost, the developer / employer should share the burden.

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<sup>23</sup> The State should perform the "public impact" analysis or provide specific methodology.

The labor market is not meeting the needs of many hard working Vermonters. The problem is systemic and, therefore, we should not blame the victims. Tens of thousands of Vermonters would still be unable to meet their basic needs even if they all had advanced degrees or ten years experience in computer programming. The economy is simply not producing enough high skill, high wage jobs. Although focused economic development strategies provide hope in the long-term, we should not ignore the plight of those stuck in low skill, low wage jobs. All Vermonters deserve an equal opportunity for satisfactory work at a livable wage. Notwithstanding the efforts of some employers, it is unlikely that voluntary actions alone will solve the problem. Therefore, we are compelled to consider various new programs and policies.

**Wage Enhancements:** Companies can supplement wages through incentive programs tied to individual performance and / or company profits. Some examples include profit sharing, bonuses, and employee stock ownership. Some Vermont businesses already offer such opportunities and they may be especially appropriate for small businesses. At present, there is no comprehensive data base or systematic method for sharing such information with businesses, although we are working with Vermont Businesses for Social Responsibility to produce a workbook that addresses these issues.

**Contingent Workers:** Some employers need contingent workers due to cyclical and seasonal demand, and some workers prefer to work PT or seasonally. Nevertheless, the increasing use of involuntary contingent labor has created two unequal classes of workers. Contingent workers generally receive lower wages and fewer benefits than permanent full-time employees.<sup>24</sup> Since their work is often identical and their tenure is not by choice, it is unfair that they be treated differently.

Since many part-time jobs substitute for full-time positions, eliminating the disparities in pay and benefits would reduce the incentive for employers to utilize contingent labor. Furthermore, it would make it easier for those who can only take part-time work (e.g., single parents) to make ends meet.

**Public Sector:** As one of our largest employers, the State of Vermont should set an example as to how it treats its employees and those of its contractors. Several large cities have enacted ordinances requiring contractors to pay a livable wage<sup>25</sup> and research suggests that the net impacts have been positive.<sup>26</sup>

**Gender Pay Equity:** Although we have not addressed this issue in our research, wide disparities remain between pay for men and women in similar jobs. Such pay inequities are inherently unfair and hurt families and the economy. Moreover, since a disproportionate percentage of low-wage workers are women, it is especially important that we address the issue of unequal pay for contingent workers (see C 2 above).

<sup>24</sup> Sklar, Holly, *Jobs, Income, and Work*, 1995, American Friends Service Comm., p. 34.

<sup>25</sup> Baltimore, Los Angeles, Boston, Milwaukee, Minneapolis and New York City.

<sup>26</sup> Weisbrot, Mark and Sforza-Roderick, Michelle, *Baltimore's Living Wage Law: An Analysis of the Fiscal and Economic Costs of City Ordinance 442*, The Preamble Center for Public Policy, October, 1996.

**Note on Unions:** According to the Bureau of Labor Statistics, union workers earn 34% more than non-union workers, are more likely to have benefits, and have greater job security. Collective bargaining has been a successful means of raising wages. Therefore, it is reasonable to consider ways in which the State can identify and eliminate barriers to unionization as a means to improving wages.

**Recommendation C 1:**

**The DED or the RDC's should consider developing expertise in wage enhancement strategies and provide information and technical assistance to Vermont businesses.**

**Recommendation C 2:**

**The Legislature should require equal pay and pro-rated benefits for contingent workers doing work comparable to their permanent full-time counterparts.**

**Recommendation C 3:**

- a) Establish a base LW of \$8.10/hr (adjusted for inflation) for state employees and make it a requirement for state vendors;**
- b) The State should not contract with firms that have engaged in "unfair labor practices;"<sup>27</sup> and**
- c) Eliminate gender-based wage disparities for public employees.**

<sup>27</sup> Illegal behavior as determined by the National or Vermont Labor Relations Boards.

**Minimum Wage:** There are honest disagreements among economists about the costs and benefits of further increasing the minimum wage. However, we think the issue is of such importance that there should be a broad-based debate about the likely costs and benefits. The following observations are intended to stimulate such a debate.

**Adjusting for inflation, the current minimum wage of \$5.25 / hr is 26% lower than the minimum wage in 1980 and is 33% below the livable wage for a single person estimated in Phase 1 of this study (\$8.10 / hr in 1995).**

There is some evidence that raising wages can lower costs and improve productivity by reducing turnover and the need for repeated on-the-job training. Higher wages can also produce greater employee satisfaction, increase loyalty to the company, and reduce employee stress due to tight family budgets -- all of which translate into higher productivity.

Some have argued that “the minimum wage is in essence a tax on a specific group of businesses -- those that have minimum wage jobs. Raising the incomes of low wage earners is a goal of society as a whole and should be paid for by society as a whole.”<sup>28</sup>

We disagree. Raising wages is indeed a goal of society but the key is the distribution of costs. As we’ve found, many low-wage workers receive public assistance. To the extent some businesses externalize (or “socialize”) part of the real cost of their products, such costs are paid by taxpayers generally instead of those who buy the products. In effect, taxpayers are subsidizing businesses that are unable or unwilling to pay their workers a living wage.

**Note:** We support the Earned Income Tax Credit (which is a societal response to low-wages) as one method of addressing the problem. If workers were paid livable wages, however, fewer workers would need the program.<sup>29</sup>

Some argue that increasing the minimum wage benefits primarily teenagers living at home or part-time workers.<sup>30</sup> Research has shown, however, that 71% of the beneficiaries of the recent federal increase were adults.<sup>31</sup> Furthermore, we’ve shown that a large percentage of adults work PT not by choice but because they can’t find FT work and, therefore, need a living wage.

Finally, the assertion that increases in the minimum wage lead inevitably to job losses has been tested and found to be overstated.<sup>32</sup> Indeed, recent research has cast doubt on this broadly held (but rarely examined) assumption.<sup>33</sup>

<sup>28</sup> Vermont Economy Newsletter, January 1998, p. 3.

<sup>29</sup> Involuntary PT workers would undoubtedly still need the EITC.

<sup>30</sup> Neal, Derek, *Who Are The Low-Wage Workers?* Employment Policies Inst., July 1996.

<sup>31</sup> Bernstein, Jared and Schmitt, John, *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase*, Economic Policy Institute, 1998, p. 5.

<sup>32</sup> *ibid*, *Making Work Pay*, p. 1.

<sup>33</sup> Card, David and Krueger, Alan, Myth and Measurement: The New Economics of the Minimum Wage, Princeton Univ. Press, 1995 and Levin-Waldman, Oren and McCarthy, George, “Small Business and the Minimum Wage,” Policy Notes, 1998/3, The Jerome Levy Economics Institute of Bard College.

#### **Recommendation C 5:**

**The Legislature should index the minimum wage in order to mitigate the effects of inflation. This would prevent low-wage workers from losing more ground while policy makers further study the issue.**

**We recommend that the Legislature create and fund a study group to review and analyze the available literature, track ongoing research, and report to the Legislature with recommendations. The group should have broad representation and include economists, development officials, and labor and business delegates. The scope should include an analysis of the costs and benefits of an increased minimum wage, including the effects on job creation and retention, increased purchasing power of low-wage workers, the net tax impacts, possible reductions in public assistance, and the differing impacts by region, sector, gender, and age.**

## D. Basic Needs

Our research has focused primarily on wages and labor market conditions. We have not addressed the effectiveness of or funding for public assistance programs because we believe that increasing wages and FT job opportunities are the best way to achieve greater self-reliance for working families. Nevertheless, strategies intended to raise wages will take time and we need to ensure that families' basic needs are met during the transition. Furthermore, there are other pressures beyond labor market policies that affect the ability of low wage families to meet their basic needs. Therefore, we should seek ways to reduce the costs of basic needs for low-income families in order to increase their disposable income. This will require continued (and, in some cases, expanded) support for various public policies and programs.

**Housing:** Since the federal government has greatly reduced support for affordable housing, other sources must be found. Two options already discussed include state-managed retirement funds and insurance investment funds. Another possible source is to reduce the cap on the mortgage interest deduction (currently \$1m) and collect additional revenue. In 1995, the deduction resulted in \$58 billion in lost tax revenues nationally.<sup>34</sup> Almost half of the subsidy benefited those with incomes over \$100,000 even though they represented only 5.6% of all tax filers. Unlike other subsidized housing programs, the mortgage interest deduction is not subject to political debates or annual appropriations, and the beneficiaries are not subjected to a means test.

**Sharing the burden:** In Chittenden County, most of the growth in population and jobs has occurred outside of growth centers.<sup>35</sup> But since relatively few publicly-assisted affordable housing units have been built in the suburbs,<sup>36</sup> low-wage workers are unable to live near the new jobs. Because some businesses create primarily low-wage jobs, it increases the need for affordable housing. Since most affordable housing projects rely on public subsidies, these businesses effectively shift the burden to the public sector.

**Access to financing:** The sale of mortgages on the secondary market allows lenders to put money back in circulation and finance more homes and businesses. But in order to limit risk and maximize profit, the secondary market has produced standardized underwriting criteria that limit the flexibility of the lenders. Some lenders voluntarily make flexible loans and keep the mortgages in their own portfolios. There is no requirement that lenders do so, however, and the practice varies widely.

The federal Community Reinvestment Act (CRA) requires banks to ascertain and (within reason) meet the credit needs of all members of the community. However, the CRA does not apply to non-bank lenders and, in recent years, the Act has been rendered less effective due to changes in the industry.

<sup>34</sup> op cit., Dreier and Atlas, "The Mansion Subsidy" *New Democrat*, Jan/Feb 1997.

<sup>35</sup> Growth centers are areas designated to accommodate a significant portion of anticipated growth over the next 20 years.

<sup>36</sup> Unpublished data from the upcoming *Cost of Sprawl Study* by the Champlain Initiative.

### **Recommendation D 1:**

**The Legislature should consider reducing the mortgage interest deduction cap and using the new revenues to support affordable housing.**

### **Recommendation D 2:**

**The State should create incentives for towns to adopt inclusionary zoning to promote better geographical distribution of affordable housing.**

### **Recommendation D 3:**

- a) **The Treasurer and the Commissioner of Banking should explore the possibility of creating a VT secondary mortgage market with more flexible underwriting criteria (financed in part with state retirement funds); and**
- b) **The Legislature should consider extending CRA requirements to non-bank lenders.**

**Transportation:** Access to affordable and reliable transportation is a prerequisite for most people since few live within walking distance of work. As noted above, the problem in Chittenden County has been exacerbated by sprawl, the uneven distribution of affordable housing, and limited access to public transit. In rural areas, there is virtually no option but to own a car (sometimes two), which is problematic for many low-income families.

As the largest source of funding for infrastructure, the State's transportation choices have enormous impacts on the location, scale, and intensity of development and, therefore, jobs. State support for the creation of livable wage jobs must include consideration of access by low-income workers.

**Child Care:** Access to affordable child care is essential for working parents. Unfortunately, the high cost may be a deterrent for many parents who want to work. For example, if both parents in a family with two children work full-time at minimum wage, each must work 15 weeks just to pay for child care.<sup>37</sup>

Ironically, child care is already so expensive that, in order to accept children with state subsidies, providers are forced to pay meager wages to their employees (1996 median wage was \$6.90 / hr<sup>38</sup>). This raises concerns about the quality and consistency of care.

**Health Care:** This issue continues to be a problem for workers and employers alike. It is beyond the scope of this project to consider health care generally but there are two issues about which we can all agree. First, health care is essential to human life and dignity. Therefore, the state has an obligation to ensure that every citizen has access to comprehensive and affordable care. Ideally, all employers that provide health insurance should offer a choice (with comparable coverage) between an HMO and an indemnity plan.

Second, as we pointed out in Phase 3 (and is well-known), early intervention with very young children reduces health care and poverty-related educational costs, and improves children's capacity to learn. Vermont's strong commitment to prevention is laudable and cost-effective and we encourage the State to continue expanding eligibility for and coverage of children's health care.

## **SUMMARY:**

**These are complex issues with no easy solutions.** Our goals (among others) were to raise awareness by documenting some of the problems and stimulating discussion. We have offered a number of recommendations but they are intended only as a point of departure. We regret that time and resources prevented us from examining many other important employment-related issues such as gender inequities and the special needs of youth, minorities, and the disabled, to mention just a few. These topics deserve close attention and should be incorporated into the broader discussion.

<sup>37</sup> See Vermont Job Gap Study, Phase 1, p. 7.

<sup>38</sup> DET, Vermont Occupational Employment & Wage Survey, 1996, p. 12.

## **Recommendation D 4:**

- a) increase support for public transit;
- b) require Act 250 evaluation of non-auto accessibility; and
- c) include a requirement that new businesses locate in growth centers or in areas served by public transit to be eligible for development assistance.<sup>39</sup>

## **Recommendation D 5:**<sup>40</sup>

- a) increase SRS child care fee scale to provide free care at 125% of poverty;
- b) partially subsidize care up to 85% of median income;
- c) increase SRS reimbursement rate (\$83.70) to \$100 / child;
- d) SRS should promote child care for workers with irregular schedules; and
- e) require all providers that receive state subsidies to pay child care workers a livable wage.

**Note:** Careful analysis is required to maximize the effectiveness of the various tax and benefit recommendations and to avoid unintended consequences from the synergy between them.

<sup>39</sup> Exceptions could be granted for natural resource-based businesses that must locate outside growth centers.

<sup>40</sup> Adoption of these recommendations would increase program costs. However, providing more affordable child care should enable more people to enter the workforce and / or work full-time. The resulting new tax revenues and other public assistance program savings would help offset the additional costs.