

WORKING PAPER:

Strengthening Vermont's Economy: nmendations for the Public and Private Sectors

November 1993

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EXECUTIVE SUMMARY

To fully understand Vermont's economy--and what is needed to ensure its vitality--the Vermont Business Roundtable has undertaken an extensive investigation of the state's past and current economic situation and the prospects for the future. The results of this comprehensive research are published as a series of working papers entitled *A Critical Look at Vermont's Economy: Past Present, and Future.* The first two parts, published in January 1993, address "Vermont's Economy: A Performance Evaluation" and "The Competitive Advantages and Disadvantages of Vermont's Economy." Part III of the study, "An Assessment of the Relative Competitive Position of Vermont Business," was published in November 1993.

This critical look at the state's economy reveals that the problems the state is experiencing--in particular the loss of jobs and increased competition--are not merely the consequences of a normal business cycle. The competitive landscape for Vermont business has changed dramatically during the last ten years. Vermonters who previously thought their employment was safe are facing layoffs and unemployment. People who are unemployed are finding diminished opportunity for new employment. Every Vermont entrepreneur and each individual Vermont firm must meet the challenges of the market better than an increasing number of competing firms outside our state. This changing economy requires us to take concerted action to help our state compete in the global economy and still provide the quality of life that all Vermonters seek.

Given today's still struggling economy and transformed competitive environment, the impact of public policy has increased significantly. Since its recessionary lows in early 1992, the Vermont economy remains on a very fragile one-percent job-growth recovery plane. This razor-thin margin between slower recovery and recession means that what is accomplished in the area of public policy--or alternatively, what is not accomplished--will have a substantial impact on the performance of Vermont's economy. The resulting job and income growth performance will have a significant bearing on the ability of our state to resolve its present fiscal difficulties and embark on exploring and perhaps implementing new public policy initiatives.

The Vermont Business Roundtable's recommendations for private and public sector action are predicated on a set of guidelines that were established to ensure the development of effective policy recommendations. These guidelines represent a consistent set of goals for enhancing Vermont's prosperity. The recommendations recognize the state's economic advantages and challenges, as identified in Part II of the working papers. The state has fundamental strengths and advantages that are the foundation for economic renewal, as well as some significant competitive challenges that limit the prospects of this renewal. These strengths and challenges are the basis for the following recommendations presented by the Vermont Business Roundtable:

1. Implement steps to enhance Vermont's cost competitiveness in the new age of increasing international competition.

- 2. Articulate and implement regulatory reforms that provide the essential level of protection for the public health, safety, and environment, but result in competitive costs for Vermont businesses and consumers.
- 3. Take steps to improve Vermont's traditionally defined infrastructure base (including transportation, wastewater treatment, etc.) to enhance the growth capacity of Vermont's economy.
- 4. Explore and implement strategies to facilitate the inevitable economic transitions resulting from the transformations in Vermont's "at-risk" sectors, including, among others, the regional defense and microcomputer industries.
- 5. Strengthen Vermont's economy by increasing the level of employer participation in those business sectors and activities that (1) possess desirable operating or structural characteristics, and/or (2) capitalize on at least one of Vermont's existing or natural competitive advantages.
- 6. Diversify Vermont's economy by encouraging the increased participation of businesses in high growth potential sectors and activities that are currently not well represented in Vermont's existing economic base.
- 7. Facilitate policymakers' efforts to assure a strengthened and coherent long-term telecommunications policy for Vermont.
- 8. Develop and implement strategies, particularly technology transfer, to expand higher education as an industry and major infrastructure resource in Vermont.
- 9. Implement initiatives that create an educational system for kindergarten through 12th grade that will prepare Vermonters for the increasingly complex workplace of the 21st century.

Cooperative and aggressive action by the public and private sectors is needed if we are to resolve the state's economic problems and ensure the future vitality of the Vermont economy. The Roundtable encourages all Vermonters in both the public and private sectors to carefully examine the evidence offered in the working papers, give due consideration to the recommendations presented in this report, and take action to renew the economic strength of the state.

INTRODUCTION

Vermonters have a long history of turning adversity into opportunity. Whether adapting to the dislocations in the farming sector brought on by the industrial revolution at the turn of the 20th century, meeting the challenge of the flight of textile mills to the southeast in the early 1950s, or modifying its energy consumption in response to the 1973 Arab oil embargo, Vermonters have risen to the occasion to meet almost any test the nation or the world has presented to them.

In recent years, and particularly since the spring of 1989, the Vermont economy has lost a disturbingly high number of jobs. Job losses have been particularly troublesome in the state's goods-producing sector, where nearly one in five employment opportunities have been lost since the spring of 1985.

Although the worst of the most severe economic downturn in Vermont since the Great Depression appears to be behind us, a great degree of uncertainty surrounds the state's economic future. When will the state's economy once again be able to produce the number of new, high-quality jobs needed to increase Vermont's economic prosperity in the 1990s and beyond? Will it be able to do so within the confines and realities of fierce and intensifying global competition—the so-called second industrial revolution?

What is clear from the Vermont Business Roundtable's current investigation of Vermont's economy¹ is that the circumstance in which we find ourselves today is much more than just another short-term business cycle. Jobs are being lost in Vermont and across the country for reasons that reach far beyond the weak demand associated with "normal" recessionary conditions. The realities of the new global economy and the virtual explosion of technology and information applications have forced businesses across the country to restructure their operations to succeed in this increasingly competitive business climate.

The time-honored business strategy of simply enduring or riding out economic doldrums is no longer the way to assure that new job growth will occur or even that many of the state's present employers will survive. Today's new competitive circumstances should compel policymakers in both the private and public sectors to constructive action. The Vermont Business Roundtable presents nine policy recommendations in this document. It is the fervent hope that these recommendations will serve as a springboard for that constructive, cooperative action.

¹ The Vermont Business Roundtable's research is published as a working paper entitled A Critical Look at Vermont's Economy: Past Present, and Future. The first two parts, published in January 1993, address Vermont's Economy: A Performance Evaluation and The Competitive Advantages and Disadvantages of Vermont's Economy. Part III of the study, An Assessment of the Relative Competitive Position of Vermont Business, was published in November 1993.

Any thoughtful approach to economic policy will need to recognize the factors and forces outside the influence and/or control of state policymakers, business leaders, and citizens that will play an important role in shaping Vermont's economic future. Examples are the overall health of the U.S. economy, present deficit reduction efforts by the federal government, and lagging conditions in the economies of our major trading partners around the globe.

Even given the uncertainties of these national and global forces, constructive "bottom up" courses of action can be taken here at home to enhance Vermont's competitiveness. In its daily application, competitiveness means the relative success that each Vermont entrepreneur and individual Vermont firm has in meeting the challenges of the market better than the many firms outside our state that are seeking the same success.

At the same time, these "bottom up" strategies can be enhanced by a supportive environment in Vermont that encourages and rewards the growth of competitive concerns. The public sector can not and should not attempt to micro-manage the millions of private sector economic decisions that occur in Vermont business every day. Nor should the public sector attempt to be the primary driving force for job creation in Vermont or the sole financier of our state's economic recovery.

Instead, there are appropriate roles for the public sector to play in establishing the rules for commerce and conducting business in Vermont. There also are important governmental roles in worker education, training, and other public investment areas. These, in turn, have a substantial influence on the climate in which private decisions must be made and ultimately on the Vermont economy's ability to retain its existing employment base and to create new, high-quality, high-paying jobs.

GUIDELINES FOR EFFECTIVE POLICY RECOMMENDATIONS

In developing its recommendations for private and public sector action, the Vermont Business Roundtable relied on the following guidelines. These principles reflect a consistent set of goals for enhancing Vermont's economic prosperity (i.e., an expansion of quality employment opportunities to boost income growth and living standards). They reflect the research included in the three parts of the Roundtable's A Critical Look at Vermont's Economy: Past, Present, and Future.

1. Recommendations should build upon the fundamental competitive strengths and reflect the competitive challenges of the Vermont economy both in substance and priority.

Recommendations should seek to: (1) directly address the so-called swing competitive factors (identified in Part I of the working papers and included as challenges on pages eight and nine in this report) to encourage the largest return on investment; (2) enhance existing competitive advantages; and/or (3) reduce competitive disadvantages.

2. Recommended initiatives should reflect a "mixed approach."

The focus of the initiatives should reflect a blended emphasis on: (1) attracting, nurturing, and retaining existing jobs; (2) supporting evolutionary and new initiatives; and (3) exploring characteristics-based and industry-specific approaches for attracting new employers.

3. Recommended initiatives should be long-term in nature, and should avoid the short-term, scattered efforts that have frequently characterized previous economic development studies and efforts.

Policy recommendations should have a long-term focus to complement the short-term focus of the Economic Progress Act of 1993.

Recommendations should be designed to help change the nature of the economic development debate to a more thoughtful and consistent path that can be maintained over a number of years for the "best" return on investment.

Recommendations should be grounded in the belief that without strong leadership and a commitment to consistency in its development efforts, Vermont's effectiveness will be substantially reduced by competing states and groups who now use such an approach in an increasingly competitive economic development environment.

4. Policy recommendations should reflect a mix of private sector, public sector, and cooperative efforts.

Unbalanced roles--principally larger governmental roles vis-a-vis the private sector--have proven over the years to yield low rates of return for large public investments of time and capital. Therefore, government initiatives by themselves are generally not good substitutes for cooperative initiatives or private sector initiatives. Proposals therefore should be balanced and be sensitive to previous experience, which has demonstrated that government's most effective role in the economy has been as a facilitator.

5. The policy recommendations should reflect a balanced approach between incrementalism and new initiatives.

Recommendations should be designed to build upon, refocus, or facilitate already existing, successful programs. Moreover, they should be designed to continue to include those industries and types of firms that are already well established in Vermont's economic base.

Policy recommendations also should include initiatives designed to encourage growth in industries and types of firms that are desirable, yet not currently well represented in Vermont's economic base.

6. Recommendations should recognize and encourage Vermont's increased participation in the so-called second industrial revolution--the rise of the global economy.

The globalization of the economy is increasingly a reality for Vermont businesses, and initiatives should be focused on positioning Vermont firms to compete effectively in today's rapidly changing global markets.

At a minimum, proposals should prevent an erosion in Vermont's current competitive position and maintain a local focus. Global considerations can and should be harmonious with local communities' quality of life and stated economic goals.

7. Recommended initiatives should recognize the difficult fiscal circumstances and limited resources available to the public sector to implement public policy programs.

Vermont's main operating account, the General Fund, remains in a deficit condition despite a multi-year effort to reduce it.

State and local governments in Vermont no longer have the financial capacity to support new programs or to "go it alone" in economic policy.

Policy recommendations should seek to build cooperative partnerships and relationships to better leverage increasingly lean public investments of time and resources.

VERMONT'S ECONOMIC ADVANTAGES AND CHALLENGES²

Despite the current protracted period of economic sluggishness in Vermont, the state's economy does have fundamental strengths and advantages that form the basis for economic renewal. However, the state's economy also has some significant competitive weaknesses that limit the prospects of this renewal. These strengths and challenges are the basis for the Vermon' Business Roundtable's recommendations.

The key long-term competitive advantages for the Vermont economy include:

- 1. A workforce that is superior from the standpoint of education level, skills level, and productivity.
- 2. A generally affordable workforce (in terms of cost and productivity).
- 3. A strong, well-capitalized banking system to provide the financial resources the state's economy needs to grow.³
- 4. An outstanding quality of life, with excellent recreational and cultural opportunities.
- 5. An excellent quality image for products carrying the "Made in Vermont" designation.
- 6. Close geographic proximity to Canada for access to Canadian and other foreign markets.
- 7. A diverse small business focus that encourages entrepreneurial activity.
- 8. A quality tourism infrastructure with varied recreational opportunities available to visitors of Vermont resort areas.

Vermont also faces a series of major economic challenges⁴:

1. An inferior "hard-asset" infrastructure with significant shortcomings in the areas of roads and wastewater treatment

² As detailed in Part II, The Competitive Advantages and Disadvantages of Vermont's Economy.

³ It should be acknowledged that the region's weak economy, low interest rates, and increased competition from non-regulated financial intermediaries have placed increasing pressure on growth of deposits in the system.

⁴ These "challenges" correspond to the competitive disadvantages and unresolved swing factors outlined in Part II, The Competitive Advantages and Disadvantages of Vermont's Economy.

- 2. A reputation--deserved or undeserved--for being difficult, inconsistent, and inflexible in the regulation of business.
- 3. A relatively underdeveloped system of higher education⁵.
- 4. An eroding technological advantage in telecommunications.
- 5. A state government that is small and accessible, yet could be more encouraging of long-term growth.
- 6. A state education system in need of reform so that financing is comparable with other states and regions⁶ and Vermont's young people develop into quick-thinking, problem-solving individuals.
- 7. Lack of industrial diversity, which has made the upheaval in financial services, construction, defense, and computers very punishing.
- 8. Relatively high energy costs, tax burden, and tax rate levels, which increase the cost of doing business and the cost of living in Vermont.
- 9. Less than adequate availability of financial services for large scale or specialty commercial and industrial types of lending.
- 10. A still out-dated uniform commercial code that causes confusion and unpredictability for existing Vermont businesses and those looking to expand into our state.

⁵ In comparison with other states in the New England region where research and highly developed mechanisms for technology transfer are more "the norm."

⁶ These recommendations do not deal directly with the issue of education financing. Please refer to the Vermont Business Roundtable's recently released report, *Restructuring Public Education in Vermont: Fundamentals and Funding*, dealing with the specific issues and questions regarding that important public policy challenge.

POLICY RECOMMENDATIONS FOR PUBLIC AND PRIVATE SECTORS

The proposals outlined below are arranged from the general to the specific. They are not ordered in terms of priority. There are relatively few recommendations presented; all of the recommended proposals carry the highest priority in the opinion of the Vermont Business Roundtable.

Recommendation #1: Implement steps to enhance Vermont's cost competitiveness in the new age of increasing international competition.

Discussion/Justification

The U.S. and Vermont economies are part of an increasingly competitive global economy in a deregulated environment. While these same forces were present in the early 1980s, the full impact of this competition was obscured by the extraordinarily large federal fiscal stimulus⁷, a rapid decline in the value of the dollar, and the collapse in oil prices.

Today, with the emphasis of federal fiscal policy on deficit reduction, fiscal policy has become more restrictive; the positive macroeconomic effects of the falling dollar and oil prices have been absorbed by the economy and their incremental benefit has generally faded. As this has occurred, the growing impact of global competition has been increasingly felt by businesses in the U.S. economy.

The result of this changed competitive landscape is that U.S. and Vermont businesses will no longer be able to improve the profitability-and therefore the sustainability of their businesses-by simply increasing product or service prices. Faced with sluggish growth, the competitive focus has switched to the cost side of the income statement to generate profits that allow businesses to continue as going concerns. Only successful businesses are able to hire new workers and pay increasing wages and benefits. Since labor costs--including employee benefits such as health care--still comprise two-thirds of business costs, new hiring has been very sluggish over the past several years and it is likely to be exceptionally sensitive to business cost trends, at least in the near future.

Implementation Strategies

For public sector action:

1. Promote fiscal stability and a competitive and predictable tax rate structure in Vermont, particularly a tax rate structure that encourages new capital investments in our state.

⁷ As demonstrated by the multi-hundred billion dollar federal budget deficits that began during that time period.

- 2. Reform Vermont's unemployment insurance to reduce competitive imbalances associated with having the 9th highest burden of the 50 states in terms of employer contribution to the program.
- 3. Implement reforms in workers' compensation coverage that would reduce runaway medical cost increases and "return to work" disincentives. Steps to achieve overall administrative cost efficiencies should also be implemented.
- 4. Implement policy that lowers business costs (e.g., energy costs) and resist policy proposals that directly or indirectly increase business costs without greater offsetting social benefit, as determined by cost/benefit analysis.
- 5. Implement limited expansion (outside of services currently provided in Brattleboro) of the State Division of Vocational Rehabilitation Employee Assistance Services (EAS) to selected under-served areas of Vermont. An expanded program must remain budget neutral and self-supporting while complementing, not replacing, existing privately provided services.
- 6. Ensure that any federal or state reforms in Vermont's health care delivery system are effective in restraining the pace of cost increases and do not adversely affect the cost competitiveness of Vermont's employers or the tax competitiveness of the state of Vermont.

For private sector action:

- 1. Participate actively and constructively in the state's health care reform debate process.
- 2. Encourage Vermont's federal representatives to provide for flexibility in federal health care reform initiatives so the individual states will have the greatest degree of latitude possible to implement appropriate reform on their own.
- 3. Encourage wellness and preventive care initiatives in individual company health care programs to reduce long-term health care costs prior to reform mandates.
- 4. Develop and implement public information strategies to: (1) educate key leaders in the public sector, and (2) explain to the public the benefits and importance of making politically difficult but critically important cost-reducing decisions that will allow Vermont businesses to compete in the global economy.

Recommendation #2: Articulate and implement regulatory reforms that provide the essential level of protection for the public health, safety, and environment, but result in competitive costs for Vermont businesses and consumers.

Discussion/Justification

It is widely acknowledged that the government has the primary responsibility for protecting the public's health, maintaining public safety, and protecting the environment. Regulation is one of the main policy instruments employed by the public sector to achieve these objectives.⁸

Vermont has a long-established record of commitment to strong environmental protection, purposeful economic development, and forceful protection of the public health. However, improvements can and should be made to the regulatory and enforcement process to eliminate delays and unnecessary costs associated with compliance, and to enhance the ability of Vermont businesses--particularly small businesses, which typically have fewer resources to devote to regulatory compliance--to adapt to rapidly changing market conditions and to grow. While some progress has been made in recent times, the Vermont Business Roundtable believes additional progress is imperative if Vermont's competitive position is to improve in the future.

Implementation Strategies

For public sector action:

- 1. Continue and intensify the ongoing internal agency efforts to implement administrative and regulatory reforms to reduce red tape, uncertainty, and delays in the enforcement of all state regulations.
- 2. Expand and intensify the current Agency of Natural Resources effort to eliminate and/or streamline obsolete, duplicate, and overlapping regulations that impose costs that exceed the benefit to the public.
- 3. Implement policies across all state agencies and departments to increase the level of public and private sector cooperation in the enforcement of regulation in Vermont.
- 4. Expand the "one-stop shopping" concept currently employed in the "umbrella permits" in the Act 250 process to other forms of business regulation.

One implementation strategy for this recommendation would be the establishment of a Citizens' Liaison Office for major departments and

⁸ Public safety issues are not specifically addressed in this paper.

agencies that could provide a helpful mechanism for: (1) promoting greater citizen involvement in government; (2) providing more timely and accurate information about government policies, issues, and programs; and (3) providing citizen/user feedback to government agencies and departments about how existing or proposed regulations can be changed to improve government's "performance."

5. Explore the pros and cons of establishing a cooperatively staffed and funded ad hoc Committee on Competitiveness in Vermont, appointed by the Governor and including a representative from each chamber of the Vermont General Assembly. This committee would undertake a three-year comprehensive investigation of all regulation in Vermont dealing with the principal areas listed below. Each year the committee would investigate and present its findings and a list of recommendations to the Governor and the Vermont General Assembly in an "all-or-nothing" format for consideration and approval.

The three major areas of investigation would include:

- Intrastate commerce and economic development.
- Regulated industries (i.e., electric, gas, and communications).
- Financial intermediaries (i.e., banking and insurance).
- 6. Undertake steps to update and modernize Vermont's Uniform Commercial Code (UCC). Vermont business today operates under rules of commerce that were largely written in the 1950s. Vermont policymakers need to move forward on rewriting rules of business operation in Vermont that recognize both today's modern, more complex, business environment and the need for a uniform set of rules that are consistent with national standards to help assure Vermont's business competitiveness now and in the next century.

For private sector action:

- 1. Expand the Loaned Executive program by establishing a regulatory hybrid of the current program in economic development to help state and local government departments and agencies examine and implement necessary regulatory reforms.
- 2. Expand upon successful pollution prevention programs such as "Waste Cap" to reduce both front-end and back-end pollution in the manufacturing production process and other business activities.
- 3. Increase efforts to implement "green technologies" and other strategies that reduce the amount of toxic substances used by business, and further reduce air, land, and water emissions by Vermont businesses.

- 4. Increase private sector support for existing private sector economic development programs (in conjunction with energy utilities) to improve the effectiveness of Vermont's local businesses and industrial development groups.
- 5. Enlist the support of the business community for the growth centers pilot program currently underway at the Department of Housing and Community Affairs to assist the public sector's regulatory reform efforts at the local government level.
- 6. Explore, with public sector representatives, the pros and cons of establishing a cooperatively staffed and funded Committee on Competitiveness in Vermont as discussed in #5 above (public sector action).

Recommendation #3: Take steps to improve Vermont's traditionally defined infrastructure base (including transportation, wastewater treatment, etc.) to enhance the growth capacity of Vermont's economy.

Discussion/Justification

A growing body of research indicates that states which invest more in the development of their infrastructure tend to have stronger economic performance in output, private investment, and job growth. Because Vermont's transportation system is so crucial to several of its major industries and employment opportunities, the development and maintenance of its infrastructure base is crucial to any competitive strategy.

In comparison with other states, the condition of Vermont's transportation system and other traditional infrastructure elements is below average. New investments and increased maintenance of existing facilities are essential to improving and expanding the productive capacity of Vermont's economy.

For public sector action:

- 1. Target public infrastructure investments to (1) alleviate the state's substandard roads and bridges and congested areas (e.g., Route 4, Route 7, and Route 22A); (2) otherwise strengthen the existing road transportation network to improve the productive capacity of the Vermont economy and (3) maximize short-term economic and job growth.
- 2. Work with neighboring states and the province of Quebec to improve the quality of the transportation infrastructure that feeds directly into Vermont's transportation system and major road arteries (e.g., Route 133 in Quebec, Routes 149 and 4 in New York, and Route 25 in New Hampshire).

3. Develop a unified state wastewater policy, implement programs that make treatment more affordable to individuals and business, and encourage water conservation measures to lengthen the useful life of the state's current wastewater treatment infrastructure.⁹

For private sector action:

- 1. Encourage private sector and public/private sponsorship of modest, prototype infrastructure investments with the goal of having: (1) information centers and rest areas at each major entrance into Vermont within five years; (2) an increased number of "park and ride" facilities; and (3) upgraded existing "park and ride" locations.
- 2. Encourage federal officials to redirect federal infrastructure spending from new construction to repair and maintenance of existing facilities.
- 3. Petition federal officials to modify current regulations to allow for "private services" offerings at rest areas on Vermont's federally supported interstate highways.
- 4. Support public sector strategies and implement company-specific measures to conserve water to preserve our increasingly inadequate wastewater treatment infrastructure.

Recommendation #4: Explore and implement strategies to facilitate the inevitable economic transitions resulting from the transformations in Vermont's "at-risk" sectors, including, among others, the regional defense and microcomputer industries.

Discussion/Justification

The disruption in the New England and Vermont defense and microcomputer industries over the last five to eight years has left many highly skilled Vermont workers without viable employment. As a result, many skilled Vermont workers are unemployed or underemployed, and some may ultimately leave the state's workforce.

While much recent attention has been directed at a few well-publicized problem categories (i.e., defense, microcomputers, finance, and agriculture), many other significant Vermont sectors and employers are also at risk. These groups are all vulnerable to employment cutbacks. Stabilizing Vermont's at-risk employers is an important public policy goal. Retraining

⁹ Vermont Business Roundtable, 1991. Cleaner Water for the 21st Century: Environmental and Economic Wastewater Imperatives.

and facilitating the reentry of displaced workers as productive participants in the state's labor force is a critical part of Vermont's public policy needs.

The passage of the Economic Progress Act of 1993 provided important steps toward stabilizing employment levels at several major Vermont employers in these categories and their dependent sectors. Additional long-term steps are necessary to assure the long-term viability of Vermont's at-risk employers.

Implementation Strategies

For public sector action:

- 1. Target technical and job training assistance, state capital spending, and job creation incentives to all regions of the state that have at-risk businesses.
- 2. Strengthen planning and working relationships with local and regional officials to develop workforce training programs to meet specific regional industrial needs.
- 3. Expand upon existing assistance, management, and entrepreneurial training programs (e.g., Vermont Small Business Development Center) to help displaced workers open and successfully manage their own businesses.
- 4. Provide full funding of existing, flexible, and generally successful state training programs at the Agency of Development and Community Affairs.

For private sector action:

- 1. Facilitate a new environment of cooperation among federal, state, and private sectors to promote greater private investment in replacement enterprise.
- 2. Encourage "Buy Vermont" strategies and promote greater purchasing from Vermont suppliers among the state's existing goods-producing businesses.
- 3. Encourage federal representatives to increase the flexibility of various federal worker training programs enabling programs to better respond to the rapidly changing needs of Vermont's industries.
- 4. Support full funding of state training programs at the Agency of Development and Community Affairs.

Recommendation #5: Strengthen Vermont's economy by increasing the level of employer participation in those business sectors and activities that (1) possess desirable operating or structural characteristics, and/or (2) capitalize on at least one of Vermont's existing or natural competitive advantages.

Discussion/Justification

One additional way economic development policy can help improve the long-run performance of the Vermont economy is by intensifying existing efforts that have already proven successful. Increasing existing public and private efforts and/or making incremental improvements in economic development activities that Vermont already does well are logical approaches to enhancing Vermont's long-run job and income growth performance.

Over the years, Vermont appears to have had its best relative economic success nurturing and/or attracting employers that complement or capitalize on at least one of the state's key existing or natural competitive advantages. Based on the research of the Roundtable's study, ideal business growth candidates would possess at least some of the following key characteristics:

- 1. Involve knowledge- or technology-intensive production and supporting activities.
- 2. Have specialty- or premium-oriented markets, particularly those that capitalize on Vermont's mystique or "good" image.
- 3. Involve "environmentally unobtrusive" production and production-supporting activities.
- 4. Have a small business orientation and/or an entrepreneurial focus.
- 5. Have an international export orientation.
- 6. Enhance Vermont's travel and tourism infrastructure by building upon the synergy that already exists because of Vermont's "clean environment and high quality of life" competitive advantage.

These characteristics include many industrial and service-producing sectors and categories. Dynamic, growing firms that fit the above criteria can be found in nearly all of the nation's larger employment categories, though the largest employers in those categories may be undergoing difficult periods of adjustment or transition resulting in weakness in the overall industry or sector employment performance statistics.

Implementation Strategies

For public sector action:

- 1. Maintain and enhance Vermont's high-quality travel and tourism infrastructure including adequate expenditure for promotion in growing or under-utilized markets.
- 2. Expand the state's current Seal of Quality program for Vermont specialty food products and implement a Seal of Quality program for non-food Vermont products and services based on the important attributes of workmanship and product quality.
- 3. Implement policies such as partial loan guarantees and subordinated debt financing techniques to encourage increased small business lending in an age of increased loan transaction costs under the weight of heavier federal regulation.
- 4. Implement policies designed to expand access to export markets by taking better advantage of our natural relationship with Canada under the U.S.-Canadian Free Trade Agreement and the proposed North American Free Trade Agreement (NAFTA) for greater exporting opportunities.
- 5. Implement strategies, such as appointing an ombudsman to help Canadian business though the Vermont permit process and encouraging Vermonters to learn French as a second language.
- 6. Take steps to advance and attract specialty producer services employers (e.g., direct marketing, non-traditional financial services, corporate or holding company headquarters, etc.).

For private sector action:

- 1. Implement strategies to take advantage of Vermont's proximity to Canada, such as advertising in French and offering Canadian visitors a favorable rate of currency exchange.
- 2. Encourage Vermont's congressional delegation to support initiatives that help expand the state's participation in world markets, e.g., expansion of the Export-Import Loan Guarantee Program in Vermont, and increase awareness about the "nuts-and-bolts" of doing business in other countries.
- 3. Commit resources to educate the Vermont public about the importance of ratifying NAFTA and encourage Vermont's congressional delegation to support this agreement.

- 4. Support Vermont's high-quality cultural infrastructure through increased sponsorship of the arts and cultural activities in Vermont during a period of increasing public sector fiscal pressures and budget cuts.
- 5. Encourage increased support for private sector economic development initiatives (e.g., Vermont's private utilities and regional economic development corporations).

Recommendation #6: Diversify Vermont's economy by encouraging the increased participation of business in high growth potential sectors and activities that are currently not well represented in Vermont's existing economic base.

Discussion/Justification

Any strategy that seeks to expand an area's economic base by bringing new enterprise should be mindful of the pitfalls of picking industrial and/or commercial "winners and losers." Therefore, the recommendations made here to promote greater structural diversity in the Vermont economy include those that:

- 1. Increase the number and size of firms in sectors that compete in high value-added activities. 10
- 2. Increase the number and size of firms that have recently demonstrated "good" employment growth despite the recession, therefore, increasing the state's overall resistance to the ups and downs of the business cycle.

The following strategies utilize the long-range projections of the U.S. Bureau of Labor Statistics as published in the November 1991 issue of the labor department's publication *Monthly Labor Review*. The long-range projections (mid-range option) were employed as the basis for this industry identification process. The "fastest growing" sectors for the U.S. economy were then put through a knowledge-intensive, high value-added screening process to identify the best new industry candidates, if any, for the Vermont economy.

Implementation Strategies

For public sector action:

1. Implement incentives to attract and nurture employers in producer services sectors¹¹.

 $^{^{10}}$ These sectors offer the greatest potential for higher wage jobs that are defensible in global competition.

¹¹ Employment categories were selected based on the criteria of the federal Standard Industrial Classifications or SIC codes.

A. Computer and data processing

Software, systems, and data/information processing.

B. Health services

Health care providers outside the hospital-based or more traditional services-provider network.

C. Research and testing services

Scientific firms involved in laboratory work.

- 2. Implement incentives to attract and retain employers in growth-oriented goods-producing sectors.
 - A. Commercial business forms

Materials for record keeping and reporting.

B. Medical instruments/supplies

Specific products for health care.

C. Soap/cleaners, etc.

Personal care and hygiene products.

3. Establish a strategy to monitor under-represented employment sectors that have potential for future growth while still meeting the above criteria.

A. Goods-producing

1) Miscellaneous plastics

Formed plastic products used in consumer items and as a substitute for heavier material such as metals.

2) Drugs manufacturing

Development and manufacturing of prescription and non-prescription drugs.

3) Miscellaneous publishing

Publishing other than magazines and newspapers.

B. Service-producing

1) Advertising

Written copy, art, graphics, audio, video, and other creative work.

- 2) Accounting, auditing, and other professional services

 Certified public accountants, payroll accountants, actuaries, artists, writers, consulting chemists, and other independent or self-employed professionals.
- 3) Water and sanitation services
 Waste disposal (e.g., landfill operations, sewage and hazardous waste disposal, etc.).

For private sector action:

- 1. Petition Vermont's federal officials to expand appropriate federal civilian functions in Vermont. Examples of such functions include various immigration, commerce, and Internal Revenue Service activities.
- 2. Expand the current Loaned Executive Program to assist the Vermont Department of Economic Development in developing a rapid response capability to effectively reply to private sector inquiries about expansion or location in Vermont.
- 3. Encourage increased private sector support for new economic development initiatives (i.e., Vermont's private utilities and regional economic development corporations), which provide business expansion and relocation services to private concerns that may be participants in these high-growth potential industries.

Recommendation #7: Facilitate policymakers' efforts to assure a strengthened and coherent long-term telecommunications policy for Vermont.

Discussion/Justification

In today's rapidly changing information age, the capacity of a state or area's telecommunications system to offer sophisticated, low-cost services to its businesses is becoming increasingly important. The availability of such services is crucial for a state like Vermont to partially offset the disadvantage of being located far away from suppliers and growing customer markets. In addition, for a state economy dominated by small business, advanced telecommunications can help act as a "leveler" of the competitive playing field with respect to both competing small businesses in other states and countries and larger corporate competitors that may already have access to their own private networks.

For Vermont to compete with other states and nations for growing, profitable, and clean businesses, its telecommunications network must offer applications and capabilities critical for success. Capabilities such as simultaneous voice and data transfer, high-speed, high-quality data transfer and facsimile, video conferencing, broad-band video, and interactive video-based, multimedia applications can help Vermont employers overcome distance barriers and allow large and

small Vermont businesses to successfully compete in national and international markets.

The rapidly changing nature of business operations and economic activities around the globe increasingly depends on using services provided through advanced information and telecommunications technologies. This network must guarantee new, smarter ways of working with and educating Vermonters for today's revolution in the workplace, which is transforming the nature of work itself. Tele-commuting and work at or near home opportunities, as well as capabilities for the delivery of essential health and educational services to Vermont's more remote communities are possibilities.

From an economic development perspective, many state regulatory bodies and executive departments, as well as several countries around the world, have recognized that advanced telecommunications technology attracts businesses and has significant society-wide benefits. More specifically, low-cost, sophisticated telecommunications technology can be instrumental in: (1) attracting new, information-intensive businesses to relocate; (2) enhancing the competitiveness of existing firms by making information flow less expensively and more efficiently; (3) enhancing the quality of life of citizens in rural or more remote areas through videotext services such as tele-banking, education, and product marketing and distribution; and (4) augmenting the delivery of vital social services and health care.

Because telecommunications affect so many broad market sectors and functional categories, including government (e.g., access to information); public safety (e.g., 911 number issue); consumer and business services (e.g., direct marketing); non-profit organizations, health care, and education (e.g., distance learning); all Vermonters have a huge stake in gaining low-cost access to the critical information-based services "enabled" by these important technologies. Moreover, because nearly every Vermont business that uses and manages information can improve management efficiency with telecommunications (e.g., for intracompany and intercompany communications and information management), the expeditious outcome of the current public policy debate is vital if Vermont is to compete effectively in the global economy into the next century.

The Vermont Business Roundtable believes that the development of a new telecommunications policy for Vermont is critical to the state's economic future. Members of the Vermont Business Roundtable will work constructively toward a timely resolution of this important public policy debate.

Implementation Strategies

For public sector action:

1. Convene a Summit Meeting on Telecommunications, cooperatively sponsored by the Governor, the legislature, and the private sector, to serve as a catalyst for focusing on the economic and social goals of a forward-looking telecommunications policy for Vermont. The meeting would provide information

- to the general public and other interested parties about the efficacy of completing a timely update and enhancement of Vermont's telecommunications policy.
- 2. Improve the state's current telecommunications policy to maximize the benefit to Vermonters offered by advanced but rapidly changing telecommunications.

A preferred state policy would:

- A. Include a clear, top priority commitment¹² by the Governor (and the Public Service Department), the legislature, and the Public Service Board to maintain Vermont's competitiveness in telecommunications.
- B. Include clear executive and legislative branch statements of the economic and social goals for the state's telecommunications policy (including at least the broad objectives of \$.245 of the 1993 session), which would serve as the guidelines for the Public Service Board in establishing appropriate regulatory policy.
- C. Promote a dynamic and flexible regulatory environment in which service providers will be challenged to invest, innovate, and enhance their service provision including an appropriate public interest agenda.
- D. Provide regulatory flexibility (including less regulation over time as the natural competitive forces increase) to accommodate the increasingly fast pace of technological innovation in telecommunications.
- E. Focus on achieving intended social and economic goals instead of attempting to micro-manage the specific vendor steps associated with the management and operational control of assets, investment, and strategy of service providers.
- F. Recognize that the pricing structure for telecommunications should incorporate the elements of "fair" competition among service providers. This is essential to allow the natural market forces to reduce prices and promote the wider deployment of technology.
- 3. Allocate the resources and staffing levels necessary to assure that policy and regulatory decisions regarding telecommunications are made using the best available information, data, and analysis because telecommunications technology is changing so rapidly.

¹² At a level commensurate with state policies in Nebraska, Oregon, New Jersey, and Rhode Island.

For private sector action:

1. Enlist knowledgeable business people to actively and constructively participate in improving the state's current telecommunications policy.

These individuals would assist public policymakers by articulating a preferred set of guiding principles with respect to the business applications of telecommunications. These would be used as part of a coherent framework for the development of a new, future-oriented telecommunications policy for Vermont.

2. Assist public sector officials and service providers in educating the public and private sector businesses about the business perspective of various technology applications and the public efficacy of access to affordable, sophisticated telecommunications service.

The goal of this public outreach effort would be to develop information that business people and the general public could access to better understand the many complex issues, benefits, and costs associated with advanced telecommunications capabilities. This would include factual information on all major aspects of telecommunications issues in Vermont using user-friendly, understandable terms for a diverse number of public audiences.

3. Undertake periodic assessments of the comparative technological capabilities of Vermont's telecommunications infrastructure.

These assessments would include a mix of objective, state-by-state comparisons of the types of services offered and measures of system reliability, and a survey of case study outcomes of what these capabilities actually produce for selected Vermont companies.

Recommendation #8: Develop and implement strategies, particularly technology transfer, to expand higher education as an industry and major infrastructure resource in Vermont.

Discussion/Justification

New job creation in Vermont results primarily from innovation and the ability of the state's businesses to bring products and services to market faster and better than our competitors. While this innovation process is important for stimulating the Vermont economy, it also is important for maintaining a competitive edge in the state by attracting a skilled, leading-edge workforce and facilitating the transfer of technology from the laboratory to the workplace. Nurturing the state's present system of higher education and improving access for both young

and older adults are therefore critically important to protecting Vermont's economic base.

In addition, it should be recognized that Vermont's system of higher education makes important contributions to Vermont's economy as an exporter of services (resulting in importing significant out-of-state resources); the provider of highly skilled, quality jobs; and as a consumer of local products and services. Moreover, a recent study conducted by the Lake Champlain Regional Chamber of Commerce and the Greater Burlington Industrial Corporation showed that higher education institutions also make important non-monetary contributions to the communities in which they are located. As a clean industry with many direct and ancillary benefits, higher education represents a natural area for additional growth for the Vermont economy.

Implementation Strategies

For public sector action:

- 1. Build and otherwise encourage new structures, models, and mechanisms for collaboration between higher education and industry, including the development of data bases of firms, research activities in key areas of technology, and technology transfer.
- 2. Assure a strong workforce education and training system that recognizes the significant role of higher education.
- 3. Design and implement programs in the Department of Economic Development to disseminate timely information on new federal research and technology transfer opportunities resulting from the so-called "dual-use" technologies during the conversion from federal defense projects to civilian projects.
- 4. Make the largest commitment of public resources that can be afforded to public higher education so that all Vermont institutions can successfully compete for students in regional, national, and international markets.
- 5. Provide access to low cost capital for small institutions of higher education (projects of one million dollars or less) by making them eligible for Vermont Educational Development Authority (VEDA) funds.
- 6. Include higher education as one of the focus sectors in various "Market Vermont" initiatives.

For private sector action:

1. Facilitate cooperative efforts and closer ties between business and higher education to promote collaborative applied research and technology transfer.

- 2. Increase sponsorship in trade shows, symposiums, and seminars on topics of relevant technical themes.
- 3. Provide resources and expertise for proposal teams to facilitate federal research grant applications.
- 4. Provide "seed" financial assistance to higher education institutions for federal research grant proposal development.
- 5. Initiate greater cooperative efforts between private employers and higher education to design curricula that respond quickly to the changing needs of new, emerging industries and/or dislocated workers.
- 6. Explore the efficacy of building a more integrated approach to meeting the workforce education and training needs as outlined above (similar to the model recently unveiled by the Medical Center Hospital of Vermont and Fanny Allen Hospital).

Recommendation #9: Implement initiatives that create an educational system for kindergarten through 12th grade that will prepare Vermonters for the increasingly complex workplace of the 21st century.

Discussion/Justification:

A cooperative effort between government and the private sector is crucial if Vermont is to have a competitive labor force that will be equipped to meet the challenges of the workplace of the future. Jobs that require less than high school verbal and mathematics skills are disappearing, and jobs that utilize vocational skills are increasingly involving digital and computer-controlled machinery. By the turn of the century, unskilled labor will comprise only a small fraction of Vermont's employment opportunities.

To assure that Vermont's labor force will be equipped to meet the challenges of the new era of global competition, the present slow pace of school reform at the local level must accelerate with innovations such as the Vermont Institute for Science, Math, and Technology. The current public education school system in Vermont is falling short of the state goal of educating Vermont students well. Reform is the best chance our children have to maintain a standard of living that is even close to that enjoyed by their parents.

Implementation Strategies

For public sector action:

1. Support the portfolio assessment initiative and other outcome-driven assessment

- tools with the goal of providing school-by-school assessment data and information at the earliest possible date.
- 2. Implement school choice to encourage and accelerate school reform and improvement.
- 3. Encourage and implement an expanded structure for compensation and tenure that is based on performance and student outcomes in addition to the current "years of education and service" structure.
- 4. In cooperation with the business community, develop and disseminate an informational guide to "Better Schools," by focusing on developing a factual data base for district-by-district and school-by-school comparison (data to be included in this publication could include: graduation rates, dropout rates, number and percentage of students continuing on to post-secondary education, portfolio results and other student performance measures, advanced course offerings, etc.).

For private sector action:

- 1. Encourage the implementation of school choice to accelerate school reform and improvement.
- 2. Support and encourage the implementation of the state's portfolio assessment project to provide a more comprehensive means of measuring student and teacher performance.
- 3. Support and encourage the implementation of a national educational assessment linked to national education standards.
- 4. Encourage local school boards to implement an expanded structure for compensation and tenure that is based on teacher performance and student outcomes in addition to the current "years of education and service" structure.
- 5. Work cooperatively with the public sector to develop and disseminate an informational guide to "Better Schools," as discussed in #5 above (public sector action).
- 6. Develop business-school partnerships that provide programs that simultaneously: (1) familiarize students with the job requirements of the "real world," and (2) familiarize teachers with what is required for students to successfully compete in today's increasingly competitive global economy.

TIME FOR ACTION

The Vermont Business Roundtable, based on a critical evaluation of Vermont's economic performance, an appraisal of the state economy's competitive advantages and disadvantages, and an assessment of the relative competitive position of Vermont business, presents these policy recommendations. Cooperative and aggressive action by the public and private sectors is needed now. The Roundtable encourages policymakers to consider these recommendations and to take action. Roundtable members are committed to doing their part, individually and collectively, in supporting the efforts of policymakers around the state as they work to renew the economy and the vitality of the state.

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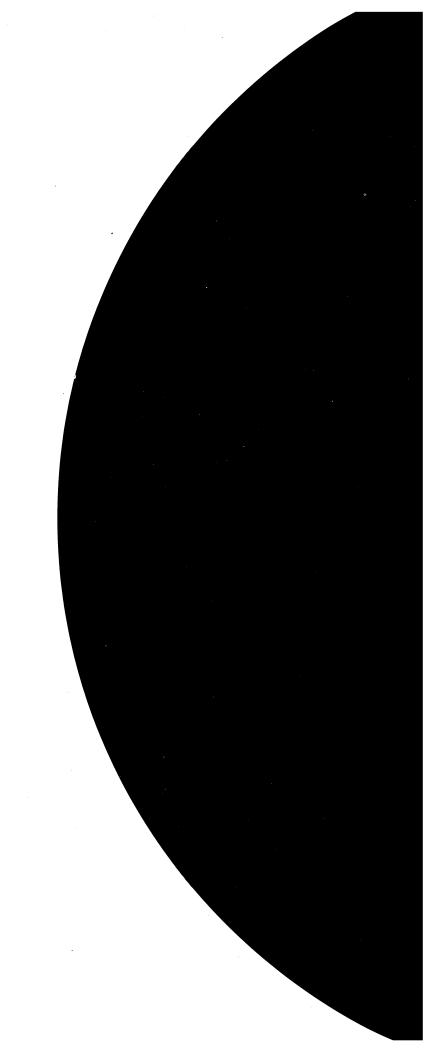
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Established in 1987, the Vermont Business Roundtable is a non-partisan organization dedicated to helping Vermont achieve long-term public policy objectives worthy of its citizens. Composed of the principal officers of 125 Vermont companies representing geographic diversity and all major sectors of the economy, the Roundtable is committed to achieving a healthy economy and preserving Vermont's unique quality of life.



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