

News and Commentary

Maine Policy Review (1994). Volume 3, Number 2

As discussed earlier in this issue, Maine has been a highly defense-dependent state. With the continuing shift to a non-Cold War defense posture, Maine is experiencing its share of economic hardship from the reduction in federal defense spending. In the following article, Maine State Economist Laurie Lachance describes the depth and breadth of Maine's defense dependency and outlines what that portends for the future of Maine's economy.

Maine's defense dependency and its effect on economic vitality

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Introduction

Federal defense outlays are generally recognized as important to Maine. That importance is particularly evident in communities such as Kittery, Bath, and Limestone, where defense expenditures not only influence, but shape and define, the towns' identities. What is often misunderstood or overlooked is that our dependence on defense is much more far-reaching than the handful of communities where military installations or prime contractors reside. The many millions of dollars that flow into Maine each year for defense-related activities affect the economic vitality and well-being of communities throughout the state and across nearly every industry.

In this article, I will more clearly define the extent and the nature of Maine's defense dependency. I will also illustrate how that dependency influences our current economic vitality and our projected economic and demographic growth.

The nature of Maine's defense dependence

To put it bluntly, Maine's economy is extremely dependent on federal defense outlays. The current and projected cutbacks in defense expenditures will have a significant impact on the state's ability to grow. This does not mean that economic activity will cease in every town and every industry; in fact, some areas will prosper. It does mean that the entire state will, in one way or another, feel the dampening effect of defense cutbacks. It also means that, in the absence of significant intervention, some communities will suffer severe economic dislocation.

As [Figure 1](#) illustrates, our dependence on defense spending has grown dramatically over the past two decades. In 1972, defense dollars contributed one percent to Maine's Gross State Product (GSP). By 1992, that contribution was closer to eight percent. The federal government spent \$1.9 billion in Maine during 1992 for either military payroll or defense-related procurement contracts. The 1992 figures give Maine a ranking of fourth in the nation in our relative dependence on defense dollars.

This fourth place ranking may not be surprising to many in the context of the publicity over base closures in New England and over the severity of the recent regional recession, which was worsened by the timing and depth of defense cuts. What may come as news is that when measuring dependency in terms of dollar expenditures as a percentage of GSP, none of the other New England states ranks in the top five. Virginia captures the number one spot with 11.5 percent of GSP, followed by Hawaii, Mississippi, Maine and Maryland. Despite 1992 defense outlays in Massachusetts and Connecticut of \$6.7 and \$3.7 billion, respectively, a full two to three times larger than Maine's, these two states ranked 20th and 22nd. Rounding out the region, Rhode Island placed 19th, New Hampshire 30th and Vermont 48th.

Certainly, there are different measures that could be used to assess our dependency relative to other states. Defense dollars per capita, for example, may change the rankings somewhat. However, no matter how dependence is measured, Maine is highly dependent.

[Figure 2](#) shows that both military salaries and procurement monies flowing into Maine have increased over the past 20 years, but contract awards have grown much more rapidly. Whereas in 1972 prime contract dollars represented one-quarter of the defense spending in Maine, by 1992, the value of contracts had grown to \$1.3 billion, representing 70 percent of total spending. With the closure of Loring, this trend will continue. In 1992, Maine ranked second in the nation for prime contract awards as a percentage of GSP, with Bath Iron Works garnering the lion's share of those dollars. That Mississippi, the home of Ingalls Shipbuilding Company, ranks first in this category highlights the huge expenditures associated with shipbuilding.

Maine's ability to attract prime contracts is indicative of the state's reputation for having a skilled workforce and a strong work ethic. In addition, we are well represented in Washington, which has undoubtedly helped us to secure military contracts.

The extent of Maine's defense dependency

When thinking of a defense presence in Maine, we often visualize one or two of the bases or one or two of the major companies involved in the manufacture of destroyers or guns. The state's involvement with defense, however, is much more pervasive. Over the past decade, Maine's five major military installations, which are geographically dispersed from Kittery to the Canadian border, contributed a combined annual payroll of \$450 million to Maine's economy and made annual purchases exceeding \$80 million. With the official closure of Loring Air Force Base this month, the level of base spending in Maine drops considerably. Nonetheless, the remaining expenditures will still be significant.

Though Bath Iron Works dominates any examination of prime contract awards in the state, it is certainly not the only Maine company to benefit from procurement dollars. From 1989 to 1992, 392 contracts were awarded to other companies around the state. These contracts were worth over \$215 million. In that three-year period, 15 of Maine's 16 counties secured at least three contracts, and, it should be noted, prime contracts are only part of the story. Subcontracting causes a significant ripple effect benefiting all counties. Bath Iron Works alone hires over 2,000 subcontractors.

Not only are Maine's ties to defense dispersed geographically and across several companies, the state's dependency also spans many industries. An analysis prepared by the State Planning Office

in 1993 estimated that, at its peak in 1989, a total of 63,000 jobs in Maine were, in one form or another, tied to defense. That represented eight percent of Maine's total workforce and provided an annual payroll of \$1.4 billion. Of the 63,000 jobs, 40,000 were held by individuals who were actually employed at the military installations or by the prime contractors. Another 9,000 were employed by subcontractors, those providing goods and services to the bases or the prime contractors. Finally, the remaining 14,000 jobs were created by local consumption. That is, when the 49,000 people employed by the bases, the prime contractors and the subcontractors live in Maine communities, they spend a good portion of their pay in the state, which helps support local retailers and service providers. Since it is not just direct spending but also re-spending that contributes to Maine's economic vitality, each of the 50 industries in the state benefit in one form or another.

The current situation and outlook

As we are all painfully aware, much has happened in Maine over the past five years. Following a decade of unprecedented growth, Maine's economy toppled into a severe recession in mid-1990. [Figure 3](#) illustrates that from 1990 to 1992, approximately 34,000 non-farm jobs disappeared, representing a staggering six percent erosion of our employment base.

The significant increase in defense dollars that poured into our state in the 1980s (see Figure 2) was one of a number of factors contributing to the bubble of economic activity during the latter half of that decade. But more significantly, the defense cutbacks endured by the state during the early 1990s were responsible for approximately 22 percent of all job losses in the downturn. The State Planning Office estimates that from 1989 to 1992, defense-related employment in Maine fell from its peak of 63,000 to 55,500, a drop of 7,500 jobs. High-paying jobs at Bath Iron Works and the Portsmouth Naval Shipyard accounted for over half of this drop. The federal cutbacks in defense spending did not cause Maine's recession, but it certainly contributed to the depth and duration of the downturn. In addition, Maine's lethargic recovery, highlighted in Figure 3, is due in part to the continued defense build-down. In terms of employment, this rebound has been underway for two and a half years and we have barely regained 50 percent of the jobs lost. Whereas some companies lay-off during the down times and re-hire in the recovery, most, if not all, of the lost defense-related jobs are gone for good.

Unfortunately, continued paring of military personnel and defense outlays will hamper Maine's struggle to grow over the upcoming decade. Thus far, in this series of base closures, Maine has only lost one major installation, Loring Air Force Base. In 1995, however, the fourth and final round of cuts will take place. Experts suggest that, if the Base Closure Commission is to meet its goals, the upcoming cuts will have to be equal in size to the other three rounds added together. If this is true, Maine will be extremely fortunate to stay off the 1995 list. Though Maine's Congressional delegation will remain strong, the timing of Senate Majority Leader George Mitchell's retirement could not be worse.

The assumption underlying the State Planning Office's long-term forecast is that defense spending cuts will continue through the next decade. The effect of military cuts will be most strikingly evident in the population forecast. Though troop reductions nationwide are projected to be in the vicinity of 39 percent, Maine is expected to experience a 52 percent drop. When the families of military personnel are factored in, the SPO forecast suggests that 17,000 military personnel and their dependents will migrate out of the state from 1992 to 2005. It is estimated

that an additional 15,000 people will move because of the overall decline in economic activity associated with the bases and the businesses that had previously enjoyed large defense contract dollars. This phenomenon, along with the general out migration in the New England region due to sluggish economic growth, has led to a projection of essentially no change in Maine's population through 2005.

With virtually no population increase over the upcoming decade, growth in the demand for goods and services will slow. Population growth will no longer be a factor that propels job growth as it was in the eighties. In addition, we appear to be living the so-called "jobless recovery." Many industries that suffered layoffs during the downturn are much more tentative in their rehiring practices, seemingly adopting a "we'll do more with less" attitude. Though employment levels at major defense contractors may vary with the timing of contracts, we are not anticipating any permanent job growth from the current employment levels. Finally, the likely continuation of downsizing activities at Maine's military installations will further dampen overall job creation. Each of these factors influences the forecast of employment growth for the state, which is projected to average one percent per year through the upcoming decade.

Conclusions

Maine, like the New England region as a whole, is entering an era of fairly slow economic growth. Defense cutbacks have already taken a toll through the early nineties and could feasibly continue to sap our overall vitality and cause pockets of major economic disruption for several years to come. Recognizing the extent of our past and current dependency, the challenge for Maine now becomes how to handle the seemingly inevitable continuation of the military build-down. While it is highly unlikely that we can dramatically alter our fate, actions can certainly be taken to mitigate the painful dislocation that will occur if Maine loses another major military installation or a major defense contractor.

Current efforts to find new uses for the Loring facility teach us that rebuilding is neither simple nor impossible. The Loring Redevelopment Authority has seen some success in attracting the JOBS program and a Department of Defense Financial Accounting Satellite. While these are very positive developments and a number of other possibilities exist, the reality is that a large portion of the jobs lost at the facility will not be replaced in the foreseeable future.

The Maine State Planning Office's March 1993 report, entitled "A Defense Adjustment Action Plan for Maine: Report of the Task Force on Defense Realignment and the Maine Economy," suggests that formal defense adjustment planning began in mid-1990, but much remains to be done. The challenge is before us. It is now entirely up to us as government, community and business leaders to either plan for conversion away from defense dependency or, perhaps to our detriment, to simply let it happen.

(With special thanks to Stephen Adams, Director of State Planning, and Joyce Benson, Senior Planner.)

Full cite: Lachance, Laurie. May 1994. *Maine's defense dependency and its effect on economic vitality*. Vol. 3(2): 89-94.

