ECONOMIC DEVELOPMENT IN VERMONT:

Making Lemons Out of Lemonade?

ART WOOLF

The AIMS Atlantica Papers #3

Brian Lee Crowley

Series Editor

July 2004

The Atlantic Institute for Market Studies (AIMS) is an independent, non-partisan, social and economic policy think tank based in Halifax. The Institute was founded by a group of Atlantic Canadians to broaden the debate about the realistic options available to build our economy.

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The Institute's chief objectives include:

a) initiating and conducting research identifying current and emerging economic and public policy issues facing Atlantic Canadians and Canadians more generally, including research into the economic and social characteristics and potentials of Atlantic Canada and its four constituent provinces;

b) investigating and analyzing the full range of options for public and private sector responses to the issues identified and acting as a catalyst for informed debate on those options, with a particular focus on strategies for overcoming Atlantic Canada's economic challenges in terms of regional disparities;

c) communicating the conclusions of its research to a regional and national audience in a clear, non-partisan way; and

d) sponsoring or organizing conferences, meetings, seminars, lectures. training programs, and publications, using all media of communication (including, without restriction, the electronic media (for the purpose of achieving these objectives.

2000 Barrington Street, Suite 1006, Halifax, Nova Scotia B3J 3K1
Telephone: (902) 429-1143 Fax: (902) 425-1393
E-mail: aims@aims.ca Web site: www.aims.ca

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ATLANTICA

For some time AIMS has been promoting discussion about a geographical concept dubbed “Atlantica”. The region is broadly composed of the Atlantic provinces, eastern Quebec, the northern tier of New England states and up-state New York. These territories share a number of common characteristics — similar demographics, diversity and migration; a shared history, and interrelated transport issues. Perhaps most important, the residents of Atlantica have generally suffered from relative economic underdevelopment and growth compared to their respective national economies.

Atlantica may not merely be an accidental aggregation of like economies, or even a region reflecting a confluence of similar external forces. The regional characteristics may exist precisely because the border passes through it. Conceptually, at least, it is not too hard to understand why this may be so. Geographically, the axis of Atlantic Canada trade would seem to be naturally north-south — as historically it used to be until national policies imposed an east-west bias. The huge northward bulge of Maine represents a major obstacle between Atlantic Canada and the country’s industrial heartland. Maine and the other upper New England states, on the other hand, are a peninsula encircled by the border. Whatever local opportunities for development that might exist are frequently stymied by that frontier and drawn off southward along the interstate transportation corridors — reinforcing the relative isolation and underdevelopment of the north.

The existence and placement of boundaries, whether national or international, do matter. Borders are not merely cartographic creations. They are the intersections of government policies. Where those policies are not carefully harmonized and the implications of differences clearly understood, economic consequences ensue.

AIMS is proud to present Art Woolf’s comments on the economic and social conseqences to Vermont of that state’s choice of policies and regulations, which tend to turn competitive strengths into competitive weaknesses. Next-door New Hampshire’s different approach and consequent economic vibrancy illustrate once again the importance of borders. This is the third in a series of Atlantica Papers about the meaning of the border and the creation of a heightened cross-border consciousness of what the former mayor of Bangor, Maine, Tim Woodcock, calls “Our Shared Region”.

ABOUT THE AUTHOR

Arthur Woolf received his B.A. degree in history from Cornell University in 1973. He attended graduate school in economics at the University of Wisconsin–Madison and received his Ph.D. in 1980. He began teaching at the University of Vermont in 1980, where he is currently associate professor of economics. In 1987, he was visiting economist at the Center for Energy Policy Studies at the Massachusetts Institute of Technology, and in 1988 he was appointed Vermont State Economist by Governor Madeleine Kunin, a position he held until January 1991.

Professor Woolf's community work includes membership on the Westford School Board from 1985 to 1987. He was also a member of the Lake Champlain Basin Program's Technical Advisory Committee from 1991 to 1997. He is a member of the Advisory Board at Sopher Investment Management, Inc., on the Board of the Ethan Allen Institute, and is chair of the Vermont Student Opportunity Scholarship Fund board. In 1999, he founded The Vermont Council on Economic Education, an organization promoting economic and financial literacy through the teaching of economics in Vermont's elementary, middle, and high schools. He is the Council's president.

Professor Woolf has published articles in academic journals and contributed chapters to books on a variety of economic subjects. He is author of the chapter "Taxation in Vermont" in the recently published *Vermont State Government and Administration since 1965*. He has written and lectured widely within the state on Vermont economic and policy issues, including taxation and spending, education finance, housing, population and demographic trends, and economic development. During the 1990s, he was a contributing editor of *Vermont Magazine*, where he wrote a column on the Vermont economy. He is also the editor of *The Vermont Economy Newsletter* and is president of Northern Economic Consulting, Inc.

Art Woolf lives on a 140-acre farm in Westford with his wife, Celeste Gaspari, and their two children.

EXECUTIVE SUMMARY

If the point of an economy is to maximize the use of scarce resources to deliver as many goods and services as possible to the population, then Vermont's economy is failing by not making the best possible use of the state's "comparative advantage". In fact, the state is turning its competitive strengths into competitive weaknesses — in effect, taking assets (lemonade) and turning them into negatives (lemons).

Vermont's weaknesses include its awkward geographic location and poor transportation infrastructure, its high taxes, and its small population, all of which make it difficult to attract talented, high-income earners, especially couples, which hurts the state's competitiveness.

Among Vermont's supposed strengths is its quality of life, but its cold, often gloomy weather and absence of big cities does not appeal to most people. The state therefore cannot afford to pick and choose the firms it wants to locate there.

Another apparent strength is Vermont's education system. The elementary and high school system is well funded in per student terms and class sizes are small, which should mean a high-quality education — and the availability of a well-educated, highly trained workforce is key to the state's economic growth. Yet Vermont students score only around the US average according to available outcome or performance measures. Moreover, Vermont's post-secondary education system is weak. The state's spending on post-secondary education is among the lowest in the United States, and the system lacks many of the kinds of technical or skill-specific training programs found elsewhere. In short, the state's investment in education, training, and skills is inadequate.

Vermont's small population, which in one sense is a weakness in terms of producing critical thresholds for economic and social activity, should also be a strength if it meant smaller government bureaucracies, more efficient government, and faster government response to problems and requests for things such as permits. Instead, Vermont's bureaucracy is cumbersome, and the state's tradition of "citizen participation" means that the decisionmaking process is prone to excessive manipulation by special interests.

Still another of rural Vermont's apparent strengths is the availability of land, which should imply relatively inexpensive housing. Yet housing prices in the state are rising rapidly, since Vermont's land use policies, with their emphasis on preserving land for agricultural use, make it very difficult for people to subdivide land and expensive for developers to build on. Lower housing prices and apartment rents would make Vermont a more attractive place to live and work.

On the other side of the Connecticut River, New Hampshire, with its more libertarian political tradition, has attuned its economy to economic growth and introduced policies to foster that goal. As a result, New Hampshire outperforms Vermont on almost all indicators of social equity, including median household income, poverty rates, child welfare, and access to health insurance benefits.

Economic growth benefits everyone. Growth leads to higher incomes for the middle class, lower poverty rates, an increased ability to afford health insurance, and firms that are better able to afford to pay higher wages and better benefits for their employees. Encouraging economic growth, however, requires an attitude that is conducive to growth. Until Vermonters change their attitudes toward economic growth and change, and let a healthy, vibrant economy provide the services it can do better than government, Vermont will remain a low-wage, low-income state.

INTRODUCTION

The economy is nothing more than the way we organize ourselves to solve the fundamental problem inherent in any society: how to reconcile the unlimited wants and desires of people with the fixed amount of resources that exist in any society at any given time. What the economy does is figure out a way to maximize the use of its scarce resources to deliver as many goods and services as possible to its people — in the utilitarian view of the world, to produce as much happiness as possible.

In a market economy, we solve the problem of producing as much happiness as possible by producing as many goods and services as possible out of limited resources — people, natural resources, and capital. If we do it well, we're doing a good job of solving our economic problem; if we do it poorly, we could get more out of what we have. We do that by making the best use of what we have. In economics jargon, we make use of our "comparative advantage".

My thesis is that we're not doing that today in Vermont. And it is not because we don't have competitive strengths — we do. The problem is that we are not making the best use of our resources because we are turning our competitive strengths into competitive weaknesses.

The robust growth of the 1990s showed us the many benefits of a strong economy: low unemployment and lots of opportunities for career changes, for new entrants into the labour force, for former welfare recipients to move into the labour market, and for entrepreneurs and successful business ventures. And the downturn of 2001 reminded us that a stagnant or recessionary economy is very distressing to many and very painful to those who lose their jobs.

If we ask how Vermont can better capitalize on its strengths, we first need to identify our competitive strengths and weaknesses.

VERMONT'S COMPETITIVE WEAKNESSES

Let's start with Vermont's weaknesses — those factors that inhibit our economic performance.

First, geography matters, even in this era of the Internet and instant communications. Vermont is stuck in a corner of the United States and its transportation infrastructure is not great. Air transportation is fairly good in the Chittenden County area, with services that are slowly improving. Ground transport isn't bad in certain parts of the state, but it is poor in other parts, such as Rutland. The fact is that it is difficult to move goods and, especially, people to and from Vermont.

Second, our taxes, especially taxes that matter, are high. Vermont imposes one of the highest marginal state income taxes in the United States, which is a definite problem for attracting high-income professionals and entrepreneurs. Vermont also has high property taxes, but there is no evidence in the economic literature that high property taxes impose costs on the economy. To the contrary, there is evidence that local property taxes used to finance local spending have many beneficial aspects.

Third, not many people live in Vermont. Our small population is usually considered an asset, but it actually imposes some real costs on the state's economic growth potential. Vermont's modern economy depends on highly skilled people with highly specific skills, which they obtain by getting a high degree of education. And highly educated people tend to marry other highly educated people. An economist might marry a physician, for example, and there are certainly jobs in Vermont for both economists and physicians. But people specialize. Suppose our physician, a specialist in pediatric pulmonology, marries an economist who specializes in financial economics. Vermont is so small that it has jobs for only two pediatric pulmonologists and three financial economists. If one spouse gets a job offer in the state but the other can't find anything, we lose both.

Thus, Vermont's small size makes it difficult to attract dual career couples, and firms and organizations in the state suffer because they can't attract the most talented people available, which hurts our competitiveness. Indeed, there is quantitative evidence that this phenomenon partially explains why cities grow faster than rural areas, have higher incomes, and have incomes that are growing faster.

Moreover, such a scenario is not hypothetical — a friend of mine is a financial economist now working for Freddie Mac in Washington; his wife, a pediatric pulmonologist, works at a teaching hospital in Baltimore. So the Baltimore-Washington area's gain is Vermont's loss.

Vermont's economy has other negatives, but it would be more useful to look at the positive aspects of living in Vermont and see why we aren't using them to their fullest.

VERMONT'S COMPETITIVE STRENGTHS

Let's start out by looking at Vermont's strengths. Everyone says the state's main strength is its high quality of life. In fact, the Vermont Department of Economic Development web site lists quality of life as the number one reason for relocating a business to Vermont. To be fair, that's probably true of every state economic development web site. And that's an important point.

We can't just assume that, because most of those who live there think Vermont is a wonderful place to live, others must agree with that sentiment. Everyone thinks that where they live — whether it's Lenaxa, Kansas, the Upper West Side of Manhattan, or Portland, Oregon — is the best place to live and work in the country. Otherwise they wouldn't live there.

In fact, we know that most people don't like the Vermont lifestyle. It's cold, there's no sun, and there are no big cities. That's why people move to Florida, Texas, California, and the metropolitan areas of other southern and western states.

The point is, we can't rest on our laurels and say that, since Vermont has what everyone wants, we can therefore pick and choose what firms we want in the state. If we want to raise Vermonters' income levels, a major goal of state economic policy, and to give them more opportunities in the future, we have to identify other strengths.

Turning Competitive Strengths into Weaknesses

One problem, and my major concern here, is that we have taken many of the comparative advantages Vermont has over other states and turned them into weaknesses. Instead of taking negatives (lemons) and turning them into assets (lemonade), we have done just the reverse.

For example, if we want a highly skilled workforce, we need a well-educated, highly trained workforce. We don't just want jobs in Vermont, we want high-quality, high-paying jobs. If providing jobs was the main focus, we could have kept all of the mill jobs in Winooski and elsewhere that we lost 50 years ago. We could have 40 percent of our labour force still in farming, as we did in 1900. But Vermont would have been a much poorer state if we had forced those jobs to stay instead of losing them to lower-cost states or to mechanization. An educated workforce, on the other hand, is able to move from low-productivity, low-paying jobs, such as those in mills or on farms, to high-productivity, high-paying jobs. But you can't have high-paying jobs without high productivity, and high productivity means human capital — that is, investment in education, training, and skills.

Yet, Vermont's post-secondary education system is very weak, with few of the kinds of technical or skill-specific training programs that one finds in community colleges in other states. Vermont's spending on post-secondary education is among the lowest in the United States, which means there are fewer opportunities for older Vermonters to obtain needed skills training or retraining in the face of a rapidly changing work environment.

If we look at the state's K–12 education system, we find a similar set of problems. If you ask educators in any state what makes a high-quality education system, they'll answer very simply: more money, more teachers, smaller class sizes.

Vermont has one of the highest spending levels per pupil in the United States. As a percent of the income we earn, we spend more than any state except Alaska and West Virginia. We have the smallest average class sizes of any state except North Dakota, the lowest ratio of students to teachers, and the lowest ratio of students to staff in the nation. Vermont has what other states' education establishments want.

Vermont thus should have one of the best education systems in the nation. Does it? Who knows? We don't use many of the same tests other states use, so it's difficult to answer the question — which is a problem in itself. But if you look at the available outcome or performance measures, Vermont appears to be marginally above the national average. And if you adjust for Vermont's demographic characteristics, the state is nearly identical to the US average. So, on net, it's probably not far from the truth to say that Vermont's K–12 education system produces students who are, at best, slightly above the national average.

At the same time, however, Vermont also is not large enough to have pockets of excellence in its school system. That is, it has nothing like Chicago's New Trier High School or New York's Stuyvesant High or Bronx High School of Science or any of the extremely high quality public school systems that exist in many metropolitan areas. Vermont just doesn't have the large population base that would permit a school district in any one area to rise above the rest and provide a magnet for parents who would be willing to pay for their children to receive high-quality public education. And even within our schools, we provide few resources for enrichment programs for gifted students or high-performing students.

The quality of Vermont's schools, then, is not a strong selling point for attracting businesses, professionals, or entrepreneurs. Our small schools and high spending per student should be producing above average students, but they are not. Our schools should be among the best in the United States, given the inputs we provide. But output, in terms of student performance, is just average. That is one example of making sour lemons out of what should be sweet lemonade.

Then there is the issue of Vermont's small population, which should mean smaller government bureaucracies, more efficient government, and faster government response to problems and requests for things such as permits. Instead, Vermont's permit process is slow and cumbersome.

The reason, in part, is that we don't give government the resources to do what we ask it to do. But it is also because of our notion of "citizen participation", which allows small groups of very interested people to dominate the government decisionmaking process. The problem is especially acute in areas such as the Water Resources Board, Act 250, and other government regulatory bodies that were set up decades ago before we had a state agency to deal with environmental quality problems and programs. The result is redundancy and overlap of responsibilities. James Madison warned about allowing factions to dominate or control the political process, and the Constitution deliberately made it difficult for any one group to control government. In Vermont, however, we have allowed factions to influence decisionmaking to the detriment of the majority of the population.

James Buchanan won the Nobel Prize in Economics in part for describing this phenomenon. To paraphrase his work, he said that economic change adversely affects a small group of people even if the change benefits the majority. Even if the total benefits to the larger group of people exceed the costs imposed on the smaller group, the small group has more of an incentive to fight the project.

Consider, for example, the towers used for cellular telephone transmissions. Although the benefits of such towers are clear for the large group of cell phone users, a much smaller group of people may feel hurt visually or aesthetically by the construction of such towers. Cell phone users won't organize to fight for a benefit that is widely dispersed among them, but opponents of the towers have a much greater incentive to fight them.

Or consider wind turbines to generate electricity. How long would it take to obtain the permits to install a farm of 200-foot-high windmills in Vermont? In Texas, it took an entrepreneur one week.

Again, the point is that, in a small state, it should be possible to make decisions quickly. In Vermont, however, it is not possible, and that costs us. We don't get the economic benefits we should from having a small government. More lemons.

Consider, as another example, Vermont's transportation infrastructure. We should be able to solve our highway and road problems fairly easily. Nowhere in Vermont is land as congested as it is in, say, New Jersey, Atlanta, Philadelphia, or Washington. In those areas, building more highways to solve urban transportation bottlenecks is problematic. As you build more freeways, traffic moves off secondary roads onto the new freeways and ends up moving as slowly as it did before the new roads were built. That's because of the density of population and of cars. (It's also because of the uneconomical and inefficient way we price the use of highways, but that's another story.)

Vermont simply does not have the density of population that major metropolitan areas have. We can expand our highways and solve traffic problems in a way that does not work in more populated areas. To pretend that our transportation problems are similar to major urban areas is simply inappropriate. We are not New Jersey or Atlanta and we are no danger of looking like those areas. We should not be imposing solutions that may (or may not) work in major urban areas but have little applicability in Vermont's rural environment.

The result is that we should have much easier transportation access within our urban areas, around and between Vermont's towns and cities, and better connections to the interstate highway system than actually exist. Better and more roads would work here even if they wouldn't necessarily work in an urban setting. That is, most Vermonters would probably be willing to pay higher gasoline taxes if they knew that the revenues were going to be used to make highways work better. But, by not improving our road transportation infrastructure when it would be relatively easy to fix, we take one of our competitive strengths and turn it into a liability.

Housing is another example of a comparative advantage that we have turned into a negative. Vermont is one of the most rural states in the nation. We have lots of land. Anyone who has flown into the Burlington Airport — in the most densely populated part of the state — knows that you see almost nothing but trees on most of the approach to the airport. Yet housing prices in the state are rising at near double-digit rates. Why? There is really only one reason housing prices rise: supply doesn't keep up with increases in demand. But demand for housing in Vermont grows very slowly. Population growth is much slower than the national average, as is the formation of new households. We're not Nevada, which is growing at five percent per year. Vermont adds five percent to its population in about eight to ten years. So why are Vermont's housing prices going up faster than Nevada's?

The reason is that Vermont makes it very difficult for people to subdivide land, expensive for developers to build developments, and hard for people to put in new housing. There's really no reason a building lot in Chittenden County should sell for $50,000 to $100,000. Land is not that scarce in the county or elsewhere in the state.

Land is a valuable commodity. Unfortunately, the state gives priority to all sorts of other land uses besides housing. Act 250, for example, gives the highest priority to agricultural land use. But prime agricultural land is usually excellent for housing development as well and is worth more in that capacity, especially near urban areas such as Burlington. Or Bennington, where opponents are trying to prevent a school from being built on a small parcel of land that hasn't been used profitably for agriculture for years.

Vermont's housing shortage and lack of rental units are fundamentally problems of our own doing and can be solved by better policies. Again, there is no reason housing prices or apartment rents should be as high as they are in Vermont. And if they were lower, Vermont would be a more attractive place to live and work. We should have more lemonade — we've got the ingredients. Instead, our housing prices have become an economic development lemon.

ENVISIONING AN ECONOMY THAT ISN'T THERE

Think about a Vermont with better roads, lower-cost housing, a higher-quality education infrastructure, and better training and skills programs for our students and adult learners.

Think about a Vermont where highly paid executives or entrepreneurs or professionals could live in a downtown area, a suburban development, or in a rural farmhouse within easy commuting distance of a place of work full of talented, highly skilled graduates of Vermont high schools, technical schools, and community colleges.

Vermont would be a state with higher incomes, lower poverty rates, and a higher standard of living, and where fewer people would go without health insurance. In short, it would be a state that has all the attributes everyone in Vermont wants, from progressives on the left to conservatives on the right. An economy that is more competitive with those of other states and other nations would give us those desired results.

What happens when an economy takes its assets and turns them into lemons and becomes less competitive? It's not something you can see; it's not as though something you had has been taken away from you. In the words of the old song, "How ya gonna keep 'em down on the farm after they've seen Paree?" — bad economic development policies keep people on the farm by not allowing them ever to see Paris. Poor policies simply mean poor economic results. Incomes are lower and poverty rates higher than if policies were better. The results of such policies are evident around the world. The extreme cases are where a political line separates two very different sets of economic results: North Korea and South Korea or East and West Germany before the fall of the Berlin Wall. Why, other than for policy decisions (long and short run) would a political line separate two nations with such different economic results?

So how do we know what Vermont would look like if we adopted policies more attuned to growth? What would happen if we used what I identified as strengths, rather than turning them into weaknesses?

A Vermont Comparison

To answer that question, one need only to look across another artificial line politicians have drawn — the boundary that runs along the western side of the Connecticut River dividing Vermont and New Hampshire.

Look at the most recent economic indicators. New Hampshire's economy is attuned to growth and has policies to foster growth. As a result, New Hampshire had one of the fastest-growing economies in the United States during the 1990s and the fastest in New England. What has growth meant for New Hampshire? In a nutshell, New Hampshire performs better than Vermont on just about any indicator of social equity that progressive legislators emphasize.

Take incomes. Over the 2000–02 period, median household income in New Hampshire averaged $53,549, second-highest in the United States. In Vermont, it was $41,929, twenty-third in the United States and below the US average of $43,052 (see web site http://www.census.gov/hhes/income/income02/statemhi.html). For a four-person family, the US Census Bureau estimates that median income in New Hampshire in 2001 was $72,606, seventh-highest in the United States and well above the $63,278 national average. In Vermont, the median four-person family income was $62,938. In other words, the average four-person family had an income $10,000 higher in New Hampshire than in Vermont (see web site http://www.census.gov/hhes/income/4person.html).

One might argue that these numbers tell us nothing about poverty or those at the bottom of the income distribution. After all, it is supposedly common knowledge that New Hampshire's brand of economics is heartless and doesn't care about children or those who are left behind. But let's look at what a healthy economy does for those at the bottom of the income distribution.

Take poverty rates. According to the US Census Bureau, during the 2000–02 period New Hampshire had a poverty rate estimated at 5.6 percent, the lowest in the country and well below Vermont's 9.9 percent rate, which ranked twenty-first (the national average was 11.9 percent — see web site http://www.census.gov/hhes/poverty/poverty02/table4.pdf).

What about child welfare? In the United States during the 2000–02 period, 37.7 percent of all children lived in households that earned under 200 percent of poverty income — about $25,000 to $35,000, depending on family size. That is a reflection of two factors: the large number of single-parent households and the fact that families headed by people with young children tend to have lower incomes than older families because workers' incomes tend to rise with age and workers with children tend to be younger than workers in the average household. Again over the 2000–02 period, both Vermont (31.5 percent) and New Hampshire (21.8 percent) had child poverty rates that were below the national average — indeed, New Hampshire's rate was the lowest in the nation. Once more, New Hampshire trumps Vermont according to this indicator of social welfare (see web site http://www.census.gov/hhes/hlthins/liuc02.html).

What about health insurance? Here the pattern is somewhat different, but given the lengths to which Vermont has gone to ensure that low-income Vermonters, especially children, have access to health care, that is not surprising. In Vermont over the 2000–02 period, 9.6 percent of the population was uninsured; in New Hampshire, it was slightly lower at 9.2 percent (see web site http://www.census.gov/hhes/hlthins/hlthin02/hi02t4.pdf). Over the past decade, Vermont has made great efforts to provide government-sponsored, government-subsidized health insurance to children through expanded government programs and special Medicaid waivers. Now, 41 percent of all Vermont children under the age of 18 are insured through Medicaid, compared with 17 percent in New Hampshire and 24 percent nationally (see web site: http://ferret.bls.census.gov/macro/032003/health/h05_000.htm).

Not surprisingly, Vermont's efforts to provide health care for children have paid off. During the 2000-02 period, only 2.1 percent of children living in households that earned under 200 percent of poverty income did not have health insurance. In New Hampshire, the figure was a slightly higher 3.0 percent (see web site http://www.census.gov/hhes/hlthins/liuc02.html). Similarly, over the 2000–01 period, 6.5 percent of all New Hampshire children lacked health insurance, while 4.9 percent of Vermont children did so. Both states were far below the national average of 12.5 percent (see web site http://www.census.gov/prod/2003pubs/p60-224.pdf).

The important point is that high income levels, low rates of poverty, and access to health insurance have been accomplished on the New Hampshire side of the Connecticut River by a healthy economy — one that thrives on low taxes and that capitalizes on its strengths and inherent advantages. Some might argue that New Hampshire's better economic performance is due not so much to its low tax rates, relatively reduced role of government in the economy, or a favorable economic infrastructure as to the fact that much of the state's population lives close to Boston. Yet, it is well known that incomes, and the cost of living, tend to be higher in urban areas, so that the poverty and income statistics I've cited really mean that everything is more expensive in New Hampshire.

A Connecticut River Valley Perspective

Let's look, therefore, at the Connecticut River Valley as a distinct area and focus on the New Hampshire and Vermont counties that border the river. Counties on both sides of the river are similar in population size and density, and big cities are absent. One might, in fact, expect the Vermont counties to perform better from an economic standpoint than those on the New Hampshire side due to the presence on the Vermont side of Interstate 91, a major north-south highway along which firms, and economic activity, would be expected to cluster.

Instead, what do we find? In 1999, median household income in the Vermont border counties was \$38,439, but \$40,718 on the New Hampshire side. Poverty rates, too, were higher on the Vermont side in 2000 (9.4 percent) than on the New Hampshire side (8.6 percent) (see web site: http://quickfacts.census.gov/qfd). The story is the same for child poverty, where the rate was 12.8 percent on the Vermont side and 9.3 percent on the New Hampshire side (see web site: http://www.census.gov/hhes/www/saipe/stcty/estimate.html).

The lesson from these data is that economic growth and a healthy economy do not benefit just the rich, as progressives claim. Rather, economic growth benefits everyone. Growth leads to higher incomes for the middle class, lower poverty rates, an increased ability to afford health insurance, and firms that are better able to afford to pay higher wages and better benefits for their employees.

In order to encourage economic growth, however, we need an infrastructure that is conducive to growth. By infrastructure, I don't mean just physical assets — I mean a mindset that recognizes that growth is good, a recognition that a healthy economy leads to increased opportunities for all, a higher standard of living, less poverty, and a better environment.

In Vermont, that will take a change in attitudes — one that recognizes that, to achieve higher growth, we need to use our assets to promote growth, not let them become liabilities in our quest for the better life that a healthy economy brings to us.

Until Vermonters confront those fundamental issues and change their attitudes toward economic growth and change, the state will continue to have the same economic development problems it has faced in the past. Vermont will remain a low-wage, low-income state — one that struggles to provide, through government policy, those services that are better provided by a healthy, vibrant economy.

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Atlantic Institute for
AIMS
Market Studies

2000 Barrington St., Suite 1006
Halifax NS B3J 3K1

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Facsimile: (902) 425-1393
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