

THE STATE OF WORKING MAINE: CHOICES FOR THE RECESSION AND BEYOND

by Garrett Martin

Maine workers are hurting. Daily headlines about layoffs and economic hardship highlight the painful realities in our communities. Programs and policies intended to help working families retain their tenuous grip on the American Dream are at risk.

For decades after World War II, government policy led to greater prosperity for all Americans, especially the middle class. The GI Bill, guaranteed student loans, home mortgage deductions and favorable lending rates all improved access to education, homeownership and business development. In more recent decades, policies have favored higher income individuals and corporations at the expense of America's working families. The results—wage stagnation, widening income inequality, and a growing middle class “unease” in the face of ever soaring prices for health care, food and fuel, and higher education as well as dwindling retirement security.

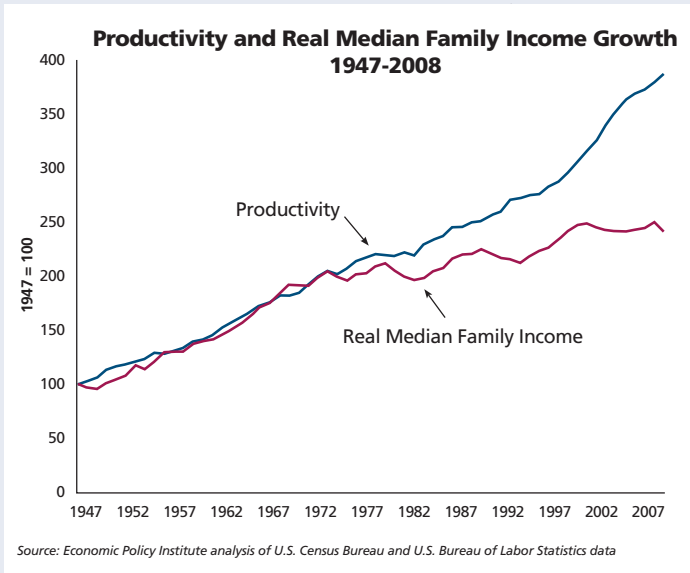
Ironically, the same policies that have boosted our buying power as consumers—deregulation, corporate tax policy and free trade agreements, to name a few—have tipped the balance of power away from workers. In 2006, employee pay represented the lowest share of U.S. production since 1943 while corporate profits represented the highest share since the 1960s.¹ Despite increasing productivity, workers are gaining less from the fruits of their labors. These same policies have also shifted the U.S. economy from manufacturing to technology, finance and service. Maine mirrors these national trends and faces similar economic challenges.

Maine workers want to work, and their outstanding work ethic is one of Maine's most valuable assets. How well Maine and America recover from the recession has a lot to do with the choices we make in the coming months at both state and federal levels. The 2009



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American Recovery and Reinvestment Act (ARRA) was a step in the right direction. Looking forward, Maine policymakers must act to protect the American Dream for Maine workers and their families and assure that future generations of Mainers are prepared to excel in the 21st century economy.

Maine's Economy at a Glance

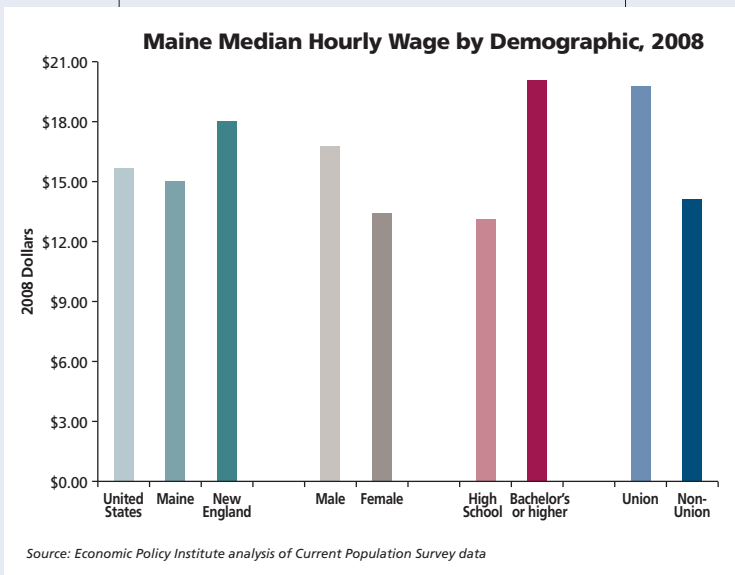
Maine's economy is a picture of contrasts. On one hand, the real gross state product outpaced both U.S. and New England in 2008. On the other hand, Maine's eight-year average 1.7% annual rate of growth fell well below the national average of 2.3%.²

Since 2000, Maine median household income growth has outpaced the U.S. and New England. Yet, real wages for low and middle income households have remained stagnant or declined during the same time period.

Unemployment has risen throughout Maine as a result of the recession, but is still below national levels. The state figure (8.2% in

January, 2010) does not reflect wide variations across counties or increasing levels of underemployment.

Beyond these economic indicators, several long-term trends have significant future ramifications for Maine workers. First, the transition from a natural resources and manufacturing based economy over the last 30 years has caused a significant decline in long-term, good paying jobs. Available jobs tend to offer lower pay and less security. At the same time, the most desirable skills in the 21st century economy often differ from Mainers' traditional repertoire. The transition to a service-based economy also exacerbates Maine's regional disparities between more urban and coastal areas and the more rural and interior areas.



Second, Maine's workforce continues to age and decline in number. Maine has the highest median age in the U.S.,

41.5, with 14.9% of our population over 65 compared to 12.6% for the nation. As older workers retire, fewer young workers are moving to the state. For companies looking to start up or expand their businesses the availability of skilled workers is a core concern. This will have significant implications for post-recession business activity.

Finally, historic discrepancies in earnings based on a range of demographic characteristics will likely persist. Workers who have completed college earn 1.5 times as much as those with no college education. Unionized workers earn 40% more than nonunion workers. Women continue to earn 20% less than men working in comparable jobs; median household incomes in rural and interior counties lag behind those in urban and coastal counties, as much as 42% between Washington and York.

Difficult Choices At Hand

Against this backdrop, policymakers must make important choices to promote economic opportunity for Maine people now and in the future. They do so as the state has fewer resources to address increased demands for public programs during the recession. Our public health system; schools, community colleges, and universities; and transportation, energy, and communications infrastructure also require continued investment for Maine to keep pace in a global economy.

Federal funds from ARRA provided a buffer against the need to make deep cuts during 2009 and allowed for continued investment in hospitals, schools, roads

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and bridges. They also helped prevent further job losses and kept more than 22,000 Maine people from sliding into poverty.³

As ARRA funding begins to wane, however, policymakers must decide what role state policy plays in the continuing recovery. Long-term investment in Maine's workforce and infrastructure could make the difference between future prosperity and persistent stagnation. Maine policymakers must ask:

- What role should the state play to ameliorate the effects of the recession on low- and moderate-income Mainers, particularly in the face of record budget shortfalls?
- What investments must the state make to assure that continued economic recovery and future prosperity are not jeopardized?

Paving the Way toward Shared Prosperity

A critical first step toward prosperity is making sure that Maine workers and low-income households do not lose further ground. Policymakers must focus on stabilizing employment and putting more money in the pockets of working Mainers immediately through the following actions:

- Provide property tax relief
- Ensure the minimum wage keeps pace with wage growth
- Promote job and income security for workers through paid sick leave
- Invest in education, health care, energy efficiency and critical infrastructure
- Award business tax credits only to companies that provide quality jobs

The benefits of these policies are clear. In times of economic uncertainty, families tend to spend less and save more, reducing economic activity and, ultimately, state revenue. By encouraging greater economic

stability and income security for working Mainers, state leaders will help counter this trend and fuel the recovery process.

Protect Property Tax Relief

The Maine Residents Property Tax and Rent Refund or "circuit breaker" targets benefits to low and middle income households. It provides eligible households a partial refund of property taxes or rent paid on their primary residence. In 2008 over 81,000 Maine households received a total of \$42 million in refunds. Households with incomes under \$30,000 received 70% of the refunds.

The budget adopted last spring for 2010-11 reduced property tax circuit breaker benefits by 20%. In a supplemental budget proposal, the Governor sought to further restrict income eligibility for the program. It has only been avoided as the Governor applies newly available federal funds to the program.

Further restoration of the program and continued improvement of the application process remains a high priority. The 2009 tax reform law has significantly streamlined the application process to encourage more eligible households not currently using the program to participate. This law, including proposed improvements to the circuit breaker program, is subject to a citizens' veto vote in June.

Index the Minimum Wage

In October 2009, Maine's minimum wage increased to \$7.50, 25 cents higher than the federal level and in the mid-range among New England states. Policy makers

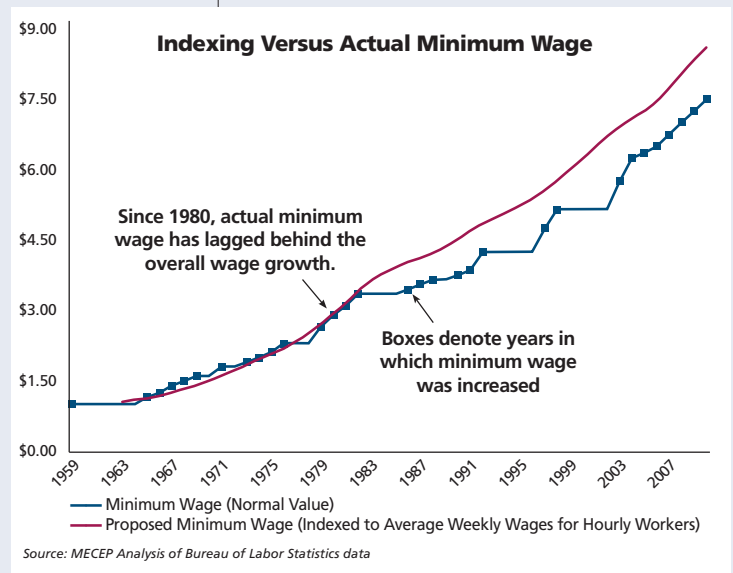
can insure that the minimum wage keeps pace with overall wage growth by indexing it to average wages for production and nonsupervisory workers.⁴

This policy is particularly important to the 34% of Maine workers employed in jobs that pay at or slightly above the minimum wage. These employment sectors include leisure and hospitality services, health care and social assistance, and retail trades.

Guarantee Paid Sick Leave

Providing paid sick leave for all Maine workers will not only enhance their economic security and job stability and protect the health of an entire workplace, it will also save employers money by reducing lost productivity associated with employee absences and turnover.⁵

According to U.S. Bureau of Labor Statistics data, 41% of Maine workers or approximately 246,000 Mainers, do not have a paid leave policy that allows them to remain at home while they or their immediate family members are sick. This problem especially prevails in key industries: 75% in construction, 78% in accommodation and food services, and 48% in manufacturing—a traditional cornerstone of Maine's economy.



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Preserve Critical Investments in Education, Health Care, Infrastructure and Energy Efficiency

Current and future economic prosperity hinges on wise public investment. While policymakers must encourage more effective and efficient delivery of education and health care in the long-term, simply slashing budgets now would increase unemployment and undercut access to these critical services at a time of heightened demand. The resulting strain on Maine's economy will cause greater economic uncertainty for many Maine families.

Similarly, investments in infrastructure and energy efficiency not only increase employment in the short-term, they are also key to long-term job growth and sustained prosperity. Federal stimulus funds have enabled Maine to keep pace and maintain activity in these areas, including improved bonding opportunities for the state and counties. However, as federal aid diminishes, Maine lawmakers must choose between raising funds needed to maintain these critical public investments or putting the state's future prosperity at risk by focusing on cuts alone. Pending proposals to bond such investments is one necessary component.

Tie Tax Credits to Quality Jobs

Some economists argue that states should eliminate all business tax credits. They are blunt instruments that rarely enhance competitiveness or deliver the benefits that policymakers intend. However, the allure of this policy tool is too great for lawmakers and economic developers to pass up. If we continue to offer such credits, policymakers must target them to companies that create and maintain quality jobs. Such criteria would insure that our tax policy wisely supports businesses while producing optimal public benefit.

Conclusion

Maine workers are working harder and more productively than ever for lower real income and fewer benefits. The recent recession has exacerbated the challenges working families face.

A shrinking economy affects us all, especially low and moderate income workers who have been losing ground in good times and bad. To reverse these trends, policymakers must appreciate the role that government played in growing America's middle class during the last century and take

the lead in positioning us for future growth and prosperity.

State policymakers must seek solutions to preserve economic security and promote economic opportunity for Maine workers now. Doing so will provide an immediate boost to economic activity and better position Maine workers to share in the rewards of a growing economy.

About the Author

Garrett Martin is the Associate Director at the Maine Center for Economic Policy.

Endnotes

- 1 CNNMoney.com
- 2 Unless noted otherwise, all data cited herein are 2008 figures obtained from Bureau of Labor Statistics (compiled by Economic Policy Institute), US Census Bureau, and Maine Revenue Services.
- 3 Center on Budget and Policy Priorities.
- 4 A proposal to index Maine's minimum wage to inflation failed to make it out of committee in 2010 indicating the need for continued education around this issue.
- 5 The Institute for Women's Policy Research (IWPR) estimates that a paid sick leave policy could save approximately \$2.28 per worker per week in 2006 after costs are considered. Adjusted for inflation, the \$2.28 figure is \$2.45 in 2010 dollars. As of this printing, a proposal on paid sick leave was pending in the legislature.



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