

Path to Prosperity

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The Fiscal Costs of Maine's "Demographic Winter"

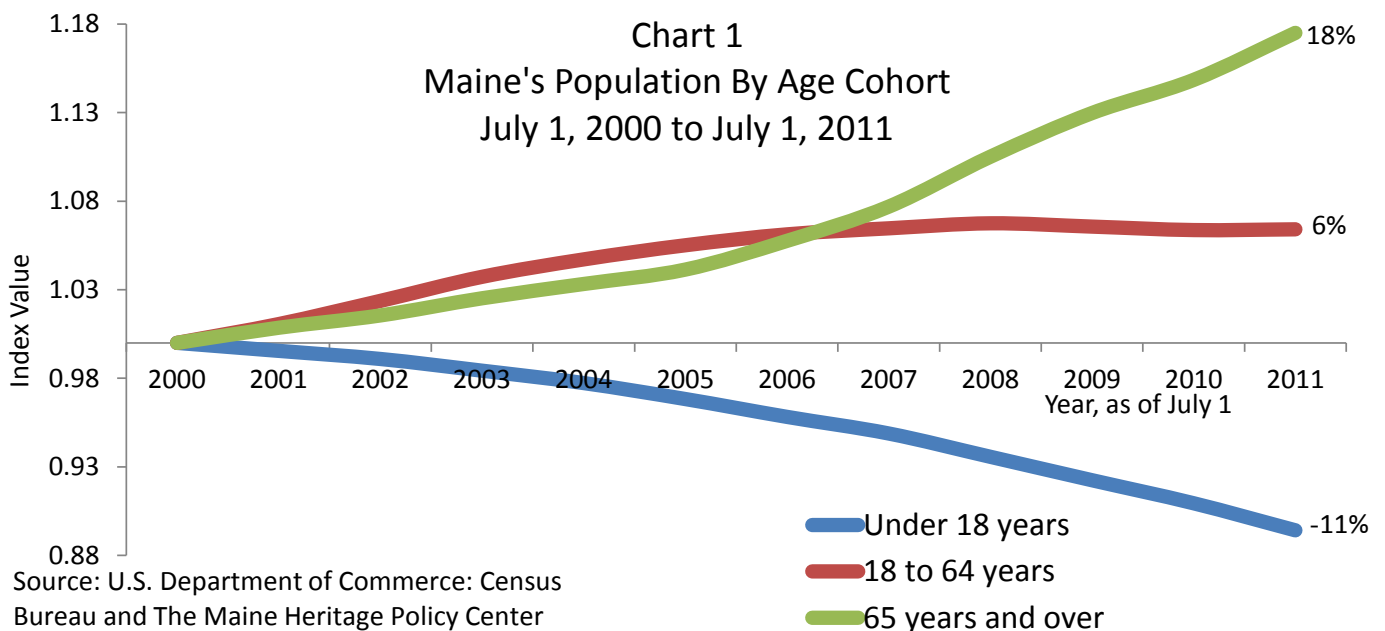
By J. Scott Moody, Chief Executive Officer

Countries such as Japan and Russia are already facing annual declines in population, a trend that Demographers have labeled this "Demographic Winter."¹ A shrinking population will create formidable headwinds for these countries in terms of generating sustainable economic growth in order to increase their standard of living. Now, Demographic Winter has arrived on America's shores, and Maine is the beachhead.

Maine's natural rate of population growth in 2011 was only 180 people—that means there were only 180 more births than deaths. A linear estimate shows that Maine's natural rate of population growth may be negative in 2012. A negative natural rate of population growth is the very definition of Demographic Winter, and Maine now stands at the edge of the population abyss.

Maine's Demographic Winter will have severe negative economic consequences. As shown in Chart 1, between 2000 and 2011, the number of people under the age of 18 has already declined 11 percent. At the same time, the number of people over the age of 65 has increased by an even faster rate of 18 percent. In economic terms, this means fewer workers available to businesses and fewer customers to buy their goods and services.

A shrinking economy will also adversely impact the finances of government. The overall costs to government



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(federal, state, and local) increase approximately three-fold for people over the age of 65 compared to the cost of those under the age of 18. At the same time, the taxes paid by people over the age of 65 plummet by approximately two-thirds, mostly due to declines in payroll and income taxes.

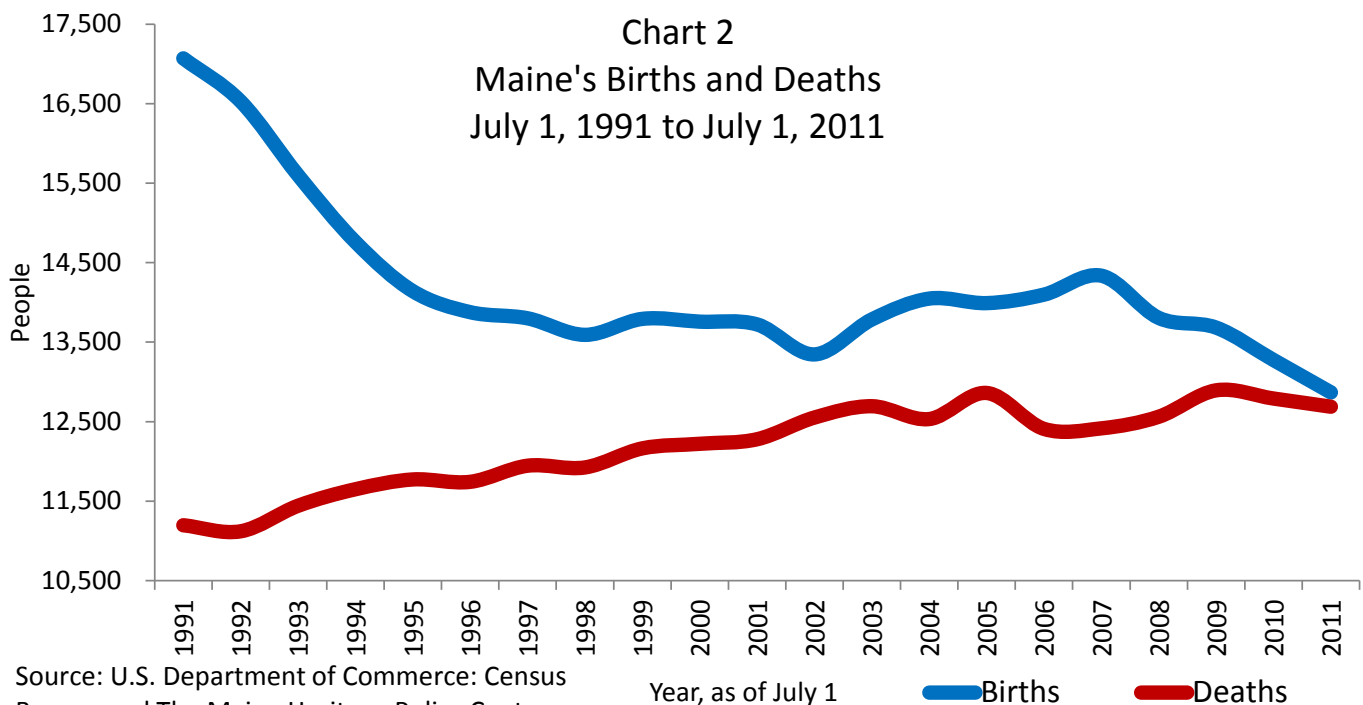
This, in turn, suggests one potential way to fight back against Demographic Winter. If income taxes are known to decline along with the size of Maine’s workforce, policymakers should proactively begin reducing Maine’s income tax now in order to spark new economic growth and jobs. A growing economy and job base will encourage the immigration of young families and slow the onset of Demographic Winter in order to find a permanent solution.

The Cause of Maine’s Demographic Winter

Maine’s Demographic Winter has been decades in the making. According to the U.S. Census Bureau, Maine has been a net loser of young, single, and college-educated people in three of the four national censuses between 1965 and 2000.² Put simply, these young people were the foundation of Maine’s future families. As such, it is not much of surprise to see Maine’s birth rate decline along with having fewer families in their prime child-bearing years.

Chart 2 shows how the number of births in Maine has plummeted in just the last two decades. Between 1991 and 2011, the number of births had fallen by 25 percent to 12,868 from 17,070. This drop in births occurred at the same time that Maine’s overall population grew by 7 percent. At the other end of the spectrum, the number of deaths in Maine has increased over the same time. Between 1991 and 2011, the number of deaths increased by 13 percent to 12,688 from 11,197.

However, more telling than the gross number of births and deaths is the net difference between the two as shown in Chart 3. In 1991, Maine’s net natural population growth (births minus deaths) was at its peak during this period at 5,873 people—this is the equivalent of adding the entire population of Rumford. By 2011, Maine’s net natural



Source: U.S. Department of Commerce: Census Bureau and The Maine Heritage Policy Center

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population growth was a mere 180 people—this is the equivalent of only adding another Grand Lake Stream Plantation.

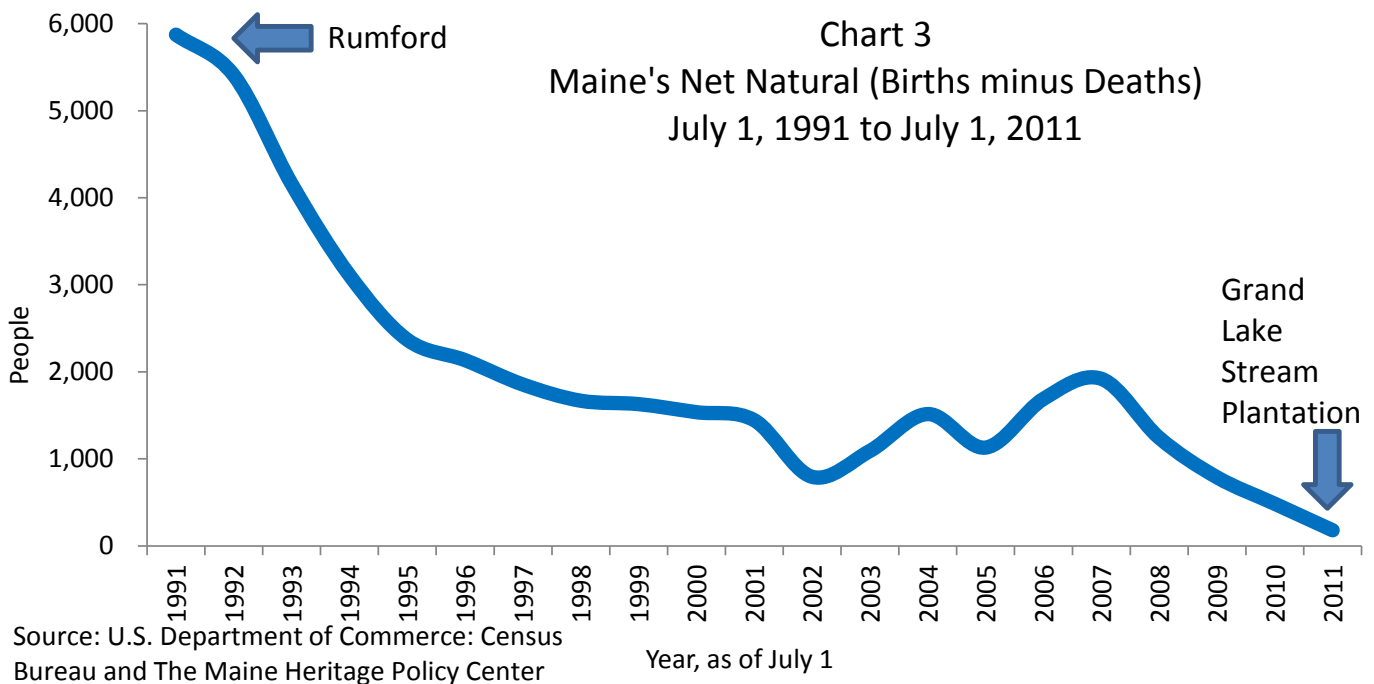
This dramatic downshifting in Maine’s natural population growth is a significant contributor to the decline in the number of Mainers under the age of 18. As a consequence, the Maine Department of Labor is projecting that Maine’s working-age population will shrink by 47,000 people in 10 years and 101,000 people in 20 years (note that the contraction accelerates slightly after the first decade).³

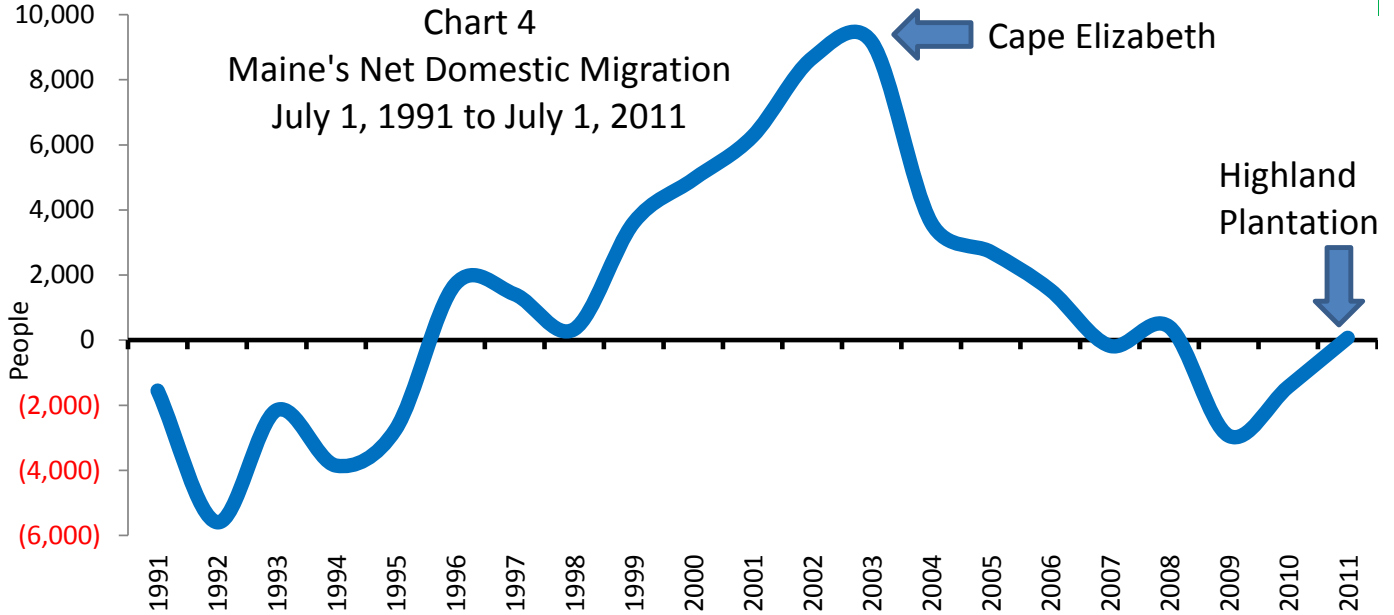
Additionally, as Maine’s net natural population growth dropped, Maine’s total population growth has become more dependent on people “from away.” As shown in Chart 4, between 1991 and 2011, Maine has historically been a strong net in-migrant state meaning more people move into the state than move out of it. In the peak year of in-migration, 2003, Maine had an influx of 9,161 people—the equivalent of adding another Cape Elizabeth. However, since 2003, in-migration has significantly trended down to the point that in 2011 only 72 more people moved into Maine than moved out—the equivalent of only adding another Highland Plantation.

Overall, the importance of in-migration is seen in Chart 5, which shows the total change in Maine’s population. Between 1991 and 1996, all of Maine’s population increase was due to natural population growth as Maine was a net out-migrant state in those years. This reversed after 1996 as in-migration and total population soared even as net natural population growth dropped below 2,000 people. From 2008 to 2011, in-migration turned to out-migration, which led to an actual decrease in Maine’s total population for the first time since 1967.⁴

State-Level Data Hides More Troubling Demographic Picture:

As shown in Table 1, the county-level data for the most recent year, 2011, shows there are currently “two Maines” in regards to Demographic Winter. Generally speaking, the southern coastal counties that define the Portland

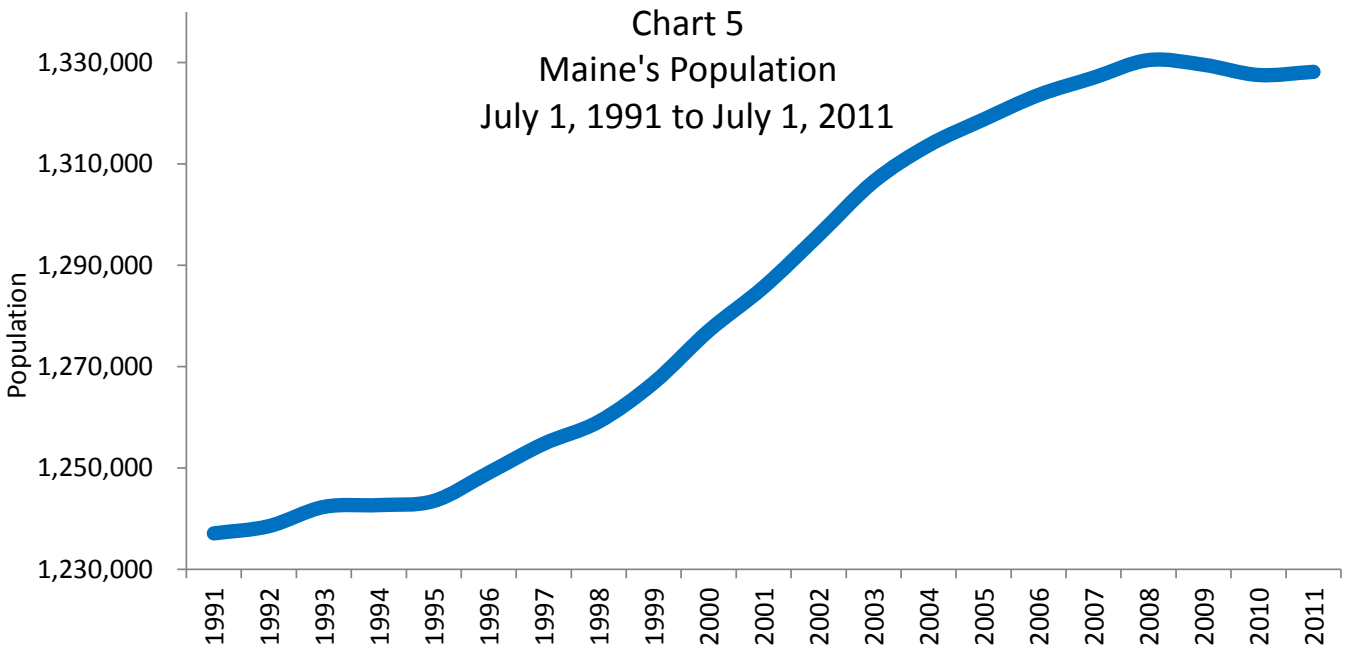




Source: U.S. Department of Commerce: Census Bureau and The Maine Heritage Policy Center

Metropolitan Statistical Area (MSA) (Cumberland, York, and Sagadahoc) are faring better than the rest of the state.

First, while state-wide natural population growth increased by 180, there were 11 counties where natural population change was negative and they collectively lost 775 people (more deaths than births). At the same time, there were 5 counties positive natural population growth and they gained 995 people (more births than deaths). So



Source: U.S. Department of Commerce: Census Bureau and The Maine Heritage Policy Center

the state-wide average hides the fact that Demographic Winter has already arrived in the vast majority of Maine's counties.

Second, the county-level migration shows that in 2011 there was far more intra-state migration than inter-state migration. There were 10 counties with net out-migration of 1,781 people while there were 5 counties with net in-migration of 1,853 people—Cumberland and York counties accounted for the vast majority of that growth. As a result, Maine's internal migration is drawing more people into the Portland MSA and away from the rest of the state.

As a result of natural population growth and migration, only 5 counties saw an increase in population for 2011 of 2,322 people with the vast majority of that growth occurring in just two counties—Cumberland and York. The remaining 11 counties saw a decrease in population of 1,513 people. Overall, the county-level data reveals a picture where the negative impact of Demographic Winter is significantly greater outside of the Portland MSA area.

Table 1
Change in Population by Component
July 1, 2010 to July 1, 2011

County	Population Change	Natural Increase	Vital Events		Net Migration		
			Births	Deaths	Total	International	Domestic
Maine	809	180	12,868	12,688	666	594	72
Androscoggin	-277	345	1,331	986	-626	114	-740
Aroostook	-241	-147	648	795	-91	21	-112
Cumberland	1,015	345	2,720	2,375	686	204	482
Franklin	35	-28	271	299	64	2	62
Hancock	218	-134	442	576	354	63	291
Kennebec	-196	-35	1,212	1,247	-158	44	-202
Knox	3	-34	369	403	39	3	36
Lincoln	-155	-99	290	389	-55	11	-66
Oxford	-44	-115	519	634	73	1	72
Penobscot	-52	99	1,506	1,407	-146	100	-246
Piscataquis	-126	-65	151	216	-62	-1	-61
Sagadahoc	2	22	379	357	-18	7	-25
Somerset	-205	0	503	503	-205	5	-210
Waldo	-56	-12	379	391	-40	3	-43
Washington	-161	-106	293	399	-51	25	-76
York	1,049	144	1,855	1,711	902	-8	910

Source: U.S. Department of Commerce: Census Bureau and The Maine Heritage Policy Center

FIGURE 2. Benefits by Program and Age

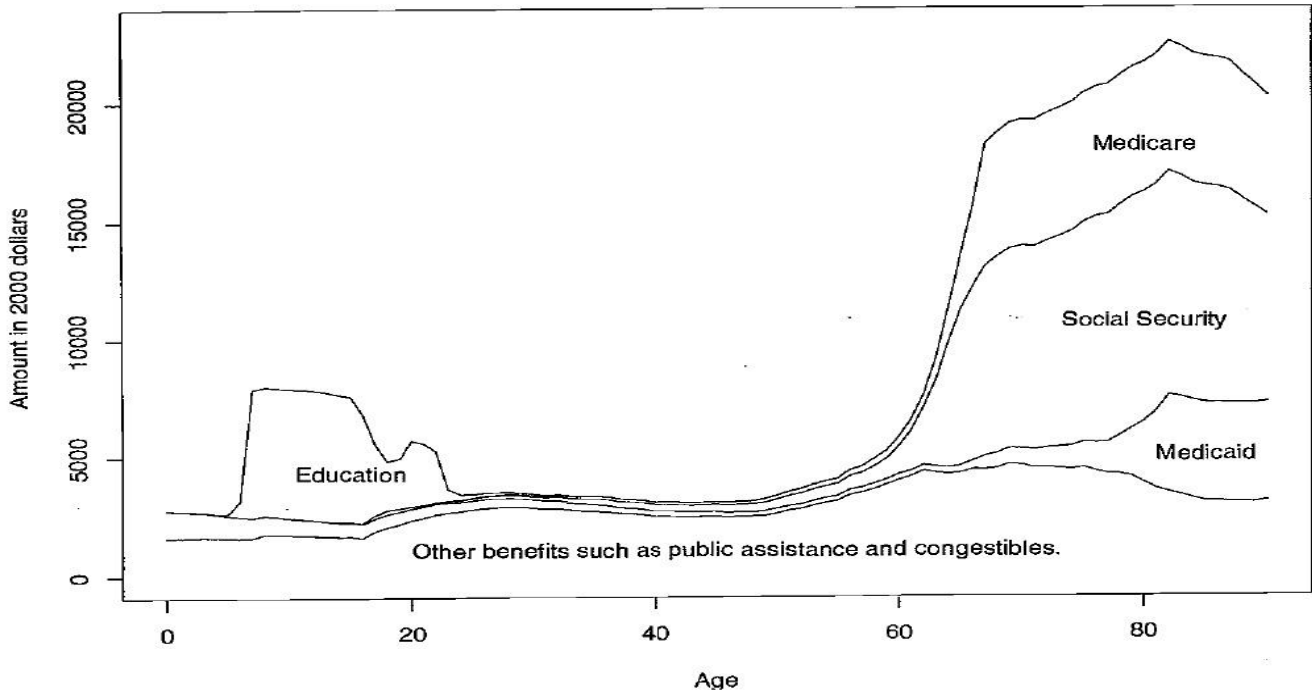
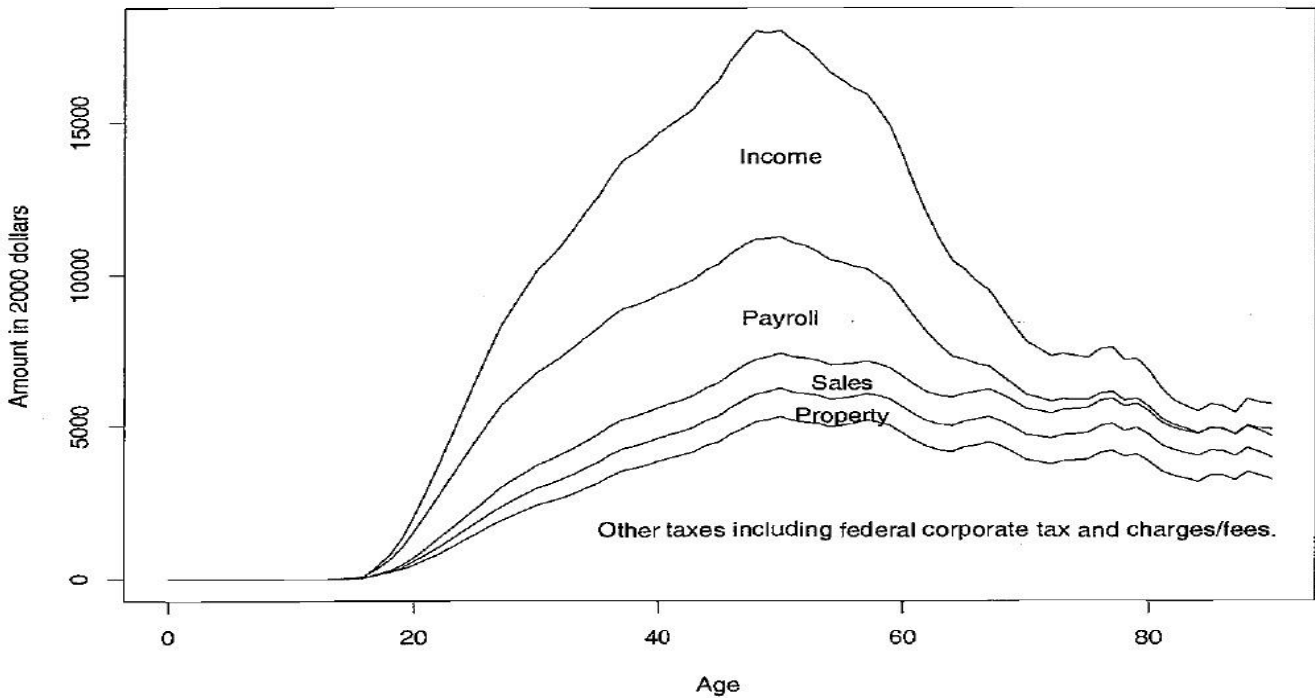


FIGURE 3. Taxes by Program and Age



Source: See Endnote ⁵.

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The Economic and Fiscal Consequences of Demographic Winter

Economically, for Maine's businesses, Demographic Winter is akin to a slow-moving economic depression by moving population growth to population decline. With a growing population, businesses can plan on new customers simply because there are more people. However, with a shrinking population, businesses not only lose the prospects of new customers, they must also face losing existing customers. If businesses are unable to find new markets, they will be faced with ongoing declines in revenue—or, put simply, an economic depression.

Demographic Winter will also have a negative fiscal impact on federal, state, and local governments. First, people over the age of 65 impose significantly more costs to government than younger age cohorts. Figure 1 shows that a typical person over the age of 65 costs government nearly three times as much for a person under the age of 18—even with educational costs factored in. While these costs predominantly fall on the federal government (Social Security and Medicare), Maine's state government should be prepared for a significant spike in Medicaid costs for those over the age of 65, especially driven by the cost of nursing homes.

Second, while expenses soar for those over the age of 65, the taxes paid by this age cohort drops by two-thirds as shown in Figure 3. The primary culprits for this drop are the payroll and income tax, which naturally decline as people retire from the labor force. As such, the primary fiscal concern for Maine's policymakers moving forward is the eroding income tax base as the state continues to age.

Fighting Maine's Demographic Winter

There are many reasons, both economic and social, why Maine's birth rate has declined so precipitously to the point where natural population change may be declining in the near future. As such, it is unlikely that a rapid turnaround in the birth rate will occur in time to prevent this decline.

For the immediate future, policymakers should instead focus on reviving the flow of in-migrants, especially of young people and families. This will only occur if Maine is creating enough good-paying jobs to draw them to Maine. What is the best way to create these jobs? The answer lies in Figure 3.

An aging workforce, if left unchecked, will mean ever-declining tax receipts from Maine's income tax. Rather than wait for the inevitable, policymakers should proactively phase out the income tax. This would not only help Maine's small businesses that mostly file through the individual income tax code (sole-proprietorships, partnerships, LLCs, and S-corporations), but would also help young families by lowering their tax bills and put more money in their pockets for diapers, clothes, and education.

A quick glance over the border to New Hampshire, which does not have an income tax, shows the promise of such a plan. To be sure, New Hampshire is facing the same demographic challenges, though not as severe as in Maine, thanks in large part to a stronger level of in-migration. Over the last two decades, New Hampshire has seen an influx of 69,487 people versus Maine's 23,948. Many of those new people were young families since New Hampshire net natural population growth in 2011 was 3,017 versus Maine's 180.

Of course, encouraging strong in-migration will not solve Maine's Demographic Winter problem by itself. But, as illustrated by New Hampshire, in-migration can buy some much-needed time to find longer-term solutions. Eliminating Maine's income tax is an important first step in that process. To do nothing condemns the majority of Maine to living under a never-ending economic depression.

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Notes and Sources

¹ For more information on Demographic Winter, see this excellent film by the same name:

<http://www.youtube.com/watch?v=jxUD8E-gbyI>

² Gardner, Todd, K. and Goworowska, Justyna, "Historical Migration of the Young, Single, and College-Educated: 1965 to 2000," U.S. Census Bureau, Population Division, Working Paper No. 94, April 2012.

http://www.census.gov/population/www/cen2000/migration/files/Pop_Working%20Paper_94.pdf

³ Mills, Glen, "Maine Workforce Conditions Through June 2012," Presented before the Maine Consensus Economic Forecasting Commission, July, 26, 2012. <http://www.maine.gov/labor/cwri/publications/ppt/CEFC.pps>

⁴ Based on Maine population data from the U.S. Department of Commerce: Bureau of Economic Analysis.

⁵ Edwards, Ryan and Lee, Ronald, "The Fiscal Impact of Aging in the U.S.: Assessing the Uncertainties," November, 2002.

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Path to Prosperity is a series of publications by The Maine Heritage Policy Center which focus on Maine's overspending and the resulting tax burden that threaten long-term, stable and sustainable prosperity. All information is from sources considered reliable, but may be subject to inaccuracies, omissions, and modifications.

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