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An end to stagnation

Vermont's strategy for job creation is likely to come in for scrutiny in the coming year, in part because the new Shumlin administration will want to reverse the record of economic stagnation of the past decade.

The dismal economic statistics are partly the result of the calamitous recession from which the state still has not recovered. The Public Assets Institute, a nonprofit policy organization based in Montpelier, has issued a report showing that the state has 10,000 fewer private sector jobs than it did 10 years ago. Since the beginning of the recession, the state has lost 13,500 private sector jobs. Real median household income was lower in 2009 than in 1999, according to the institute's report.

Vermont policymakers do not control the world economy and could not have inoculated Vermont for the effects of the recession. But the Public Assets figures show that the lackluster results of past strategies go back long before the recession. In fact, job growth in Vermont from 2001 to 2007 ranked 45th in the nation.

There is a counterargument. Tayt Brooks, commissioner of economic development, noted that Vermont has the fifth lowest unemployment rate in the country and has been rated as the fourth least stressed economy. It may be that slow job growth combined with relatively low unemployment means that Vermont does not require rapid job growth to stay prosperous.

Public Assets questions the usefulness of one of the principal economic tools used by the Douglas administration and the Dean administration before it — tax incentives for business. The report cites a study by the Congressional Budget Office that found that cutting business taxes was the least effective method for stimulating economic growth.

Brooks argues that high taxes have impeded growth in Vermont and that businesses using the state's tax incentive program have said it was an important factor in decisions to move to Vermont.

Many of these economic arguments are based on a hard-to-prove claim: It would have been worse. Thus, the state has had slow job growth, but without tax incentives, it would have been worse. The Public Assets report made a similar claim: Without the $1 billion Vermont received from the federal government to combat the recession, it would have been worse.

Public Assets says it could be better: that money spent on education and public infrastructure has been shown to have more positive economic effects than giving tax breaks to business.

The Shumlin administration is likely to subject the state's tax incentive program to a tough test to determine if it is the most useful way to spend economic development money.

Lawrence Miller, Gov.-elect Peter Shumlin's designated commerce secretary, has acknowledged that Vermont cannot compete with larger states in the tax-incentive sweepstakes. We have other things to offer than the lowest taxes, including a good work force, a good school system and an unspoiled environment.

Doug Hoffer, who lost his race for state auditor this year, is an economic consultant who has shown it is possible to put the economic effectiveness of the state's tax policy under a clarifying microscope. It could prove useful for Miller to submit the state's business tax programs to a Hoffer-esque review.

Meanwhile, Vermont's record for the past decade is similar to that of the nation as a whole: A policy of providing tax breaks for the wealthy and for business while allowing public infrastructure and education to decline has produced economic stagnation. Defenders of the past 10 years will say, it could be worse. Shumlin is likely to say he wants it to be better.

Pressure may build in the Legislature to address the looming budget deficit by a tiered increase in the income tax, demanding that wealthy taxpayers kick in a greater share.

Impetus for such a change may come after the failure of Congress to end the Bush tax breaks, which are, essentially, bankrupting the country. If the federal government is unwilling to rectify the economic mess of the past 10 years, then the Legislature may want to take matters into its own hands.