

THE MAINE ECONOMY: Year-End Review and Outlook 1992

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Introduction

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 1992, 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:

- Nearly all measures of the Maine economy showed improvement in 1992, but lack of payroll job growth continued to be a glaring weakness. Real economic growth in Maine averaged 1.4% through the first three quarters of the year, but payroll employment actually declined a fraction of a point over the period.
- The continuing realignment of the nation's defense establishment again caused wrenching job losses in the State during the past year, but Maine faces further losses in the years ahead. The years 1993 and 1994 will be especially crucial to Maine's weaning from the national defense budget.
- 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 Air Force Base and other defense downsizing, and State government budget problems.

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

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INTRODUCTION

Are we in recession or recovery? It's a matter of definition, or, perhaps, a matter of who you ask (officially, the recession ended 18 months ago - see "The U.S. and New England Outlook," pg. 9). For the national economy, the popular definition of recession is two or more consecutive quarters of decline in real (inflation adjusted) gross domestic product (GDP). The last such instance was during the third and fourth quarters of 1990. Real GDP has been growing then for seven straight quarters, yet many folks are still talking about the "current recession." What's going on here?

The answer is really fairly simple. By virtually every major measure, the national and Maine economies have been in a growth phase for several quarters or more. But the exception is perhaps the most important indicator of all to most folks, jobs. Through the first three quarters of 1992, compared with the same period of 1991, U.S. payroll employment showed no growth and Maine payroll employment dropped 0.2%. Payroll employment is a "coincident" indicator. That is, it usually turns up or down at about the same time as the overall economy. Nationally, then, it should have begun to rise during the first quarter of 1991, so it has lagged the "recovery" by seven quarters and counting. Of course, one major reason for this lag is the broad-based restructuring of American industry. For the past couple years, most industry cost cutting agendas have been headed by employee layoffs, and increasing productivity. The job cutting has been done with a double-edge sword, however. While the downscaling companies have profited individually, as a group they (and all others) are suffering from the effects on the overall economy of no employment growth, slow income growth, and flat consumption spending.

OVERALL ECONOMIC GROWTH

The Maine economy, as measured by the Economic Growth Index*, first turned down in the fourth quarter of 1989, beginning essentially seven quarters of decline. The next five quarters, 1991:3 -1992:3, involved growth, save for a very small decline in 1992:1. From the peak in 1989:3, the economy declined by -4.8% before turning upward again. By comparison, during the 1981-82 recession the Maine economy declined for only three quarters (1981:2 through 1981:4) and the peak-to-trough loss was only -2.7%. Since in '82 the Maine economy turned up four quarters before the nation's, Maine growth couldn't be strong while the nation was still in the grip of recession. This recovery should see a similar trend since U.S. growth is expected to be weak for the next couple years.

* The Economic Growth Index is a composite of resident employment, real consumer retail sales, production hours worked in mfg., and services employment. All components are seasonally adjusted For the first three quarters of 1992, the Maine Economic Growth Index was up 1.4%, as compared to the same period of 1991. Rising real consumer retail sales, up 5.4%, and resident employment, up 1.8%, contributed to the increase. The other two components, services employment and manufacturing hours-worked, were both down 1% or less.

FROM PAYROLL TO SELF-EMPLOYMENT

Resident employment is distinguished from payroll employment (mentioned above) by including - in addition to payroll employees - the self-employed, commission-only workers, and farm laborers. The civilian labor force is the sum of resident employment plus the unemployed, and from this the jobless rate is calculated.

The number of people working, but not on any company payroll, has varied inversely with overall economic conditions at least since the 1970's. Essentially, the number of people turning to self-employment increases when payroll jobs become scarcer, and then return to payrolls when conditions improve. During Maine's economic boom of 1984-1988, the number of self-employed (technically "non-payroll") workers fell from about 71,000 to 46,000. Then, as the State economy began to decline, their numbers increased again, rising to over 104,000 in 1992 (ten month average). Thus, the steady decline in self-employment between January and October of 1992 suggests an improving economy. The following graph contrasts Maine economic growth, as measured by the Economic Growth Index, and self-employment. Since the graph uses annual data, it doesn't show the decline in self-employment through the months of 1992.







Maine's civilian labor force peaked in March of 1991 (seasonally adjusted), then declined over the following five months before starting to rise again in September of that year. It is typical for the labor force numbers to decline as jobs become scarcer. Some people simply give up looking for work and leave the labor force. Others delay entering or re-entering the labor force until better job prospects appear. The labor force continued to grow through 1992, but more slowly than before the downturn. For the first ten months of 1992, the labor force was up only 1.0% over the same period of 1991. Resident employment was up 1.8% (10,900 jobs) by the same measure. As the employment increase was greater than the labor force increase, the average jobless rate (first ten months of 1992 versus first ten months of '91) fell 8/10ths of a point to 6.9%.

October 1992 jobless rates present a clearly defined picture of the comparative economic health of Maine regions. The highest rates (over 7%) were found in the in the western mountain counties (Franklin, Oxford, Piscataquis, and Somerset) and downeast (Waldo and Washington). The lowest rates (under 6%) were mostly in the south coast and mid coast counties (York, Cumberland, Sagadahoc, Lincoln and Knox). Only downeast Hancock County was outside the pattern with a low 4.7% rate.

As noted in the Introduction, most people's concerns about Maine's economy today center on the payroll employment figures. During the first ten months of 1992, compared to the same period of 1991, Maine payroll employment was down 0.2%. Following a jump upward in January 1992, monthly payroll employment totals fell each month through June (seasonally adjusted). July through October data show a slow upward trend, however, that may mark the begining of a genuine recovery in this particular indicator, the last major indicator to turn the corner. The following table summarizes industry payroll data by major sector. All values have been rounded to hundreds.

MAINE PAYROLL EMPLOYMENT JOB CHANGE BETWEEN 1991 AND 1992*

	JOB CHANGE	PCT. CHANGE
SED VICES		1%
SERVICES	1,200	170
TRANSP/COMM/P.UTIL.	600	2.8%
FINAN/INSUR/R.EST.	500	2.1%
STAT&LOCAL GOVT.	300	0.4%
TRADE	-300	-0.2%
FED. GOVT.	-800	-4.3%
MANUFACTURING	-800	-0.8%
CONSTRUCTION	-1,300	-5.8%
TOTALS	-600	-0.1%

* Note: comparison is between 1991 annual averages and seas. adjusted averages for the first 10 months of 1992.

RETAIL SALES STILL CLIMBING

In the "Believe It Or Not" category, as 1992 nears its end we find that Maine taxable retail sales have been growing for nearly two years (seasonally adjusted). This indicator hit bottom in January of 1991 (at 14% of the December 1988 peak) and has risen faster even than the inflation rate ever since. Through the first three quarters of 1992, compared to the same period of 1991, taxable consumer retail sales were up 6.9%, which betters the national sales growth rate of 3.9%.

The following table summarizes taxable consumer retail sales growth by store-type group for 1992. The change in the general sales tax rate from 5% to 6% on August 1,1991 does not affect these sales figures, but institution of the "snack tax" on September 1,1991 does affect them. The "corrected" figures in the table provide an estimate of sales changes had the snack tax not been in effect.

MAINE RETAIL SALES CHANGES BETWEEN 1991 AND 1992* (MILLIONS OF \$)

	SALES	PCT.	
	CHANGE	CHANGE	
	# 4 4 0	11.70	
AUTO TRANSPORTATION	\$143	11.7%	
FOOD STORES	\$116	16.0%	
(without "snack tax")	\$16	2.2%	
GENERAL MERCHANDISE.	\$42	3.9%	
RESTAURANT/LODGING	\$36	3.5%	
OTHER RETAIL	\$35	5.3%	
BUILDING SUPPLY	\$14	2.0%	
TOTAL CONSUMER SALES	\$386	6.9%	
(without "snack tax")	\$286	5.3%	

* Note: comparison is between first 3 quarters of 1991 and the same period of 1992.

CONSTRUCTION AND REAL ESTATE MIXED

Data obtained from the Maine Advancement Program show that the value of Maine construction contract awards were up very strongly in 1992. For the first ten months of the year, the total value of awards was up 58% (\$373 million) from the same period of 1991. All three award categories shared in this success; non-building construction awards were up 89% (\$127 million), residential building awards rose 56% (\$176 million), and non-residential building awards increased by 38% (\$69 million). Following three straight years of decline, the award total for 1992 was only 5.6% below the record high of 1988 (covering only the first ten months of both years). The increase in contract awards has not translated into construction job gains as yet, however. (continued













The Ten Most Significant Economic Events in Maine in 1992

IT FEELS LIKE IT, LOOKS LIKE IT...

By any standard definition, neither Maine nor the nation has been in recession this year (indeed, it officially ended last year - see pg. 9). Virtually all major economic indicators, at both levels, have shown at least some growth during the year. However, national payroll employment has not grown at all this year and the Maine numbers are down slightly (first three quarters of 1992 compared with the same period a year ago). And economic growth, by all measures, has been painfully slow. While this doesn't meet the technical standards for recession, it still feels like it, looks like it, and sounds like it. You decide.

IT AIN'T OVER 'TIL IT'S OVER

The Maine real estate/construction collapse of the late 1980's is still sending shock waves across the State. According to the Institute for Real Estate Research and Education at the University of Southern Maine, from the first half of 1991 to the first half of 1992, the average selling price of Maine homes fell from \$102,800 to \$100,100. As 1992 was drawing to a close, prices were still falling for homes valued over \$100,000. When it is released next month, the 1993 State valuation report, which is based on town by town estimates of property market values in 1991, will show a decline of about one and one-half percent from the previous year. As this data is used in the State's school funding formula, it could have a major impact in some areas, especially the south coast and midcoast regions where real estate market value declines have been steepest in recent years (declining values equal more State aid). The 1994 report (based on 1992 values) will surely show further decline.

WALL-TO-WAL-MARTS

Wal-Mart is the largest and fastest growing retailer in the nation. In keeping with its image of doing things big, when the chain decided to expand into Maine it very quickly released a list of fourteen Maine cities and towns which were targeted for stores. Some of these were already operating in 1992. The list includes Auburn, Augusta, Bangor, Brunswick, Ellsworth, Farmington, Houlton, Lincoln, Presque Isle, Rockland, Sanford, Scarboro, South Portland, and Waterville.

FIRST OF THE BIG SPENDERS?

The nation's retailers reported strong Thanksgiving weekend sales. For example, Wal-Mart same-store sales were up 7% for November, J.C. Penney sales were up 5.1%, and Sears Roebuck sales increased 5.1%. In Maine, the mood was equally upbeat. Many Maine merchants, from large discount stores to smaller shops, reported that sales for the first weekend

of the holiday season exceeded both sales from last year and projections for this year. For example, a survey of 25 of the smaller stores in the Maine Mall showed sales up 3 to 5 percent from last year, while several of the large department stores had double digit increases.

BOYZ 'N THE SUMMER

Professional baseball fans will no longer have to travel to Boston to get a live view of their favorite sport. In October, Portland was successful in attracting a new double-A minor league baseball team which should begin playing at Hadlock Field in 1994. Daniel Burke of Kennebunkport is the majority owner of the club with a \$3.5 million investment, and Charles Eshbach has agreed to become the General Manager and a minority owner. The development plans for this venture include a \$1.5 million renovation of the baseball stadium. Aside from the indirect economic benefits from the enhanced quality of life for Mainers, this new franchise is expected to generate around \$3 million in revenues and, as of October 2, 1992, 500 people had already applied for season tickets. O.K., so maybe this isn't going to make a huge impact on the Maine economy, but "baseball been very, very good to us."

A NEW KIND OF TEA PARTY

Congress' passage of the 1992 transportation bill (IS-TEA) meant major new investment in transportation improvements in 1992 and set the framework for increased investment in transportation infrastructure in Maine for the next several years. The increase in federal allocation in the transportation bill coupled with a \$42 million jobs bond issue effectively increased Maine's investment in transportation infrastructure improvements from an anticipated \$85 million to nearly \$165 million in FY92. The bill also earmarked \$25.5 million in additional funds for the development of a Portland to Boston rail passenger service and allocates \$187 million in new funds to be spent over the next 6 years on four demonstration projects involving major bridge reconstruction and expansion.

EASY COME...EASY GO

Throughout 1991 and much of 1992, the Canadian 7% GST (goods and services tax), which raised effective retail and services taxes to as high as 18% in Canada, was a boon to Maine border towns and Bangor. To avoid the tax, many Canadians began to do much more buying in the U.S. In the fall of 1992, however, a Canadian referendum failed to support a proposed new national constitution.

(TOP TEN...continued)

The resulting political uncertainty, when combined with the ongoing Canadian recession, caused the exchange rate on Canadian money in the U.S. to fall from about \$0.85 to about \$0.77 almost instantly. This reduced buying power of Canadian money in the U.S. effectively cancelled the advantage of buying in Maine to avoid the GST.

WHAT PRICE PEACE "DIVIDEND"?

Defense realignment continued put a drag on the Maine economy in 1992. Portsmouth Naval Ship Yard has made several reductions in personnel dropping from a high of 7500 in 1990 to its current 6400. A reduction in force of 600 occurred at the Yard in May 1992. In Bangor, the OTH-B (Over the Horizon BackScatter radar system) closed down last spring, causing 496 civilian and military jobs to be lost in the region. BIW's workforce was reduced by about 2000 in 1992, and Pratt & Whitney cut 227 jobs (out of a total of 1900) at its Berwick plant in late 1992. More cuts are likely in the future, however; for this, see Issues for the Future on the back page.

OPERATION BOOTSTRAP

In a June 1992 referendum, Maine voters approved a major bond issue which came to be known as the Maine Jobs Bond. The stated purpose of the issue was to create and preserve Maine jobs in an effort to jump start the State's slack economy. The issue totalled \$79 million, \$42 million for transportation infrastructure and \$37 million for economic development assistance to Maine citys and towns, schools, and manufacturers. Estimates of the job creation effect of this issue ranged to the sky, as usual, but conservative econometric models have put the ceiling at roughly 800 direct jobs, and perhaps twice as many secondary jobs. The other benefits of improved roads and bridges, new and improved city and town properties, safer school buildings, etc., are impossible to gauge.

UNFUNNY BUSINESS

Workers at about 30 Maine manufacturing firms were hit by major layoffs or plant closures during the year. About 2,800 workers were directly affected in these actions which included 8 plants which laid off 100 to 200 workers, and three more which laid off over 200. In this last group were Eastland Woolen in Corrinna (300 jobs), AMC Reece in Gorham (230 jobs), and Pratt and Whitney in North Berwick (233 jobs).

(MAINE ECONOMIC REVIEW... continued from pg. 3)

Although real estate sales data was available only for the first half of 1992 at this writing, the data are also upbeat, though not quite as exciting. According to surveys by the Institute for Real Estate Research and Education at the University of Southern Maine, unit home sales were up 22% for the first half of 1992 over the same period of 1991. The average selling price fell from \$102,800 to \$100,100 over the period, according to Valarie Lamont, Director of the Institute. She also reported that partial reports for third quarter 1992 suggest that prices were firming for homes valued under \$100,000, but still falling for more expensive properties. This partial data also suggests that unit sales will be up by less than 10%, third quarter over third quarter.

In sum, virtually all major indicators showed an improving economic climate in Maine as the year progressed. It appears the only thing keeping us all from agreeing that Maine is recovering is the payroll employment data. Here, too, we have seen four months of improvement (July through October), so perhaps we can at least agree that there is cause for optimism as 1992 winds to a close. The gurus of the National Bureau of Economic Research (NBER) have declared that the U.S. recession ended 21 months ago. However, while a statistical recovery began in March of 1991, meaningful improvement has only recently become apparent. U.S. consumer confidence and spending began a concerted rebound in the third quarter of 1992, pushing Gross Domestic Product (GDP) growth to a 3.4% annual rate, the strongest performance since 1989.

The outlook for the U.S. recovery remains hazy, however. Recent strength in consumer spending comes at a time of slow income growth and even slower job growth. Rather than a harbinger of things to come, recent patterns in consumption more likely reflect a temporary spurt to be followed by slow steady improvement. In addition, orders for durable goods continue to fluctuate and consumer confidence remains at low levels.

In any case, the national economy will continue to exhibit slow growth into the next two years. Principle causes will be continued defense cutbacks, slow economic growth in foreign markets, especially in Europe, and broad based industrial restructuring across the U.S.

(The U.S. and New England Outlook

The Maine Consensus Economic Forecasting Commission (MCEFC), recently established by Governor John R. McKernan, Jr., has predicted that GDP will increase between 2.5% and 3.0% during 1993, will accelerate modestly during 1994 to between 3.1% and 3.5% and return to a 3.0% rate of growth in 1995. A key factor in this forecast of national trends is the belief that it will take some time before increases in demand generate significant job growth.

While the national economy shows signs of turning, the New England economy remains dormant. Continued weakness in the Massachusetts and Connecticut economies will keep the regional economy from expanding as rapidly as the rest of the nation. Indeed, New England is expected to be the slowest growing of the regional economies over the next three years. The New England Economic Project (NEEP) employment forecast for New England and the U.S., and the MCEFC employment forecast are shown in the figure below.

U.S. SUMMARY DATA	1993	1994	1995	
Real G.D.P.	2.5-3.0%	3.1-3.5%	3.0%	
Nonagricultural. Employment	1.0%	2.5%	2.5%	
Consumer Price Index	3.2%	3.7%	4.1%	



Maine Economic Outlook

After nearly three years of economic malaise, Maine may be experiencing the beginning of a sustained recovery. Retail sales have seen modest improvements for over a year, and wage and salary employment has begun to show signs of stability and possible growth. Nonetheless, a recovery in Maine will be slow in comparison to past rebounds, and many troubling factors threaten growth in Maine over the next few years.

Numerous factors will place a drag on job growth in Maine. Principal among them is the slow pace of the national and regional recoveries described in the previous section. Maine's manufacturing sectors continue to implement cost saving measures that reduce labor needs, while light consumer demand dampens production levels. At the same time, the retail and service sectors in Maine, long immune to the productivity movement, have begun to institute significant labor-saving practices, in the face of weak consumer spending, further slowing job growth.

Curtailments in federal, State and local government spending will place a significant drag on job growth in Maine over the next few years. Defense cutbacks, which have cost Maine over 8,000 jobs since 1989, will lead to continued reductions at BIW, Portsmouth Naval Shipyard and other defense-dependent employers. Loring Air Force base is slated for closure between July of 1993 and October of 1994. These losses will further affect local area employment as well. State and local government spending will also continue to weake, in the face of a projected \$1 billion State government shortfall for the FY 1993-94 biennium. Whether met by job cuts at the State and local level, reductions in State subsidies to towns and individuals, or tax increases, the condition of public finances will hinder economic growth in Maine over the next two years.

On a positive note, the Maine economy is expected to witness a sustained recovery during 1993. After falling by over 6%, our Maine economic outlook anticipates that wage and salary employment will grow at just over one-half percent in 1993, 1.5% in 1994 and 1.7% in 1995. Personal income will also strengthen modestly to grow by 4.2% in 1993, 4.4% in 1994, and 5.8% in 1995. Finally, unemployment is expected to moderate over the period as well, dropping to 6.0% in 1995 from the 6.9% experienced in 1992.







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

DEFENSE REALIGNMENT CONTINUES

Defense cuts and defense retructuring will continue throughout the 1990's. The economic impact of defense cuts upon Maine is still gathering force like a wave not yet crested. All of Maine's major military installations face the uncertainty of continued cutbacks. Of immediate concern is whether the Portsmouth Naval Shipyard or Brunswick Naval Air Station will be on the 1993 base closure list. The following outlines restructuring announcements made to date.

At yearend, a proposed cut of of another 900 to 1200 workers at Portsmouth was still pending.

Loring AFB made the 1991 base closure list. The base will be closed by fall 1994. The economic impacts include the loss of about 500 federal civilian jobs (direct impacts only), and the loss of millions of dollars of regional business spending from the transfer of about 2,800 military personnel and curtailment of base construction and support expenditures.

National Semiconductor Corp. in South Portland announced in November that it was cutting 83 positions because of declining military orders.

BIW received a \$892 million contract in the spring to build three more destroyers. It also won a \$1.2 million contract to design navy ships that will be leased for commercial use and a \$400,000 contract to design the conversion of existing commercial ships for emergency naval sealift operations. In spite of the shipyard's efforts to diversify, the workforce was reduced by 2000 in 1992 and further reductions are planned.

The Task Force on Defense Realignment, with staff provided by the State Planning Office, has been leading the State's defense conversion effort.

D.O.D. FINANCE AND ACCOUNTING CENTER

Bangor is one of 20 cities competing nationally to be selected for one of the three or four new DOD Finance and Accounting Centers expected to open in the fall of 1995. The Center would bring with it 4,000 or more permanent jobs earning an average of \$35,000 annually.

Bangor won't learn until March 15th if it has made the list of recommended sites submitted to the Base Realignment and Closure Commission. The list of successful sites will be forwarded to the President by July 1st and is expected to pass the House and Senate by September. If Bangor is chosen, construction of the Center could begin by mid-1993 and be completed within two years. The 4,000 new jobs would be phased in over the first three years of the Center's operation.

"ENVIROTECH"

From the spotted owl in the Northwest to wetlands regulation in Maine, the relationship between environmental quality and economic growth was a topic of heated debate in 1992. Increasingly however, the environment and economy are now seen as reciprocals rather than opposites.

Environmental regulations, health protection and disaster prevention together create the global environmental market, now estimated to exceed \$250 billion annually and growing rapidly. Maine, and the global economy as a whole, are witnessing the emergence of a new business sector often referred to as "envirotech". Broadly defined, "envirotech" includes environmental and energy companies that manufacture products or provide services, as well as educational institutions and government entities.

The Maine Department of Economic and Community Development (DECD) estimates that there are over 200 companies in Maine that produce or sell products or provide services that are involved with:

- the conservation of natural resources or industrial materials,
- the reduction or prevention of pollution,
- the disposal or recycling of wastes and hazardous materials,
- the restoration of the environment; or
- the production of environmentally safe products.

Maine has exellent prospects for rapid growth in envirotech and efforts are underway at DECD, the Maine Science and Technology Commission, U. of M. Orono, and elsewhere to coordinate available resources and to understand the market and its needs. For example, DECD is assisting environmental companies by helping to form an organizational structure that would help small firms access international markets and collectively bid on large scale projects such as environmental remediation projects.

STATE GOVERNMENT BUDGET SHORTFALL

Like all Maine enterprises, State government, too, has been seriously impacted by the dismal performance of the State economy over the past few years. At this point, given the latest revenue and expenditure projections, Maine State government faces a shortfall of roughly \$1 billion for the next biennium (July 1993 through June 1995). Many measures taken last year

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to balance the budget are due to "sunset" at the end of June 1993. That is, these laws/rulings will lapse if not expressly extended by lawmakers. These measures include the 6% sales tax (which would revert to 5%), income tax surcharges, other tax changes, State Government shutdowns, and State employee furlough days and shortened workweek (39 hours). Altogether, these measures, if extended would cover roughly \$400 million of the projected shortfall. Other actions would be required to cover the remainder. The major budget problems are existing State laws requiring the State to reimburse school systems for a portion of their expenditures, and Federal minimum standards regarding State funding of Medicaid.

A NEW PRESIDENT

The economic consequences of a new national administration may be significant for Maine. President-Elect Clinton's agenda, full of campaign trail promises, is likely to be pared down and prioritized. Most significantly, he and his staff are evaluating the tradeoffs between programs oriented towards long term growth and programs designed to provide short term economic stimulus. Some form of an Investment Tax Credit (ITC) is the most likely form of short term stimulus to be expected from the new administration. It will probably be directed at the manufacturing sector of the economy which would provide a boost to Maine's more capital-intensive industries such as paper and machinery.

Clinton's impetus for reform of the national health care system will surely liven debate in the Maine Legislature as that body addresses an initiative for a comprehensive Single-Payer system at the state level during the 1993 session. Another potentially significant reform that the new administration is expected to pursue is revamping both the education and training systems at the national level. To the extent that this initiative is directed at a more aggressive program of defense impact assistance programs, in the form of worker retraining, it may provide a solid boost to the Maine economy.

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