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Maine's Tax Structure—Tax Reform or Government Reform and Economic Development?

Rick Douglas

Commentary

More on Tax Reform

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by Rick Douglas

The original question posed to me for consideration in this commentary called for a response to the tax reform debate in Maine and, in particular, to the articles by Josephine LaPlante and Christopher St. John featured in the last issue of the Review. Having worked for The James River Paper Company for thirteen years and having faced corporate downsizings, budget crunches, and competitive threats, I believe a primary focus on reducing taxes is not as fruitful an exercise as an evaluation of the driver of taxes—the cost of government.

Attempts to reduce state and local government expenses no longer can afford traditional approaches like simply cutting programs or some mandated percentage of positions, or using creative accounting tactics. In order to make progress we must have a vision and a goal of less cost of services rendered. LaPlante's article, "Taking Charge of Maine's Fiscal Fortunes," describes the cost of services well. She writes, "Maine municipalities face the same high unit cost problem endemic to public service provision everywhere, but the problem is exacerbated by low population density, the small size of the state, and particularly the small size and rural nature of many communities. The costs of even minimal service provision in areas with low population density is divided among fewer recipients, yielding a much higher unit cost than the same service provided in a more populous area of the same size."

This commentary addresses the question of how we might lower governmental costs given the population and geographic limitations inherent to Maine. I offer one solution that stems from my experience in dealing with budget crunches and down- sizing at James River. I also address the need to grow Maine's economy.

Lowering the cost of government

One approach that has been used widely to lower the expenses of large corporations is to flow-chart work processes. Flow-charting work processes (e.g., purchasing, welfare claims, materials handling) begins by listing all tasks currently performed within a work activity or process. The next step involves a complete review of these tasks to determine which add value to the process and which do not. The goal is to eliminate as many of the non-value-adding tasks as possible. The process is intended to focus not on people as value- or non-value-adding, but on the tasks they perform. It requires the full participation of those who best understand the processes being evaluated, as well as creative thinking and, sometimes, difficult decision making. When completed, flow-charting work processes creates opportunities for the redistribution of value-adding tasks among groups of employees, which can affect job satisfaction positively. By accumulating non- value-added steps and subsequently eliminating them, it also results in the expenditure of fewer resources.

Millinocket is an example of a town that has been living through such a process. For the past several years it has been engaged in downsizing, yet members of the town council are quick to i point out that municipal services have not been severely affected. They have been careful to prioritize and eliminate non-value-adding tasks whenever possible.

Such an exercise rigorously applied to government could lead to many innovative, cost-saving solutions. We could engage in serious efforts to coordinate and consolidate government services at all levels. For example, regional purchasing alliances for goods and services could lower unit costs for municipalities. Similarly, administrative positions and structures could be combined, such as employing one town manager to serve several small towns. This type of progressive thinking requires us to bury old paradigms and sometimes historic boundaries. It also requires having a strong vision and solid leadership. This can be difficult to achieve given our current governmental systems, but it is possible.

Growing Maine's economy

The other obvious approach to lowering Maine's tax burden on businesses and individuals is to generate more tax revenues by growing the economy. Even though Maine's unemployment rate is relatively low, too many of our jobs do not pay a "liveable wage." This fact is reflected in slow real estate appreciation and sales, as well as durable goods and other consumables being stuck in a slow/no-growth mode.

We need to focus attention on the manufacturing sector where, generally, high-paying jobs are generated. However,' competition for these jobs among states and across international borders is intense. Maine, unfortunately, has several strikes against it that keeps companies from considering it as potential site for investment. Proximity to markets, energy costs, and overall tax burden are factors in which other states and countries easily have an advantage over Maine.

We are forced to counter with the quality of Maine's work force, solid educational systems, low crime rates, and liveability, all of which we who live here enjoy and appreciate. But these positive factors don't quite hit the corporate bottom line in the same tangible fashion as energy costs or tax burden. To overcome this situation, we need to build on the solid progress that has been made recently. The improvements to workers' compensation and the Business Equipment Tax Reimbursement (BETR) program are two examples that illustrate the leadership and capability are here to improve Maine's business-investment climate.

In addition, companies already in Maine need to be nurtured and potential new ones courted. Expanding the economy will generate more sales- and income- tax revenues to help offset the burden of the property tax. As LaPlante indicated, economic expansion first affects Maine's property tax when municipal services and infrastructure grow to meet the demands of expansion, and again because it serves as the catchall or "tax of last resort." Unlike the sales and income taxes, it does not fluctuate with the economy. This double whammy has created too much of a hardship on Maine businesses and individuals, especially those on fixed incomes.

Yet the answer is not to simply shift some of the property tax burden to the sales- and income-tax buckets. This strategy likely would result in an even less competitive business environment, thereby putting jobs at risk and potentially slowing the collection of sales and income taxes, the very forms of revenue the tax shift is intended to increase. Maine will continue to debate tax reform in future legislative sessions. Without serious challenges to the current cost of government services, however, tax reform discussions will be premature. Our standing as a relatively low-income, rural state, combined with a higher-than-average tax burden, will not change without significant economic growth and lower governmental costs.

Rick Douglas is controller for Fort James Corp. (formerly James River Paper Co.) Northeast Mills.

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