

Appendix C-4

Benchmarking the Outcomes of Economic Development Policy: A Report to the Commission on the Future of Economic Development

by

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We have been asked by the Vermont Commission on the Future of Economic Development to work with the Commission to develop benchmarks by which the State of Vermont can reliably gage the effectiveness of its economic development policies in attaining the economic development goals established by CFED in its January 14, 2009 report to the administration and the legislature. This preliminary benchmarking exercise is designed to show how the use of selected benchmarks along with accompanying interpretive commentary may be used to assess the performance of economic development policies, as framed by specific questions set forth below. This preliminary benchmarking exercise is not intended to be an exhaustive response to the questions posed, rather, it is an example of the kind of analysis and response that would be useful in developing a more complete understanding of the issue under consideration and that could provide guidance in the adoption and implementation state economic development policies to address such issues.

Once the parameters and criteria of a preliminary benchmarking process have been established, the next step in the benchmarking process is the actual setting of numeric goals and objectives to which the State is willing to hold itself accountable over some reasonable time frame. There are many reasons for establishing quantitative benchmarks. In the case of this CFED effort, the primary objective for establishing a system of benchmarks is to enable the Vermont legislature and relevant State agencies to periodically and objectively set and evaluate priorities, and to monitor the progress of programs and/or department-agency efforts in implementing those priorities toward a defined set of desired outcomes-goals for the State of Vermont.

At this initial design point, quantitative benchmark recommendations for this issue have not been developed. These would ideally be developed through a deliberative process, involving discussions and analysis that would reflect a combination of refinements to the CFED visioning and goal-setting process - including the set of five broad policy goals for the State that are established in the CFED Report - and the subsequent development of a series of specific questions and strategy statements under each goal which would provide a

general approach as to how and at what pace the State may be expected to proceed towards achieving the stated vision and goals.

These quantitative benchmark recommendations would also ideally reflect: (1) an understanding of the long-term economic performance and structural economic issues that have been impacting the state economy (even before the onset of the current economic recession), and (2) a general understanding of the global competitive environment that Vermont businesses today must operate within. In order to successfully achieve any stated benchmark goal, specific actions will be required by many partners both in and outside of the economic development community. Businesses need the involvement of the public sector to attend to such important aspects of quality of life and economic opportunity and stability as a stable tax policy and regulatory climate, the quality and commitment to funding existing and potentially new education and workforce training efforts—programs, environmental protection and high quality infrastructure. The public sector needs the business community to create and retain the well-paying job opportunities that financially support all aspects of healthy communities. The volunteer-nonprofit portion of the state’s human and services delivery infrastructure needs assistance from both businesses and the public sector to effectively do their work as well.

The process of establishing a quantitative benchmark typically involves three steps. The first step requires the establishment of a set of goals that serve as the overall guiding criteria for the Comprehensive Economic Development Plan. The second step involves identifying an inventory of potential quantitative indicators such as those suggested above. The third step in the benchmarking process typically involves the actual development of quantitative targets for each of the potential benchmark indicators. These initial outcome-based targets are usually set in a way that are thought to be:

1. Aggressive yet plausible, and
2. Include only those indicators where state action or action taken in conjunction with local-regional partners could effect significant change.

For the benchmarking process to be credible and useful to the formation, implementation and evaluation of economic development policy it is clear that some additional commitment and capacity will be needed at the highest level of State government if we are to attain the economic development goals identified by CFED. Benchmarking must be done on a consistent, on-going basis to ensure that our economic development policies will have the capability and focus that will be required to attain Vermont’s economic development goals.

A Preliminary Benchmarking Exercise To Assess Workforce Development Policy

This sample response is designed to show the how the use of selected benchmarks along with accompanying interpretive commentary may be used to address economic development issues, as framed by specific questions such as the below. It is not intended to be an exhaustive response to the questions posed, rather, it is an example of the kind of analysis and response that would be used to further a more complete understanding of the issue under consideration and could lead to a review of policy options with which to address such issues.

Issue 1, A) Skilled Workforce Questions:

Do Vermonters have the work skills, training and experience they **need to be matched** to employment opportunities in Vermont?

Are employers able to find a sufficient number of skilled workers to meet their need?

Key indicators

- Unemployment rate
- Relative wage rate by occupation
- IRS net migration data
- High school graduation and literacy rates
- Comparative high school outcomes among all states
- Percent of college and post-graduate degrees or certifications in the workforce
- Job vacancy rates for various positions and occupations
- Rates of youth under state supervision (correlates to substance abuse)
- Availability of publicly financed job training programs

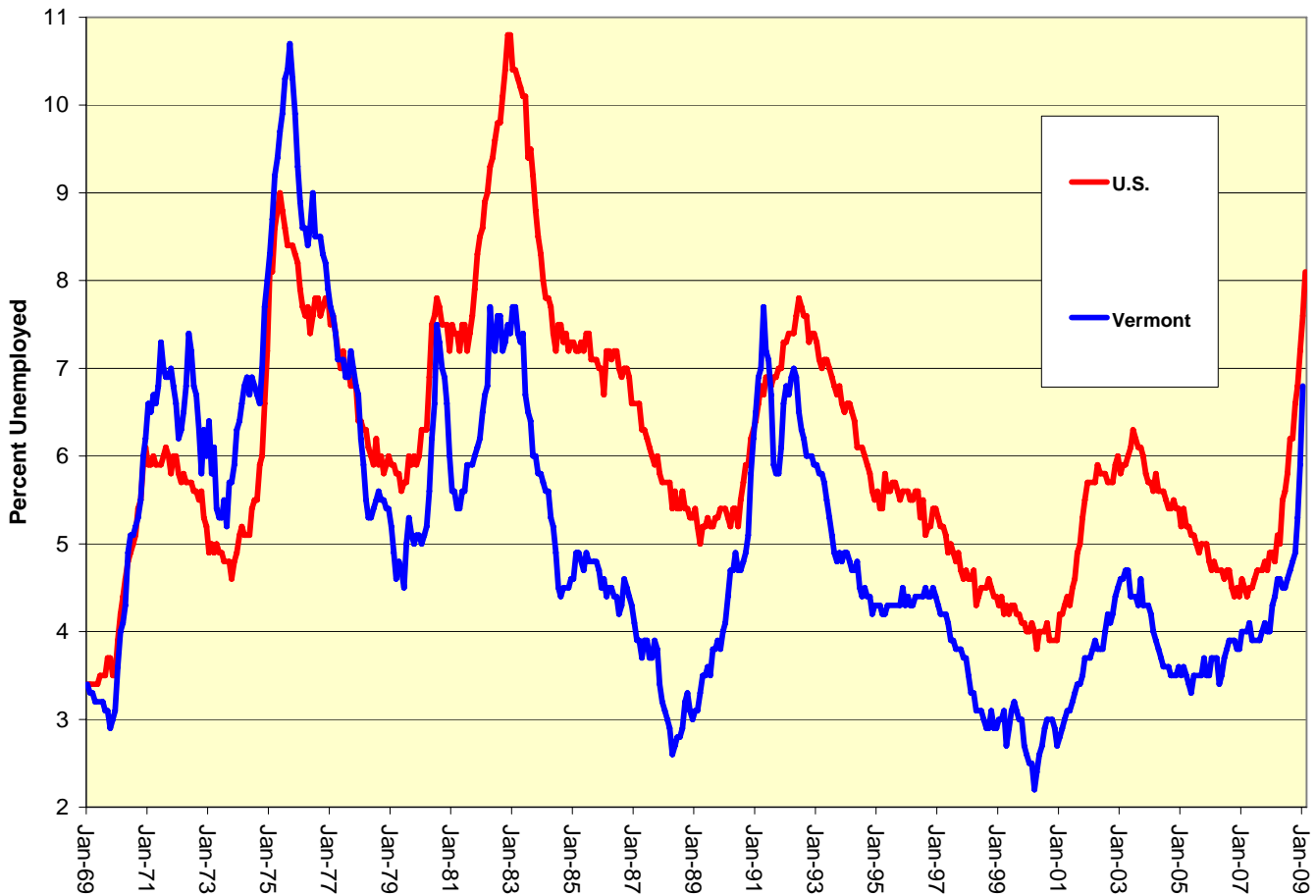
Issue 1, B) Response Narrative:

These two questions address critical workforce and human capital quality and availability issues that affect the Vermont economy now and in the future.

There are both short term and longer term issues raised by these questions. The unemployment rate is one of the best measures of general labor market “tightness,” affecting both the availability and price of labor. As illustrated in the below chart, in recent months, both State and U.S. unemployment rates have dramatically increased, signaling large increases in worker availability and depressing both wage increases and the price of newly hired labor. With unemployment rates expected to rise further and be elevated for at least 2-3

U.S. and Vermont Unemployment Rates

(Seasonally adjusted data, Source: Bureau of Labor Statistics, U.S. Department of Labor)



years, labor availability should not be a major constraint to economic development in the State in the near or medium term.

It is important to recognize that there is always a clearing price for labor in a free market. Thus, when employers speak of a labor “shortage,” or “an insufficient number of skilled workers to meet their needs,” they are referring to a shortage at a given price, or at a particular price they are willing to pay. At a sufficiently high wage, any job vacancy in the State could be filled. An unmet “need,” therefore, is both a reflection of labor market availability and a willingness to pay a wage sufficient to attract an adequate number of workers.

The obvious tension in the “willing to pay” equation is a subjective, but often experienced-based determination by the employer regarding the prospects that the firm could extract the unit costs for labor at the labor market clearing price in the competitive marketplace. This tension has become particularly acute for Vermont employers competing in an increasingly competitive global marketplace.

For the aggregate Vermont workforce in 2007, wages in Vermont were about 6% below average U.S. wages. However, this varies significantly by occupation, with

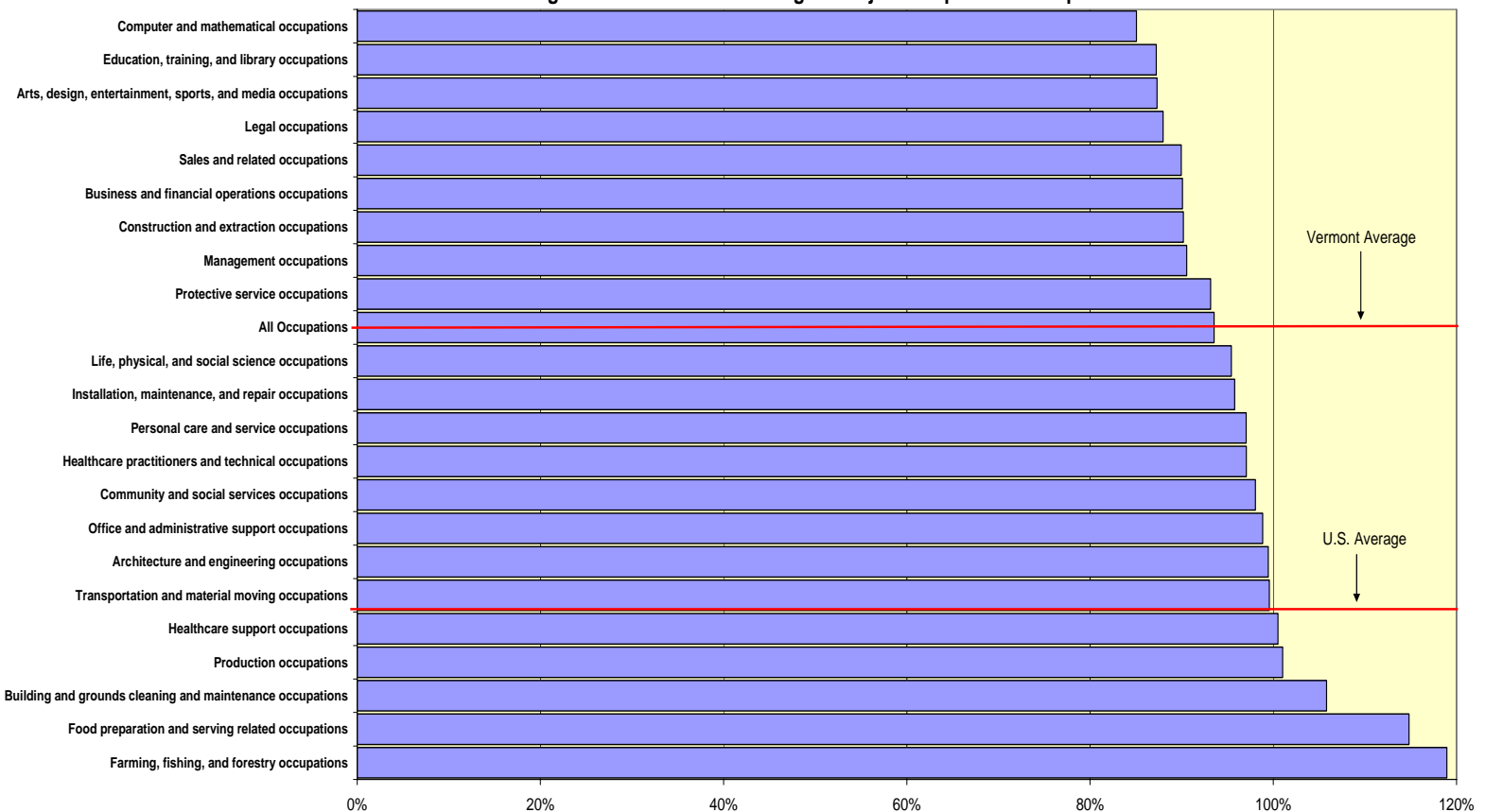
some above the U.S. average and some below. Because Vermont's minimum wage is higher than most states, lower paying occupations in Vermont, such as those in the food preparation and serving business, have wages about 15% above the U.S. average (see chart on next page). Many professional and more skilled labor occupations, such as doctors, lawyers, computer and technology professionals and educators, however, receive wages well below both the average U.S. wage and the average Vermont differential with the U.S. wage.

General internists in Vermont, for example, receive annual income that is only 63% of the U.S. average. While medical secretaries in Vermont receive 111% of the U.S. average wage, more highly skilled family and general practitioners only receive about 80%, surgeons, about 90%, psychiatrists, about 85%, pediatricians, about 81%, and gynecologists, about 90% of the U.S. average.

The major occupational grouping with the lowest Vermont wage relative to the U.S. is Computer and Mathematical Occupations, where average earnings are only 85% of the U.S. average. With nearly 6,000 Vermont workers employed in this broad occupational category (including computer programmers @ 89%, computer software engineers @ 80%, computer and information systems managers @85%), firms in this sector enjoy a wide competitive labor compensation advantage relative to other U.S. states.

This wage differential indicates substantial room to raise wage offerings if employers are experiencing "shortages" of workers in many of these more highly skilled occupational categories.

2007 Vermont Wages as a Percent of U.S. Wages - Major Occupational Groups



The presence of a low wage differential for highly skilled workers, who can generally choose where they live, is also reflective of another important State economic development attribute: the generally high quality of life in Vermont.

When a state can attract highly skilled and other workers at wages well below the U.S. average and average state relative, this is explained in economic parlance as a “positive amenity factor.” Vermont has benefited from this amenity factor for more than 40 years. In virtually every economic model for the State, net economic in-migration is an important component of economic and job growth. In fact, in the Cost-Benefit model used by the Vermont Economic Progress Council to measure net economic impacts from new job growth, more than half of all net new jobs are generally estimated to be filled by economic in-migrants.

At any given time, no matter how well trained and skilled the State workforce is, there will be some employment opportunities that cannot be filled by local labor. Although specialized worker training is one way to maximize the “match” between available jobs and local workers, it is also important to recognize and maintain the capacity of the State to attract workers from other states.

Vermont Unemployment Rate Relative to U.S. Unemployment Rate



Almost all new hires at a company require some job training. This is accepted as a significant operating expense for many companies and is one of the reasons companies pay experienced workers more than newly hired workers and attempt to minimize job turnover. To the extent the State is willing to pay for some or all of these job training expenses, this can represent a substantial business subsidy to companies with high new job creation and/or turnover rates.

Educational metrics associated with the State population and labor force generally point to a higher than average level of workforce quality. Vermont has one of the highest literacy rates in the nation, the 9th highest level high school graduation rate, the 5th highest share of the population with bachelor's degrees, and the 8th highest share of the population with graduate or professional degrees. In addition to this, as shown on the map on the following page, many states and counties in close proximity to Vermont have exceptionally high college graduate and post-graduate populations and shares of population. This broader regional labor pool (MA, NY, CT, especially) from which Vermont attracts most in-migrants is also an important asset in evaluating labor force quality.

Issue 1, C) Response Summary:

- ***Labor availability should not be a major constraint to State job growth in the next 2-3 years. Even skilled labor should be in ample supply, as the economy contracts and unemployment tops 8% in Vermont.***
- ***Given current occupational wage differentials, employers should be able to attract highly skilled workers by offering wage enticements, while still maintaining a significant competitive labor price advantage.***
- ***Most job training is done by private employers for company-specific needs, but public job training programs can represent a significant business subsidy and assist both workers and employers in lowering labor start-up costs.***
- ***Anecdotal information from employers indicates that job readiness remains an ongoing concern to Vermont employers, where workers—particularly entry-level workers—have not yet learned or obtained critical communication and inter-personal skills needed to work in a “team-environment.”***
- ***Maintaining the State’s high quality of living is important to attracting out of state workers and retaining the State’s generally competitive wage differential – especially among higher paying occupations.***
- ***The Vermont workforce has comparatively high educational attainment and offers better than average workforce quality. This***

should be an important competitive advantage for attracting businesses that rely on a skilled labor force, as well as favorably affecting “entrepreneurial energy” in the State.

Issue 1, D) Review of Current Public Policy Programs and Activities:

Current programs underway in the State to help assure an adequate supply of skilled workers for Vermont employers include:

- *The Vermont Training Program:*

The Vermont Department of Economic Development oversees the Vermont Training Program. The program aims to promote industrial expansion in the State through job training subsidies to the Manufacturing, Information Technology, Healthcare, Telecommunication, and Environmental Engineering sectors. The Program offers three types of subsidies: New Employment Training, Upgrade Training, and Cross-over Training. Each type of training can be tailored to meet the needs of employers and can include on-the-job, classroom, or other specialized training. Funding from the program can be used at the Champlain College Workforce Development Center’s programs.

- *The Vermont Department of Labor Training Program:*

The Vermont Department of Labor’s training programs come in two varieties: Workforce Education Training Fund (WETF) and Career and Alternative Workforce Education. WETF grants are dispersed quarterly and split between training programs and internships. The grants can be used to train existing or incoming employees, but must be applied for by the employer or by training providers in concert with an employer. Additionally, all funds must be reviewed by a Workforce Investment Board.

- *Career and Alternative Workforce Education grants are split between Career Exploration and Alternative Workforce Education. The grants provide training for career exploration by students between grades 7 and 12 and can be used for vocational or academic training.*

- *The Next Generation Commission Findings:*

In late 2006 a report was released by a commission assembled to address potential workforce challenges Vermont faces (a rapidly aging population and alleged “brain drain”). The report, entitled “The Next Generation Commission: Linking Learning to Earning in Vermont,” concluded that a shortage of labor was an impediment to economic growth in the state, and that the problem could become more severe in the future as the aging “baby-boom” population begins to reach retirement age. Suggested

remedies include better coordinating economic development agencies, increasing post-secondary educational funding, and a placing a greater emphasis on careers and working life in the K-12 education system. Although some of the findings in the report lack a contextual basis, it should be carefully reviewed so as to consider those recommendations with merit.

Issue 1, E) Policy Considerations and Future Policy Options:

- *In addition to current private sector, public sector and collaborative efforts already underway, there are additional policy considerations that could be explored. These include: [specific policy options could be presented here, upon request].*
- *Are there more effective business subsidies that could be utilized to support net job growth?*
- *Are there ways to target job training programs to regions of the State with chronic unemployment problems?*
- *Are there ways to help integrate training and work force preparedness efforts with the specific needs of growing or promising strategic sectors of the state and regional economies?*
- *Can existing Workforce Investment Boards act as and be given the resources and portfolio to function as regional coordinating entities for coordinating private-public job training and workforce preparedness efforts?*
- *Would a broader, web-based labor market clearing house assist in alleviating unemployment that is caused by inefficient information-sharing in existing labor markets? If so, how might this be funded?*
- *How else might new information technologies be used to maximize labor market “matching” and minimize in-State unemployment?*
- *How effective are current public labor force policies and programs? What could be done to improve existing programs? Should any be discontinued in favor of other approaches?*
- *Are there changes in public school K-12 education and curriculums that would support a better-prepared workforce to meet future global economic challenges? If so, what are these and how might they be implemented?*
- *What can be done to preserve and expand the “quality of life” advantage the State maintains, so as to be able to continue to attract skilled out-of-state workers at below-national wage rates?*