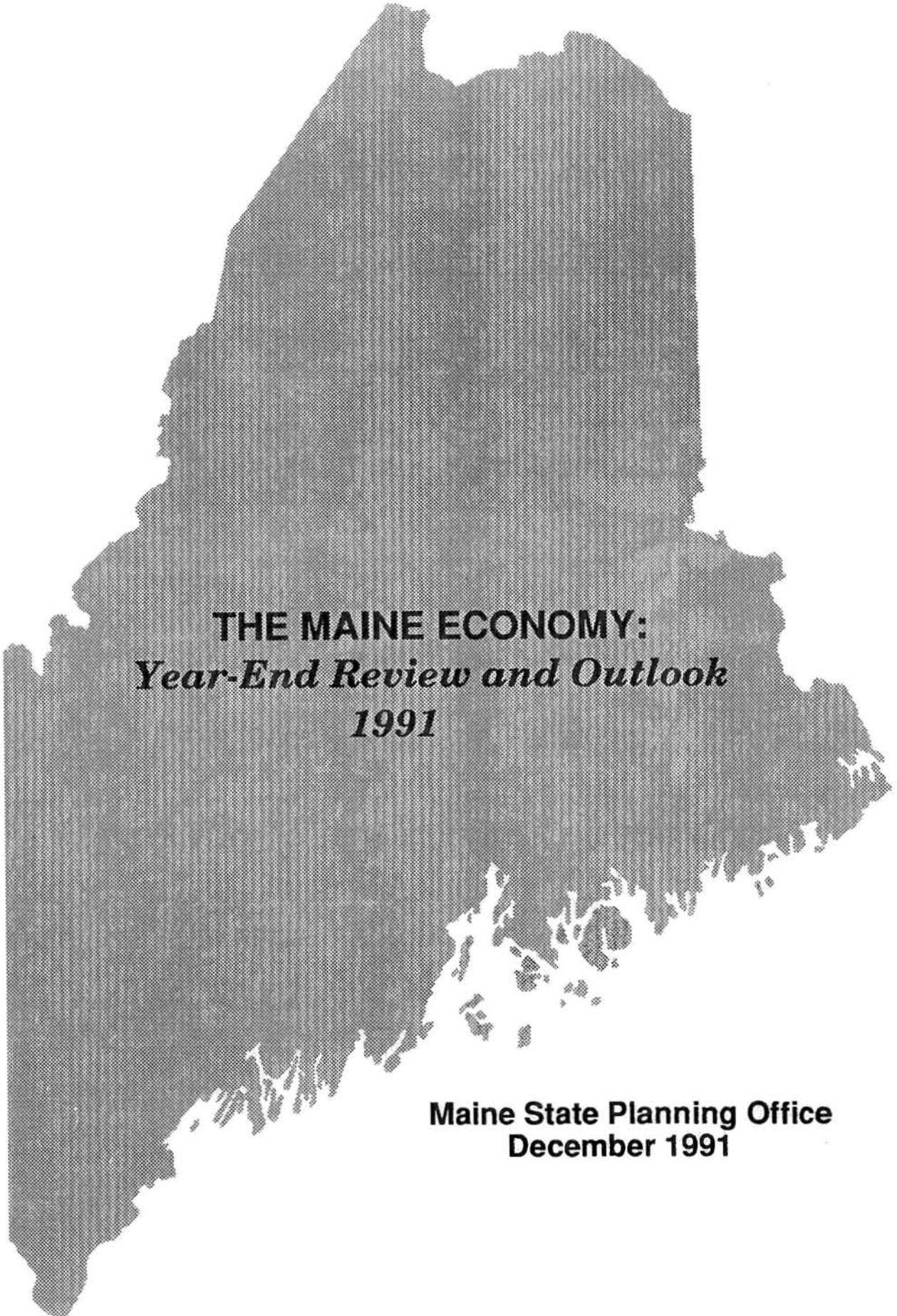


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THE MAINE ECONOMY:
Year-End Review and Outlook
1991

Maine State Planning Office
December 1991

This year-end report on the Maine economy was prepared by the Economics Division of the State Planning Office. It reviews State economic performance during 1991, reports our short-term and longer-term economic outlooks for the State, identifies some of the issues we expect will prove important in Maine's economic performance during the next few years, and highlights ten key economic events of the past year.

Among the conclusions detailed in this report are:

- By all measures, Maine economic performance in 1991 was dismal. Employment levels, retail sales, and construction and real estate activity all continued to decline. Real economic growth through the first three quarters of the year was down 3.2% from the corresponding period of 1990.
- State Government budget shortfalls were the worst in decades, prompting severe budget cuts as well as tax rate hikes which were expected to raise roughly \$340 million over the biennium.
- Maine's economic recovery will likely be unusually anemic because of slower national growth and because of drags on the Maine economy from such factors as the closing of Loring and other defense scaledowns, and tax hikes which will depress consumer spending.

We hope that you will find this report useful. Please feel free to call me or members of the Economics Division at the Planning Office with your comments or questions.

Richard H. Silkman, Director
Maine State Planning Office

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Acknowledgements

The editor of this report is Galen L. Rose. Other contributors include Richard Silkman, Stephen Adams, Michael Montagne, Richard Sherwood, and Nancy Griffen.

The Maine Economy in 1991

Early in 1991, nearly all analysts saw recovery just around the corner for the Maine and national economies. While the State and nation may possibly have begun crawling up the recovery road by year's end, the data are certainly not definitive. By all measures, the State's economic performance this year has been dismal. Between the third quarter of 1990 and the third quarter of 1991, Maine's economy contracted by 2.5%, and it was only an extraordinarily - and inexplicably - strong July that prevented a loss of over 3%. This poor performance has led to declining State tax revenues, massive State Government budget cuts, and sizeable tax rate hikes (see page 7 for details).

As the following table illustrates, The State economy was virtually stagnant from the middle of 1988 through the fall of 1990. By late 1990, the war in the Persian Gulf and the national recession combined to force the Maine economy to lower performance levels. Although the Maine Economic Growth Index* for third quarter 1991 appears to signal the start of recovery, the gain was almost entirely attributable to a one month surge in retail sales in July; the data for August and September suggest we may not be out of the woods yet, and can expect to see lackluster performance over the near term.

MAINE ECONOMIC GROWTH INDEX

	EGI	% CHG. FROM PREVIOUS QTR.
1988:I	135.9	1.2%
:II	138	1.6
:III	139.4	1.0
:IV	140.8	1.0
1989:I	138.3	-1.7
:II	139.9	1.2
:III	140.7	0.6
:IV	139.6	-0.8
1990:I	138.9	-0.5
:II	138.5	-0.3
:III	138	-0.4
:IV	135.3	-1.9
1991:I	134.3	-0.8
:II	133.3	-0.7
:III	134.6	0.9

EMPLOYMENT CONTINUED TO DECLINE

While the official 1991 employment numbers for Maine present a confusing picture in some respects, they very clearly show heavy job losses from the previous year. Average resident employment for the first 10 months of the year

was down more than 9,000 (-1.5%) from the 1990 average, while the average jobless rate for this period was up 2.6 percentage points (5.1% to 7.7%). Maine seasonally adjusted resident employment totals bottomed out in May of this year, then traced a relatively flat profile before jumping up over 12,000 in October. We suspect that this increase is at least partially due to methodological weaknesses, however, since payroll employment (which is based on a much larger sample) showed only modest improvement in October. Some of the resident employment increase may be explained by the movement of workers off payrolls and into self employment, as this is known to be happening nationally. At any rate, this sizeable increase in resident employment in October resulted in a 1.5 percentage point decline in the seasonally adjusted jobless rate, from 7.7% to 6.2%.

October '91 jobless rates present an interesting and clearly defined picture of the comparative health of Maine regions. The highest rates (above 7%) were found in the western mountain counties (Androscoggin, Franklin, Oxford, and Somerset) and downeast (Waldo and Washington). The lowest rates (5% and under) were all in south coast and mid-coast counties (York, Cumberland, Sagadahoc, Lincoln, and Hancock).

For the State as a whole, payroll employment data, developed from a sampling of employers, appears to present a more reliable picture of employment conditions in 1991. Seasonally adjusted payroll employment averaged 517,100 during the first ten months of 1991, down 19,800 (3.7%) from the annual average for 1990, and fully 28,000 from its peak level of 545,100 in June of 1989.

Across industry sectors, job losses in 1991 have been quite uneven. The table on the following page compares 1990 annual average employment with January thru October averages for 1991 (seasonally adjusted). As the table illustrates, the majority of job losses have occurred in wholesale and retail trade, manufacturing, and construction.

Maine payroll employment (see Index of Employment Growth graph) appears to have bottomed out in August (509,000), since September (512,200) and October (513,300) both showed small job gains.

* The Economic Growth Index is a composite of resident employment, real consumer retail sales, production hours worked in manufacturing, and services employment. All components are seasonally adjusted.

MAINE PAYROLL JOB LOSSES
BETWEEN 1990 AND 1991

	JOB CHANGE	PCT. CHANGE
FINANCE, INSUR., R. ESTATE	0	0%
TRANSP., COMM., PUB. UTILITIES SERVICES	-400	-1.8%
FEDERAL GOVT.	-1,300	-6.6%
STATE/LOCAL GOVT.	-1,000	-1.3%
CONSTRUCTION	-4,300	-14.9%
MANUFACTURING	-5,900	-5.8%
TRADE	-6,500	-4.8%
TOTALS	-19,800	-3.7%

note: comparison is between 1990 annual averages and seasonally adjusted averages for first 10 months of 1991.

RETAIL SALES STILL WEAKER IN 1991

Through the first three quarters of 1991, Maine consumer retail sales were down 2.6% from the same period of 1990. In contrast, national retail sales were up about 1%. But, since retail inflation was about 3% over this period, inflation adjusted sales were down from last year in both the nation and the State.

Like last year, the weakest retail sectors were those which are most sensitive to interest rates, autos and building supplies. In fact, as the table below illustrates, all other sectors enjoyed year-over-year sales increases.

MAINE RETAIL SALES CHANGES
BETWEEN 1990 AND 1991
(MILLIONS OF \$)

	SALES CHG.	PCT. CHG.
FOOD STORES	\$44	6.4%
RESTAURANT/LODGING	42	4.3%
GENERAL MERCHANDISE	38	3.6%
OTHER RETAIL	3	0.4%
BUILDING SUPPLY	-91	-11.2%
AUTO TRANSPORTATION	-178	-12.8%
TOTAL CONSUMER SALES	-143	-2.6%

(note: comparison is between first 3 quarters of 1990 and the same period of 1991)

At least through the first half of '91, retail sales trends across Maine's regions were surprisingly consistent. Compared to the previous year, sales for this period were down between 2% and 4% in 7 of the 8 regions of the Planning Office's monitoring system (State average was -3%). Only the Northern Maine District, essentially Aroostook County, bucked the trend with a 5% gain in sales. Doubtless, the increase in Canadians' spending in Northern Maine was a primary factor (see page 7 for more on this).

CONSTRUCTION AND REAL ESTATE STILL REELING

Data obtained from the Maine Advancement Program show that the value of contract construction awards in Maine continued to fall in 1991. For the first 10 months of the year, awards were down \$114 million (-15%) from the same period of 1990. The majority of the decline, \$69 million, was due to the non-building construction sector (roads, bridges, etc). One startling point the data makes is that if construction spending for 1989 through 1991 had continued at 1988 levels, an additional one-half billion dollars would have been pumped into the Maine economy over the period.

Maine real estate activity has suffered a similar fate according to the Institute for Real Estate Research and Education. The total value of Maine home sales for the first half of 1991 was down roughly \$120 million (-35%) from the same period of 1990. This represent approximately 1000 fewer units sold (roughly 20%).

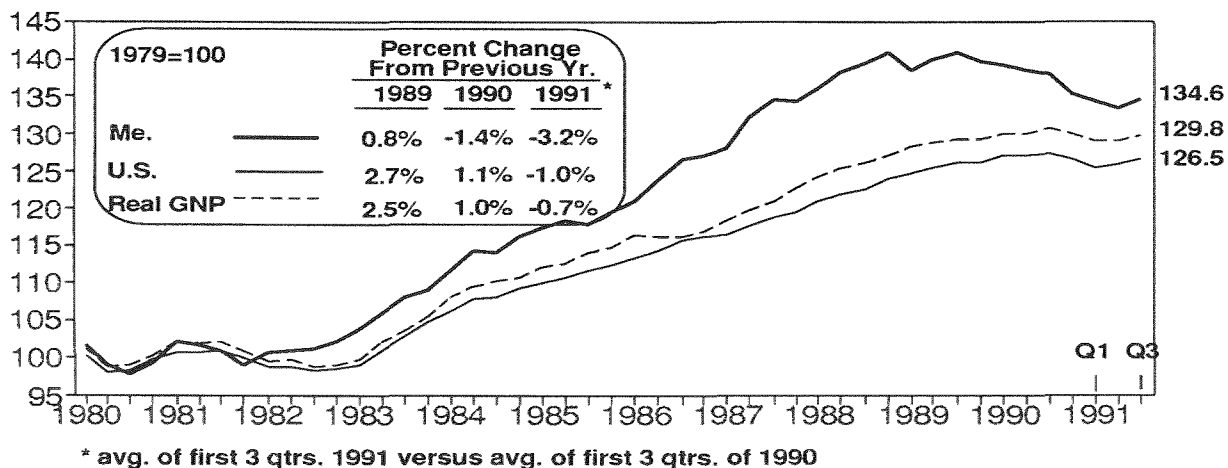
THE NEW MAINE ECONOMY

The 1980's brought enormous growth to the Maine economy, but has the current recession wiped out those gains? Far from it. The Maine Economic Growth Index averaged 134.1 through the first three quarters of 1991; that is, real economic activity was 34.1% above the 1979 level. The U.S. E.G.I. averaged 126.0 for the first three quarters of 1991. What the recent recession did eliminate were those gains related directly and indirectly to three factors - unsustainable levels of retail sales, the national defense buildup, and excessive construction activity. As each of these factors have retreated to more normal levels, so the Maine economy has returned to its longer-term growth path.

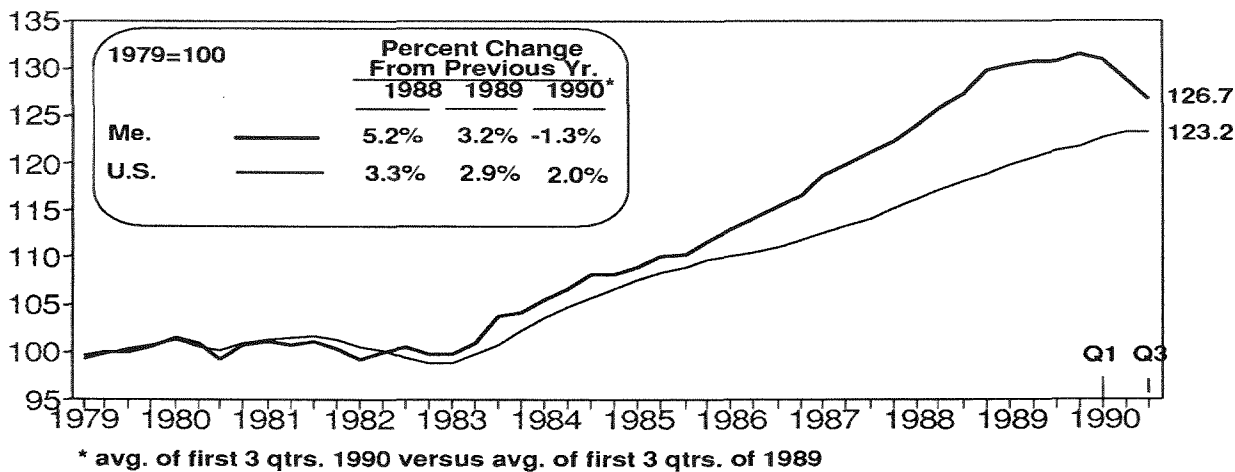
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The Maine Economy in 1991

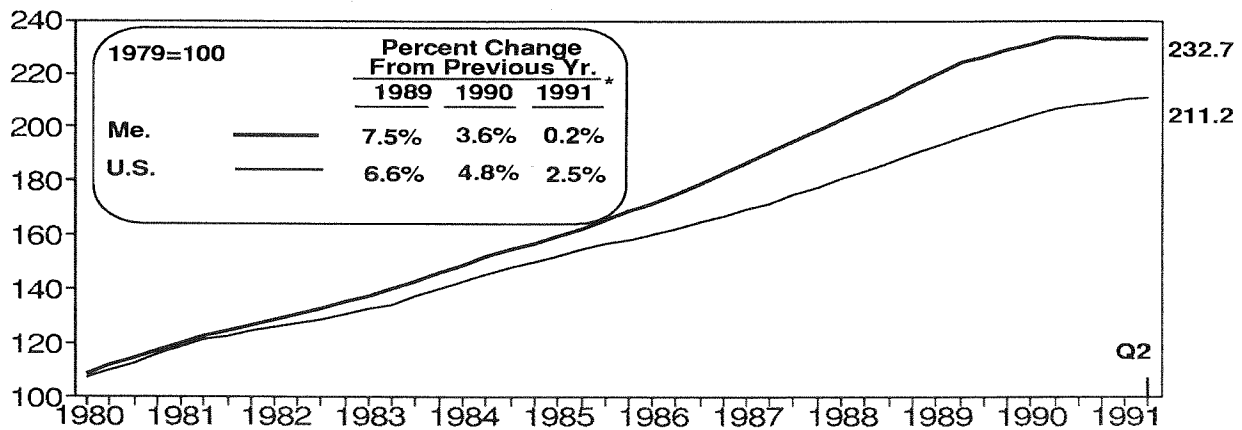
Economic Growth Index



Index of Employment Growth

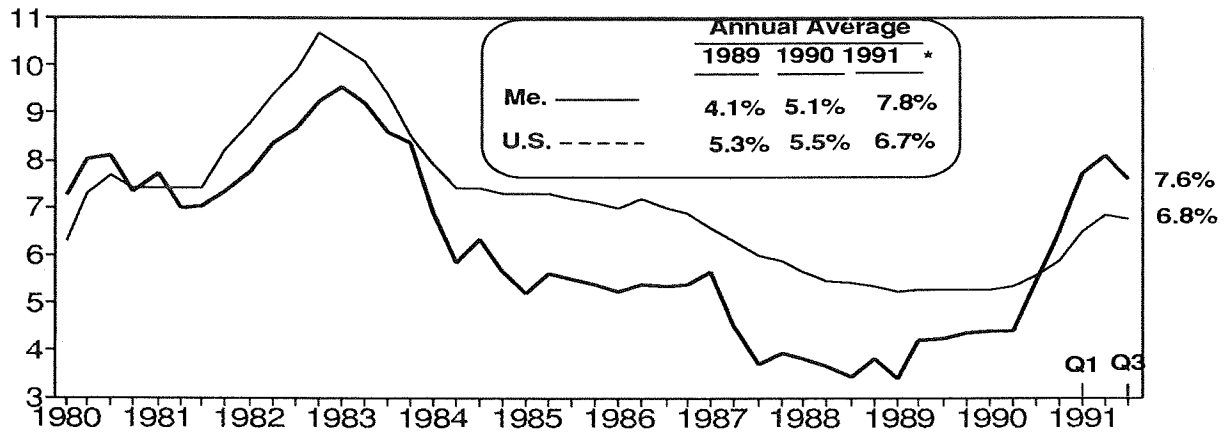


Index of Per Capita Personal Income



* avg. of first 2 qtrs. 1991 versus avg. of first 2 qtrs. of 1990

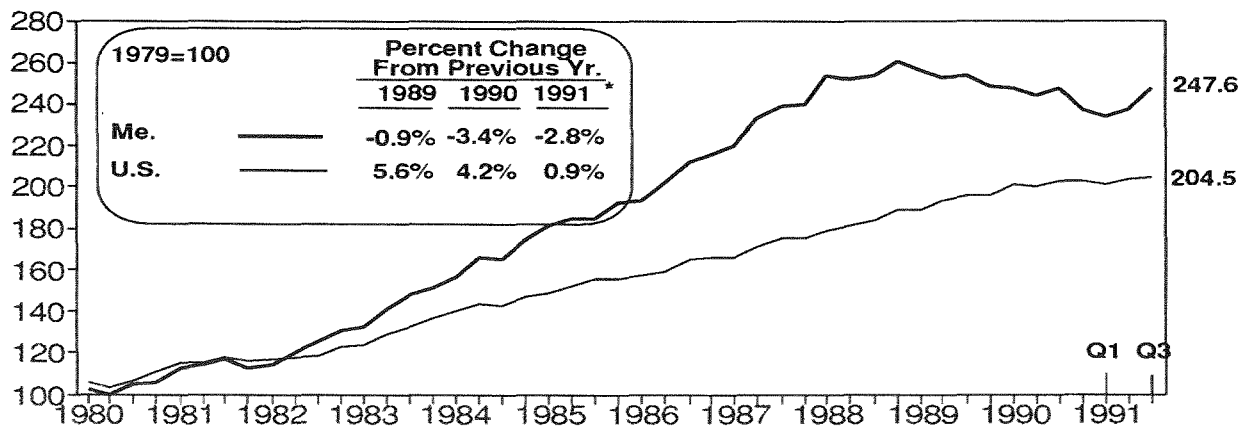
Unemployment Rates (Seasonally Adjusted)



* Average for first Three Quarters of 1991

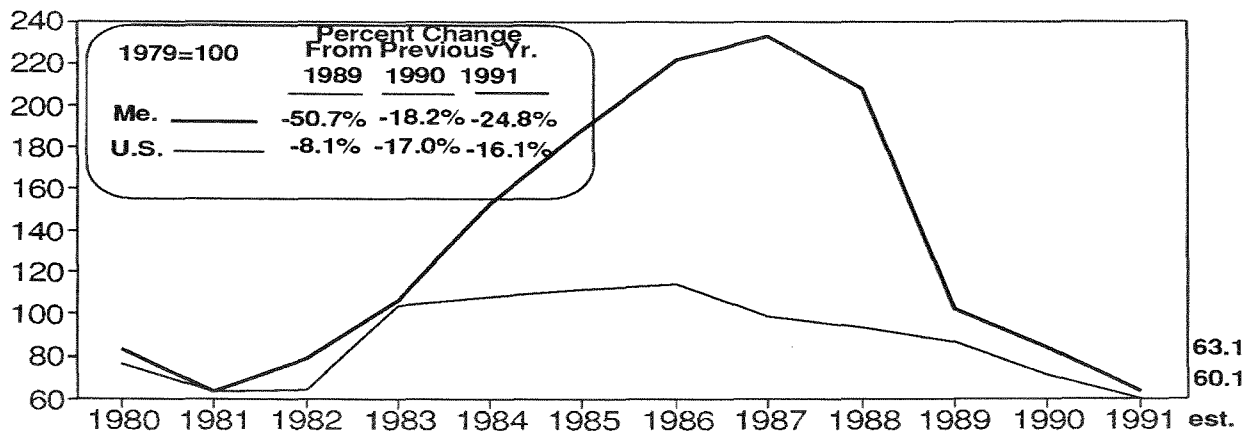
The Maine Economy in 1991

Retail Sales Index



* avg. of first 3 qtrs. 1991 versus avg. of first 3 qtrs. of 1991

Housing Permits Index



Estimates for 1991 are by the State Planning Office, based on trends through Oct. 1991.

The Ten Most Significant Economic Events in Maine in 1991

At the end of each year, various listings appear of the "ten most-", "ten best-,"etc. The following list consists, in no particular order, of our selection of the ten most significant economic events that occurred in Maine in 1991, events which we believe indicate important trends in the economy.

OF BOON, BANE, AND BORDER BREECHES

On January 1, 1991, the Canadian federal government instituted a new 7% goods and services tax on purchases within Canada. Consequently, Canadians currently pay an effective sales tax of up to 18% in federal and provincial taxes on retail and services purchases. This has proven to be a boon to many Maine communities near the Canadian border. Although there is no hard data on the increase in Canadian purchases in Maine this year, indications are that the increase is considerable. For example, during the first 6 months of 1991 compared to the same period last year, Maine general merchandise store sales were up only 4%, but Bangor area sales in this category were up 16.6%, Houlton sales were up 34%, Calais 28%, and Madawaska 22%.

BLESSED BE THE FDIC

Maine did not quite escape the rash of bank failures which has swept the nation. Early in 1991, the Bank of New England failed, taking down its Maine National Bank assets with it. Maine National, itself, was still profitable at the time. The Maine Savings Bank also failed early in the year. Ultimately, Fleet Bank won its bids to purchase both Maine National and Maine Savings. The American Bank in Sanford also failed. Its Sanford area offices were later purchased by Mid-Maine Savings Bank. In the midst of these failures, a new bank, Maine Bank and Trust, was chartered in Portland.

TAXES TAKE A HIKE

The Governor and legislature finally agreed upon the specifics of a tax hike package to help cover the budget gap that resulted from a shortfall in state revenues. The full package of "revenue raisers" that was enacted during the budget process amounts to a total tax increase of \$340 million dollars, to be felt by Mainers over a two year period. Of the \$340 million dollar increase, \$105 million will come from a rise in individual income tax rates, \$34 million results from raising corporate income tax rates, \$190 million will come from the sales tax increase, and \$11 million will come from increases in other tax revenues.

VOTERS JUST SAY NO!

Capital projects totaling \$179 million were decided in the November referenda. The most controversial proposal was a new transportation policy placed on the ballot by citizen petition. After vigorous debate and an extensive television campaign, voters approved the new policy saying "no" to a \$100 million project to widen the Maine Turnpike. Voters also disapproved six bond issues for diverse projects totaling \$49.5 million, raising concerns that future "pump-priming" efforts to stimulate the State's economy may meet a similar fate.

STRANGE BEDFELLOWS

State government deficits and workers compensation insurance were two consuming political issues throughout the year which became linked when the Governor and Republican Legislators insisted workers compensation reforms be approved before taxes were increased in the 1992-93 biennium. As a consequence, nearly all government activities ceased for eight days in July when the Legislature was unable to agree on reforms before the start of fiscal 1992. At the same time, projected State budget deficits in fiscal 1991, 1992 and 1993 led the Governor and Legislature to enact a mix of tax increases and spending cuts which included layoffs, several shutdowns of State government, and furloughs for State employees.

THE COLLAR-BLIND RECESSION

A decade ago, Maine's dislocated worker was typically blue-collar, in manufacturing, relatively unskilled, and older. Today, an increasing proportion of Maine's dislocated workers (currently about one in four) are from white-collar occupations, are relatively skilled, and younger. With the announcements of layoffs scheduled over the next few years at IBM, GM, and other large corporations, white-collar unemployment promises to be a feature of the 1990's. This is very disconcerting, especially since we know very little about the social and economic consequences of this phenomenon.

A FISH STORY

Reports that fish stocks are dwindling have filled the news for the past several years, but Maine fisherman report cod catches rose sharply this year, while lobster fishermen are running ahead of 1990's all-time record lobster harvest. And, simultaneously, our new urchin fishery has quietly emerged as the State's third most valuable, and production from our salmon farms is expected to top five million pounds by year-end. All rare good news in a relatively bleak economic landscape.

The Maine Economy in 1991

(TOP TEN...continued)

WHAT PEACE DIVIDEND?

In 1991, defense cuts began to take their toll on the Maine economy. Force reductions were experienced at Portsmouth Naval Shipyard, Over-the-Horizon Backscatter Radar in Bangor and Brunswick Naval Air Station. Job losses were also experienced at Maine firms doing defense-related work such as Bath Iron Works, Fiber Materials, Inc., Mid-State Machine, and National Semiconductor. Direct defense jobs lost to date total nearly 2,200. An additional 1,600 indirect jobs were also lost to defense cutbacks. Thus, over 10% of the 36,000 jobs lost in Maine since the 1989 peak are attributable to defense cutbacks. To round out the year, Congress, in October, approved the recommendation to close Loring Air Force Base. The Base, employer to over 4,000 people, will close between December 1993 and September 1994.

NATIONAL RECESSION — STILL SHRINKING?

As the year comes to a close the condition of the national economy remains unclear. Until recent days, most economists continued to hold to the belief that the recovery began in late spring. Most forecasters, while revising downward their growth projections, adamantly predict continued growth in GNP through the current quarter and beyond. However, more recent economic events have strengthened the perception that the U.S. economy, after flirting with growth in the third quarter, returned to contraction. This view is fueled by declining industrial production, stubbornly high numbers of the newly unemployed, anemic retail sales, declining consumer sentiment, and intensifying mass layoffs at firms like IBM, GM and TRW. In a characteristically anemic response to poor economic news, the Federal Reserve has taken its 14th (and possibly 15th) action in 21 months to coax interest rates lower. The latest Fed action, as in the past, will likely be viewed as too little too late to make a meaningful contribution to an economic recovery. When new national forecasts come out in January, it would not be surprising to see a revision of expectations to include contracting Gross Domestic Product through the fourth quarter of 1991, followed by a very weak recovery late in the first quarter of 1992.

(MAINE ECONOMIC REVIEW...continued)

The eighties left behind, as well, a more diversified economy with expanded ties to the world economy. The decade also witnessed improved productivity in our manufacturing sector, as manufacturing's share of Gross State Product remained virtually unchanged between 1979 and 1989 while its contribution to personal income fell from 20% to 15%. (In contrast, services' share of personal income increased from 12% to 16% during the same period.)

In short, along with phenomenal growth, the Maine economy enjoyed increasing diversity during the past decade. This is generally indicative of a "developed" economy which expands on a base of knowledge and the transfer of information, as opposed to a "developing" - or third-world type - economy which expands through the export of natural resources.

(more Top Ten...)

MAINE AT THE BOTTOM OR STILL SINKING?

Just as the national outlook muddies, so does Maine's. While job losses have continued since the middle of 1989, the most intensive losses occurred in the second quarter of this year. Since then, employment, retail sales and unemployment rates have moderated. Preliminary data suggests that total (seasonally adjusted) non-agricultural employment may have actually increased in October. However, these estimates are subject to substantial revision. Maine has experienced most of the job losses associated with unique regional weaknesses (overbuilt residential and commercial real estate, boom/bust in consumer spending, restructuring of the finance sector). Thus, Maine's short-term outlook hinges largely on the timing and structure of a U.S. recovery. If that recovery occurs soon (by the end of the first quarter of 1992) Maine is likely to see few additional job losses, and a return to modest job growth by the middle of 1992. However, a protracted U.S. recession will generate a new round of downsizing in the manufacturing sector followed by concomitant trade and service sector impacts.

WHITHER THE NATIONAL RECOVERY?

In July 1991, exactly one year since the beginning of the national recession, the embers of a recovery were apparently smothered. U.S. coincident indicators showed that national economic growth stopped in July. Growth in third quarter Gross Domestic Product (GDP) was revised sharply downward to 1.7% from the preliminary estimate of 2.5%, and this growth was dominated by a buildup of inventory. And with the number of newly unemployed climbing, consumer confidence saw a precipitous drop through 1991. By December, doubt about America's short-term economic health had deepened.

In a characteristically anemic response to the floundering economy, the Federal Reserve applied yet another quarter percent decline in the federal funds rate. This latest action marks the fifteenth time since 1990 that the Fed has reduced rates. Unfortunately, the psychological and real benefit of each minuscule Fed action has been easily overwhelmed by over arching economic malaise including rising unemployment, weak retail sales, shrinking industrial production and plummeting consumer confidence.

While most national forecasters have lowered their U.S. growth estimates, most still predict continuation of national recovery. In November the Blue Chip Economic Indicators consensus forecast predicted that GNP will expand at a 1.9% annual rate in the fourth quarter of this year. This represents a significant downward revision from 2.8% just one month before. Moreover, by most measures, this recovery will be much weaker than the previous seven (see the graph at the top of the following page, noting that the line representing projected growth for the first two quarters of recovery is much less steep than the lines representing growth during past recoveries). The protracted recession has had a severe impact on consumer strength. Recovery will rely more upon tentative investments by both consumers and businesses, as well as healthy exports, than on a renewed consumer binge (see the graph at the bottom of the following page).

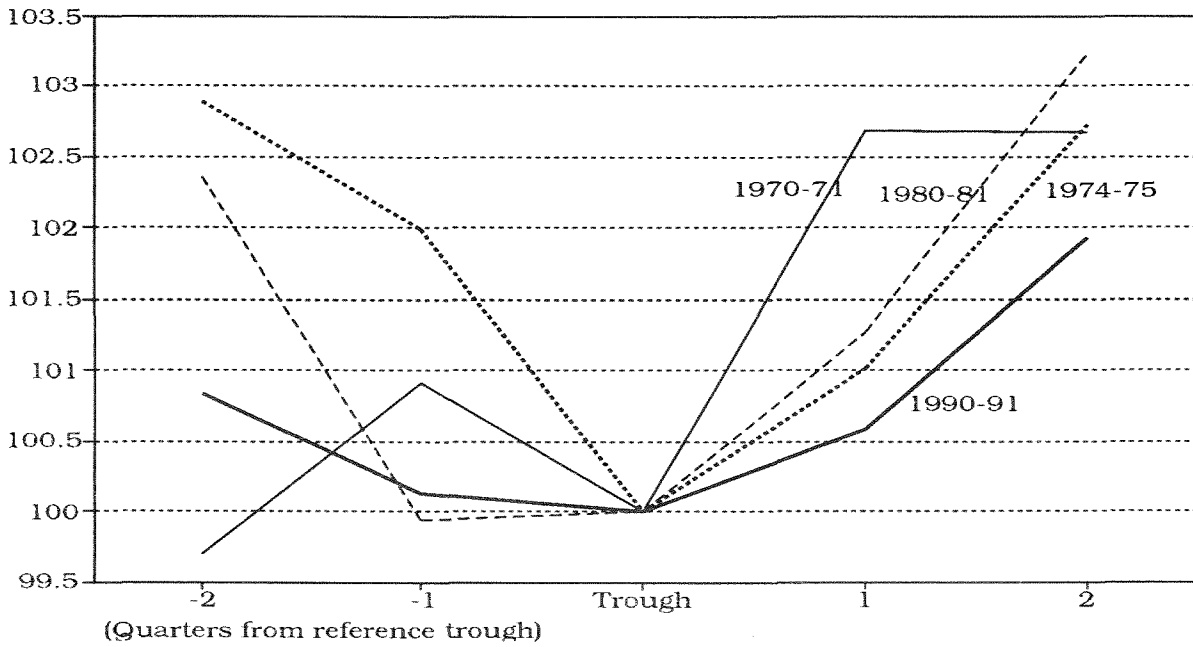
NEW ENGLAND REMAINS WEAK

New England continues to be the nation's weakest economic region. The factors that drove employment downward since 1989 have continued to plague these six states. Manufacturing has been hampered by severe defense cutbacks, continued weakness in electronics and slumping industrial demand as a result of the recession. Construction, real estate and finance firms are still recoiling from the excesses of the 1980's. Consumer industries continue to face declining consumer confidence and contracting household incomes.

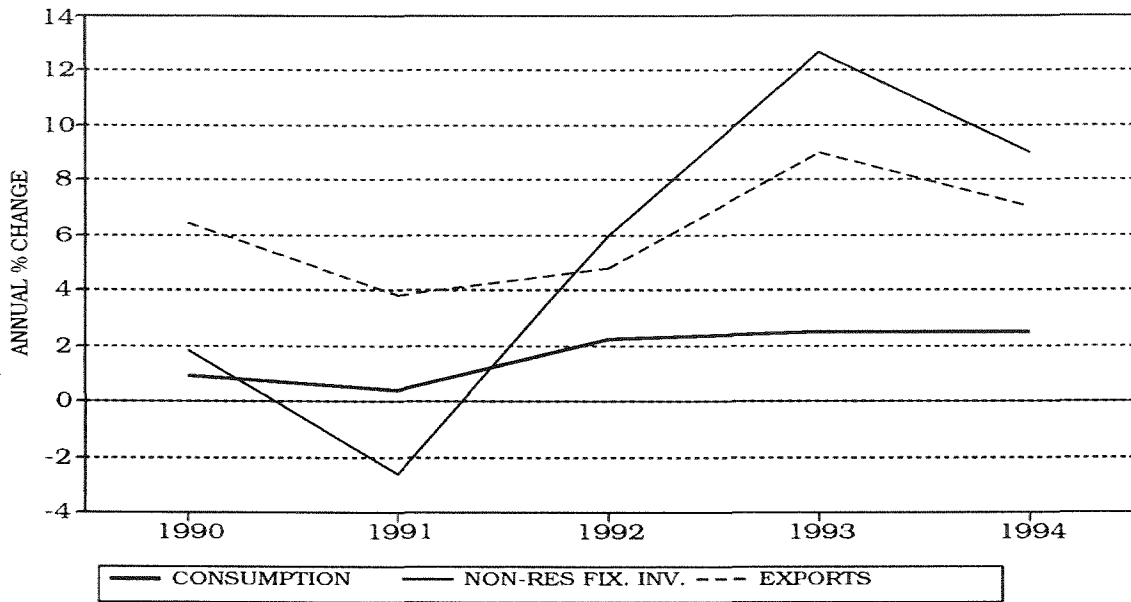
Some evidence suggests that, while not in recovery, New England may have reached the bottom of the current downturn. October unemployment in New England dropped to 7.2%, its lowest level during 1991. While this rate is still among the nation's highest, New England's unemployment level suggests that the worst may be behind us.

Like the U.S., New England's economic recovery will rely upon modest steps by both businesses and consumers. Some consumers and businesses will take advantage of price and interest rate improvements to purchase homes and capital stock. Combined with strengthening manufacturing demand, this modest level of activity should allow a semblance of stability to establish itself within the next few months. Actual job growth will not be in evidence until mid- to late 1992. Even after recovery begins, New England will see growth rates below that of the Nation as it struggles with structural weaknesses in several industries.

REAL GNP IN RECOVERIES
INDEX: TROUGH QTR = 100



GROWTH RATES OF CONSUMPTION,
NON-RESIDENTIAL FIXED INVESTMENT, EXPORTS



Maine begins 1992 under a cloud of economic weakness and ambiguity. After suffering the multiple economic impacts of a deep regional slump and prolonged national recession, the short-term future remains uncertain. Having experienced most of the effects of regional excesses, Maine's recovery now rests largely on the timing and structure of a national rebound.

Maine has been through its longest and deepest downturn in over twenty years, with employment declining by over 6% since the peak in 1989. While we have yet to turn the corner, there is some evidence that Maine has reached the bottom of this current downturn, however. Preliminary estimates indicate that job losses have slowed considerably. Retail sales losses have also moderated in recent months. Finally, Maine's unemployment rate has begun to show evidence of stabilizing.

However, the strength of Maine's participation in the national recovery remains uncertain. In the short term, Maine's employment and income pattern will generally mirror the national trend. If a sustained recovery in U.S. employment growth should occur in early 1992, as many predict, Maine employment will begin to show signs of modest expansion by the second quarter. However, the national recovery is expected to be very weak by historic standards. In Maine, too, job creation will be slow and will be hampered by continued weak consumer spending.

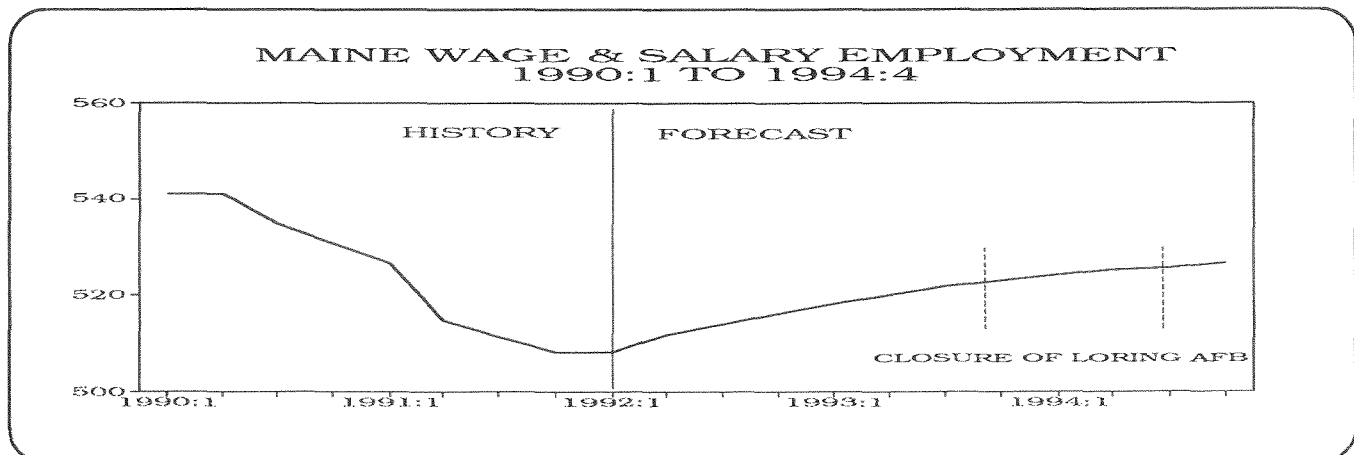
Maine's sustained participation in a national recovery remains problematic. Serious structural weaknesses in some industries will continue to place a drag on job growth in the short- and medium term. Construction, real estate and related industries, for example, are facing a prolonged slump, given the real estate overhang, slower overall growth and weakened household income. Defense-related employment will continue to shrink in the face of cutbacks in defense spending. Maine's paper industry, largely untouched through much of the downturn, has begun to shed inefficient operations threatening hundreds of industry jobs. Finally, segments of Maine's electronics, finance and retail sectors will continue to face fundamental changes in industry dynamics that will limit growth potential.

As a consequence, overall employment growth in Maine is expected to be less than 2% annually, half the pace of the 1980's. Income will increase at a rate just above inflation, averaging 5% to 6%, given slow job growth and the loss of high-paying defense-related jobs. Finally, net in-migration, which showed healthy improvement during the 1980's will slow, if not reverse temporarily, hampered by slow job growth, persistent unemployment and slow improvements in wage rates.

In many respects, Maine is well positioned to be the locale of a significant share of the growth that occurs in the Northeastern U.S. over next decade. Maine businesses, both in manufacturing and nonmanufacturing, have become more sophisticated over the decade, and are increasingly prepared to compete in larger national and international markets. In addition, the East and West coasts will continue to be a favored location for a growing number of Americans. Maine's competitively priced commercial and residential property, available labor force and unequalled quality of life would otherwise make it an attractive location for new businesses through the nineties.

However, the competitive position of Maine is weakened by the extraordinarily high cost of workers' compensation insurance, an uncompetitive tax burden burdensome regulatory processes, and the high cost of electric power and other utilities. Combined, these factors will hinder the ability of Maine businesses to compete effectively in the national and international marketplace of the 1990's.

Over the longer term, the pace of economic growth in Maine during the 1990's will depend heavily upon the lowering of publicly imposed barriers to job creation. As noted above, the forces that drove growth in Maine during the 1980's, construction, defense spending and consumer spending, have run their course. Consequently, any improvements in Maine's standard of living will have to come from capturing a larger share of regional, national and international markets. This will make productivity imperative and will lend a heretofore unexperienced urgency to measures aimed at removing those barriers which hinder the efforts of Maine businesses.



Below, we outline four issues which we believe will play major roles in Maine's economic future.

WORKERS COMPENSATION, PART...?

The Governor, Legislature, business community and organized labor all agree that major, new reforms of workers compensation insurance are essential. Maine's system is one of the most costly in the nation (the best estimates indicate that our businesses pay a total of \$200 million more per year than the national average), reducing the competitive positions of Maine businesses. Indeed, some firms who have left Maine in recent years have said it was because the high cost of insurance precluded them from competing with similar firms in other states. At the same time, injured workers are served poorly by Maine's system, which returns only 40% of premiums to workers, while insurers say they are unable to make a profit here. Reform of the system, therefore, will undoubtedly continue to be one of the predominant issues confronting the Legislature in 1992 and 1993.

GOVERNING WITH LESS

A major initiative "to maximize citizen participation in public policy making, to use public resources more effectively and to consolidate and restructure State Government in such a way that efficiency is assured and cost savings result" was undertaken by The Special Commission on Governmental Restructuring. This special commission was appointed by the Governor, the President of the Senate, and the Speaker of the House of Representatives to help Maine confront the national economic slowdown by improving its ability to perform effectively during this period of severe economic stress. The question is whether State government will be able to respond to these changing times by restructuring its organization and operation to do more with less, or whether it will be business as usual, only less of it. The jury is still out.

PAYING FOR PEACE

The fall of the Berlin Wall and dissolution of the Soviet Union have brought about a sharp reversal in the American defense build up which will have long-term reverberations in Maine throughout the 1990's.

Defense-related job losses since 1989 had already reached 3,800 by the end of 1991. Unfortunately, these mark the beginning of a long-term decline in defense dependent employment in Maine. By the middle of 1992, further reductions will be implemented at Bath Iron Works and Portsmouth Naval Shipyard, with attendant effects on nearby businesses.

Loring AFB is slated to close by September 1994, directly or indirectly eliminating 4,600 civilian jobs. In fact, by 1994, Maine will have lost 16% of its defense-dependent jobs, estimated at 63,000 at their peak in 1989.

While the shape of future U.S. defense needs remains unclear, changing national security priorities will add a measure of instability throughout Maine's defense-dependent regions and businesses during the 1990's.

WILL MAINE SHARE IN NATIONAL RECOVERY?

When the U.S. recovery gets underway, will Maine participate? In the short run, the answer is probably yes. Pent-up consumer demand and deferred business investments will translate into an end to the job slide and some re-employment in construction, trade and service firms. However, the end of the construction, defense, and consumer booms that fueled Maine's growth in the 1980's places the burden for economic growth on Maine's "traded" sector, those firms which compete in markets beyond State borders.

Unfortunately, the competitiveness of Maine's traded sector has become seriously handicapped during the 1980's by ballooning business costs imposed by State government policy. Maine's workers compensation system is now among the most expensive in the nation. Similarly, State taxes on personal and business income are also among the heaviest in the country. When all taxes are combined and compared to relative income, Maine's overall tax burden is among the nation's top five. Finally, Maine's regulatory structures have evolved in an era of rapid economic growth. Consequently, while cost estimates are unavailable, it is clear that these institutions have become more effective in discouraging any economic activity than in facilitating cost-effective and environmentally sound development.

Sustaining an economic recovery in Maine will depend, more than ever before, on the ability of Maine firms to succeed in the increasingly aggressive market place beyond the State. The heavy burden of public business costs in Maine will certainly weaken, if not forestall, a return to growth in Maine in the 1990's.

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