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Human services cuts fuel concern

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MONTPELIER – Cuts proposed by Gov. James Douglas for programs across the human service budget likely will result in the loss of more than 1,000 Vermont jobs if they go into place, according to a study by an economist working for the Legislature.

The proposed cuts, to programs across spending by the Agency of Human Services the largest single piece of state government, would reduce state spending by \$30 million and federal spending in Vermont by another \$24 million.

Given how federal and state funding for programs is structured much of that federal money would not be lost, but could be rolled over into later years if the state was able find "matching money" then.

The reductions to spending over the next fiscal year would likely result in between 1,000 and 1,400 fewer jobs in Vermont, according to an analysis by Tom Kavet, an economist who works for the Legislature. That includes both jobs directly paid for through state spending or grants and jobs that indirectly benefit.

"Total economic impacts could approach losses of \$50 million per year in gross state product and exceed \$40 million per year in personal income," Kavet wrote in his analysis.

"It's exactly what is happening across the country when state governments cut back," said Kavet, who testified before the Senate Health and Welfare Committee by telephone Thursday. "It acts as a drag on the economy."

But with state revenues in decline Vermont has little choice but to cut spending – putting publicly financed jobs at risk – or raise taxes – which he believes does the same thing in the world of private industry, Douglas said.

"Our goal should not be to create or maintain jobs in the public sector," he

said.

Sen. Doug Racine, the chairman of the committee, said the cuts in state spending seem to be exactly what the federal American Recovery and Reinvestment Act was set up to avoid.

"It's counter to what the federal stimulus money was supposed to be doing," Racine said.

But the states do not have all of the tools the feds do, Douglas said.

"The federal government can print money," he said.

Kavet agreed that either of the options states have – cutting services or raising taxes – can be a problem for the economy.

"Both of those are negative economic events," he said. But the negative economic effect of cutting state spending – particularly when some of the money is from the federal government – should not be discounted, Kavet said.

By strange coincidence the number of jobs at risk (when direct and indirect economic effects are included) are nearly the same as the 1,300 positions potentially in jeopardy if the Vermont Yankee nuclear plant closes, according to at least one analysis.

Secretary of Administration Neale Lunderville said Kavet's analysis appeared accurate, but did not take into account the economic effect of the alternative – raising \$30 million in new taxes or other revenue to prevent the cuts.

"It's a one-sided economic analysis," he said. "It's clear that if we don't make base reductions in spending we are going to have a dramatic cliff next year when the federal recovery money goes away and the Legislature will have to raise taxes year after year."

But the current solution of state budget cuts means damage to the economy as well, according to Kavet's analysis.

More than 43 states have made such cuts, resulting in 151,000 losses of direct jobs since August of 2008, according to his study.

"Although federal ARRA stimulus spending is estimated to have prevented state and local government job losses that would otherwise have been as much as three times this figure, they have not been sufficient to prevent widespread job losses and the associated negative economic impacts from the curtailment of state and local government spending," Kavet concluded.

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