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Tax Cuts Are Not to Blame for Maryland's Budget Woes

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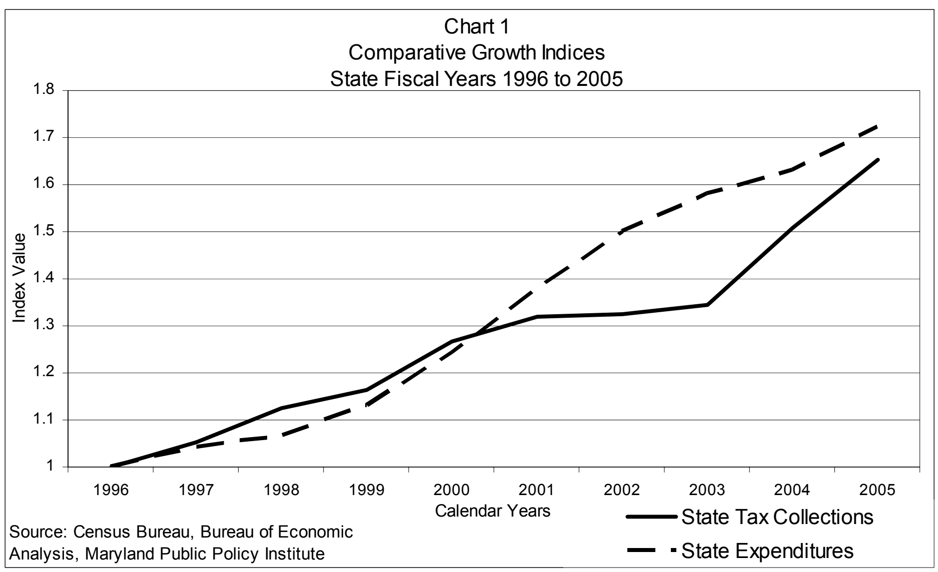
According to Maryland Gov. Martin O'Malley, much of the blame for the state's current $1.7 billion budget deficit belongs to tax cuts that were enacted by the legislature and former governor Parris Glendening over a decade ago. But a careful look at Maryland tax revenues and spending patterns in the years following those tax cuts reveals a very different picture. Chart 1 and Table 1 illustrate the growth differentials between state tax collections and state expenditures for fiscal years (FY) 1996 to 2005 (the latest year of data available from the U.S. Census Bureau).[1]



Between FY 1996 and FY 2000, state tax collections grew at a rate faster than state expenditures. That is not surprising given the booming stock market at the time. After the so-called "dot.com" stock market collapse, the terrorist attacks of September 11, 2001 and the subsequent national recession, the growth in state tax collections slowed dramatically but, despite the economic challenges, grew 1.8 percent between FY 2001 and FY 2003. In comparison, state spending roared ahead by a staggering 14.5 percent between FY 2001 and FY 2003, rising from $21.5 billion to $24.6 billion.

In recent years, the economy and Maryland tax revenues have recovered. Tax revenues grew by an astounding 22.9 percent between FY 2003 and FY 2005 while state expenditures grew by a much slower—but still healthy—11.8 percent.

1. The comparative growth indices shown in Chart 1 and Table 1 were created by setting the base year (1996) equal to one and then multiplying each successive year by the growth rate. This makes it easier to visualize the relative growth differentials without worrying about the differences in starting values.

Table 1 Comparative Growth Measures State Fiscal Years 1996 to 2005						
State Fiscal Year	Nominal Amount			Indices		
	State Tax Collections	State Expenditures	Personal Income	State Tax Collections	State Expenditures	Personal Income
1996	$8,166,692,000	$15,554,009,000	$136,924,673,500	1.00	1.00	1.00
1997	$8,604,406,000	$16,199,545,000	$143,938,793,500	1.05	1.04	1.05
1998	$9,190,482,000	$16,578,483,000	$152,813,150,000	1.13	1.07	1.12
1999	$9,501,164,000	$17,593,437,000	$162,429,234,500	1.16	1.13	1.19
2000	$10,354,447,000	$19,370,058,000	$174,515,949,000	1.27	1.25	1.27
2001	$10,785,695,000	$21,474,574,000	$186,806,952,000	1.32	1.38	1.36
2002	$10,821,276,000	$23,317,261,000	$195,240,149,500	1.33	1.50	1.43
2003	$10,980,324,000	$24,592,128,000	$202,280,336,500	1.34	1.58	1.48
2004	$12,314,799,000	$25,343,680,000	$212,837,389,000	1.51	1.63	1.55
2005	$13,497,281,000	$26,803,282,000	$226,197,404,500	1.65	1.72	1.65

Thus, it is difficult to blame Maryland's current budget woes on a decade-old tax cut. The blame belongs to state lawmakers' decision to ramp up spending earlier this decade—specifically, by approving the massive Thornton educational funding package—without identifying a revenue source for the new spending. To Governor O'Malley's credit, he has noted the role that Thornton is playing in the state's budget woes.

Unlike a typical Maryland household that has to prioritize its spending in order to stay within its means, Annapolis leaders seem to believe they have little need to constrain their spending. They argue that taxes need to be raised so that they can "invest in Maryland," ignoring the fact that higher taxes cut into Marylanders' own ability to invest in themselves, their families and their community.

Instead of reducing Marylanders' ability to invest in themselves, Annapolis lawmakers should focus attention on restraining state spending. With another national recession looming due to a lackluster housing market, the current rate of state spending is clearly unsustainable and irresponsible.

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