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OUR VIEW

Deficit endangers recovery

Economist Chuck Lawton delivered a chilling message Monday to a group gathered to hear how the federal budget affects the state.

Because of changes in the structure of the economy, Maine's fiscal health is particularly vulnerable to increases in the interest rate.

And, as Federal Reserve Chairman Alan Greenspan said last week, we should all expect interest rates to go up, and maybe go up sharply.

Lawton began his analysis by looking back to state employment numbers in 1990. Manufacturing jobs have been in steady decline except for small upticks in the mid- and late-1990s. Since 2000, manufacturing jobs have suffered a much sharper decline.

Construction jobs, however, dropped like a cartoon anvil between 1990 and 1993. Since then, however, construction jobs have slowly returned. After 14 years, they have almost reached 1990 levels.

Meanwhile, overall employment in the state has increased somewhat, leveling off in 2000 and remaining steady through 2003.

Lawton, who is the former director of the economic development division of the Maine State Planning Office, was speaking at a budget discussion in Portland sponsored by U.S. Rep. Tom Allen, which also included presentations by Robert Bixby, executive director of the Concord Coalition, and U.S. Rep. John Spratt, the ranking member on the House Budget Committee.

The general theme of the event was a critique of current budget priorities being advanced by President Bush and the large budget deficits they are projected to produce.

Maine's economy has become dependent on easy money and easy credit, which drives construction and consumer spending. Low rates on mortgage refinancing, new car purchases and other consumer goods have kept the motor running through the most recent recession, which Lawton categorized as a correction of corporate over-investment, Enron-esque scandals and recovery from Sept. 11.

Looking back to 1990, however, the damage of that recession was worsened by rising interest rates, which killed construction jobs.

Large government deficits apply upward pressure on interest rates. If the federal government doesn't do a better job of balancing its books, Lawton suggested, we could find ourselves back in 1990.

If you work in construction, carry credit card debt or depend on consumer spending for your livelihood, the federal deficit should matter to you. Next year, it's projected to top $450 billion.

Interest rates on credit cards have already started to creep up, and the Federal Reserve is expected to raise rates at its meeting later this month.

The national economy has started to improve, but Maine remains vulnerable. So far, low interest rates have been able to spare the state the worst of the pain. That could change.

Congress will continue to work on a budget resolution, probably this week. A budget resolution sets the broad outline for how Congress will write the budget. While it's not the final word on spending, it helps set the ground rules.

Right now, Sens. Olympia Snowe and Susan Collins have joined with two other Republicans and Senate Democrats to demand that any new spending or tax cuts be offset with new revenue or other spending reductions. Called "pay-go," the rule is an attempt to return some fiscal discipline to Washington.

As participants in the Monday forum kept repeating, deficits matter. If federal lawmakers don't work seriously to bring them under control, Maine's economy could find itself in an interest rate recession, shedding jobs at the same time that the cost of personal debt soars.

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