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Peering down the barrel

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Over the past several months, the Baldacci administration has announced cut after cut in state spending to deal with dropping revenues. Maine has experienced a decrease in annual state-generated tax revenues of $315 million - over 10 percent, a shortfall that is not expected to recover for four or five years.

I think the administration and majority Democrats haven't been clear about the troubles facing the state. Even the Republicans have not come out strongly enough to reveal the significant problems facing the state government regarding state tax revenues.

The problem has been glossed over by a bailout of the state by federal stimulus money, which has made it appear that the drop in revenues will not be as difficult to handle as it really is. And despite announcements to the contrary, the governor is not seriously considering structural changes that will help put Maine on a more sound financial and economic footing.

The state has been incapable of making structural cuts in programs or spending, while instead passing the problem onto school systems and local governments, and to citizen paychecks and savings accounts. Broad-based tax increases are coming. In fact, they are inevitable.

The Maine Center for Economic Policy, a fond supporter of the state workings, has said the only alternative to cope against dwindling revenues, is, you guessed it, "to raise taxes."

In a recent paper published April 30 by MECEP, the organization states the only way to help Maine out of the recession is to "Preserve State Spending." The way to do that is increase taxes. This is not surprising, as 60 percent of MECEP's funding came from state agencies over the last 10 years.

MECEP proposes increasing taxes on those earning over $250,000, hoping that it will make up the revenue shortfall without impacting overall demand. But, since few in Maine earn over $250,000 annually, I don't believe this strategy will work well here. Many Mainers with such incomes (and estates to match) have moved, or are moving out of state, because of Maine's comparatively higher income and estate tax levels.

It is well known that L.L. Bean's founder died a Florida resident, because of Maine's tax

policies.

For years, state and local spending has increased faster than Maine's economic growth. Legislators and policymakers like to ignore the structural problems caused by this fact. This has led to years of over-regulation and over-taxation, which are problems that will take structural change to rectify.

To balance the budget, cuts in education funding and revenue sharing are moving through the Legislature, along with administrative moves to decouple Maine further from indexing and reducing the standard tax deduction for Mainers. These moves will increase the state's take of your income. Expect real estate taxes and income taxes (unless cut in a reform bill) to go up, since almost no real cuts are being made at the state level.

The Legislature and the governor are literally 'passing the buck' to local and county governments and school systems and blaming changes in the federal tax code for their problems. This is not being clear about Maine's problems.

They hope that as the economy recovers revenues will return to more "normal" levels soon, but that is unlikely to happen. A return to normalcy after the cataclysm in the markets in years away, not months. Mainers, however, will consider taking action this fall.

Two proposals are before Maine voters this November: TABOR (Taxpayer Bill of Rights) Now: An Act to Provide Tax Relief; and More Green Now: An Act to Decrease the Automobile Excise Tax and Promote Energy Efficiency. These citizen's initiatives are a response to a failure of policymakers to rein in spending, and do nothing about an unfair tax on Maine's vehicle owners.

TABOR, a spin-off of the bill of the same name defeated in 2006, would limit increases in local and state spending; voters would have approve increases. It would limit increases in the gas tax, which is indexed to inflation. It would limit state spending to population growth plus inflation, and local spending to increases in personal income. And it provides mandated transparency so that you can see where the money is being spent.

The More Green Now initiative may save average Mainers around $1,000 in taxes over the lifetime of a car by reducing auto excise taxes by 50 percent, eliminating the sales tax on new hybrid and energy efficient vehicles and the first three years of excise tax on new such vehicles. This is intended promote cleaner air and greater fuel efficiency.

The issue facing the administration and Legislature is this: dropping revenues are forcing structural changes to spending which they are either unwilling, or unable, to take. Raising taxes, as some like MECEP argue, just isn't an option.

The state has to bite the bullet. Otherwise, come November, they might end up taking two of them.

J. Dwight is a SEC registered investment adviser and an advisory board member of the Maine Heritage Policy Center. He lives in Wilton. E-mail jdwight@gwi.net.