

# Sun Journal

## We've met the enemy and he is us

By J Dwight , Populist Economics

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Maine voters, it seems, are like the ball-player who doesn't follow through on a perfect pitch, hitting a single instead of a home run.

"Didn't get all of that one," says the coach.

That is my take on the victory of the 'Yes on 1' repeal by an almost two to one margin, and the victory the bond issues by the same result.

Mainers don't seem to realize that by passing the bond issues, and repealing the tax increase, they forced unpleasant choices on the Legislature and the next Governor.

Mainers were right not to be fooled by the Democrat spin, but the Legislature was counting on extracting \$100 million new tax revenues from the 'reform'.

So, the new hole in the budget will be about \$108 million, including the new funding for the bonds passed Tuesday.

And, rumors are that the state faces another \$500 million annual shortfall.

Darn.

Mainers have boxed themselves into a tax increase, or a forced budget cuts somewhere, quite likely employees this time, unless the economy improves.

Here's why.

Condensing the state budget and debt down to three paragraphs is difficult and dangerous, but here goes:

The Revenues:

Maine's annual general revenues are now about \$2.8 billion; highway funds are about \$450

million; funds from the Feds, about \$3 billion. Annual spending totals about \$6.2 billion.

The Expenses:

Maine spends \$250 million in debt payments and long-term leases annually.

Interest payments on the newly approved bonds are about \$3 million per year; principal payments, \$5 million per year.

That's \$8 million increase in spending that cannot be cut, postponed or budgeted out.

Oops.

Eight million dollars additional principal and interest payments, does not seem to be very bad in the context of \$6.2 billion.

But, of all of the spending needs the state has, the two that absolutely cannot be cut are interest and principal payments, once bonds are issued.

MSEA-SEIU union benefits and salaries take about \$1.7 billion.

Under Baldacci the number of administrators making over \$100,000 doubled from 500 to 1,000. Scurrilous behavior.

Here is where the big savings could be made.

Cut.

For every state position costing \$60,000 cut today, the taxpayers could save \$7 million over tenure of that bureaucrat.

The state employees pension fund is under-funded, so the rest of the budget gets squeezed. Inland fisheries and highway funding will be cut again.

And, you get the picture, aid to education and revenue sharing gets cut some more.

Any way you look at it, numbers of bureaucrats and administrators must go down at every level to save local schools and public safety departments.

This was inevitable.

After decades of government growth under the Democrats, at double the growth in the general level of the economy and private sector personal income, the taxpayer and the

economy is overburdened.

The Debt:

Total outstanding general obligation and highway fund debt stands at \$530 million, close to the "10% of spending limit" set by the State Constitution.

Debt repayments in 2010 are \$87 million; adding back the \$103 million for the new bonds gets Maine back to the Constitutional limit.

Like driving an overloaded log truck, the driver can make no mistakes.

Bonds have always proven to be a relatively easy source of money, versus the messy political fight of determining budget priorities. That's why they get added to ballots.

Especially, for 'one-off' or non-core spending requests like wind power, railroads, water projects, dam removal, land purchases and the like.

Advocates always make the same arguments: 'bonds are an investment in our future', and 'they will return more than their cost', or 'they will create or retain jobs', but these arguments are, and never have been, proved to be a sustainable economic reality.

Wilton, my hometown, is another case in point.

On the Wilton town warrant is 'recommendation' to authorize a bond for \$500,000 to 'catch-up' on road repairs.

Next year Wilton already faces another \$100,000 bill from the school system, because of cuts to general aid to education.

So, if the recommendation passes, and the bonds are issued, Wilton will be forced to come up with even more money. Another \$50,000. Half a 'mil'. Set in stone for ten years.

So much for choice and flexibility. So much for the priority setting discussions. They could be preempted. Wilton could make a difficult situation worse by passing the bond.

Remember that log truck? We took nine logs off, but put ten back on. And we think that's ok?

The multi-partisan message to the legislature last Tuesday: Don't take my money now, just do it later.

“Yep. We have met the enemy, and he is us.”

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 [jdwright@gwi.net](mailto:jdwright@gwi.net).

