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## Maine's Development Dilemma, 2001 Update

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# MAINE'S DEVELOPMENT DILEMMA

(2001 UPDATE)

"Our vision for Maine is a high quality of life for all citizens. Central to this vision is a sustainable economy that offers an opportunity for everyone to have rewarding employment and for business to prosper, now and in the future." (Maine Economic Growth Council)<sup>1</sup>

## Introduction

In the face of economic challenges that continue to face Maine and other states in a time of globalization and rapid technological change, economic development is widely seen as essential to the well-being of Maine's economy and to an increased quality of life for its citizens. However, the nature of Maine's economy, natural resource base, and geography creates a difficult dilemma for our state. This is the paradox we face: while some form of economic development is clearly imperative, the long-term misallocation of scarce economic resources in pursuit of this goal, though well-intended, may cause further harm to the economy and put much of the state's population in jeopardy. In particular, the revenues lost to Maine's public treasury through some largely uncontrolled tax subsidies represents a direct threat to Maine's future well-being, at the expense of more sustainable, long term investments in human resources and infrastructure.

Given this dilemma, it is vital that Maine citizens, workers, and policymakers take a critical look at the goals, values, and long-term potential consequences of our economic development policies, and explore how we can develop and implement mechanisms to ensure effectiveness and accountability.

## Background: The Continued Importance of Economic Development in Maine

The last few years have been widely characterized by the media, politicians and many economic analysts as an unprecedented period of sustained economic expansion and prosperity, in both Maine and the U.S., although there are now signs that the economy is beginning to slow down. Despite record low unemployment figures<sup>2</sup> and growth in the numbers of jobs in the country and in this state, however, it is clear that this much-publicized economic prosperity has not benefited everyone equally. Recent figures show that family inequality is increasing in Maine<sup>3</sup>, and many of the jobs being created are low-wage, without benefits, temporary, and/or part time. A recent report on Maine's economy also points out that job losses in the 1990's have been greatest in higher-paying industries, while new job creation has been primarily in lower-paying industries (less than \$20,000 in average annual wages).<sup>4</sup> Many families are only able to make ends meet through a combination of working more hours, having more family members in the labor force, and even working multiple jobs to get by.<sup>5</sup>

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<sup>1</sup> Maine Economic Growth Council, *Measures of Growth 2000*. (<http://www.mdf.org/megc.htm>)

<sup>2</sup> The government's measure of unemployment seriously understates the level of economic exclusion or marginality of the working population. Unemployment figures do not include people who are "discouraged workers" and not actively seeking work, or people who are working in part-time or seasonal work involuntarily.

<sup>3</sup> The average income of the top 20 percent of families in Maine was 8.1 times the average income of the bottom 20 percent of families in 1996-1998, up from 6.6 in 1978-1980. There were actual losses in real family income for all family groups except the top 20 percent, from the late 1980's to the late 1990's (Christopher St. John, "State of Working Maine 2000". Augusta, ME: Maine Center for Economic Policy, 2000, p. 5-7).

<sup>4</sup> *Ibid.*; p. 11.

<sup>5</sup> *Ibid.*; p. 18. Maine also has a higher proportion of workers who have multiple jobs (8 percent in 1998) than in the U.S. as a whole (6 percent in 1998).

Finally, while official poverty figures show that poverty levels in Maine have fallen from 11.8 percent in 1988-89 to 10.3 percent in 1997-98,<sup>6</sup> there is still an unequal distribution of poverty in the state, with substantially higher poverty rates in rural areas.<sup>7</sup> In addition, the proportion of jobs that paid poverty-level wages in Maine in 1999 — 27.4 percent — was slightly greater than for the U.S. as a whole (26.8 percent).

## **Economic Development Strategies and Maine's Economic Challenges**

Many economic development analysts, such as the Corporation for Enterprise Development (CFED), are now calling for "high road" models of economic development, recognizing that long-term, equitable and sustainable economic growth must focus on quality, well-paying jobs; human resource development, and investment in infrastructure.<sup>8</sup> The CFED issues annual "report cards" for each of the 50 states, based on a wide range of criteria. In their most recent report, Maine received high marks in some areas, such as equity and quality of life. However, the state received very low marks on several measures of development capacity,<sup>9</sup> as well as several low rankings in the areas of economic performance and business vitality.<sup>10</sup> The CFED argues strongly that strengthening a state's development capacity — particularly education and training (human resources), infrastructure, natural capital, and innovation assets — will be a much better investment in economic well-being in the long run, than simply handing out tax incentives to businesses in an untargeted fashion.<sup>11</sup>

It is also clear that "one size fits all" development policies are not appropriate for all states, or even among disparate regions within a state. A recent study by Hillard and Vail,<sup>12</sup> for example, emphasizes the special needs and challenges faced by rural populations and areas in Maine. They point out that "an effective development strategy must take account of the special features and problems of ruralness, such as sparse population, remoteness, scattered activities and institutions, and a narrow, resource-centered economic base."<sup>13</sup>

Several state policy analysts have highlighted the precarious economic situations of women workers and single parents, as well as other vulnerable sectors of the population, such as people of color, working class and poor workers, young heads of households, older workers who may face a double whammy of age discrimination and loss of marketable skills, and workers with limited education. The growing nonprofit or "independent" sector is another area that should be addressed by Maine's economic development policies,

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<sup>6</sup> Economic Policy Institute, "Maine and the U.S." (<http://www.epinet.org/datazone/states/usmap/pdf/ME.pdf>)

<sup>7</sup> David Vail and Michael Hillard; *Taking the high road: Human resources and sustainable rural development in Maine*. Augusta, ME: Maine Center for Economic Policy; February 1997; p. 15.

<sup>8</sup> The earlier "business climate" or "low road" model of economic development has now been largely discredited. It advocated lowering taxes, minimizing government regulations, discouraging unions, and keeping labor costs low, in order to recruit businesses. Another major report on "high ground" strategies is the AFL-CIO's *Economic Development: A Union Guide to the High Road*. (AFL-CIO Human Resources Development Institute: Washington, D.C., 1998.)

<sup>9</sup> The CFED's Development Capacity index is based on measures of human resources, financial resources, infrastructure resources, amenity resources/natural capital, and innovation assets. Corporation for Enterprise Development, "Development Report Card for the States 2000"; (<http://drc.cfed.org>, 10/18/00). Maine's 2000 "report card" can be seen at: <http://www.drc.cfed.org/?section=grades&page=state&state=Maine>

<sup>10</sup> Particularly amenity resources/natural capital and innovation assets. Maine was 50th (dead last) on the measures of University Research and Development, and on Science and Engineering Graduate Students. (*Ibid.*)

<sup>11</sup> *Ibid.*

<sup>12</sup> Vail and Hillard, *ibid.*; p. 9. Vail and Hillard also point out that economic development should not be confused with economic growth, and that indiscriminate growth can undermine important core values.

<sup>13</sup> *Ibid.* The state's Department of Economic and Community Development has also noted that our economic development must reflect the state's economic strengths and weaknesses, such as a focus on small businesses, and on industries or jobs that are appropriate given Maine's geography, rural population, and its predominant industry sectors — tourism, agriculture and forestry, fisheries, and so on. (Maine Department of Economic and Community Development, 2/2/98, "Rural Economic Development Initiative" (<http://www.econdevmaine.com/Pages/OneMaine2.html>))

since it is the fastest growing sector of the economy in the country, and provides important "social goods."<sup>14</sup>

### **Maine's Paradox and the Spiraling Increases in Corporate Tax Breaks**

Maine's Economic Growth Council has developed a number of ideals and goals to help guide the state's economic development efforts. Some of these goals address crucial issues raised here, such as the need to address regional disparities, and the need for well-paying jobs.<sup>15</sup> However, despite much creative work by state policymakers, many unresolved problems still need to be addressed in our economic development strategies. And one major problem appears to be growing exponentially: the exploding rise in state tax expenditures from a range of corporate tax breaks and tax incentives threatens to rock the state's fragile economic boat.

Recent data show that Maine's tax expenditures to corporations through such programs as the BETR program (the Business Property Tax Reimbursement Program), JTIC (Jobs and Investment Tax Credit), the Research Expense Tax Credit, and TIFs (Tax Increment Financing programs) have been growing at an incredible rate. Such tax subsidies or incentives are in reality a form of expenditures, which drain away scarce resources from other urgent needs in Maine.

The BETR program alone will have drained \$143.5 million from state resources in the five-year period from FY 1997 through FY 2001 (see Figures One and Two<sup>16</sup>), and it is still growing, with no clear end in sight. As University of Maine law professor Orlando E. Delogu has shown,<sup>17</sup> the BETR program primarily benefits large corporations who are least in need of help, while ignoring the needs of small firms or those firms who are not heavy users of production equipment.<sup>18</sup> In addition, as William Gardner has pointed out, most tax relief, such as BETR reimbursements, "serves simply to reward firms for doing what they would have chosen to do even in the absence of the credit."<sup>19</sup> Gardner concludes that the tax percentages in the BETR program – "among the most generous in the nation" – are so high that "the magnitude of the credit serves to effectively limit the potential growth of corporate income tax revenues from manufacturing."<sup>20</sup>

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<sup>14</sup> "Nonprofit sector grows faster than business or government", November-December 1996; N.C. Center for Nonprofits Media (11/14/00). (<http://www.ncnonprofits.org/media6.html>). The nonprofit sector includes such organizations as hospitals and other health services, social services, the arts, churches, and private nonprofit educational employers.

<sup>15</sup> For example, the council's 27<sup>th</sup> goal is to increase the percentage of jobs that pay a livable wage. The council recently assigned a "red flag" to this measure, which had increased only minimally from 1997 to 1998 (from 67.2 percent to 67.7 percent). (Maine Economic Growth Council, "Measures of Growth 2000").

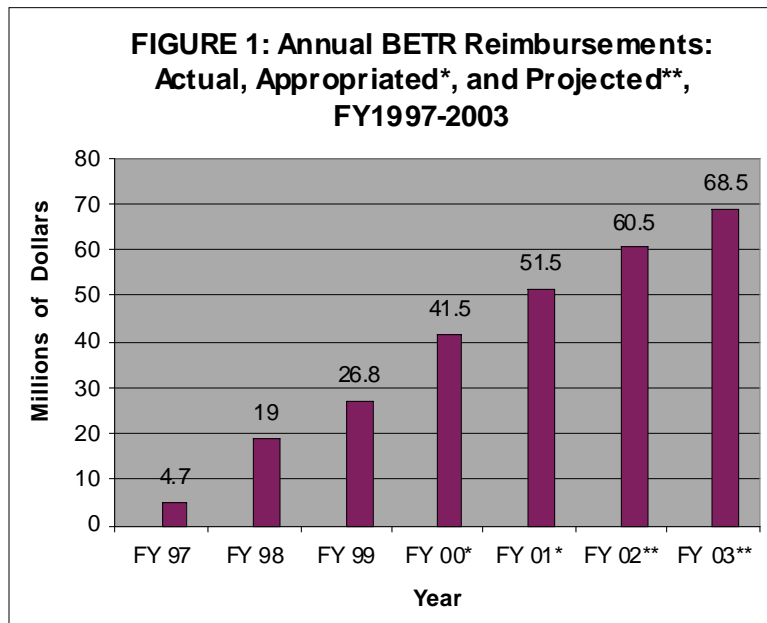
<sup>16</sup> Data sources for Figures One and Two: Office of Fiscal and Program Review, General Fund Appropriations, Actual Department and Program Totals, Adjusted for Major Reorganizations and Transfers, FY 1988 to FY 2001, 10/05/00 update; and State of Maine Revenue and Expenditure Projection, General Fund and Highway Fund, Fiscal Years 2000 to 2003, Bureau of the Budget, September 22, 2000.

<sup>17</sup> Orlando E. Delogu, "BETR Is a Windfall to a Handful of Corporations and Unfair to Everyone Else." Augusta, ME: Maine Center for Economic Policy; February 7, 2000. He adds, "The top 220 BETR recipients represent only a little more than one-half of one percent of all Maine corporations; yet they took home the lion's share of BETR refunds, more than \$42.8 m (over 96% of all refunds in the compilation data). It is hard to understand why the corporations that get little or nothing under the BETR program are not outraged by this inequitable, unfair tax treatment." (p. 3)

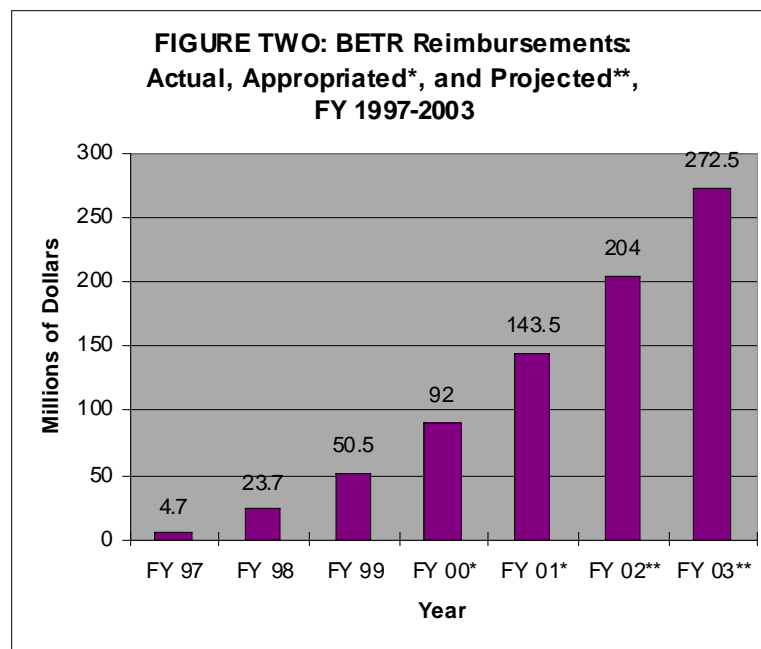
<sup>18</sup> *Ibid.*; p. 2-3.

<sup>19</sup> William Gardner (Director of Research, Maine Bureau of Taxation), "Maine's Tax Breaks – How to Evaluate Them". *Maine Choices* 1995. Augusta, ME: Maine Center for Economic Policy, 1994; p. 35.

<sup>20</sup> *Ibid.*; p. 34.



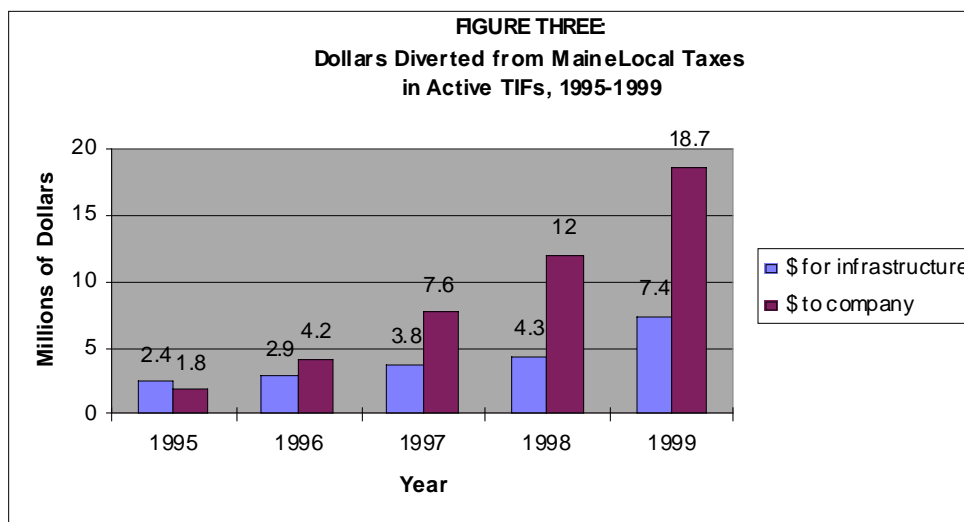
**FIGURE ONE:**  
Annual BETR Reimbursements: Actual, Appropriated\*, and Projected\*\*, FY 1997-2003



**FIGURE TWO:**  
Cumulative BETR Reimbursements: Actual, Appropriated\*, and Projected\*\*, FY 1997-2003

To compound the problem, many of the largest corporations now receiving state tax breaks through the BETR program are getting additional tax breaks on the same investments from municipal Tax Increment Financing (TIF) agreements, through a practice known as "double dipping." Currently at least 21 firms qualify for both BETR and TIF tax refunds on their business machinery and equipment investments. The Maine Citizen Leadership Fund estimates that together these companies could collect

\$186 million in "double dip" money over the lifetime of their TIF agreements.<sup>21</sup> Although it is difficult to determine the exact amount of public resources channeled to corporations through these municipal tax incentive programs, the number of TIFs has increased dramatically over the past decade, from 37 in 1993 to at least 155 in 2000, and they will undoubtedly continue to grow in number.<sup>22</sup> In addition, recent state data indicate that while the amount of municipal TIF dollars going toward infrastructure has been increasing slowly since 1995, the TIF dollars returned directly to corporations has increased far more rapidly; from \$1.8 million in 1995 to 18.7 million in 1998 – an increase of **1,039 percent** in only five years (see Figure Three<sup>23</sup>).



**FIGURE 3:**  
Dollars Diverted from Maine Local Taxes in Active TIFs, 1995-1999

### Effectiveness and Accountability in Maine's Economic Development

Exact figures on the amount of total current spending on economic development in Maine are truly hard to come by. Some idea of the likely magnitude of this spending can be obtained from Charles Roundy's analysis of Maine's 1996 spending on economic development. His conservative estimate, based on incomplete data and excluding tax expenditures such as the BETR program, is that at least \$111,000,000 in public resources was spent on economic development activities in the state in 1996, by federal, state, sub-state regional, and locally based agencies and organizations.<sup>24</sup> However, the recent growth in BETR expenditures and in tax increment financing (TIF) programs means that the current spending figures would be far higher than the amount spent in 1996, even if other economic development spending had stayed unchanged since then.<sup>25</sup>

<sup>21</sup> Arn H. Pearson and Lisa Prosienski, "Anatomy of a Tax Loophole: How Corporate "Double Dipping" Costs Maine Taxpayers Millions". Portland: Maine Citizen Leadership Fund. (2000) The five biggest "double dippers" are International Paper, Bath Iron Works, National Semiconductor, Casco Bay Energy, and Champion International.

<sup>22</sup> Marc Breslow, Ph.D. and Erica Schwarz; "Tax Increment Financing in Maine: Rapid Growth and Substantial Costs." Cambridge, MA: Northeast Action, October 2000.

<sup>23</sup> Data source for Figure Three: Breslow and Schwarz; *ibid.*; p.5. In their analysis of state data, Breslow and Schwarz conclude: "Over their lifetimes, existing TIF districts are projected to divert \$495 million from local tax revenues. Of this amount, \$384 million goes back to the companies and \$111 million to infrastructure." (*ibid.*, p. 3).

<sup>24</sup> Charles C. Roundy, "Funding Economic Development in Maine". *Maine Choices 1997*. Augusta, ME: Maine Center for Economic Policy; 1996; p. 130. The three largest categories were (in order): state (\$62.1 million), federal (\$27.8 million) and municipal (\$13 million); not including tax expenditures such as BETR.

<sup>25</sup> Other tax expenditure programs also appears to be growing, as shown by recent figures on appropriations and expenditures for the Jobs and Investment Tax Credit and the Research Expense Tax Credit. Recent data indicate that the total tax credits claimed from these two programs combined were \$1.3 million in 1997, and at least \$1.6 million

Many Maine policy makers are now asking serious questions about how we can ensure effectiveness and accountability in these programs. First, we need to know the full extent of public resources being spent, directly or indirectly, on all economic development programs,<sup>26</sup> and easily accessible public information on who receives these funds and tax breaks.<sup>27</sup> In addition, taxpayers deserve to know what kind of return the state is receiving in return for these public investments. For example, if a primary purpose of corporate incentives is to create jobs, why shouldn't there be enforceable job creation requirements for such incentives? Maine could also require a wage threshold for jobs linked to the BETR program, such as the wage standards already in place for the Employment Tax Increment Financing program (ETIF) and the Jobs and Investment Tax Credit (JTIC).<sup>28</sup>

These questions need to be kept in the forefront of our thinking and policymaking in this area. Existing accountability measures are a first step, but more stringent, enforceable accountability measures are needed.

### **Economic Development: Some Proposals to Consider**

1. As a state, we need to initiate a complete reexamination of the state's various economic development programs, including the intent, goals, consequences, and problems of the BETR program, and an assessment of the total ongoing and projected costs of these programs. Several recent analyses have suggested either eliminating the BETR program entirely, or at least implementing major reforms, such as limiting it to small businesses, and the elimination of double dipping.<sup>29</sup>

2. The state needs to develop and implement additional mechanisms to ensure corporate accountability. These mechanisms must be effective and enforceable. Rather than simply hoping that our public resources will be used wisely and effectively, every business receiving a corporate tax incentive or any other economic development resources from the state should be required to account for how those resources were used, and how many permanent quality jobs were created, at appropriate levels of pay and benefits. If a company does not follow through on its promises or obligations, and instead uses public resources to lay off workers or reduce its employment, it should return any development incentives or tax breaks back to the state coffers.

3. As the MCEP, the CFED and the Economic Growth Council have all argued, there needs to be continued public investments in our development capacity. This includes investing in our intellectual and social "infrastructure": education at all levels, training programs and school-to-work programs, and even preschool education, as well as supportive services ranging from affordable, quality daycare and transportation supports to improved access to affordable health care. Maine must focus on opportunity building and training for young people, women, displaced workers, and adult workers needing to upgrade their skills. Investments in the state's physical infrastructure, such as improved transportation and school facilities, are also crucial for future growth.

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in 1998. (State of Maine Revenue Services, Corporate Income Tax Credits, 1997 Tax Year and 1998 Tax Year.)  
sFigures for Figures for 1998 are incomplete since not all returns had been filed yet with Maine Revenue Services.  
*Note 25, continued:* Figures for 1998 are incomplete since not all returns had been filed yet with Maine Revenue Services.

<sup>26</sup> For example, as Charles Roundy (*ibid.*, p. 131) points out, the municipal TIF programs in Maine have other costs beyond local property taxes, such as impacts on educational funding equity and county tax assessments.

<sup>27</sup> Maine's 1998 disclosure law requiring information on companies receiving subsidies from seven economic development programs, and subsequent amendments in 2000, are a good first start.

<sup>28</sup> See the report by Marc Breslow, Ph.D.; "Wages at Subsidized Companies in Maine: Comparison to Existing and Potential Standards"; Cambridge, MA: Commonwealth Institute, February 7, 2000.

<sup>29</sup> Delogu, *ibid.*; Pearson and Prosienski, *ibid.*; and Peter Mills, "Reforming Business Tax Incentives"; Augusta, ME: Maine Center for Economic Policy; Choices: Vol. VI: No. 9; December 13, 2000.

## **Conclusion:**

Maine's economic development strategies need to focus on strengthening social and economic foundations for long-term community and individual well-being, rather than on corporate tax incentives which primarily benefit large corporations, their top executives, and stockholders. A short term focus on tax incentives, such as the state's BETR program, may endanger the state's long term economic and social well-being. Our economic development programs should focus on investments in development capacity, along with enforceable mechanisms to ensure effectiveness and corporate accountability. Finally, as the Maine Economic Growth Council has suggested, the creation of quality, well-paying jobs should be the cornerstone of our economic development efforts. The ultimate beneficiary of our public investments should be the public — Maine families and households, Maine workers, and Maine communities.

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