

in fiscal 1960 approximately \$27 million more than was spent last year. We have strengthened and improved our programs of health, education, public welfare, correction, police, etc.

I do not contend that the tax structure we have built is faultless, but I do think that, by and large, it is a sound one. As is the case with some other states, sales and income taxes are our main sources of revenue. They represent in Maryland roughly 75 per cent of our general fund revenue.

We believe we have achieved a good balance between taxes on business and taxes on individuals. Likewise, we have attempted to attain an equilibrium of taxes on high incomes and taxes on low incomes. To use the professional jargon, our system, strictly speaking, could be defined as neither regressive, progressive nor proportional.

Our three-per-cent sales tax is, of course, what has come to be known as a regressive tax—that is, that it places the greater burden on the low income brackets—but its regressive aspects are reduced by exempting food and medicine and all sales up to 50 cents.

Our progressive tax—placing the burden on the higher incomes—is the income tax, but the progressive aspects of this levy are reduced by the adoption of a flat three-per-cent rate on ordinary income and five per cent on investment income.

Proportional taxes, in which the burden is placed upon both groups in direct proportion to their earnings, are rare, but theoretically at least it is possible to attain a truly proportional tax structure by balancing the regressive and the progressive taxes. By balancing the income and business taxes with the sales tax and a variety of other consumer taxes—for example, liquor, excise and cigarette taxes—Maryland has been able to approximate a truly proportional system.

Shortly after World War II, Maryland was forced to broaden its tax base, by the adoption in 1947 of a sales tax of two per cent. The income tax law was enacted ten years before. In common with other sections of the country, we coasted along for years on a wave of economic expansion in which a continuing rise in personal and business incomes and in consumer buying produced, through our taxes on sales and incomes, enough revenue to meet our governmental needs, including the ever-growing demand for increased and improved services.

But finally, two years ago, these demands overtook revenue yields, and we discovered that our taxes, at the rates we had established, no longer were sufficient to support State services at standards and levels