

UB's Clinch: Maryland shouldn't increase taxes to stay afloat

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Maryland, kept largely out of the deepest depths of the nationwide economic recession, shouldn't turn to tax increases to stay afloat in a harsh new economy, a leading local economist said.

Richard Clinch, director of economic development for The Jacob France Institute at the University of Baltimore, said the state is trying to tax its way out of a problem created when it did not reduce expenses enough as the economy soured.

"Maryland was not as impacted by the recession as the rest of the nation. As a consequence, we haven't looked at controlling our spending as much as other states have been forced to do," Clinch said. "We, as a state, have decided to tax our way out a problem."

The state has the second-highest income tax rate in the country as a percentage of personal income, according to fiscal analysts. Maryland's rate is 3.9 percent, compared to a national average of 2.3 percent.



Richard Clinch is director of economic development for The Jacob France Institute at the University of Baltimore.

Virginia, often hailed by Maryland Republican lawmakers as a business haven for companies seeking to escape higher taxation across the Potomac River, has a personal income tax rate of 2.7 percent. Maryland ranks 42nd in the Washington, D.C.-based Tax Foundation's State Business Tax Climate Index, while Virginia is 26th.

"Taxes are clearly something that Maryland, when you compare us to our neighboring jurisdictions, it puts us at a disadvantage," Clinch said. "Clearly, moving from Montgomery County across the Potomac saves you a lot."

Sen. E.J. Pipkin, R-Upper Shore, the Republican leader in the Senate, has taken to calling Gov. Martin O'Malley "the \$2 billion governor," a reference to the annual impact of tax and fee increases enacted since O'Malley took office in 2007. Business advocacy groups railed against tax increases enacted by the General Assembly this year, claiming that small business owners are suffering with each increase.

An April jobs report that revealed the state lost 6,000 jobs — and revised March's 1,500-job gain down to a 600-job loss — did not help to change that narrative or tone down the rhetoric of those groups, even though O'Malley says the state has regained 74 percent of jobs lost during the recession, well above the national average of 42 percent.

Larry Hogan, a former member of Republican Gov. Robert L. Ehrlich Jr.'s cabinet and chairman of Change Maryland, a group that advocates for responsible government fiscal policy, said O'Malley was choking the job market with spending and tax increases.

"Clearly we are falling further and further behind," Hogan said. "If we are to measure Gov. O'Malley's performance by his own standards — jobs, jobs, jobs — then he has failed.

"Gov. Martin O'Malley was not elected saying 'I'd like to drastically increase state spending and raise taxes on struggling Marylanders. He ran on a false claim of fiscal responsibility, and voters had the wool pulled over their eyes."

O'Malley said tax increases this year were necessary to protect the state's desired funding for education, public safety and some programs and services. But Clinch, the economist, did not care for that argument.

When lawmakers crafted a cuts-only "doomsday" budget during the regular legislature session, it was tailored to take that money from the most politically undesirable areas, he said.

"The 'doomsday' budget shifted the burden to things you don't want to shift it to," said Clinch, singling out education. But by increasing overall spending from \$34.7 billion in fiscal 2012 to \$35.5 billion in fiscal 2013 — and not eliminating Maryland's structural deficit, which still stands at \$500 million after being cut in half — Clinch said the state is failing to address a fiscally irresponsible spending pattern.

"Our government was growing rapidly, and we couldn't pay for it even in the good times," Clinch said. "We've tried to avoid the pain."