Executive Summary

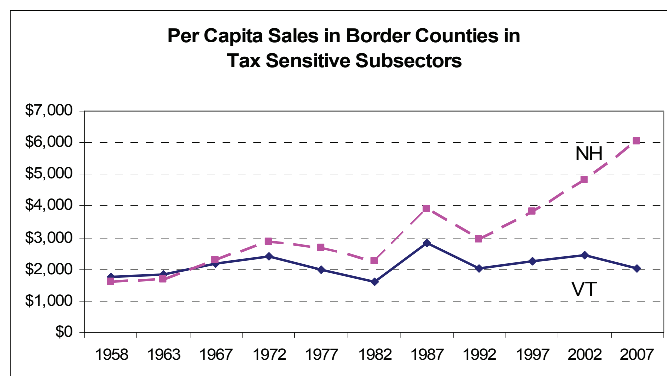
This study analyzes the long term economic impacts of public policy choices made by Vermont over the past four decades by focusing on retailing in the Vermont and New Hampshire counties bordering the Connecticut River. It concludes that Vermont's sales tax has dramatically changed the pattern of retailing and the location of retail activity in the counties that border the Connecticut River, leading to a significant loss of the retail market in the Vermont border counties.

Along with the sales tax, Vermont's bottle deposit law and Act 250 have contributed to a hollowing out of Vermont retailing along its border with New Hampshire. All of these policies may have been introduced for worthwhile purposes. But they had a major unanticipated consequence—essentially destroying what was once a thriving retail sector in Vermont's Connecticut River Valley.

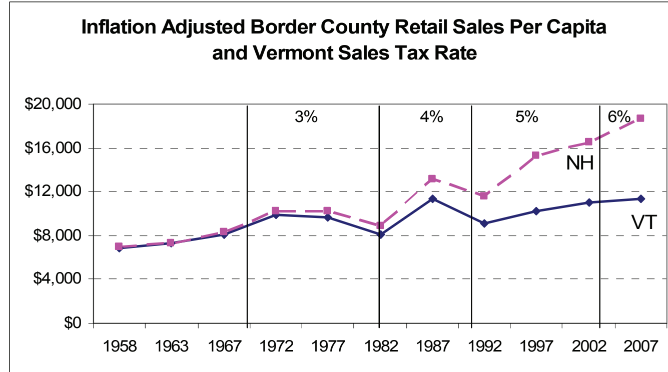
The major findings of the study are:

- If the level of retail sales per person had remained identical in the two border areas, which it was in the years before Vermont implemented its sales tax, Vermont's border communities would have had $540 million more in retail sales in 2007 and 3,000 more retail jobs. This would have contributed to healthier, more vibrant, communities and downtowns.

- During the 1950s and 1960s per capita sales in stores selling goods subject to Vermont's sales tax were identical to the sales on the New Hampshire side of the river. By 2007, per capita sales on the New Hampshire side of the river were three times what they were in Vermont. And inflation-adjusted per capita sales in Vermont were actually less in 2007 than they were thirty years earlier, while they had doubled in New Hampshire.



- Including all retail stores—both those selling goods subject to the sales tax and those selling goods not subject to the tax—the impact of the sales tax is still dramatic. In the 1950s and 1960s, aggregate per capita retail activity was identical on both sides of the river. By 2007, per capita retail sales in New Hampshire's border counties were $18,000 compared to only $11,000 on the Vermont side of the river. Between 1967, just before Vermont implemented its sales tax, and 2007, Vermont's per capita sales rose by 24%. In New Hampshire's border counties, per capita sales more than doubled.



- The economic damage imposed by the sales tax continues to worsen. In 2002, total per capita retail sales on the New Hampshire side of the Connecticut River were $18,809—$7,200 more than on the Vermont side. The latest U.S. Census report shows that in 2007, New Hampshire's sales rose by nearly $2,000 per person, while Vermont's increase was only $1,000. So over the past five years, the per capita sales gap has widened from $7,200 to $8,200.

- The major north-south highway in the region, I-91, is located on the Vermont side of the river. Interstate highways tend to attract retail activity, but even the presence of an interstate highway has not been sufficient to overcome the negative effects of Vermont's public policies on retail activity.

- The policies that Vermont enacted forty years ago, although designed with specific goals in mind, have had the unintended consequence of inflicting significant harm to the retail sector and to Vermont communities located along the Connecticut River.