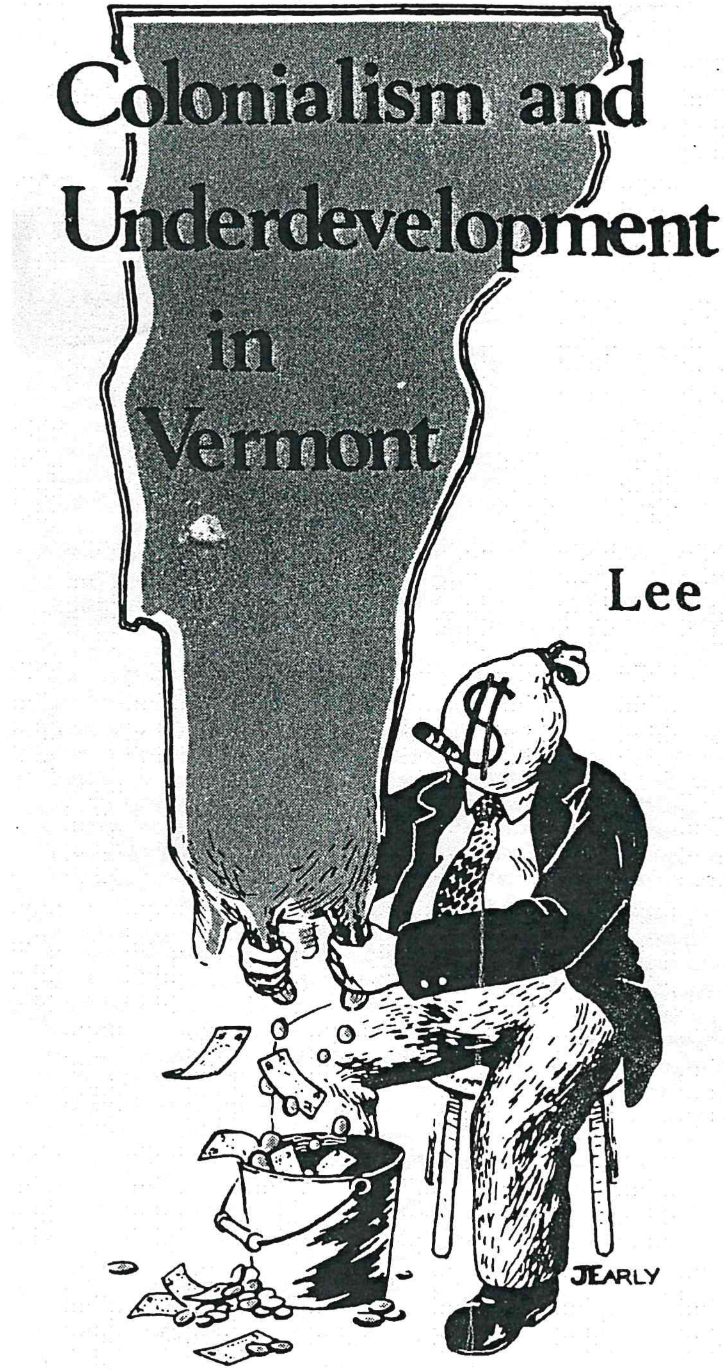
Colonialism and Underdevelopment in Vermont



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Lee Webb teaches courses in economics, history and political science at Goddard College in Plainfield, Vermont. A former national officer of Students for a Democratic Society, he has also worked as an investigative reporter for Ramparts and the Guardian.

Lee is one of several people currently doing research on Vermont from a radical perspective. Material on taxes, utilities, land development, and the ski industry is also being compiled and will eventually be published in pamphlet form.

Colonialism in Vermont

lee webb

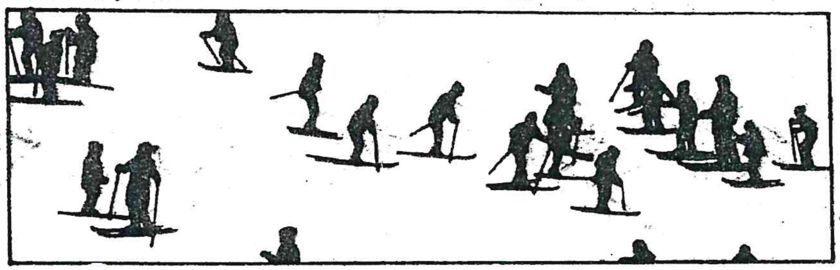
The parallels between Third World underdeveloped countries and advanced capitalist nations on the one hand, and Vermont and metropolitan America on the other hand, are striking. The poverty of Vermont can probably be best understood in terms of those economic relationships which typify American capitalism's exploitation of the Third World.

Vermont is a colony of American capitalism in the same way as the nations of Africa, Asia and Latin America. Though the intensity of the colonial relationship is less for Vermont, the essential dynamic is similar. Vermont's industry, land, and natural resources are owned and controlled by out-of-staters who are not the tourists or "summer people" who might own a small piece of property in the mountains or by a quiet lake, but rather the Boston, New York, and Philadelphia-based banks, insurance companies, timber, mining, and manufacturing corporations. The local Vermont businessman and banker is confined primarily to ownership of the tertiary level of the economy—retail and wholesale trade, services, land speculation, and smaller industry. All of the big and profitable sectors of the economy are in the hands of out-of-state corporations. One of the reasons a classical colonial struggle has not developed in Vermont and some of America's other internal colonies is the absence of a racial, religious, or language distinction between the colonized and the colonizer. Vermont is a case of whites' ripping off other whites.

Vermont is, of course, not unique in being an "internal colony" of American capitalism. The economic and political structures of the Appalachian region are dominated by the giant coal and petro-chemical corporations. Mining, agribusiness, and utilities dominate the Southwestern states. Out-of-state-controlled mining companies dominate many of the Rocky Mountain states. The black and Spanish-speaking ghettoes of the large cities are colonies whose chief natural resource is cheap labor. Even in the "North Country," Vermont is not alone as an "internal colony." Maine, New Hampshire, and Northern New York also have economies dominated and controlled by out-of-state interests.

Vermont's colonial status has not emerged within a vacuum but within and because of the economic system of international (monopoly) capitalism as it has developed in the U.S. Indeed, not all Vermonters suffer from the state's colonial status. The ones who do are the dairy farmers, quarry workers, white-collar and blue-collar workers, while the Vermont businessmen, lawyers, and public officials reap many benefits. Similarly, the bankers, corporate managers, and the rich of Boston and New York, not the workers and consumers, profit from the exploitation of Vermont. In fact, the Boston workers are as exploited by the Boston banks as are Vermonters, although in a different way. Boston workers are exploited on the basis of class, but Vermont workers are exploited both on the basis of class and also because Vermont is in a colonial relationship to the big financial centers.

The manufacturing sector is the foundation of Vermont's economy (though many still think that Vermont is primarily an agricultural state). Vermont has long been famous for the machine tool and light machine industry around Springfield and Windsor in the southern part of the state. These locally-owned companies began back in the 19th century and thanks to skilled labor and sharp entrepreneurial skills had become quite profitable. In the 1960's, their large profits caught the eyes of the big monopoly corporations who bought them out. Now these once independent companies are mere divisions of international corporations.



One of the first to go was Jones & Lamson Inc., a well-known manufacturer of sophisticated, numerically-controlled machine tools based in Springfield. They were bought up by Textron, a multi-billion dollar corporation based in New York. Another big Springfield industry, the Bryant Grinder Corp., was snapped up and is now a subsidiary of the Ex-Cell-O Corporation whose headquarters are in Detroit, Michigan. The Pneumo Dynamics Machine Tool Group in Windsor is owned by a corporation based in Cleveland. Another big Vermont industry, the Howe Richardson Scale Co., was bought by a corporation based in suburban New Jersey.

In St. Johnsbury, in the northern part of the state, the same process has been taking place. The most prominent example is that of Fairbanks-Morse, one of the oldest Vermont industries and a well-known manufacturer of pumps, scales and other equipment. It was bought out lock, stock, and barrel by Colt Industries, Inc. whose headquarters is in New York City.

Nearly all of what used to be locally-owned Vermont manufacturers have been gobbled up by out-of-state corporations. In addition, the new plants that are being built and opened up are also owned by out-of-state corporations. The two most prominent examples are General Electric and International Business Machines which own the biggest plants in the state. GE employs over four thousand Vermonters at its plants in South Burlington, Rutland, and Ludlow, and IBM employs over two thousand at its plant in Essex Junction.

What attracted these and other big corporations to Vermont was the lure of tax breaks, weak unions and cheap labor. Poor farmers forced off the land, young housewives trying to supplement their husbands' meager incomes, and others kept Vermont's wages lower than

the national average and made Vermont, like most of the Southern states, a mecca for low-wage employers.

Another big low-wage employer is the Baumritter Corporation, a big furniture manufacturer which has established large plants in Orleans and Beecher Falls. Still another is the Standard Packing Corporation, headquartered in Stamford, Connecticut, which has large plants in St. Albans and Sheldon Springs.

Big New York and Boston corporations have seized control over Vermont's natural resources as well. The biggest landowner is the St. Regis Paper Company headquartered in New York City. St. Regis owns most of the northeastern part of the state. Another big owner of land in the Northeast Kingdom is the Brown Paper Co. which is controlled by the Gulf and Western Company, a big billion-dollar company based in California. Weyerhauser, another billion-dollar timber company based in Chicago, owns much of the timber land in Franklin County. International Paper Co. owns much of the land and timber in the north central and the south central areas of the state.

These timber and paper companies report very low profits and people have been dulled into thinking that they don't ship big profits out of the state. In fact, most of these companies have turned themselves in recent years into land developers and speculators. Controlling enormous tracts of land, they have poured their capital into developing ski areas, resort communities, shopping centers, industrial parks, and housing developments.

The minerals beneath Vermont's surface are also falling under the control of outside capitalists. Of all the state's important mineral resources only the marble quarries around Proctor remain owned by a Vermont-based corporation, the Vermont Marble Co. The largest granite quarries in the world, in Barre and Bethel, were recently taken over by Nortek Co., a land developer and manufacturing conglomerate based in Providence, Rhode Island. Even the comparatively small slate quarries around Fair Haven are owned by New York-based companies.

The extent to which Vermont factories and industry are controlled by outside corporations gives a real picture of Vermont's colonial status. In a study of the ownership of the 31 largest manufacturing plants in Vermont, it was found that both plants employing more than two thousand employees were owned by corporations based out of state, four of the five plants employing more than one thousand, 13 of the 15 plants employing more than five hundred, and 23 of the 31 plants employing more than 250 employees were owned by out-of-state corporations.

The primary result of out-of-state ownership of Vermont industry is that the value produced by the workers in the form of profits is siphoned out of Vermont. The sweat and labor of Vermont workers contributes to the affluence and wealth of the Boston and New York upper classes.

The State of Vermont has put a lot of its hopes in the tourist industry to generate employment and economic development. Tax breaks, state road building, and publicly-financed advertising have been used as enticements to encourage the development of vacation developments and ski resorts particularly. In the past ten years the previously locally-controlled ski areas have been bought out by out-of-state companies. Mt. Mansfield, for example, is reportedly controlled by Arthur K. Watson, a major stockholder in IBM and presently Nixon's Ambassador to France. Stratton

Mountain reportedly is owned by International Paper Co. Other ski areas are owned by out-of-state syndicates and corporations whose identities are difficult to ascertain.

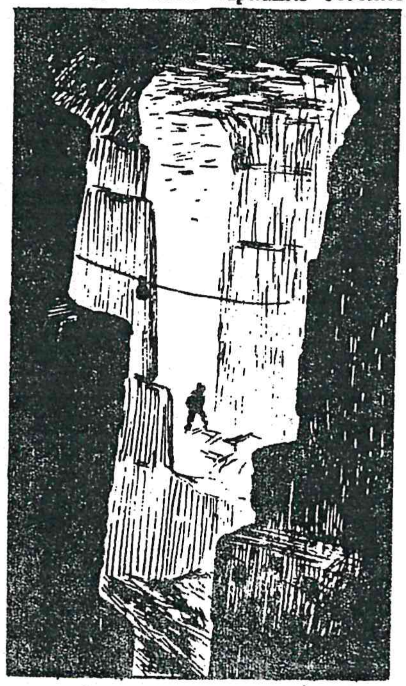
The ski industry has done little to improve the economic development of the surrounding areas. Local merchants lack the capital to expand their stores to capture the new markets created by the influx of skiers. Generally, it has been out-of-state-controlled restaurants, motels and other service facilities that dominate the ski resorts.

Vermont industries, wholesalers, and retailers have not been able to get the contracts to provide the ski resorts with their supplies either. The tramways and ski-lift equipment are ordered from France, Austria, and Switzerland. Massachusetts and New York companies seem to get most of the contracts to construct lodges and other ski area facilities. Even the food served in local restaurants is ordered from Boston or New York food wholesalers.

In addition, the ski areas have not generated much employment for Vermonters, and the jobs that are available are usually menial and low paying. The ski areas import their top executives, and much of their skilled work force comes from out of state as well. Local Vermonters have the "opportunity" to earn $1.65 an hour as waitresses, cooks, maids and janitors.

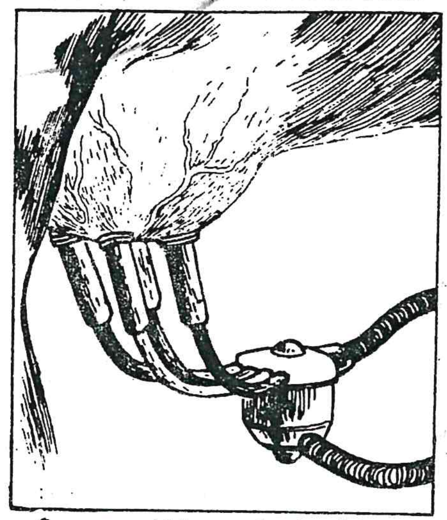
Ski areas like Mt. Mansfield, Sugarbush, and Stratton Mountain at first glance give the impression of aiding local economic development. But like the industrial towns of Springfield and Barre, these are highly-developed "enclaves" in the otherwise underdeveloped and poor state. With all the profits earned flowing out of Vermont and the factories themselves paying low taxes, the positive economic impact of these industries in Vermont is small. The interstate Highways 89 and 91 have encouraged and hastened the development of these enclaves. Tourists can drive almost directly to the ski areas without coming into contact with the "real" Vermont. And the corporations can ship their raw materials into the state by truck, do the manufacturing in Vermont with low-wage labor, and then, by perhaps the same truck, ship the finished goods out of the state for sale.

The economic domination of the state by outside capitalists becomes



even clearer by looking at the utility companies. The telephone utilities are obviously neither Vermont-owned nor controlled. Most Vermonters' telephone service comes from the New England Tel. & Tel. Co. which itself is just a subsidiary of American Tel. & Tel. A minority of residents get their telephone service from the seemingly locally-owned Vermont Telephone Co., which, however, on examination turns out to be a subsidiary of the Continental Telephone Co. which is headquartered in Chicago.

But let's look for a minute at Central Vermont Public Service Company and the Green Mountain Power



Company which provide electricity to about 85% of the state. One has its headquarters in Rutland and the other in Burlington. Finding out who owns these companies is very difficult if you rely on local sources. However, the Federal Power Commission in Washington, D.C. requires that every utility list its ten largest stockholders each year. These reports are publicly available and the information is very interesting.

It turns out that the biggest stockholder in Central Vermont Public Service Co. is Paine, Webber, Jackson & Curtis, a New York investment house which owns 39,997 shares. The second largest is Merrill, Lynch, Pierce, Fenner & Smith, another New York investment house which owns 38,067. In descending order, the next largest stockholders are: Massachusetts Mutual Life Insurance Co., Bache & Co., the State of Connecticut Pension Fund, The Hartford National Bank, First Manhattan Co., the Bank of California, Manufacturers Hanover Trust and so on. Albert Cree, the local Chairman of the Board and Chief Executive Officer, Central Vermont Public Service Company, owns a paltry 2,333 shares. The Board of Directors represents the interests of these stockholders. Homer N. Chapin, a director, is a former Executive Vice President of Massachusetts Mutual, the third largest stockholder. Allen O. Eaton, a director and member of the Executive Committee, is a partner in the Boston law firm of Ropes and Gray, which represents many of the large New York investment houses.

The largest stockholders in Green Mountain Power are more difficult to identify. Many list only a post office box to hide their identities. The largest stockholder at 56,900 shares is the First National Bank of Jersey City, New Jersey; the second largest at forty thousand shares is a post-office box in Albany, New York; the third largest is the Bank of New York, and in descending order: a post-office box in Albany, New York; another post-office box in Albany, New York; Kuhn Loeb and Co. of New York; and another investment house, Smith Barney & Co. The Board of Directors of Green Mountain Power Company reflects these same realities: only three of the ten members of the Board live in Vermont; three of the out-of-state directors are investment bankers; two are corporate executives; the Chairman of the Board, W.D. Fitkin, seems to have the same business address, 70 Pine Street, as Merrill, Lynch, Pierce, Fenner & Smith, which also happens to be the second largest stockholder in Central Vermont Public Service Co.

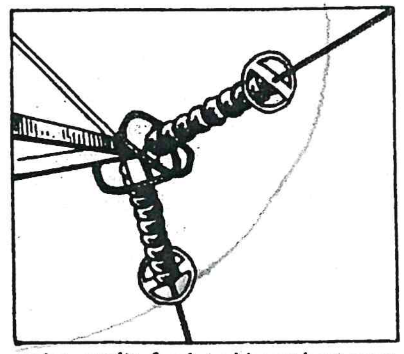
Corporate executives hold seats on the Board of Directors of these utilities, especially of Central Vermont, for good reason. The utilities charge three different sets of rates: a residential rate, a lower commercial rate to stores, etc., and an even lower industrial rate. Some economists have argued the rates utilities charge industrial users are either at or below cost. In effect, therefore, the local Vermont residents and stores are providing subsidized electricity for the out-of-state-controlled industries in Vermont.

It might seem strange that big New York banks and brokerage houses would want to control small utilities in Vermont. But their investments turn out to be very lucrative to them (though Vermont is impoverished as a result). First of all, they earn sizeable dividends on their shares. They also use their voting power on the Board of Directors to force the utilities to borrow money regularly from their banks and insurance companies. In the last five years for instance, the two Vermont utilities have had to pay out to the banks $32 million hard-earned Vermont dollars. The normal operations of the capitalist system have extracted more than $32 million from a relatively poor state to subsidize rich banks and brokerage houses elsewhere.

A recent phenomenon is that the utility monopolies in New England and New York have chosen Vermont as the place to build their new power plants. Very little of the electricity generated at the Vermont Yankee atomic energy plant in Vernon will be used by Vermont. Most of it will be exported to Massachusetts, Connecticut and New York. And the two electric generating plants VELCO is trying to build in Addison County will not be for Vermont power needs either, but for export to other states. The other utilities which aren't able to pollute their own areas' environment are trying to turn Vermont into one big electric generating facility for the rest of the Northeast.

One of the few Vermont industries that is actually locally-owned is the dairy industry. There are over 4,900 dairy farms in the state, all but a few owned by local farmers. The number of farms has fallen in recent years (there were reportedly twenty thousand farms just 15 years ago). In any case it is a Vermont-owned industry. The problem is, however, that the profits that the Vermont dairy farmer earns he can't keep, and most of this money follows the same route out of the state as profits earned by factories, ski areas, or the utilities.

The farmers are in the midst of an economic squeeze. The price of milk is hardly rising, yet the prices of everything needed to produce milk are going up rapidly. Farm machinery, feed



grains, credit, food, and barns have gone up in price astronomically in the last ten years, but the price that the farmer gets for his milk has gone up only a few percentage points.

The profits the Vermont dairy farmer earns a . being in a sense expropriated from him in the form of high interest rates on credit and monopolistic prices for farm machinery and feed grains. In all three cases the farmer is dealing with monopolies of one form of another. Because the farmer has to come to them, they are able to boost their prices to artificially high levels. The companies who are ultimately getting the value earned by Vermont farmers are big international corporations that manufacture tractors, balers, and milking machinery like John Deere, International Harvester, I.J. Case and the big international agribusiness firms that sell fertilizer and feed grains like Ralston-Purina and the Greyhound Corp., which owns Armour and Co. The other big monopolies the farmers face are the enormous milk-processing companies such as H.P. Hood & Sons, Whiting, and Sealtest. Imagine the profits they make! The dairy farmer gets about 12 cents a quart for his milk; the consumer has to pay 32 cents. All the profit goes to the milk-processing company and the retailer.

What we find is that though the Vermont dairy industry is locally owned, the capitalist market system is squeezing these independent farmers, and the major amount of value they create is siphoned out of the state by milk processing companies, fertilizer manufacturers, banks, and farm machinery industry.

The banks and insurance companies in Vermont, the largest of which are under "outside" control, either willingly or unwillingly intensify this underdevelopment. For instance, local money in the form of savings accounts and checking accounts is not all invested in local mortgages or loans because a high proportion is invested in out-of-state corporate securities, loans, bonds and mortgages and the maintenance of large accounts in their "correspondent" banks in New York and Boston. The same process happens with the insurance premiums Vermonters pay for life insurance, auto insurance, etc.

In "establishment" economics, the banks and insurance companies are supposed to be mobilizers of capital for investment in the local economy. However, banks in Vermont siphon Vermont savings into the national money market in New York. Vermont finds not only that the value of its labor enriches the out-of-state businessmen and corporations, but even its savings ultimately fall into their hands as well. In fact, with so much of the economy under outside control, Vermont, even though it is a poor state, is a net exporter of capital. Like other underdeveloped areas, Vermont is not deficient in capital. It produces an abundance of surplus value in its factories, quarries, farms, etc. The problem is that the capital is not being used to develop Vermont through new investment (public or private) or through providing new public services.

This colonial relationship to the

big financial centers of American capitalism is encouraged and administered by the lawyers, public officials, local bankers, and other businessmen who make up the local governing class. Many of them are also managers or agents for out-of-state interests. These local capitalists are actually very weak economically. They control no major industries or financial resources, but get their profits from either exploiting those parts of the economy the out-of-state interests don't dominate, such as retail and wholesale distribution, services, land speculation, etc., or from providing services such as local banking, construction, and services for the out-of-state corporations. Their real role, however, appears to be running and administering the state government in ways compatible with the interests of the out-of-state corporate interests.

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The policies of these state officials designed supposedly to reduce poverty and unemployment are actually increasing Vermont's subservience to out-of-state corporations, preventing real economic development, and putting an unbearable tax burden on the working people and farmers in Vermont. The State Development Department under both the Democrats and the Republicans has decided to try to raise the incomes of Vermonters by bringing in outside industry. Seeing more jobs as the answer to economic problems, the State offers every kind of inducement to business—tax exemption or reduction, state-guaranteed loans for plants and machinery, town financing, and so on. The problem they don't confront is that every new industry they bring into the state only increases the wealth that flows out of the state in profits. The flow of profits out of the state is simply accelerated. The tax inducements and state-guaranteed loans are simply mobilizing the resources and capital of the state for the out-of-state corporations which transform these subsidies and loans into profits which are sent back to New York.

One consequence of these industrial inducements is that the tax burden on the Vermonter increases. Most industries in Vermont pay little or no property taxes, though they bring into the town people with children who need schools, plants which need sewage facilities and roads which have to be built, and so on. Since the industry pays few taxes, the taxes on everyone else rise.

The State of Vermont also gets into the act by financing new roads for industry, setting up technical and vocational programs to train the manpower these new industries need, etc. To finance these new services, new taxes are necessary. The industries themselves can escape these taxes, so the taxes again fall on the average Vermonter.

Not all these new services can be financed with additional taxes, however, so the state has to go into debt by selling bonds to the New York bankers and brokerage houses. The interest charges on these debts are enormous and in a sense constitute a permanent drain on the state's resources. To provide out-of-state industry with subsidies and services and also provide basic services to its people, the state has no alternative but to become even more subordinate to outside capitalism. Bankers will not only get in 1971 $9 million in repayment on the principal for their Vermont bonds but also another $7.8 million in interest. Over the next 20

years, with just the present debt, Vermont taxpayers through the state will have to kick in over $71 million in interest for the bankers.

Many people are always bemoaning that "Vermont is a poor state" to explain its poverty and economic problems. But it isn't true. Vermont is a rich state in natural resources, its people are strong, productive, skilled and inventive, and its farm land is rich and fertile. The problem which few people are prepared to face is that the wealth produced in Vermont cannot be used to develop Vermont as it is siphoned off through the normal operations of monopoly capitalism.

The contents of this pamphlet are reprinted as they appeared in Liberation magazine (November, 1971). The pamphlet is published by the Vermont People's Coalition, a group of Vermonters committed to the twin goals of peace and social justice.

The Vermont People's Coalition has a speakers bureau and extensive literature on the war in Indochina, the Military-Industrial Complex, American foreign policy, President Nixon's New Economic Policy, his Family Assistance Plan, and other subjects.

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