

Maine Issue Brief

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Maine's Personal Income in 2006

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Private Sector Continues to Shrink

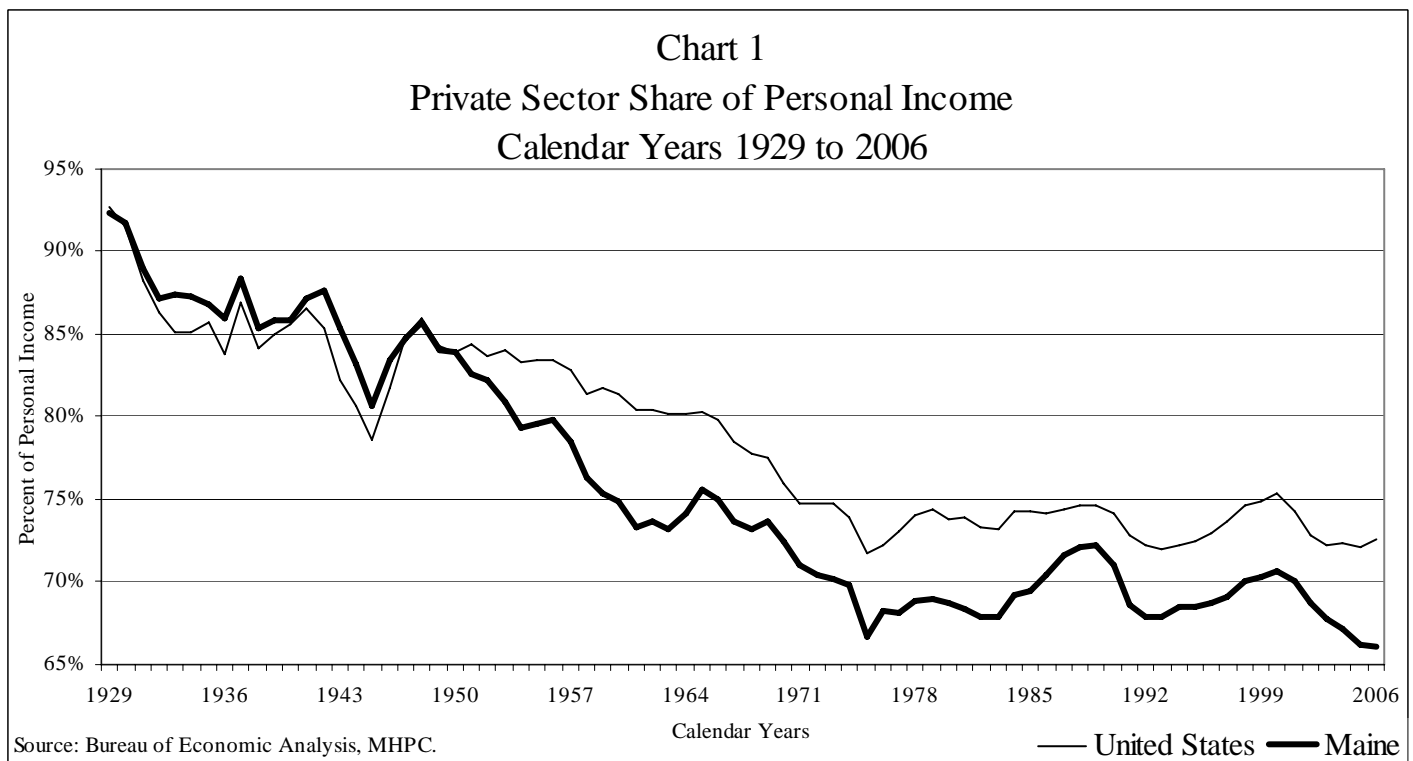
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Personal income is an important economic measure of a state's well-being. Higher levels of personal income mean that a state's residents are able to buy more goods and services such as homes, cars, education and health care. Fundamentally, personal income comes from two sources: the private sector and the public sector. The distinction between the two sectors is important because only the private sector creates new income. The public sector simply redistributes existing income because what it spends must first be taken from the private sector through taxation or borrowing.

Chart 1 shows a 77 year historical trend of the private sector share. The new 2006 data from the Bureau of Economic Analysis shows that Maine's private sector continues to decline as a share of personal income.[1] In fact, Maine's private sector share is at an all-time low of 66.1 percent, from the peak of 92.4 percent in 1929, a 28.5 percent drop. Since 2000, the decline in Maine's private sector share has accelerated in spite of the slight increase at the national level.

Maine now has one of the smallest (42nd largest) private sector shares of personal income in the country. States with a smaller private sector share are: Louisiana (65.7 percent), Kentucky (65.5 percent), Arkansas (65.3 percent), Hawaii (62.4 percent), New Mexico (62.3 percent), Mississippi (60.5 percent), West Virginia (58.8 percent) and Alaska (57.9 percent). At the other end of the spectrum, the state with the largest private sector share is Maine's neighboring state of New Hampshire at 79.1 percent.

As shown in Chart 2, the primary culprit behind Maine's growing public sector share is the dramatic growth in personal current transfer receipts which consists of payments made by government to individuals such as Social Security, Medicare, Medicaid, unemployment compensation, and veteran benefits, to name a few. Maine now has the 4th highest share of transfers as a percent

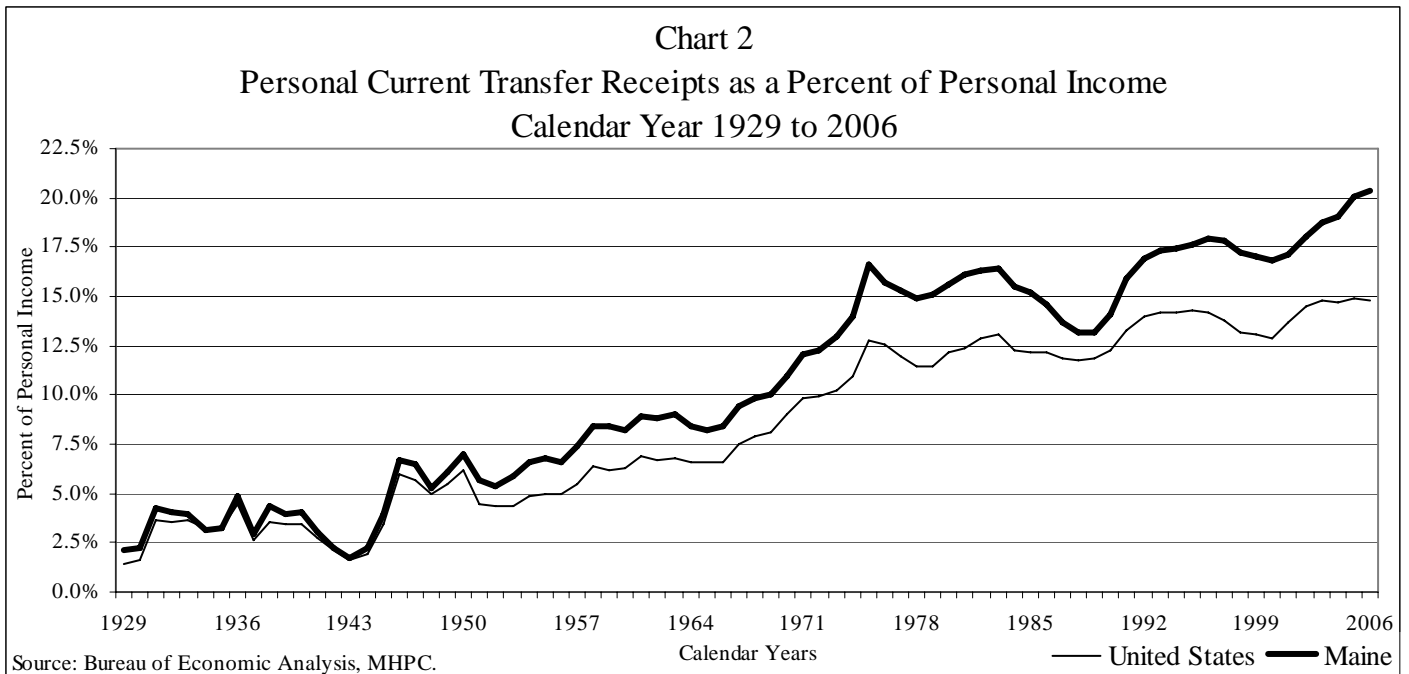


of personal income at 20.4 percent, up 834 percent from 1929. States with a higher share of transfers are: Arkansas (20.9 percent), Mississippi (23.2 percent) and West Virginia (25.9 percent).

Unfortunately, the breakdown of the transfers for 2006 is currently unavailable. However, previous MHPC analysis has shown that the growth in the state Medicaid program is mostly responsible for the increase in transfers since 2000. Getting Medicaid spending under control is vital to ensuring the health of Maine's economy. [2]

Notes and Sources:

- [1] See the Bureau of Economic Analysis's press release: <http://www.bea.gov/newsreleases/regional/spi/2007/spi0307.htm>
Also see MHPC's previous report: [http://www.maineconomy.org/Portals/0/The%20Maine%20View%20-%20Vol.%20204,%20Issue%20No.%2011%20\(final\).pdf](http://www.maineconomy.org/Portals/0/The%20Maine%20View%20-%20Vol.%20204,%20Issue%20No.%2011%20(final).pdf)
- [2] Recent analysis by MHPC shows that \$1 billion could be trimmed from Medicaid without dropping coverage for one person. [http://www.maineconomy.org/Portals/0/Medicaid%20Watch%20Vol.%204,%20No.%201%20\(final\).pdf](http://www.maineconomy.org/Portals/0/Medicaid%20Watch%20Vol.%204,%20No.%201%20(final).pdf)



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