

Chapter 2 – Unleashing the Economic Potential

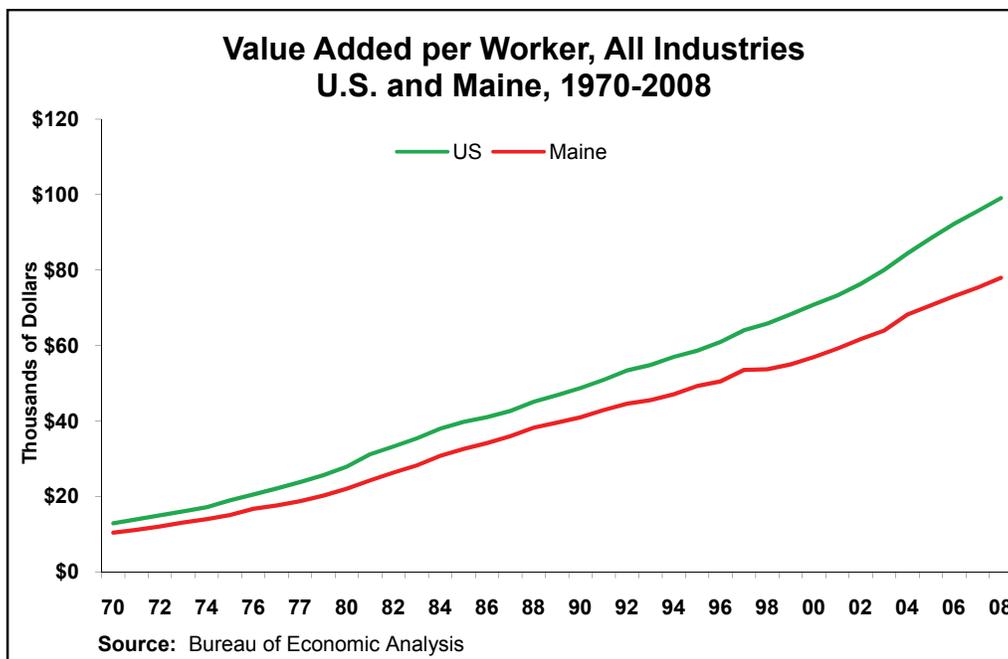
“Productivity isn’t everything, but in the long run it is almost everything. A country’s ability to improve its standard of living over time depends almost entirely on its ability to raise its output per worker.”

Paul Krugman, *The Age of Diminished Expectations*, 1994

Maine’s quality of life makes it an attractive place to live for many people. However, many Mainers find it difficult to make a decent living. Too frequently, there is a trade-off between our quality of life and economic well-being. Our natural amenities and way of life by themselves are not enough to move Maine forward economically. While Maine’s economy has grown over the past few decades, there are a number of factors that are preventing us from reaching our potential and that need our immediate and sustained attention if we hope to thrive rather than survive.

Productivity

At the heart of our economic challenge is productivity. According to the Maine Department of Labor, “The way for Maine to close the income gap with the nation is to close the productivity gap. To close the productivity gap our economic and workforce development efforts must foster growth in highly productive industries, especially those in which we are at a comparative disadvantage.”



As the previous chart illustrates, Maine's productivity has increased seven-fold over the past 40 years. However, Maine's productivity growth has not kept pace with the nation. As of 2008, Maine was only 79% as productive as the U.S. The correlation between productivity and wages explains in large part why Maine wages are lower than the nation's. Closing this productivity gap is absolutely essential if Maine hopes to grow and prosper.

Our relatively low level of productivity is not a commentary on the work ethic of our workforce; rather, it is an indication of the failure of both the private and public sectors to invest sufficiently in capital, technology, and human resources and to employ innovative new processes to a degree that enables Maine to compete in the global economy.

Productivity in Maine and the U.S., 2008

Industry	GDP per Job	Share of Total GDP		Share of Total Jobs	
	Maine to U.S. Ratio	Maine	U.S.	Maine	U.S.
All Industry	75.8%	100.0%	100.0%	100.0%	100.0%
Health Care and Social Assistance	87.0%	10.5%	6.7%	13.7%	10.1%
Government	89.2%	12.5%	10.6%	13.5%	13.4%
Retail Trade	86.8%	11.5%	8.1%	13.1%	10.7%
Construction	69.9%	3.5%	3.1%	7.7%	6.4%
Manufacturing	72.3%	13.0%	14.1%	7.7%	8.0%
Accommodation and Food Services	87.4%	3.1%	2.6%	6.9%	6.8%
Other Services, Except Government	82.2%	2.0%	2.1%	5.1%	5.6%
Professional and Technical Services	64.4%	5.1%	7.8%	5.0%	6.6%
Administrative and Waste Services	85.0%	2.3%	2.9%	4.3%	6.2%
Finance and Insurance	71.8%	6.3%	8.3%	3.8%	4.7%
Real Estate and Rental and Leasing	102.0%	13.2%	12.4%	3.6%	4.5%
Wholesale Trade	87.1%	5.5%	6.1%	2.9%	3.7%
Transportation and Warehousing, excluding Postal Service	75.2%	2.4%	3.2%	2.4%	3.3%
Arts, Entertainment and Related Activities	70.4%	0.9%	0.9%	2.2%	2.1%
Educational Services	87.7%	0.9%	0.8%	2.1%	2.1%
Forestry, Fishing, and Related Activities	91.7%	1.1%	0.3%	2.0%	0.6%
Information	57.5%	3.7%	5.9%	1.6%	2.0%
Management of Companies and Enterprises	70.9%	1.1%	1.6%	0.8%	1.1%
Utilities	107.7%	2.0%	1.8%	0.2%	0.3%
Mining	19.1%	0.0%	1.0%	0.1%	0.5%

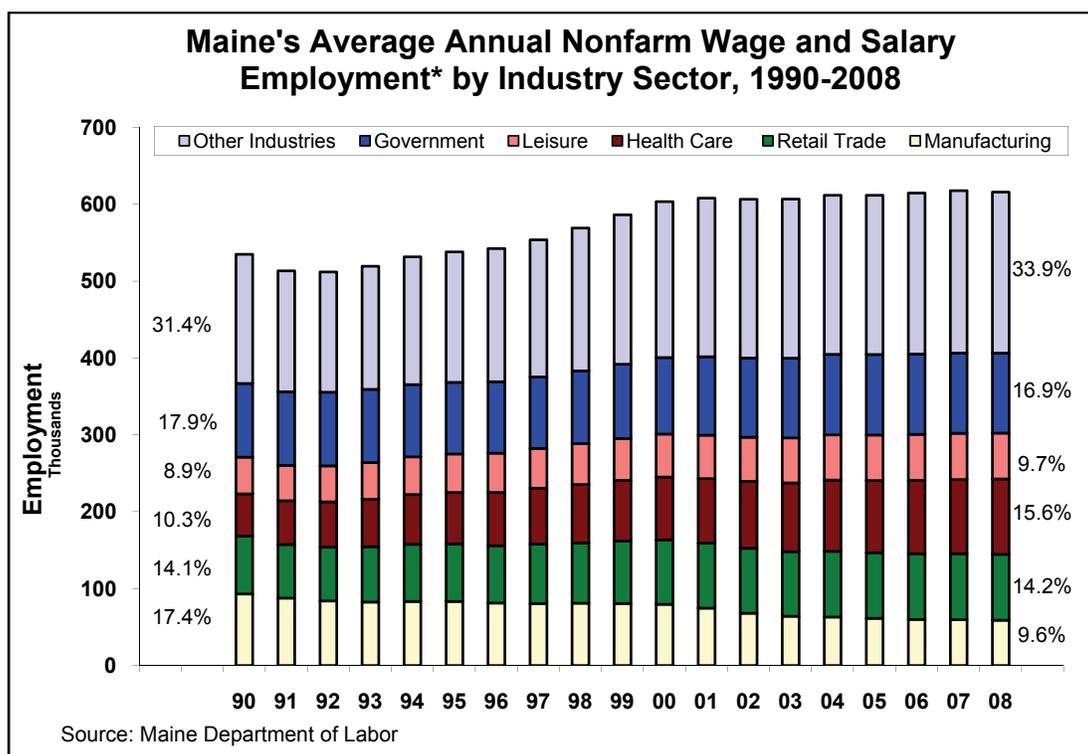
Source: Maine Department of Labor

As the Maine Department of Labor chart above indicates, Maine has a higher share of employment in sectors where our productivity trails the national average. Conversely, in our ten most productive sectors, Maine has a smaller share of employment than the nation as a whole. In other words, we are comparatively productive in the industries that comprise only a small part of our economy and comparatively unproductive in those that make up the bulk of our economy. This is not a formula for success, and clearly, things have to change.

Changing Economic Mix

Another challenge is that Maine's economic base has changed and continues to change. As a nation, we have transitioned away from manufacturing, as a provider of jobs, towards a service-based and knowledge-based economy. This change has been more extreme in Maine. Over the past 40-50 years, U.S. manufacturing employment has dropped by 25% while Maine's manufacturing employment has fallen by close to 50%.

During the first half of the 20th century, Maine's economic base was predominantly in the traditional, labor-intensive, and, to a large extent, natural resource-based, manufacturing sectors. In the 1940s, one out of two employees worked in manufacturing. As the following graph shows, by 1990, only 17% of the job base was in manufacturing, and by 2008, just over 9%. The erosion of manufacturing as a provider of jobs has been almost entirely offset by the employment growth in the health care sector, which has grown from 10% to over 15% of our job base. By 2008, the majority of Maine jobs existed in service and government sectors.



This transition has important implications. Historically, manufacturing employees received higher wages and, more importantly, better benefits than a service sector employee. This shift away from manufacturing jobs to service jobs has often meant lower wages and fewer benefits for Maine workers. The transition away from traditional manufacturing industries has also hit rural Maine harder than our urban areas. Energy-

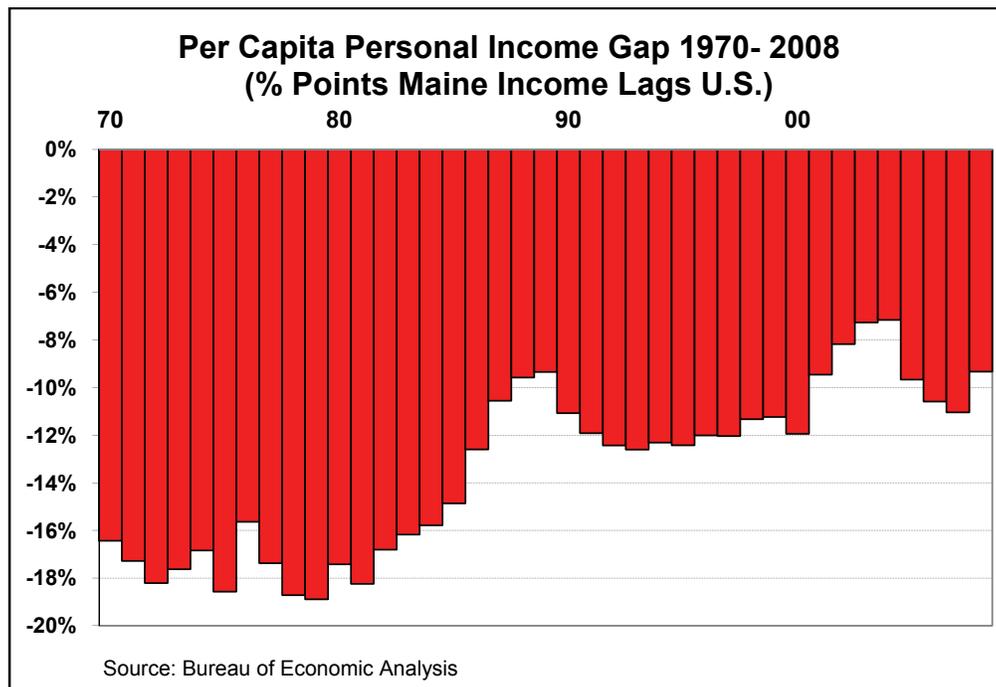
intensive paper and shoe manufacturing originally located on Maine’s waterways to take advantage of cheap hydro power. Many have since shut down completely or moved out of the countryside. New businesses are not relocating in these rural areas.

Despite the declines in manufacturing employment, it remains an important sector of our economy. According to the Bureau of Economic Analysis, in 2008, Maine manufacturers accounted for \$5.1 billion, or 13% of Maine’s gross domestic product. Some sectors are doing well. For example, according to the Federal Reserve Bank of Boston, in 2008, Maine’s paper exports increased by \$60 million (10.8%), and transportation equipment exports by \$232 million (123.4%) over their 2007 levels.

And the future has some exciting prospects. Cutting-edge Maine-based research in composites has taken our heritage in wood fiber and revolutionized the way we build boats. These advancements have also given rise to whole new opportunities in marine equipment manufacturing, bridge construction, and industrial windmill blades manufacturing.

Per Capita Personal Income

The lag in productivity and a changing economy have affected people’s wallets. As the chart below shows, Maine trails behind the nation in per capita personal income – approximately 10% less in 2008.

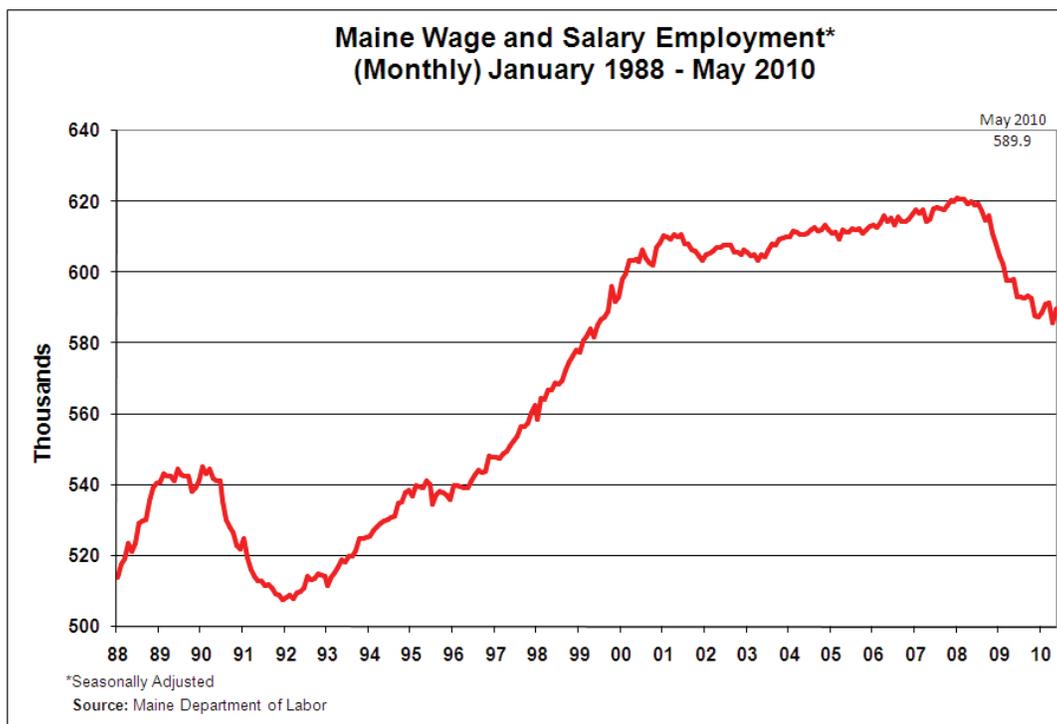


Throughout the 1970s and the early 1980s, our per capita personal income trailed the rest of the country by 16%-19%. Per capita personal income is defined as the income received from all sources, divided by the state's population. Sources of income include wages, salary, supplements, rents, dividends, interest, and transfer payments.

Following growth during the mid- to late-1980s, Maine's income gap had closed to 10%-12% below the national average. It is important to note, however, that the wage component of personal income has not grown much for the average worker. This is a concern for most Maine workers that depend on wages and not investments or other transfer payments for income. In order to close that gap, Maine must make the necessary investments that will help our industries become more productive and the jobs they provide more lucrative.

Employment

To add to these challenges, Maine and the nation, have experienced substantial job losses during the most recent recession and a slow recovery is expected. The sharp decline in wage and salary employment levels since January 2008 has brought employment back to 1999 levels, erasing much of the economic gain of the past decade. Although they have not yet reached as large a level of decline, these losses are reminiscent of the dramatic drop-off of the recession in the early 1990s.



In simple terms, fewer jobs mean fewer opportunities for Maine workers. Some have been unemployed for extended periods of time. This is both a hardship to the worker and the public at large.

Opportunities

The outlook is not all bleak. There are opportunities for improvement. As previously stated, advancements in composites, boat building, marine research, and international trade have successfully built on the foundation of our traditional economic pillars. Innovations in renewable energy offer the opportunity to diversify our own energy portfolio and position ourselves to be key players in the global economy.

Like the rest of the nation, Maine's economy has been hampered by forces beyond our control. The recent financial meltdown triggered tighter restrictions in the financial lending industry that have limited Maine businesses' access to capital, adding another hurdle to investment. Unfortunately, we cannot control all of the factors that influence our economy. What we can do is pinpoint a number of specific areas that demand our attention.

In the effort to unleash our economic potential, four key investment imperatives emerge:

1. Increase productivity across all economic sectors
2. Strengthen Maine's manufacturing base
3. Align higher education and training with job needs
4. Embrace innovation and entrepreneurship as an economic growth strategy

These imperatives are aimed at increasing productivity, which in turn generates income and improves our quality of life. In the sections that follow, we explore nine economic development policy areas in detail, examining how government policy and resources can be put to work to create a climate that encourages private sector investment.