

Sun Journal

A public fight

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Published: Jan.7, 2010 12:01 am

This is serious. The cupboard is bare, and revenues are not recovering.

And, next week a public political fight will break out.

The fight is over the dwindling money in your pocket.

Maine will be treated to scenes of "serious economic conferences", rallies to "save our schools and roads", "pity parades" (to quote a source in the legislature) and intense lobbying by government workers to raise taxes.

Serious voices will intone, [with drama] "We have cut to the bone. We cannot cut spending. Shared sacrifice. We are forced to increase taxes."

Others will protest the tax increases, and call for spending cuts. "What about the waste? We are already overtaxed! We are having trouble paying our bills now!"

The key question is whether spending cuts or tax increases are better for Maine's future.

The issue is politically charged. Different views about the role of government and inequality, are the root of the disagreement. Both sides wish to "sell" their prescription as better for Maine.

Both sides can't be right at the same time.

How the current legislature and governor, and future governor, act to resolve this problem will determine the future of private sector, and public sector, jobs.

Maine's State government is faced with large unfunded pension liability payments that cannot be avoided, and fiscal deficits not experienced in years. Maine's deficit, by comparison to say, California's, is small, yet it still falls within the top ten worst as a percentage of appropriations.

Stable governmental policies and smaller government sector spending are the true leader for

economic growth.

Yet, I expect the tax hike advocates such as "Maine Can Do Better" and Maine Center for Economic Policy to push for an increase in the sales tax by as much as two percentage points, or further expanding the sales tax. They hope we buy their sales pitch by labeling it a "balanced" approach.

If their pitch doesn't work, expect an in-the-dark-of-the-night sales tax increase, like the Legislature and Governor pulled last year with LD 1495. They budget a \$60 million increase in taxes from that.

Fortunately for our legislators, serious economists of all stripes are coming to agreement that spending cuts are better for nations, states, and therefore, Maine.

Recent economic studies, at the international, national and state-level, show that best route to economic recovery is to reduce spending.

Christina Romer (now Chair of the Council of Economic Advisors to President Obama), along with UC Berkeley economist David Romer (her husband), published a study in July 2007. They examined the economic effects of U.S. fiscal policy since 1947, finding:

"...tax increases are highly contractionary...The large effect stems in considerable part from a powerful negative effect of tax increases on investment."

Harvard economists Alberto Alesina and Silvia Ardagna, in a study published October 2009, examined the economic effects of fiscal policy changes in countries of the Organization for Economic Cooperation and Development (OECD) from 1970 to 2007. Their conclusion,

"...spending cuts adopted to reduce deficits have been associated with economic expansions rather than recessions...Permanent tax cuts, by removing the danger of sharper and more costly fiscal adjustments in the future, generate a positive growth effect. Consumers anticipate a permanent increase in their lifetime disposable income and this may induce an increase in current private consumption and in aggregate demand."

Economists Stephen Brown, Kathy Hayes and Lori Taylor of the Dallas Federal Reserve, examined the state-level economic effects of state and local policies on firm location and economic growth in a study published in 2004. They state,

"The evidence suggests that the growth of government—either in the form of services or public capital—discourages private sector growth...private capital and labor grow most rapidly in states with smaller public sectors."

A recovery this year is believed to be under way. Too expect another decade like the nineties

is too optimistic. High growth cannot be counted on to solve this problem.

Maine must respond by reigning in the deficit to pay for state pensions and operating expenses.

Spending cuts are much more effective than tax increases, as shown by liberal, moderate and conservative economists, in stabilizing deficits and avoiding economic problems. In other words, cut spending.

Despite these truths, stay tuned for verbal fisticuffs, "pity parades" and drama shows, because they want your money.

Who do you think is protecting your wallet?

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