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A Maine Policy Review Interview with Governor Angus S. King



This past spring we had the pleasure of interviewing former governor Angus King about his views on Maine's economy and future. In one hour we covered a lot of ground, touching on issues such as regionalization, the state's role in economic development, and Governor King's concerns about the nation.

Since our interview, there have been new analyses of Maine's economy and future, notably the recently released Brookings-GrowSmart Maine report entitled Charting Maine's Future. As Maine's chief executive for eight years, Governor King's insights lend further credence to the proposals of this report, which include consolidating to cut spending and eliminate redundancies; taking fuller advantage of our unique, core assets; building upon what's already working; and recognizing that our future lies in doing many things well. 🐟

Question: Let's begin with a topic that's come under the spotlight in recent years. One way to control state spending is to regionalize or consolidate services in order to achieve efficiencies in scale. Yet this is a hard topic even to discuss because it is so contrary to New England culture and harder still to implement. What are your views?

King: I am convinced that one of the real issues facing the state is the duplication and redundancy of municipal services. We have so many delivery systems. In education nobody can actually tell you the precise number of school districts, but it is somewhere between 185 and 220 districts, which is a big number for 200,000 kids. I heard about a school district the other day that has 900 students and they just hired a superintendent for eighty-some-odd thousand dollars a year. This is really hard to justify. It's nice if you can have a superintendent for that few children, but it is expensive, and you multiply that by a couple hundred districts, and then you do the same with police, fire, emergency response, and all of those things, it adds up to a significant burden in terms of local taxation.

It's interesting if you look at the statistics on taxation: our state taxes per capita rank us somewhere between 15th and 20th in the country. But our local property taxes combined with somewhat high state taxes rockets us to the top of state rankings.

Historically, we had a lot of small towns that were essentially governed by volunteers: selectmen, volunteer fire departments, and those kinds of things. Today, a lot of these communities in Maine are growing, particularly the towns adjacent to service centers. As they grow they start to professionalize their government. That's when the cost of government escalates.

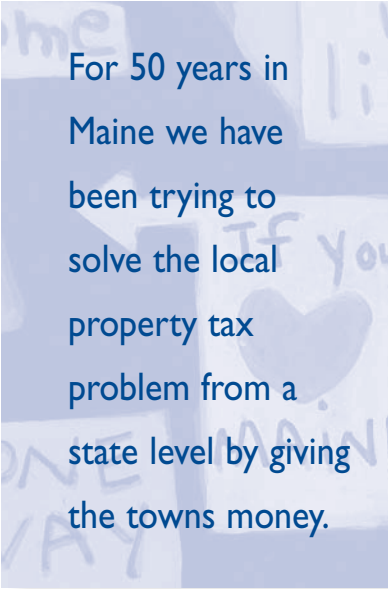
Evan Richert has done extensive research on this issue, and the magic number seems to be 3,500 residents. Once a town reaches 3,500, the cost of government starts to go up significantly. This is what's happening to a lot of the small towns surrounding our service center communities. The service centers are staying the same or shrinking, and the smaller towns in the countryside around them are growing, which does two things: the fixed cost of running the service center communities remains the same so taxes per capita go up because there are fewer people, and the costs

of running all these smaller, surrounding towns go up because there are more people demanding services. The result is tax hell.

For 50 years in Maine we have been trying to solve the local property tax problem from a state level by giving the towns money. Starting with General Purpose Aid to Education, which is now about \$800 million a year, money comes into Augusta and goes right back out to the towns. When you add to that local revenue sharing, which is 5 percent off the top of the income and sales taxes, and the fact that the state pays 100 percent of all teacher pensions, more than a billion dollars a year goes to the towns. People talk about the state budget and they think of state police and prisons and things like that. But the biggest piece of the state budget goes out to the communities to try to alleviate property taxes; it hasn't really worked.

When I was governor we passed the Homestead Exemption to try to lower property taxes, and this really didn't work either because local mil rates went up. My conclusion is that all these ideas of giving the towns more money from the state only postpones the problem and doesn't solve it. What we have to get at is the structure of spending at the local level and why it is so high. To me the conclusion is inescapable: we have incredible redundancy of service delivery.

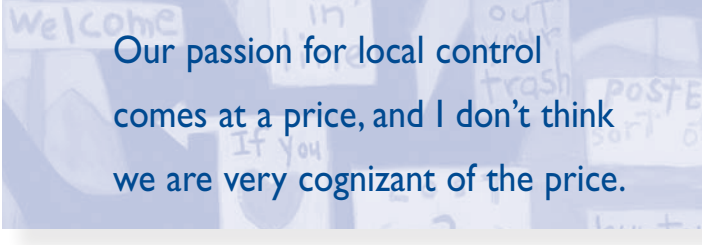
Maine people have to come to grips with this. Our passion for local control comes at a price, and I don't think we are very cognizant of the price. If you ask people, "Do you want to share fire department services with the hated town across the way?" most people would say, "No, we want our own." But if you ask, "Do you want to share your fire services with the town across the way and by the way, it will save you \$100,000 a year in taxes?" many people would say, "Maybe." Local control has a price tag, and my feeling is that if Maine people want to pay that price that's fine, but they ought



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to know the price they are paying and they ought to understand that it will result in higher taxes.

The other piece of the issue, which is more subtle: local officials are incredibly financially virtuous in the sense that they really work hard to examine budgets down to the last half position for a maintenance person. The problem is you can't see the potential savings from the consolidation of services. In other words Brunswick is very efficient, Topsham is very efficient, Harpswell is very efficient, but each within their own sphere. What is missed are the potential, invisible savings that could be realized if, for example, the new Brunswick fire station served Harpswell and Topsham as well. But of course it doesn't.



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I used to think this issue was obvious and that just pointing out the problem would solve it. I now realize that there are huge obstacles. One is history; another is the sheer problem of threatening somebody's job. If you ask five local fire chiefs whether we should consolidate fire departments, you are really asking the people who might lose their jobs to give you a report. Well, it's not likely going to be, "Yes, we need to consolidate."

On top of these obstacles, there is inertia, and old New England jealousies between the republic of one town and the republic of its neighbor. Interestingly in my view of the last 10 years, the most successful area in the state with regard to economic development is Lewiston/Auburn. They also happen to be the two cities in the state with the most vigorous, deep, and thorough intergovernmental cooperation; I don't think it's a coincidence.

Everybody building their own industrial park and having all these municipal services is just inefficient. For example, let's say you have a blank sheet of paper and there were no schools in Maine and you had 200,000 kids to serve. Would you design a system with 200

administrative units with payroll offices, curriculum coordinators, superintendents, and assistant superintendents? No business in the world would do that. You would design a centralized administrative structure. You would have local control of curriculum and maybe hiring and firing, but you would not do that other stuff 200 times over. Say you wanted to deliver fire services to the people in Maine. Would you do it with these completely separate entities, separate administrations, separate everything? I think it would be very hard for someone to say, "Yes, that is the way I would do it." So until we deal with this issue in some way we are doomed to having high property taxes because what do property taxes pay for? Schools and municipal services.

It's very important to point out here there's a big difference between consolidating schools, for example, and consolidating administrative functions. I think there are some minimum sizes on schools that make sense, but that's not really the issue. I'm not saying that the town of Richmond cannot have its own elementary school. What I am saying is that it makes more sense to have a larger administrative structure, because I'm not sure Richmond needs its own superintendent. And that is an important distinction because a lot of people hear the word consolidation and the barriers immediately go up because they are thinking of their neighborhood school.

But the debate is really about administration functions. I think Dave Flanagan once said, "What if instead of Central Maine Power and Bangor Hydro-Electric, every town had its own electric company with its own billing system, its own engineers, and its own lineman?" Electricity would be as expensive as gasoline—it wouldn't make sense.

So, we have to move toward some types of consolidation, and we have to figure out ways to do it that are consistent with our history and culture, which is a challenge. But we already have some models such as sewer districts and school administrative districts (SADs).

For example, we could have a public safety district that includes Brunswick, Harpswell, Topsham, and maybe even Bath to handle the police and fire functions. You could have a board, just as we do with the sewer district, with people from each town, and it seems to me we could achieve substantial savings. Once

again, one of the big problems is that local control is viewed in a vacuum—absent its costs. Perhaps as much as 85 percent of our local property taxes go to personnel. Logically, this is the only place we can achieve significant savings. I have very few regrets of my governorship, but I think if I have one it's that we didn't attack this more aggressively to really get this conversation going, but I think it's starting to happen.

Question: Do you see an expanded role for county government?

King: In most parts of the country, county government is very vigorous and carries a lot of responsibility. They administer schools, sewer, police—a lot of things. In New England they don't. New England is the historical legacy of the antipathy toward King George III. New Englanders were the original rebels in the 1700s, and they were very leery of centralized government, which is why we have town meetings and individual towns, weak county government, and weak governors.

So there is not a special principle at stake, only our history. The counties could be a vehicle, but frankly, I think our history is against it. A far better route would be to consider the idea of districts, which could give us the best of both worlds—some reasonable administration, yet still local entities. We could still have Hermon, Hampden, and Brewer, but there would be an overarching administration of some functions that would be controlled by representatives from each of the communities.

Even though we have a strong history and culture resisting change, the time is right for change. I actually think far more people are ready for change than we suspect. I remember going to Fort Fairfield to make a graduation speech and there were about 30 graduates at the high school and there were about 10 or 12 graduates down the road in Easton. I was told before I went, don't talk about consolidation of these small schools or people will get mad; they want their basketball teams. So I sat through a meeting and sure enough one of the local people said, "You know, governor, we have to start talking about consolidating these schools; this is ridiculous." The mood is changing. People are ready to listen.

Question: You mentioned earlier that trying to solve the property tax problem at the state level hasn't worked. What should be the role of state government? Are there non-monetary policy prescriptions that make sense?

King: You made a qualification that I would not necessarily accept, which is "non-monetary." There are some ways the state can use its money to encourage consolidations. I think we have to be realistic that these changes are not going to happen merely by persuasion or brilliant speeches; there need to be some incentives. Probably the best example I can think of is that every year the state gets money from the federal government called CDBG (Community Development Block Grant). This is money that the state parcels out to communities for things like downtown improvements, curbs, attractive signage, or whatever. Steve Levesque, who was my commissioner of Economic and Community Development, suggested we use this money creatively as an incentive. We put a notice out that said we would hold a million dollars of CDBG money and make it available for the development of a joint business park if more than 10 communities joined together. We thought it was ridiculous that each one of these little towns was building its own little industrial park and competing with one other, so the idea was to encourage these towns to come together and share the tax base—the benefits and the cost—even though the park would be located in one of the towns. And lo and behold, we got what's called First Park in Oakland, which I think has 29 towns involved, and it's the first of its kind in the state. They have attracted T-Mobile with 800 jobs, and I don't think there is much question that T-Mobile would not be in Maine were it not for that facility. The incentive to the towns made a real difference.

The Sinclair Act in 1957 gave towns more money if they formed a School Administrative District, so there was an incentive to join. In retrospect, I wish we had held back some of the money we put into General Purpose Aid as incentive money for school administrative consolidations.

Unfortunately, we were focused on economic development consolidations, and didn't think of schools at the time. So, my answer is yes, I think the state has an important role to play that doesn't require

huge amounts of money, but just enough money to kick it off. Then, I think the state can encourage various things, for example, money for new high schools that expand their catchments.

Question: Let's turn to a broader topic. What do you worry about most with regard to the Maine economy? And, what do you believe we need to do to encourage growth?

King: I'm not worried about Maine except in the context of the nation. I think you can't talk about Maine without talking about the United States. If there's anything I've learned in eight years, it's that if the national economy is booming, Maine's going to do well, and if it falls, Maine is going to fall with it. That's a reality; local leadership can affect economic development on the margins—maybe our unemployment rate will be 4 percent when the nation's is 4.5 percent, for example.

So, I'm worried about the national economy. I don't think Americans are at all aware as to what we are facing in terms of challenges from India and China. I believe we are just seeing the tip of the outsourcing iceberg. I'm having a hard time figuring out what Americans are going to do for a living 20 years from now when everything is so easily transferable, whether it's call centers, manufacturing, financial services, tax preparation, legal services, you name it. So before we talk about Maine, I think we have to talk about the nation. I won't dwell on it, but I think the first step is for us to realize what we are up against. We've got to come to grips with the fact that our standard of living is under direct assault, and then we have to figure out what to do about it. I don't think there are any clear answers, but I do know we are not going to be able to compete with China on the cost of manufacturing.

A lot of people don't realize the differential is so gigantic; it's not 10 or 12 percent. I talked with a fellow in the shoe industry and to make a pair of shoes in Maine it was \$38-\$40 with labor, leather, and everything. You can make the same pair of shoes in China for \$12. Now that's not something you can fix with a tax incentive or a training subsidy; the difference is too dramatic. That means we have to be

thinking more structurally, and the only thing I know that will be crucial to future jobs is education and technology. As I look 20 years down the road, I have no idea what the jobs are going to be, but I have a pretty good idea that they are going to involve more education and some technology component. My conclusion is that the only thing America has left is innovation. That's our advantage. If you are a business person, in order to maximize you always ask: what are the assets we have and what are our liabilities. Our asset is innovation; it's not cheap labor or cheap energy; it's innovative, creative people. We are a nation of tinkerers and optimists, and we make things happen. So we have to figure out how to support and encourage that. We need to find ways to support a more educated and technologically literate society, which I think ultimately wins.

For economic development in Maine, I learned that you have to do everything. You have to cut taxes; you have to streamline regulations; you have to promote exports; you have to support training and education; you have to finance all of those. There is not a single answer. There are people who will say that all you have to do is cut taxes. In my experience talking to companies that were looking for places to locate and talking to consultants who tell companies where to locate, taxes—believe it or not—are not at the top of the list. Now that's not the conventional wisdom, but when I talk to these guys, they said they are really looking first for trained, quality workers. That doesn't mean you don't have to pay attention to taxes, but they're not a panacea. There are plenty of states in this country that have much lower taxes than we do and that are not exactly booming. This idea that we could lower our taxes, cut education spending, and all of those kinds of things is a big mistake. As governor, I was constantly trying to weigh the value of lower taxes against the importance of investments in infrastructure and education. You don't want the taxes to go so high that you drive everybody out and you are educating people for somewhere else. On the other hand, if you short change those things that are basic for the future like education, then you're cutting off your nose to spite your face.

I think Maine has to think about where it wants to be. I think that something very fundamental is

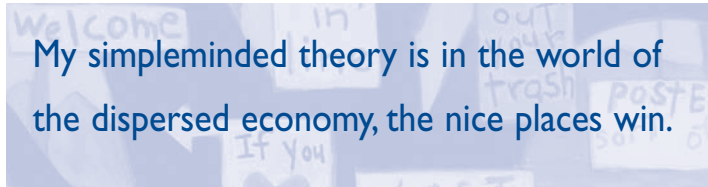
happening in the world economy; something that's never happened before: the abolition of geography. The old joke when I grew up was, "What's the secret of success in business? There are three ...location, location, location." I don't think that's so true anymore. There is a business in Jay, Maine, that does a huge business selling racing skis on the Internet. They could just as easily be in California, or Florida or Georgia, but they are in Jay, Maine. It's their creativity that made this happen; their location is irrelevant. I think we have to think about where Maine fits in the world in which geography is no longer a significant barrier to economic development. And I think we are in a great place because it is a great place to live. It used to be you got your job and you hoped where you were was a good place. Now you can go to a good place and bring your job in with you. We're not fully appreciating what a radical change that is in human history.

My simpleminded theory is in the world of the dispersed economy, the nice places win. And Maine has so many assets: the ocean, the incredible natural environment, the creativity of its people, the quality of life, and the scale of the place. I think those are our huge advantages, which is why I think sprawl is an economic development issue. If we mess up what is attractive about Maine, there is no reason for someone to move here from a less attractive place. Why leave New Jersey if Maine looks like New Jersey? So I view controlling sprawl as a part of the fundamental maintenance of our economic assets. Historically if you look back at the history of Maine, it was developed based upon certain assets. Number one of course is trees, number two, fish, number three, falling water and energy. Now, these are no longer such significant factors. There will always be a paper industry here because we've got so much fiber, but because the productivity of the paper industry will increase, the number of people employed in the industry will diminish because of technology. This is happening all over the world. At the same time China gained two million jobs from us in manufacturing, they lost 12 million to technology.

So, in terms of economic development, you start with your assets. Our assets are a culture of creativity, beautiful physical place, and good infrastructure in

terms of highways, airports, ports, and fiber optics. Then you figure out how to take advantage of that.

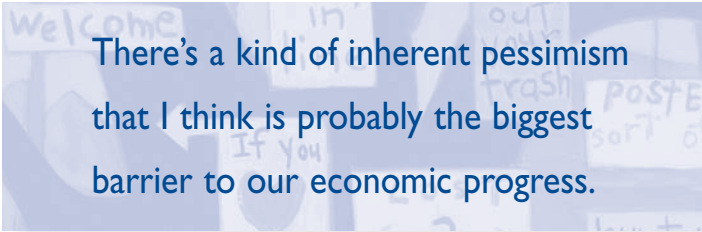
Additionally, even though the economic development debate is almost always focused on attracting new businesses, the real growth is in internal businesses. You know, during my term in office, Maine added about 80,000 net new jobs, 10,000 a year for eight years—net after all layoffs and everything. If Steve Levesque and I sat down for an hour with a list, we could probably identify 15,000 to 20,000 of those 80,000; the others were little pockets. It is important to try to recruit businesses here, but the real long-term and more sustainable growth is incremental growth to existing businesses. I would much rather have 100 businesses with 100 employees each than one with 1,000 employees because then you really are dependent upon that business. There was just a story in the *New York Times* about a town in upstate New York on Lake Champlain, where 2,000 people out of a town of about 5,000 people worked at a Wyeth Pharmaceuticals plant, and it's closing. They are done, and it's devastating. One of the secrets to economic development is diversity, which is why we put a lot of emphasis on working with small businesses. We used to have conferences all over the state. The idea was to support and encourage these little three-person businesses because that's really where the growth comes in the long run.



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Uniqueness is also important. One of the big reasons I pushed so hard for the laptop project was that after four or five years of attending national governor's meetings, I suddenly had this really clear, shocking insight: all of the states were doing the same things. And if we were all doing the same things, how could Maine get ahead? We are not going to get ahead if Texas and Tennessee and Alabama and Georgia and Oregon are all doing the same things.

My business training tells me that you don't get ahead of your competition by keeping up. So part of the idea of the laptop project was that we've got to do something that no one else is doing. It involves risk, but to not do it involves greater risk. That's why I felt we had to do something to give us a real advantage. That was an economic development project, same thing with R&D at the University. When I came into office R&D was \$2 million a year from the state; now it's about \$30 million, or that's what it was when I left. That was a conscious and deliberate policy to try to prepare us to create jobs in the future and it's going to take time. I hope that the state maintains that support. I think I heard a year or so ago, that the university was first in the nation in spinoff businesses from R&D and that is really cool.



There's a kind of inherent pessimism that I think is probably the biggest barrier to our economic progress.

Question: As part of a project focused on Maine's creative economy, staff at the Margaret Chase Smith Policy Center recently carried out a series of informal interviews with entrepreneurs around the state. What we found was widespread excitement. Most of the folks we interviewed are increasing sales and adding jobs. A good number of them grew up here and, after starting a company somewhere else, brought their company back with them. But a handful moved here cold turkey simply because they wanted to live in a place that felt "real."

King: I'm glad you mentioned that because if I could wave a wand to improve Maine's economy, it would be to change the negative attitudes of so many Maine people. We have this terrible, "Oh woe is me, this is the worst place in the world, how can anybody do it" attitude. If business people sit around at lunch telling each other how bad things are, none of them are going to go home after lunch and hire people or invest in a new plant.

For example, Maine's personal income is now at the highest level in the last 50 years as a percentage of the nation's personal income and, between 2000 and 2004, we were the fifth fastest growing state in the country. But this is certainly not common knowledge these days. There's a kind of inherent pessimism that I think is probably the biggest barrier to our economic progress. Now that does not mean that I'm Pollyanna and that there aren't problems to be dealt with. But we have to be realistic. We have to recognize the issues and try to fix them, and not become so preoccupied by the problems that we don't realize there is some really great stuff going on up here and some really great opportunities. Now that I'm out of office, I hear from young people all the time from all over the country asking, "How can I get a job in Maine? How can I come to Maine?" In the long run this is a good thing because a lot of those people are going to be able to bring their jobs with them.

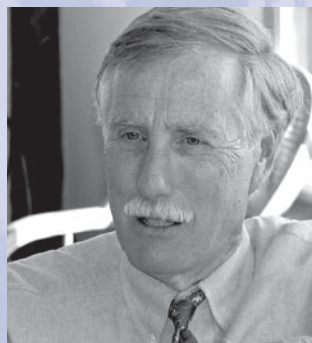
Question: In my experience, your governorship was marked by vision and inspiration. Your addresses to the state and your regional talks were all about creating a picture of where we could go and where we ought to go. It has been four years since you left office, and my final question is has your vision of Maine and for Maine changed?

King: No, I don't think so. But I'm more concerned with the future of the country than I've ever been in my life. I think nationally we are doing everything wrong and that really worries me. My vision and optimism about Maine really hasn't diminished, but I am worried about the country as a whole. We have no energy policy and energy is clearly behind so many of the problems that we have now. The federal deficit is a huge problem. We've become an entitlement society. Usually when you talk about entitlement, you think of poor people, but we've become a whole nation of entitlement people. We want something for nothing. I'm involved in a national commission on the future of Medicaid, trying to figure out what to do with Medicaid. It is a huge issue, which is only going to get worse because of the demographics. And instead of addressing these things and creating what I would call a war-chest to fund our ability to compete in this

new world economy, we are doing the opposite. We're spending profligately and, instead of paying for the things we demand from government, we're borrowing from our kids when they are going to have enough burdens just to keep their heads above water. It's going to be tough for the next generation to maintain the standard of living that we've had in this country.

But having said all that, I remain optimistic about Maine. This really is one of the best places in the world to live, work, and raise a family. The physical environment—both natural and man-made—is spectacular; the scale of our communities is manageable; the people are warm and creative; and although we have problems, they are solvable within a positive civic culture. Our challenge is to build prosperity and more widespread opportunity, while preserving the qualities that make this place so special.

This isn't easy, but I have great confidence in Maine people; I think we can pull it off. 🐟



Angus S. King served as governor of Maine from 1995 to 2003. His tenure as governor was marked by numerous accomplishments including a substantial increase in the state's commitment to research and development, the largest increase of conservation lands in the state's history, and the establishment of a program to provide laptop computers to every seventh and eighth grade student in Maine. Prior to being elected, Governor King worked as an attorney and as founder and president of Northeast Energy Management, Inc. Over the years, in conjunction with Maine Public Broadcasting, he hosted and co-produced numerous public affairs programs—a practice he continues today. Since leaving public office, Governor King has served on numerous boards and as a distinguished lecturer at several New England universities. Recently he was tapped by President Bush to serve as vice chair of the Federal Commission on the Future of Medicaid.