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MAINE'S BALANCING ACT: MAINTAINING SERVICES, INVESTING IN THE FUTURE

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It's election season. As the candidates for Governor and the Legislature share their plans, the prevailing question is how Maine can recover from the Great Recession and build an economy that works for everyone.

Across the nation, states have seen an unprecedented collapse in revenues as a result of the longest, deepest recession since the Great Depression. This causes a perplexing dilemma: how to meet growing public needs and sustain critical public investments when the resources to do so are shrinking.

The Maine Department of Administrative and Financial Services projects that the state faces a $1.17 billion gap over the next two years. Addressing this shortfall will be the most significant challenge facing Maine's next Governor and Legislature. Some argue that the answer is to cut spending, and then cut it some more. But a careful analysis demonstrates that the solution is not that simple.

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Over-reliance on Cuts Will Cost Public and Private Sector Jobs

No one creates economic prosperity alone. Growth depends upon the public sector and private sector working together. Business and household success requires effective, efficient public spending in areas like education to prepare future workers for the high-skill needs of growing employment sectors. It demands a healthy, productive workforce which depends on improved access to affordable health care and greater focus on prevention. It involves investment in critical infrastructure such as transportation, energy and communications technology to meet existing and emerging needs. In addition to investment, a fair, stable, predictable legal and regulatory environment is necessary to preserve gains and prevent undue harm to our environment and communities.

The importance of public sector investment is especially great when the private sector falters, as it has during the current economic slump. A "cuts only" approach to the state's revenue shortfall is counterproductive and has the potential to undermine economic recovery.[1]

The last thing our economy needs is more people out of work. MECEP research demonstrated that the proposal to cut $275 million from the state budget last January would have resulted in a loss of 7,000 to 10,000 public and private jobs.[2] Slashing over $1.1 billion from the budget for 2012-13 could cost as many as 25,000 lost jobs. With more than 100,000 people already unemployed or underemployed in Maine as a result of the recession, such additional job losses would be devastating and take years to recover.

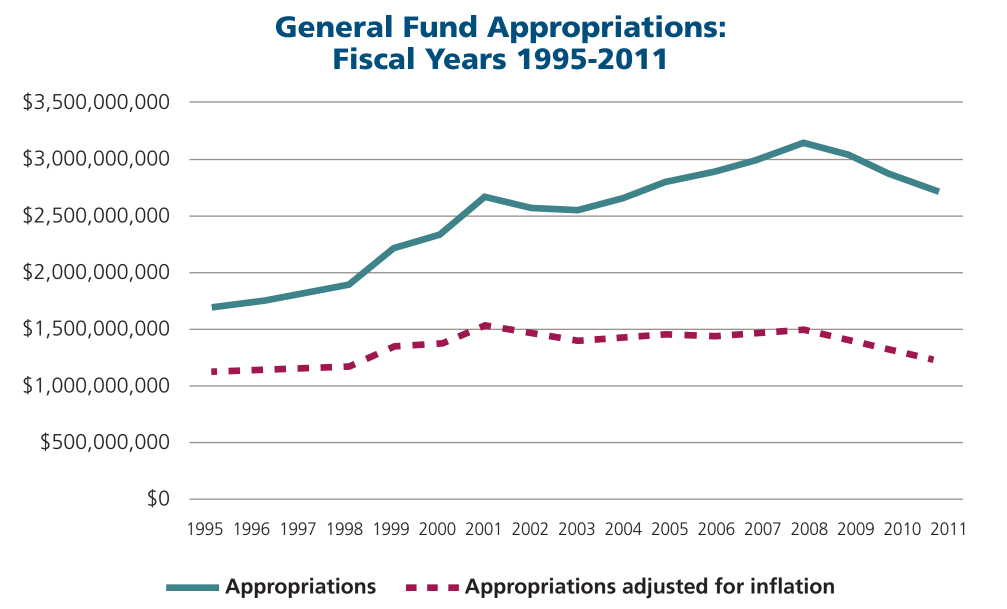
Reducing state spending in a time of economic decline has negative impacts that go deeper than failing to provide services Mainers need and beyond the immediate effect on laid-off teachers, health care providers, state employees, police and fire personnel and their families. Because the state applies just about every penny of its revenues to salaries, contracts, and purchases, the ripple effect through the entire state economy can trigger a wave of job losses, affecting private sector employers who receive state contracts and businesses where the people who lose their jobs currently shop.

Cuts Alone Won't Lead to More Efficient, Effective or Credible Government

Some budget proposals rolled out this election season seem based on the mistaken assumption that overspending caused the current crisis. This misdiagnosis is reinforced by ideologically driven assaults on particular programs or on government in general, deeply held myths often reinforced by limited anecdotal experience, or selective comparisons of Maine to other states.

In reality, this is a crisis about meeting human needs. It does not benefit from a "one size fits all" doctrine based on visceral hostility toward government. For example, recent critiques of Maine's "welfare system" focus almost entirely on the Temporary Assistance to Needy Families (TANF) program, suggesting the cost is dragging Maine under. In fact, TANF accounts for approximately 1% of General Fund spending.

The focus on TANF grossly overstates any potential savings that might be realized from improving its effectiveness. Maine's TANF program has some of the nation's lowest fraud and abuse levels and has seen its enrollments decline by almost half since it was first approved with bipartisan support in 1997.[3]



Source: Office of Fiscal and Program Review

Scapegoating this program and the people who access it diverts our attention from the real problem – 30 years of failed national economic policies and Wall Street excess resulting in some of the highest levels of income inequality in U.S. history and the worst economic collapse since the 1930s.

Improving government effectiveness is vitally important and takes time to achieve. It must be done in a transparent manner that makes use of clear performance measures and accounts for current conditions. Suggesting that Maine can simply cut its way to greater effectiveness may actually result in less credible and less effective government.

Maine Has Been Prudent in Budgeting and Taxing

Maine's historic spending patterns fail to support the accusation that profligacy is the root of today's budget predicament. In recent years, Maine has worked in a bipartisan manner to craft budgets that reflect our values and at the same time demonstrate fiscal restraint.

- Maine's state spending actually has declined in recent years. General fund appropriations for FY 2011 are lower now than they were in 2005. Adjusted for inflation, they are actually lower than they were in 1999.[4] State highway fund allocations are lower than they were in 2005 and, adjusted for inflation, are below what they were for 18 of the last 20 years.[5]

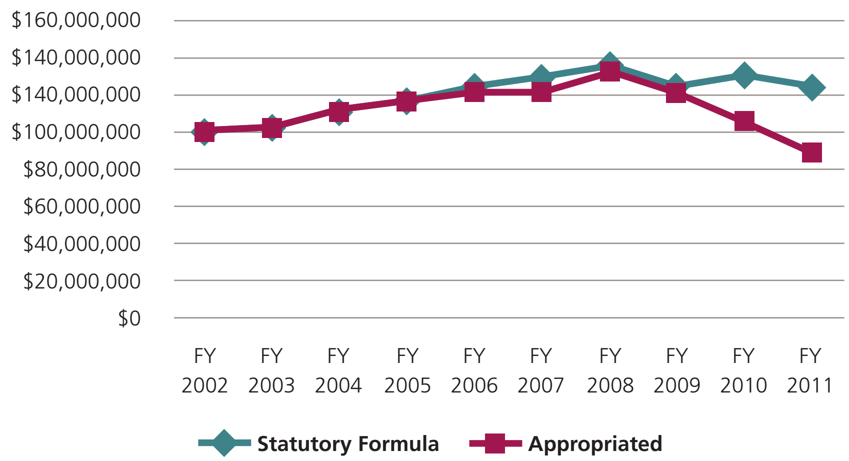
- Maine is in the middle of the pack when it comes to taxes. In average total revenues per person, Maine ranked 26th in the nation in 2008, below the national average and second lowest in New England.[6] This index, produced with data from the U.S. Bureau of the Census, includes all revenues collected by state and local government including fees.

- Maine carries less debt and pays its debt back faster than most other states. Maine's debt interest payments have consistently remained below the commonly referenced 5% threshold for general obligations as a percent of General Fund and Highway Fund revenues.

Those who attack Maine's spending levels typically reference spending as a percent of personal income. This is misleading because, compared to other states, Mainers have relatively low incomes. Just because median incomes in Maine are approximately 91% of the national average doesn't mean we should spend 91% of what the "average" state spends on road construction, health care or education. Paving a mile of road costs more or less the same regardless of what state you live in.

In other respects, every state is different. Maine is a relatively large rural state, so to be competitive it has to spend more on public structures such as roads. We have many more miles of road to pave than New Hampshire, for example. Still, state spending as a percent of personal income has actually declined in Maine over the last decade and effective state tax rates are the lowest they have been since 1996.[7]

Reduced Revenue Sharing from the State to Municipalities



Source: Office of Fiscal and Program Review

Continued Cuts Threaten Future Prosperity and Simply Shift Costs

A look at some specific areas of services provided by the state reveals the dangers of over-reliance on cuts as a way to deal with recession-induced revenue losses.

Take transportation: the lagging economy means that the gas tax and other revenues that fund roads and bridges are projected to fall $720 million below what would be required to continue current levels of road work. Indeed, five years of cutbacks at the Maine Department of Transportation have resulted in a 10% workforce reduction at a time when Maine's road conditions are getting worse, not better. The American Society of Civil Engineers rates 29% of Maine's major roads in poor or fair condition and the U.S. Department of Transportation classifies 33% of Maine bridges as structurally deficient or functionally obsolete.[8,9]

Letting Maine's transportation infrastructure deteriorate is bad for tourism, for companies that need to move goods in and out of the state, and for Maine's overall business climate.

Education, the key to preparing a 21st century workforce, is also threatened. Deep cuts in state aid to local education will effectively shift more of the burden to the local level, result in major property tax increases, cuts in programs or both. In fact, Maine continues to fall far short of the target voters established in 2004 for the state to fund 55% of the costs of elementary and secondary education. Time and again voters at the local level have chosen to maintain investments in local education despite reduced state support.

Proposed cuts to higher education come at a time when Maine's future economic growth and the prosperity of all Maine families demand that we invest more, not less. While many institutions have kept tuition increases to a minimum, they have cut valuable programs and departments and face aging infrastructure.

Finally, health care is of great concern for many individuals and families.