

TURBULENT SEASONS
THE URGENT NATURE OF VERMONT'S BUSINESS CLIMATE

WORKING PAPER

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The Vermont Business Roundtable (VBR) is a non-profit, non-partisan organization of 109 chief executive officers representing geographic diversity and all major sectors of the Vermont economy. It is the vision of the VBR to make Vermont the best place in America to do business, be educated, and live life. We will achieve that vision through our members; CEOs developing solutions to important public policy issues through collaboration, research and analysis, and communications and advocacy.

BACKGROUND

During its planning retreat in November 2002, the Board of Directors of the Vermont Business Roundtable (VBR) identified the state's poor business climate, defined as the way in which people perceive the receptiveness of the state to new business ventures, economic development, and the general needs of business, as one of its two major strategic focuses during the coming year. The other major focus was the state's infrastructure. At that time, directors wished to explore strategies by which VBR could educate the public and elected officials on the urgency of the matter, the breadth of concern held throughout the state, and recommend ways in which the state's policymakers could begin to remedy the most egregious contributors to the problem.

With this report and its accompanying PowerPoint presentation, VBR's Board of Directors and membership commit themselves to launching a public education campaign to improve the climate for business development in the state of Vermont.

INTRODUCTION

 In an 1891 assessment of Vermont's industrial capacity, a study suggested that the state possesses "unsurpassed facilities for mercantile and manufacturing business."¹ As a basis for this conclusion, the study pointed to Vermont's access to international markets via Lake Champlain, the ample and cheap power provided by hydroelectric plants, a well-developed infrastructure, and a political environment conducive to business. Big and small businesses in 1891 were not only welcomed, they were encouraged.

A similar, but more detailed study conducted in the late 1920s, also surveyed Vermont's industrial climate. After reviewing a number of contributing factors, the authors reasoned that businesses thrived in Vermont because there was access to raw materials, an educated and abundant workforce, and a "reasonable tax rate."² Based on these aspects, the study concluded that any company, with proper management, would find the business climate of Vermont profitable.³

As these sources and others indicated,⁴ Vermont around the turn of the century and through the 1920s had a favorable business climate, supporting economic development on a number of different fronts including infrastructure needs and public policy. More importantly, perhaps,

¹ *Industries and Wealth of the Principal Points in Vermont* (New York: American Publishing and Engraving, 1891), 38.

² *Industrial Survey of the State of Vermont*, prepared by the Division of Municipal and Industrial Research, Massachusetts Institute of Technology (Montpelier, VT: Capital City Press, 1930), 10.

³ *Ibid.*, 27.

⁴ See Albert W. Frey, *Uncovering a Varied Market, and Covering It* (Vermont, 1923); Olin B. Gay, *A Survey of Industrial Development Activities in Vermont* (Vermont, 1955); Vermont Bureau of Publicity, *Industrial Vermont: The Mineral, Manufacturing, and Water Power Resources of the Green Mountain State* (Montpelier, VT: Capital City Press, 1914); Victor I. Spear, *Vermont: A Glimpse of Its Scenery and Industries* (Montpelier, VT: State Board of Agriculture, 1893); and George F. Wells, *The Status of Rural Vermont* (St. Albans, VT: Cummings Printing Company, 1903).

Vermonters as a whole understood the importance of sustained development. Yet, this positive perception of business and the benefits it provides to the state as a whole would not continue. By the 1960s, Vermonters began to see business and development as the antitheses to the Vermont way of life. This was true to the point that the Vermont Development Department felt that it was a pressing concern of theirs to dispel the “erroneous assumption that industry must be detrimental” to the state.⁵

In the ensuing years, the business climate of Vermont has continued to worsen. Indeed, the calm of the turn of the century has, 100 years later, turned into turbulent tides of inconsistent policymaking, high and misrepresented taxes, cumbersome permit processes, and a general public contempt for policies aimed at developing the state economy.

TOWARD A CIRCLE OF PROSPERITY

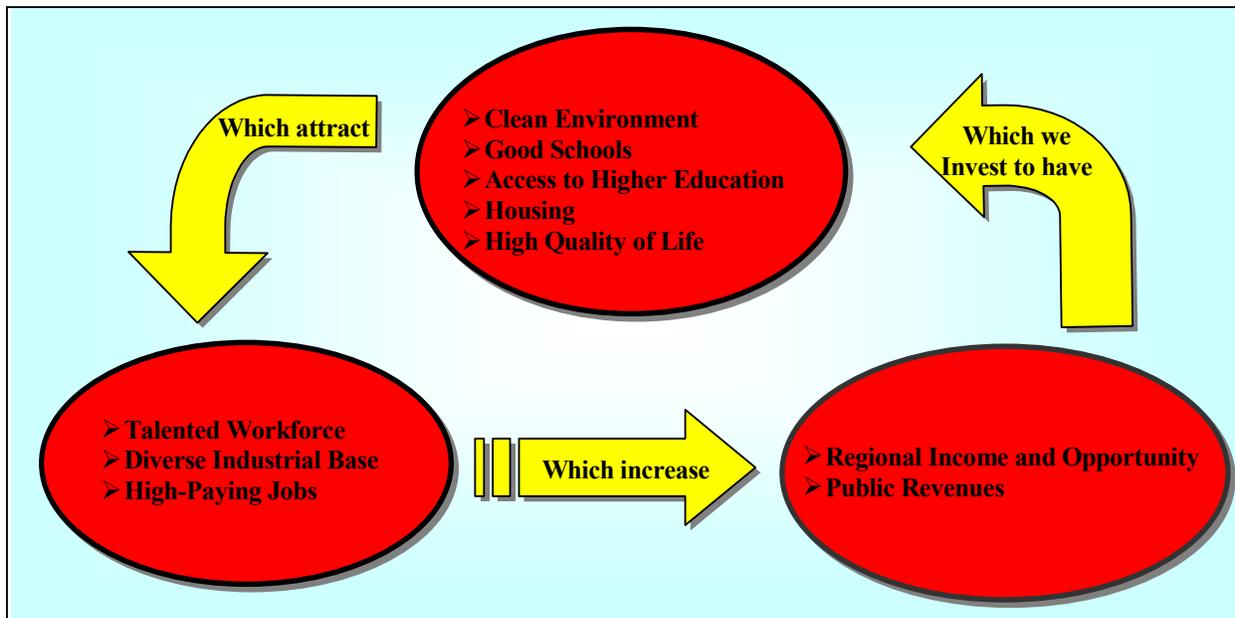
Ask any analyst to identify the most important first step in the problem-solving process and they will tell you that properly defining the nature of the problem and its terms is the most crucial first step in policy analysis. For the purposes of this report, VBR supports a particular definition of economic development.

For some, economic development is the creation of jobs through investments in the state’s infrastructure and through tax credits and financial incentives. For others who are more skeptical of business, it means economic growth via the consumption of the world’s natural resources and at the expense of the environment. Toward a better understanding of economic development, one economist envisions it as “building a community’s capacity for shared and sustainable improvements in the economic well-being of [its] residents.”⁶ With this understanding, economic development involves more than job creation as it takes into account the needs of individuals to have access to jobs that provide an adequate standard of living without sacrificing long-term quality of life. According to the report, this type of economic development necessitates continuous improvements to the state’s fiscal condition in order to combat the booms and busts of the economy. Implicit in this definition, as well, is the notion that a healthy economy translates into more financial resources for social programs, environmental protection, and higher levels of public services.

⁵ Vermont Development Department, *Statement of Policy*, Montpelier, Vermont (11 June 1962): 2-3.

⁶ Economic & Policy Resources, *Chittenden County Regional Strategic Economic Development Plan*, (2003 2).

In a 1997 report, the VBR noted that Vermont’s “ability to protect the environment, provide for the economically less fortunate, and provide opportunity for the current and future generations is entirely dependent on the viability and capacity”⁷ of the state’s businesses to generate tax revenues and pay their employees. This perspective of the interrelation between the private and public sectors is best illustrated as a “Circle of Prosperity” (figure 1). Here, investments in the economy that are based on leading-edge economic development strategies,⁸ generate greater public revenue that can be invested into improvements in social services, educational opportunities, and greater environmental security. In turn, these societal improvements engender



a greater quality of life, which tends to attract a larger and more diverse industrial base, as well as an increased and more varied workforce. More businesses employing more people then complete the circle.

The VBR argues that from this point of view, economic development policies that do not take into account the interrelationship that exists between the public and private sectors do at once threaten the capacity of businesses to generate public revenue and the ability of the state to sustain and augment the Vermont quality of life. Unfortunately, in the Green Mountain State, there are far too many examples of this type of disproportionate policymaking in which the ends of the policy are discontinuous with the notions embodied in the Circle of Prosperity. As a result, Vermont’s business climate has deteriorated.

⁷ Vermont Business Roundtable, *The Role of the Vermont Business Roundtable in the Evaluation, Coordination, and Support of Effective Economic Development Policy in Vermont* (1997), 1.

⁸ Vermont Business Roundtable, 9-11.

RESEARCH FINDINGS

- State of Vermont ~ In August 2000, Vermont's Department of Economic Development hired the O'Neal Group to measure and quantify the attitudes company owners have toward doing business in the state. Overall, the majority of Vermont companies viewed the state as unfriendly to business, citing the need to reform the permit process, provide more tax breaks, improve the communications infrastructure, reduce the adversarial nature of the state's bureaucracy, as well as issues involving healthcare, and better economic development planning as examples of Vermont's inhospitable business climate.

In sum, respondents indicated that the primary advantage for doing business in Vermont was due to the state's quality of life. Yet, this finding should not be interpreted to mean that businesses are willing to invest in the company simply because they like living in Vermont, as 44% of polled businesses indicated that they would not expand their companies in Vermont. This number stood at 47% for manufacturers of food, apparel, and wood products.⁹

- Northern Economic Consulting (NEC), in a September 2002 study, appraised the ability of Vermont's private sector to compete with other states. As an aspect of their analysis, NEC examined Vermont's business climate according to the regulatory and legal environment in which businesses must function and the perceptions of the business owners on the pros and cons of operating in the state.
- While Vermont ranked high in terms of quality of life, it fared less favorably when it came to regulatory issues and the support offered by the legal system to the concerns of businesses.¹⁰ More importantly, perhaps, business owners were provided with six possible responses that explained why their companies were located in Vermont including: skilled labor, low state taxes, good infrastructure, inexpensive utilities, the presence of complementary firms, and the owner ties to the state. Of the six, the company owner's ties to the Vermont ranked the highest, leaving NEC to conclude that there is a serious "lack of competitive reasons for locating in Vermont."¹¹
- The Beacon Hill Institute for Public Policy Research data goes on to demonstrate the further decline of Vermont's business climate; ranking the state last in terms of domestic business competitiveness because of poor availability of labor, high state tax rates, underdeveloped infrastructure, the high price of utilities, and presence of complementary support firms for businesses.¹²
- In perhaps the most recent study on the issue of Vermont's business climate, the Greater Burlington Industrial Corporation (GBIC) identified Vermont's primary market companies as the region's leading "manufacturing, technology, and value added businesses."¹³ These companies provide the highest pay jobs and support a number of

⁹ The O'Neal Group, *Brand Identity of Vermont as a Place to Do Business* (August 2000).

¹⁰ Richard W. Heaps and Arthur G. Woolf, *Vermont's Economic Competitiveness: A Comparative Analysis*, prepared for the Vermont Ski Areas Association (27 September 2002), 18-19.

¹¹ *Ibid.*, 19.

¹² Beacon Hill Institute for Public Policy Research, *The BHI State Competitiveness Index 2001* (2001), 33.

¹³ Greater Burlington Industrial Corporation, *Listening to the Needs of Vermont's Leading Economic Drivers*, GBIC Business Visitation Report (March 2003), 1.

other businesses, including the service sector, through outsourcing, subcontracting, and the purchasing power of the people they employ. In a survey of two hundred businesses, the GBIC identified a number of key deterrents to doing business in Vermont. Not surprisingly, these issues included infrastructure improvements, rising healthcare costs, the high price of energy, and the burdens ensued by the permit process.

Taken together, these disincentives pose precipitous challenges to Vermont's competitiveness, both in the domestic and international marketplaces. To surmount these hurdles, businesses need, according to GBIC, a responsive state government that provides relief for the high utility costs, streamlines the permit process, reduces both personal and corporate income taxes, addresses the high healthcare overhead, and aggressively pursues infrastructure upgrades. In other words, the state of Vermont needs to develop a "more 'Business Friendly' attitude" in order to breakdown barriers to economic development and investment.¹⁴ This transformation would further the business opportunities of the primary market companies which, according to the GBIC, "fuel's a major portion of the Vermont economy."¹⁵ In turn, this investment would benefit the state through an increase in revenues generated from corporate and personal taxes. The GBIC does suggest, therefore, that the State of Vermont needs to acknowledge its circle of prosperity.

In summary, what these various studies suggest is that Vermont's business climate provides little incentive for doing business in the state, and instead, it is the quality of life and the ties to local communities that keep companies in Vermont.

CONCLUSION

One hundred years ago, Vermont was on the cutting edge of economic development. More to the point, state officials, business leaders, and the public understood the interplay between a better quality of life and the business climate. As such, the state invested in railroads, ports, hydroelectric power, a simplified and just permit process, and a better system of roads while also providing stable tax policies and a generally approving attitude toward business development. These efforts, in turn, produced a favorable climate in which businesses could grow and operate, supplying quality jobs to many Vermonters. The income generated through personal and business taxes made it possible for the state to devote increasingly more resources to improving the quality of life in the Green Mountain State, including upgrades to the school system, public libraries, and parks. Early twentieth century Vermont recognized, then, the importance of developing the economy by providing a conducive environment in which businesses could thrive and thus enabling the state to realize its long-term goals. A notion best understood as the Circle of Prosperity.

An interesting note of irony is that many of the issues that business owners decry in 2003 were viewed one hundred years ago as major advantages to doing business in Vermont. The functional Circle of Prosperity evident in the early 1900s has fractionated in more recent times, as an incongruous schism has formed between those interested in business development and those seeking to protect Vermont's quality of life. The result of this divide is the increasing

¹⁴ Ibid., 5.

¹⁵ Ibid., 1

inability of Vermont to attract and maintain a talented workforce, a diverse industrial base, and high-paying jobs. Without this segment of the Circle of Prosperity, the other links fail, leaving Vermont hindered in both its ability to sustain its quality of life and provide its residents with quality jobs.

Today, Vermont stands on the brink of a new era of innovation in which the state's economy will become increasingly reliant on emergent technologies and information in all production and service activities. In such an economy, the capacity to successfully create and utilize scientific knowledge and technology is key and requires the appropriate infrastructure to facilitate such an exchange. Of equal importance is building effective public/private cooperation in which a common vision of Vermont's future is shared equally among partners. Here the goal is to maintain and further Vermont's quality of life through the support of business development. In doing so, the Circle of Prosperity is complete.

The Vermont Business Roundtable believes that in order to regain an economic position of strength and competitiveness, one that is poised to fully participate in a knowledge-based economy in an era of innovation, the Circle of Prosperity must be fully operational, fully understood by policymakers, and fully supported by all Vermonters who seek to make Vermont the best place in which to do business, be educated, and live life.

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