MAINE JOBS COUNCIL

April 23, 2025

Combined Testimony on the Paid Family and Medical Leave Benefits Program Legislation

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Senator Tipping, Representative Roeder, and Distinguished Members of the Joint Standing Committee on Labor:

My name is Alexander Price, and I am here to provide testimony on the legislation related to Maine's Paid Family and Medical Leave (PFML) Benefits Program on behalf of the Maine Jobs Council, which is a statewide, nonpartisan, member-driven advocacy organization that advances public policies to support the creation and preservation of foundational jobs in Maine. While paid family and medical leave is an admirable goal, it adversely impacts workplace productivity at a time when Maine employers are already struggling to compete. As such, we are in support of legislation that would make the program voluntary, such as LD 1273; legislation that would delay the payment of benefits, such as LD 1249; or legislation that would enact practical reforms to the program to help ease the difficulties facing Maine's struggling employers, such as LD 1307, LD 1333, and LD 1712.

Maine's Employers Are Already Struggling

A recent assessment of the competitiveness of Maine's statewide economy by the Porter Development Initiative (PDI) found that Maine's economy is not growing at rates comparable to most other states in the nation. PDI's research revealed that we are among the least productive states in the nation; we create fewer jobs, attract less investment, and start fewer businesses; our wages are low and contrast with higher costs; and we lack many of the hallmarks of a competitive location for talent, jobs, and investment.

In addition, Maine's economic and demographic rankings are consistently in the bottom ten in the nation. We are 43rd in the nation in overall economic ranking and 41st in the nation for venture capital investment. We have the highest percentage of population over 65 and the second lowest percentage of population under 18. We also have the 4th highest overall tax burden, the 4th highest average residential electricity prices, the 9th highest health care costs, and the 13th highest cost of living. As a result, Maine businesses are increasingly being sold out of state, which often results in the loss of executive positions, salaries, and taxes; career paths for young people; ancillary legal, accounting, and insurance services; spin-off income for airports, hotels, and restaurants from vendors who visit the new headquarters; and reduced connection to Maine communities, charities, and social services.

The reason to highlight this data is to show that Maine employers are already facing considerable headwinds with high taxes, energy, and health care costs, an aging population, and young people leaving for greener pastures, and that we are not competitive at attracting talent, jobs, and investment. Yet, with little or no consideration to these challenges or our competitive situation, this law adds requirements annually, with no overall plan to change our economic trajectory. Not only does this law directly and adversely impact businesses with higher costs and lower productivity, but it also adds costs for implementation and enforcement. Record keeping, reporting, and funding all add costs. Complexity adds costs, and enforcement adds costs. All of this negatively impacts Maine's competitive standing.

Paid Family and Medical Leave Negatively Impacts Maine's Competitive Standing

Given our high taxes, energy, and health care costs, aging workforce, and lack of young talent, it is critical that Maine be as productive and efficient as possible. However, the most effective way to reduce productivity is to pay people not to work, which is exactly what paid family and medical leave does. While paid family and medical leave addresses some legitimate needs, it does so at the expense of talent attraction, jobs, and investment, particularly when combined with all of Maine's other costs and challenges.

Specifically, paid family and medical leave makes Maine poorer in at least three significant ways:

- By paying people not to work, their production is lost.
- By eliminating top line revenue from the lost production without reducing fixed costs, businesses are less profitable, less able to service loans, less able to expand production, less able to grow, and more likely to cut costs particularly with respect to employees.
- Because they are less productive, the intrinsic value of all businesses is reduced.

Most importantly, the current PFML program is simply not good for employees:

- An employee making $50,000 will be taxed an additional $250, which could be their "last" $250 after all expenses are paid and essentials are covered. This is likely to be a significant percentage of the money that they can spend as they wish.
- Employees who do not take leave will be asked to do more and will be increasingly stressed.
- Employees at companies with 16 or 17 employees might be at risk of termination.
- Companies with less access to capital might not be able to upgrade or improve their equipment or work environments.
- More Maine companies may go out of business, shrink in size, or get sold out of state, all with negative impacts on employees.
- Workers will have less money for discretionary spending.
- Workers at the margins may be forced into painful financial choices.
- The resulting business contraction may lead to terminations.
- The program will increase the cost of labor and prices generally as supply is reduced. Price increases may disproportionately squeeze the finances of working people with lower incomes.
- With less production, Maine will be poorer and that will mean less for everyone.
- The loss of revenue covering fixed expenses will increase pressure on employers to cut wages and benefits and/or reduce or eliminate raises or benefit improvements.
- The program is effectively a wealth transfer from working people who do not claim family leave to those who do. There is a cost with no offsetting benefit to workers who do not claim leave.

Again, paid family and medical leave is an admirable goal. However, it has to be viewed in context. Since Maine is already uncompetitive, making it more of an outlier with an extraordinary paid family and medical leave benefit only works if there are other adjustments to provide employers and employees with relief from other factors that make us uncompetitive. As with every other piece of legislation that comes before this committee, paid family and medical leave should not be viewed in isolation, but should be part of a comprehensive plan that addresses employee issues while also improving Maine's ability to attract talent, jobs, and investment.

Maine Needs a Strategic Plan

Adding costly laws and regulations annually is not the solution to solving our state's economic problems. Policies that help employees are a good idea, but they must be viewed within the context of Maine's competitive position and its ability to attract talent, jobs, and investment. For years, Maine has been enacting legislation and public policies looking at each situation in isolation without any overall plan, any information on the bigger picture, any research into implications and long-range effect, or any overall goal or objective. Over time, these actions have piled one on another with unknown and unexamined cumulative effects. What we do know, though, is that Maine ranks in the bottom ten of many economic and demographic indicators more often than any other state – by a wide margin – and that dozens of quality Maine businesses have been sold to out of state owners in recent years.

Maine businesses need relief from the array of uncompetitive factors they face and an end to piling cost upon cost without consideration of the bigger picture. Maine needs an economic strategy that focuses on creating a more competitive and distinctive position for Maine's businesses competing in the global market, building on current assets and strengths. This starts with an assessment of Maine's competitive position in those areas critical for business success and job creation: talent attraction, education and training, investment, the regulatory environment, infrastructure, and costs including taxes, energy, health care, and fees. The current under-performance of Maine's economy derives directly from being uncompetitive across this range of key factors for success. Turning that around requires a comprehensive, integrated, and strategic plan that focuses legislation, regulation, and public policy on talent attraction, investment, and job creation.

In conclusion, the Maine Jobs Council would encourage this committee to seriously consider the bills before you today that makes the program voluntary, delays the payment of benefits, or enacts practical reforms to ease the difficulties facing Maine's struggling employers.

The MJC thanks the committee for its time and consideration of this issue, and we would welcome any opportunity to discuss it with you.

Thank you,

Alexander Price, Pierce Atwood
On behalf of the Maine Jobs Council

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Maine Competitiveness Assessment

In the fall of 2024, the Maine Jobs Council retained the Porter Development Initiative (PDI) to conduct an assessment of the competitiveness of Maine's statewide economy. Although other economic studies and plans have been published in Maine in recent years, they have not analyzed Maine's competitive position vis-à-vis other states for job creation, investment, and talent attraction—three foundational elements essential for economic development and long-term prosperity. If Maine is not a competitive and productive place for businesses, workers, and families, its economic plans and efforts will falter.

With roots in the Harvard Business School Institute for Strategy and Competitiveness founded by Professor Michael E. Porter, PDI brought to this engagement proprietary models for understanding the central role of competitiveness among locations and applied them to Maine's statewide economy. These include the "Diamond Model" for measuring the quality of the business environment, an analysis to identify existing and emerging cluster strengths, and recommendations for the role that clusters can play in enhancing regional economic development.

According to PDI, core concepts of competitiveness include:

1. The private sector creates jobs and wealth, not governments.
2. Understanding the way the elements in the business environment fit together and interact is critical for improving productivity.
3. Locations compete to offer the most productive environment for business. Governments and private-public partnerships have important roles to play in improving the business environment.

Applying these concepts, PDI observes that the prosperity of a region can be decomposed to two elements: (1) the long-run productivity of a location as a place for firms and their workers to do business and (2) the high participation of citizens in the workforce. Nations and regions compete to offer a more productive environment for businesses.

Ultimately, a state is competitive to the extent that firms operating there are able to compete successfully in the national and global economy while maintaining and improving wages and living standards for the average citizen.

Successful economic development also requires improving the environment for business to include social conditions such as education, health, and others.

How Competitive is Maine?

Key measures of competitiveness indicate that Maine is not attracting new employment at the same rates as other areas of the U.S. and that existing firms in Maine are not achieving the high levels of productivity that would support increasing wage levels for employees.

1. **Maine is among the least productive states in the nation, despite high levels of labor force participation among working-age Mainers.**

   Productivity measures how much economic output is produced on a per resident or worker basis. It is determinative of how much wealth private businesses and workers are able to generate from their skills, investment, innovation and operations. At $53,876 of Gross Domestic Product per capita in 2023, Maine ranks #41 among U.S. states, where the average is $67,692. When measuring GDP per worker, Maine's ranking falls to #46. Between 2010 and 2023, Maine's rate of growth for GDP per capita has been 1.4% compared to a national growth rate of 1.7%.

   Maine's rate of labor force participation is anomalous in that labor participation equals or exceeds national averages when measured at every age bracket and is above the national average among residents aged 16-64. However, in the headline number typically reported for ages 16+, Maine's labor force participation rate is less than 60% and ranks #39, due to the fact that the state has the highest proportion of residents over 65 in the nation. In the context of economic development strategy, it is the age-specific numbers that are more relevant; Maine achieves high participation from available workers and in addition has a low unemployment rate among those participating in the labor force. Low productivity in existing activities rather than labor force participation is the primary challenge.

2. **Maine creates fewer jobs, attracts less investment and starts fewer businesses than most other states.**

   Investment, business starts, and job creation are indicators that firms believe that a location offers competitive advantages to success, which can apply to both existing and new companies. For the period between 2010 and 2023, Maine ranks #37 for private job creation (0.94% in Maine versus 1.64% in the U.S.). During approximately this same period, Maine ranked #44 for employment growth driven by foreign direct investment. Maine ranks #50 for new business formation per capita in 2023 (ahead of only West Virginia).

3. **Worker wages are low and contrast with higher cost burdens.**

   Lagging productivity and low economic activity depress wage rates and incomes in Maine. Wage rates are closely tied to the degree to which workers can be productively deployed. Although wages have grown more rapidly in Maine than the U.S. average since 2010, the state still ranks #34 for average wages for private employees ($60,497 in 2023 versus $72,608 in the U.S.). Even in typically higher-wage "traded cluster" jobs, Maine wage levels are more than 20% below the U.S. benchmark – unfortunately an even stronger measure of lower competitiveness as these are the jobs directly competing with other locations nationally and globally. At the same time, Maine has the 9th highest state and local tax burden as a share of state income and it is losing its historic cost of living advantages.

4. **Maine lacks many of the hallmarks of a competitive location for business.**

Competitiveness can be determined by the quality of a location's business environment, the presence and growth of strong industry clusters, and the sophistication of company operations and strategy.

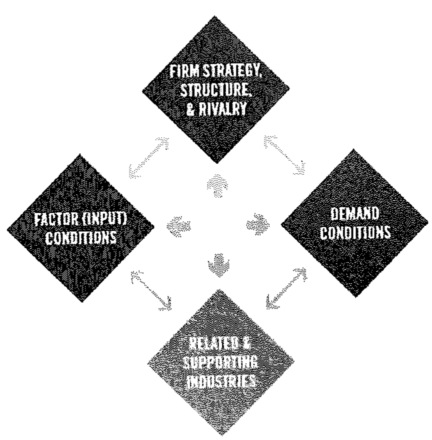
Maine's low rate of new business formation, low R&D and innovation intensity, rising cost of living and slow growth in jobs related to foreign direct investment all signal weaknesses in the business environment. Maine currently ranks #44 in patenting intensity and #46 for university research and development spending. High industrial electricity costs, state and local tax burdens also pose challenges.

Positive hallmarks include high rate of labor participation (among working-age Mainers), educational attainment comparable to national averages, a recent trend of positive in-migration (except for a decline of 4,361 among those aged 20-24), high quality of life and abundant natural resources.

PDI applied its Diamond Model for the Business Environment to assess Maine's business environment.

Quality of the Business Environment: The Porter Diamond Model

Many things matter for competitiveness. Successful economic development is a process of **successive upgrading,** in which the business environment improves to enable increasingly sophisticated ways of competing. This environment is embodied in four broad areas as captured in the Diamond Model.



- **Firm Strategy, Structure & Rivalry:** The conditions governing how companies are created, organized, and managed, as well as the nature of domestic rivalry.
- **Factor (Input) Conditions:** The location's position in factors of production, such as skilled labor or infrastructure, necessary to compete in a given industry.
- **Demand Conditions:** The nature of home-market demand for the industry's product or service.
- **Related & Supporting Industries:** The presence or absence of supplier industries and other related industries that are internationally competitive.

- **Firm Structure & Rivalry:** Maine has few large national or international firms. There is a low rate of new business formation and slow growth in foreign direct investment.

- **Factor (Input) Conditions:** Maine has abundant natural resources and high quality of life attractive to workers, visitors and retirees, but there is a skills mismatch with employer needs. There is low innovation and R&D intensity, limited access to capital, and rising costs of living relative to incomes.
- **Demand Conditions:** Within Maine there exists low wages and low population density. However, there are high personal consumption expenditures driven by tourists and retirees and a healthy demand for culture, education, and environmentally sustainable services.
- **Related & Supporting Industries:** Maine has shallow clusters, low concentration of employment in strong traded clusters, and is limited in local suppliers and supporting industries. There is low availability of specialized research and training. Maine's historical clusters are undergoing long-term transition.

5. **Maine's lack of strong cluster-based employment poses a challenge.**

Clusters are geographic concentrations of firms, suppliers, and related institutions in particular fields and are observed as drivers of competitiveness and prosperity in all advanced economies. National examples include the technology industry in California, life sciences in Massachusetts, and aerospace in Washington State. In Maine, wood products historically acted as both regional and statewide clusters because of the linkages among timber harvesting, sawmills, lumber yards, papermaking and all of the related supply, maintenance and service businesses that specialized in serving these operations (transportation, equipment sales and maintenance, finance, accounting, legal, etc.).

Clusters can enhance productivity, efficiency and regional performance, enable innovation and commercialization, and lead to new business formation. When a location has strong, active clusters, economic policy can have greater impact because it strengthens multiple firms simultaneously, promotes research, exports and investment, enhances collaboration and raises the sophistication of competition. The PDI methodology distinguishes industries that serve the local market in Maine versus "traded" clusters where goods and services are sold elsewhere or attract tourists and bring new wealth into a location. Traded clusters serve national and global markets and while exposed to an even higher degree of competition, they have the potential to grow well beyond the constraints of the local market and drive growth in the overall state economy.

Maine has a significantly lower proportion of employment in traded clusters: 29.1% versus 34.4% in the U.S. aggregate. Among "strong" traded clusters, Maine's proportion of employment is just 5.5% compared to 14.3% across all regions in the U.S. The low proportion of cluster-based employment has been exacerbated by losses in traditional clusters such as paper and packaging, forestry, and printing services. Maine's job creation in both local and traded clusters lagged national cluster benchmark rates. Maine created 54,000 fewer local cluster jobs and 3,000 fewer traded cluster jobs than national cluster benchmark rates between 2010 and 2023.

In both local and traded clusters, Maine wages are below national benchmarks. In local clusters, average Maine wages are $52,486 annually compared to $56,661 nationally. In traded clusters, average Maine wages $78,300 annually compared to $101,654 nationally.

Since 2010 Maine has experienced employment growth well above benchmark rates in many traded clusters including Insurance Services, Agriculture, Communications Equipment and Services, Wood Products, Water Transportation, Information Technology and Analytical Instruments, Food Processing and Manufacturing, Construction, Financial Services, and Biopharmaceuticals. Forestry, Hospitality and Tourism, and Business Services remain large employers. Awareness and policy focus around cluster strengths in the state present an opportunity for leveraged competitiveness improvements and economic growth.

6. **Maine needs an economic strategy that focuses on creating a more competitive and distinctive position for Maine's businesses competing in the global market, building on current assets and strengths.**

PDI reviewed the State of Maine's current economic strategy and observed a very broad set of cross-cutting action steps defined across seven strategies: grow talent; attract new talent; promote innovation; ubiquitous connectivity; provide supporting infrastructure (childcare, public transport, housing); maintain stable business environment (streamline government processes, control energy and healthcare costs); and promote hubs of excellence. These are all valid and directionally correct steps. The challenge is that while there are many potential levers to pull in economic development, good strategy is about setting priorities, coordinating and sequencing initiatives.

And, particularly given the structural transformations underway in both the national and Maine's economies, an effective economic development strategy must build on Maine's current assets and strengths, but it also must create the conditions for Maine to compete successfully in national and global markets. This starts with an assessment of Maine's competitive position in those areas critical for business success and job creation: talent attraction, education and training, investment, the regulatory environment, infrastructure, and costs including taxes, energy, health care, and fees. The current under-performance of Maine's economy derives directly from being uncompetitive across this range of key factors for success. Turning that around requires a comprehensive, integrated, and strategic plan that focuses legislation, regulation, and public policy on talent attraction, investment, and job creation.