

What Counts, and Who's Counting? Maine's Business Climate 2006

"Our vision is a high quality of life for all Maine citizens. Achieving this vision requires a vibrant and sustainable economy supported by vital communities and a healthy environment."
(Maine Economic Growth Council, *Measures of Growth in Focus 2005*)¹

Introduction

Many news articles and opinion pieces continue to argue that Maine has a highly unfavorable business climate, which must be changed if Maine's economic well-being is to improve. Such analyses raise many important questions about what policies are most likely to benefit Maine's economy, both as a whole, and among the various areas, communities, and population segments within Maine.

Increasingly, the health of Maine's economy, and the level of the state's well-being more broadly, seem to be equated with the issue of whether Maine has a "friendly" business climate. In turn, the question of a favorable or unfavorable business climate is often presented in terms of how Maine ranks nationwide with respect to its "tax burden," typically based on data provided to the media and policy makers by the Tax Foundation, a conservative, pro-business think-tank.

Unfortunately, this equation -- "economic well-being equals low tax burdens for corporations" -- also appears to be the underlying foundation for the most recent report² from the Maine Economic Growth Council, a nonprofit group which was originally created with a far-ranging, inclusive vision utilizing diverse measures of social, economic and environmental well-being.

Here are some questions, then, that need to be raised:

1. Do "business climate" analyses offer valid measures of a vibrant and sustainable economy?
2. What measures or indicators should be used to assess the well-being of the state and our economy, and to form the basis for economic development policy?
3. What do other sources of economic state rankings say about Maine's economy?
4. What has been the record thus far, regarding the benefits and outcomes of taxpayer-funded incentive programs for state and local economic development programs in Maine?

This paper offers some alternative perspectives on Maine's economy and the business climate question, emphasizing inclusive and sustainable economic development, and drawing on data and policy analyses from both state and national policy groups.

¹ Maine Economic Growth Council, *Measures of Growth in Focus 2005*, March, 2005.
(www.mdf.org/megc/measures/MOG2005.html)

² *Ibid*; p. 2. As stated in the report summary, "The tax burden measure shows that the burden on Maine people and businesses is far higher than most states."

1. Do business climate analyses offer valid measures of a vibrant and sustainable economy?

The conventional business climate perspective used by the Tax Foundation and other anti-tax organizations looks at the economy, and hence economic well-being, through a relatively narrow lens. This concept refers to the extent to which a state or locality's political, fiscal and policy environments are seen as either supportive of businesses, or a burden. However, as a recent in-depth study by the Economic Policy Institute (EPI) has noted, the concept of a "business climate" for an entire state is highly questionable, and business climate rankings tend to use invalid measures, with wildly inconsistent results. Such rankings are intended to influence state policy makers rather than business decision makers, who tend to ignore them, says the EPI.³

Proponents of this business climate perspective, such as the Tax Foundation⁴ (nationally) and the Maine Economic Research Institute,⁵ advocate such policies as lowering corporate taxes, eliminating property taxes on business equipment purchases, reducing the state's regulatory burden, and reducing the tax burden more generally. These are offered as solutions to longer-term economic problems. However, such business climate analyses have serious problems and are often highly misleading. For example, although the Tax Foundation ranks Maine as having the second-highest tax burden in the country as of 2004,⁶ the Maine Center for Economic Policy (MECEP) argues that the state business climate measures developed by the Tax Foundation are highly flawed. The MECEP report states that the foundation's calculations are based on "erroneous Census property tax data."⁷ The calculations also "do not adjust for how much tourists and seasonal owners pay in, and [they] are influenced by business cycles."⁸

The Tax Foundation's flawed measures of tax burdens and state business climates also have been sharply criticized by other analysts, such as the Economic Policy Institute,⁹ and the Center on Budget and Policy Priorities (CBPP).¹⁰ Given the arbitrary and ultimately ideological nature of the Tax Foundation's figures, it is very puzzling why the most recent (2005) report by the Maine Economic Growth Council still relies on these data so heavily,¹¹ particularly when so many other indicators (which are probably more valid) have been dropped.

³ Peter Fisher; *Grading Places: What Do the Business Climate Rankings Really Tell Us?*; Economic Policy Institute; Washington, D.C., 2005 (p. vii-ix; 71-73).

(www.epi.org/printer.cfm?id=2052&content_type=1&nice_name=books_grading_places#exec)

⁴ The Tax Foundation (www.taxfoundation.org/)

⁵ Maine Economic Research Institute (www.me-ri.org/) MERI analyses also depend heavily on the Tax Foundation's flawed conception of Maine's tax burden, and supports the foundation's anti-tax rhetoric.

⁶ The Tax Foundation; "Facts & Figures: How Does Your State Compare?" (2004 Edition)

(www.taxfoundation.org/publications/show/255.html)

⁷ Charles Lawton and Frank O'Hara, "Ranking Maine's Business Climate;" Maine Center for Economic Policy, Augusta, ME; 2004, p. 2. (www.mecep.org/fairbt/fbtindex.htm)

⁸ The MECEP report points out that Maine's business taxes "vary with the business's legal organization, its industrial sector, its use of technology, its purchasing needs, and its location," and are not a major cost item. (*ibid.*)

⁹ Peter Fisher, *Grading Places* (EPI), *ibid.* Fisher adds, "the foundation makes it clear that it believes that a zero tax is the most neutral tax of all. This position allows it to argue for reduced taxes on business in the guise of more economically efficient, 'neutral' taxes. That its real objective is lower taxes, not greater efficiency, is clear from its choice of measures." (p. 27).

¹⁰ Center on Budget and Policy Priorities, "Tax Foundation Estimates of State and Local Tax Burdens Are Not Reliable." The CBPP states that the foundation's "state and local findings *do not reflect actual tax collections* for that year or for the previous year. Rather, they are based on a set of estimates and projections, largely derived from years-old data and from national samples that were never intended to be used for state-by-state estimates, and calculated using a methodology that has never been formally published or subject to outside review." (emphasis in original source). (www.cbpp.org/4-7-05tax.htm).

¹¹ Maine Economic Growth Council, *Measures of Growth in Focus 2005*, *ibid.* Table 9, "Local and State Tax Burden," is based on Tax Foundation Data (p. 15).

A narrow focus on business climate indicators such as a state's tax burden also leaves out or downgrades the importance of other critical dimensions relevant to economic well-being and business vitality, such as wage levels, access to jobs and decent benefits, poverty levels, unemployment rates, and other important indicators.

Furthermore, the tax burden concept itself is intrinsically a loaded term, implying that taxes are inherently negative. This way of thinking conveniently ignores the fundamental fact that taxes, although sometimes onerous and sometimes unfair, are also the primary source of revenue which governments must have in order to provide necessary services and infrastructure if an economy is to function at all. Whether a given tax structure is fair or not is a different, although critically important, question.

2. What measures or indicators should be used to assess the well-being of the state and our economy, and to form the basis for economic development policy?

Alternatives to Business Climate Analyses: Although there are some areas or questions in which it is useful to have only a few measures or indicators of major concepts, general economic well-being is not one of them. Fortunately, there is a wealth of more useful and broadly based analysis of what constitutes economic health or well-being for Maine and other states. These include, among others, analyses and reports by the Maine Center for Economic Policy (MECEP), the Corporation for Enterprise Development (CFED), the Economic Policy Institute (EPI), the Center on Budget and Policy Priorities, and the Milken Institute.¹² For instance, the Corporation for Enterprise Development and many other policy groups contend that the quality and adequacy of a state's infrastructure plays a major role in the vitality of a state's economy.

In addition, with the exception of its most recent report, the Maine Economic Growth Council has historically provided a broadly based vision of what factors contribute to, and are a part of, a healthy economy and a thriving citizenry.¹³ For example, in 2003, the Maine Economic Growth Council's report utilized 61 "performance benchmarks," and in 2004, 58 measures.¹⁴ The Council's 2005 report is a sharp departure from these previous analyses, with only 18 benchmarks or indicators. Unfortunately, this shift represents a retreat from the Maine Economic Growth Council's commitment to a far-reaching and more broadly based conception of what is critical for the state's well-being. Instead, it adopts the problematic assumptions and methodology of narrowly business-oriented sources such as the Tax Foundation.

Another valuable resource on economic development and entrepreneurship, the Corporation for Enterprise Development (CFED), lists a broad array of 68 critical factors in its annual Development Report Card on the States.¹⁵ The CFED's analysis focuses on the critical importance of building and maintaining a state's human and financial resources, innovation assets, education, and infrastructure as key components of sustainable economic development.

¹² Maine Center for Economic Policy (www.mecep.org/); The Corporation for Enterprise Development (www.cfed.org/home.m); Economic Policy Institute (www.epi.org/); Center on Budget and Policy Priorities (www.cbpp.org/); and the Milken Institute (www.milkeninstitute.org/index.taf)

¹³ Maine Economic Growth Council, *Measures of Growth in Focus 2005*, *ibid*. The indicators for the Economy were reduced from 30 in 2003 to only 12 in 2005; Community indicators were reduced from 50 to 4, and Environment indicators were cut from 11 to 2. The 2005 report contends that the 18 benchmarks which were kept "are the most fundamental to consider as we strive for long-term economic growth." (p. 5)

¹⁴ Maine Economic Growth Council, *Measures of Growth 2003* (www.mdf.org/megc/home.html) and *Measures of Growth 2004* (www.mdf.org/megc/measures/MOG2004.html)

¹⁵ Corporation for Enterprise Development, "Development Report Card For The States," (<http://www.cfed.org/focus.m?parentid=34&siteid=245&id=247>)

All states are graded by the CFED using three broad indexes of state economic well-being: 1) Performance (how well the economy is doing, ranging from employment and income levels to quality of life and equity issues), 2) Business Vitality (how dynamic and robust the state's large and small businesses are), and 3) Development Capacity (an assessment of the resources needed for future development, such as infrastructure, human resources, financial resources and innovation assets).¹⁶ Rather than focusing on corporate tax burdens, business vitality is measured by such indicators as job growth due to new business, and technology industry employment.

The Maine Center for Economic Policy also provides extensive analysis of issues affecting Maine's economy, ranging from sustainable development and small business issues to state and federal budgets, tax reform and tax structure, living wages, health care, and related questions. While the MECEP disagrees sharply with business climate analyses of the state's tax burden, they do advocate strongly for tax reform which will provide a fairer tax structure. For example, they support a "circuit breaker" provision to relieve the high property tax levels which adversely affect many individuals and households in Maine.¹⁷

3. What Do Other Sources of Economic State Rankings Say About Maine's Economy?

Fortunately there are many other sources of data and analysis about Maine's economy. They offer a more complex and nuanced picture than the numbers offered by conservative business climate reports, often with sharply differing policy implications.

The Corporation for Enterprise Development: In the CFED's most recent (2004) edition of its Development Report Cards for the States, Maine once again received mixed grades. Maine got a B overall in Performance, with an A in Quality of Life. The trouble spots were an F in Entrepreneurial Energy, and a D overall in Development Capacity, particularly in the area of infrastructure.¹⁸ The CFED's press release on Maine's rankings noted that the state's "entrepreneurs face an inhospitable environment that is characterized by weak infrastructure, difficulty accessing capital, and little support for innovation."¹⁹ Cutting corporate taxes will do little if anything to address these problems, and the loss of tax revenues from such cuts will make the critical infrastructure problems difficult to overcome. It's also worth noting in this context that the CFED's consistent findings on economic development emphasize the crucial need for states to invest in their development capacity (e.g., education, training and physical infrastructure) rather than offering incentives for corporate location in state "bidding wars."

The Milken Institute: The Milken Institute is a pro-business institute that has developed a "Cost-of-Doing-Business Index," ranking the 50 states in an annual report. The index is designed to indicate "each state's comparative advantages or disadvantages in attracting and retaining businesses," and measures basic business costs — wages, taxes, electricity, and real

¹⁶ CFED, *ibid.* The CFED advocates for a "more expansive approach to development that invests in the real strengths of state and regional economies: a skilled workforce and a high quality of life, technology development and transfer, entrepreneurs and existing businesses, a world class infrastructure and quality public services. These, along with a stable, adequate, but not excessive tax base, and predictable, professional regulation are the linchpins of a dynamic, globally competitive economy." (www.cfed.org/focus.m?parentid=31&siteid=1099&id=1116)

¹⁷ MECEP, *ibid.*; Michael J. Allen & Richard G. Woodbury, "The Circuit Breaker Provides Relief for Maine's Property Tax Burden," *Choices*; Vol. 11: No 10; December, 2005. (www.mecep.org/MeChoices05/ch_12192005.htm)

¹⁸ CFED, *ibid.*; "2004 Development Report Card For The States: Maine." (www.cfed.org/focus.m?parentid=31&siteid=1099&id=1118&year=2004&stateid=19)

¹⁹ CFED, *ibid.*; "Maine Earns Mixed Marks on Economic Development Report Card."

estate expenses for industrial and office space.²⁰ Interestingly, on this index, Maine ranked 19th in 2005; a far cry from the alarmist claims by business climate analyses.

The Maine Economic Growth Council: Despite the problem of an over-reliance on Maine's tax burden in the recent 2005 report of the Maine Economic Growth Council, and the troubling drastic cut in indicators, this report still offers some useful, if incomplete, information on Maine's economic well being. According to the report, while Maine ranked very highly in the areas of International Exports, Conservation Lands and Sustainable Forest Lands, the state was given four "red flags" signaling areas which "need attention:" Cost of Doing Business, Local and State Tax Burden, Cost of Health Care, and Affordable Housing.²¹ And the issue of health care is widely acknowledged as a critical issue facing small businesses, in Maine and nationwide.²²

In short, there are many alternative economic analyses of the state's economy, with varying policy implications. The widespread use in recent years of the Tax Foundation's tax burden data is unfortunate given its arbitrary methodology, which seems designed to further an ideological position of lowering corporate taxes. It is very important, then, to look beyond such tax burden analyses to other measures. Indeed, it is interesting to note that both the State of Maine's own Department of Economic and Community Development and a private pro-business Maine website, Maine & Company,²³ both emphasize the extremely positive economic environment in Maine for business, including the generous incentive programs available to businesses in Maine. Which picture is right? The rosy picture or the dire one?

4. What has been the record thus far, regarding the benefits and outcomes of taxpayer-funded incentive programs for state and local economic development programs in Maine?

This is a complex question which cannot be fully addressed in this short briefing paper. However, thanks to groundbreaking Maine legislation on "corporate accountability" which was passed in 1998, the public and policymakers now have greater access to information on the benefits and outcomes of public tax incentives to corporations, such as municipal TIF's (Tax Increment Financing programs) and state ETIF's (Employment Tax Increment Financing).²⁴ The data for 2004 are quite revealing, indicating that some of the state's largest employers are the primary recipients of such economic incentives. (See Table One). One crucial question of accountability is this: to what extent have the largest recipients of TIF and ETIF programs demonstrated public benefit results, such as job creation and training investments?

The data from this table show some extremely interesting patterns, and raise troubling questions that demand further exploration and analysis. Out of the top five recipients of ETIF funding from the state in that year (i.e., more than \$50,000 in 2004), only two companies showed a net gain of jobs, and only one company – ATX Forms --showed evidence both of job creation (41 jobs) and of substantial training investments (\$237,000).

²⁰ Milken Institute, "2005 Cost-of-Doing-Business Index." Hawaii ranked first as the most expensive state. (www.milkeninstitute.org/research/research.taf?cat=indexes&function=detail&ID=26&type=CDB)

²¹ Maine Economic Growth Council, *ibid*. It is unfortunate that two critical measures of worker well being, "Jobs That Pay a Livable Wage" and "Multiple Job Holding," were among the measures omitted in the 2005 report. One wonders why these were dropped – perhaps the answers might have been troubling.

²² E.g., see Lisa Pohlmann and Frank O'Hara; "The Policy Choices for Small Business Health Insurance;" Maine Center for Economic Policy, Choices; 8/16/05; (www.mecep.org/MeChoices05/ch_08162005.htm)

²³ Maine & Company (see "Maine Business Advantages": www.maineco.org/advantages/default.htm)

²⁴ Maine Department of Economic and Community Development; "Agency Report – 2004: The 122nd Maine Legislature: Employment Tax Increment Financing and Municipal Tax Increment Financing"; October 1, 2005. ("2004 Agency Report" – PDF file at: www.econdevmaine.com/resources/default.asp)

Table One: Largest ETIF's and TIF's Received by Maine Employers, 2004

<u>Business or Employer</u>	<u>Primary Location</u>	<u>Amount</u> of TIF: <u>(in millions of \$)</u>	<u>Jobs Created</u>	<u>Training</u> <u>Investments</u>
<u>Top 10 TIF Recipients</u>				
Bath Iron Works	Bath	4.97	-447	\$743,013.00
International Paper	Jay	2.86	-40	\$112,046.00
National Semiconductor Corp.	So. Portland	1.96	-30	\$314,313.00
Katahdin Paper	Millinocket	1.82	127	[no information]
Westbrook Energy Center	Westbrook	1.62	0	\$27,722.00
Rumford Power	Rumford	1.56	0	\$2,537.00
Blue Rock Industries	Westbrook	1.44	-18	NOT FILED
General Electric	Bangor	1.28	-26	\$300,000.00
McCain Foods	Lisle, IL	1.02	---	--- (Did not Report) ---
UNUM-Provident	Portland	1.02	-291	\$1,593,477.00
<u>Top Five ETIF Recipients</u>				
		<u>of ETIF (in \$):</u>		
Nexfor Fraser Papers	Madawaska	\$481,362	-42	\$0.00
Katahdin Paper	Millinocket	\$481,362	127	\$0.00
ATX Forms	Caribou	\$67,100	41	\$237,000.00
Blue Rock Industries	Westbrook	\$60,285	-18	\$0.00
Maine Woods Co., LLC	Portage Lake	\$57,718	-3	\$33,974.00

SOURCE: Table compiled from Maine Department of Economic and Community Development, 2005 ("Agency Report - 2004: The 122nd Maine Legislature -- "Employment Tax Increment Financing and Municipal Tax Increment Financing")

Even more provocative are the results from the top 10 companies receiving more than \$1 million in municipal TIF money (Tax Increment Financing) in 2004. Out of these 10 companies, receiving collectively nearly \$20 million in public tax incentives, only ONE company reported any jobs created at all. One company did not report its data as required by state law, and six companies showed a net job loss, ranging from a loss of 18 jobs at Blue Rock Industries (which received both an ETIF and a TIF), to a huge loss of almost 450 jobs at the state's largest private manufacturing employer, Bath Iron Works, which was also the recipient of the largest TIF – \$4.97 million. While these data may reflect in part the challenges faced by the manufacturing sector in Maine, the larger questions are still troubling, raising the issue of whether such incentives are in fact the wisest use of taxpayer money.

Conclusion

It is vitally important to have valid and broadly based indicators or measures of economic well-being, because suggested policies and solutions to economic challenges – real or perceived – grow out of one's analysis of the situation. There is an urgent need for state policymakers and the public to become familiar with alternative and more broadly based information about the state's economy, rather than simply accepting the "tax burden" analyses of discredited sources such as the Tax Foundation. If the primary problem in Maine's economy is framed as that of an "unfriendly" business climate or a large "tax burden" which supposedly hinders economic growth, the solutions offered are likely to be in the form of reduced taxes and larger corporate incentives. Who will be the primary beneficiaries of such policies? Unfortunately, experience has shown that what benefits the largest corporations does not always benefit the rest of us.

Prepared as a public service by the Bureau of Labor Education, University of Maine; Winter, 2006

