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The Abell Report

What we think about, and what we'd like you to think about

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Will Reducing State Income Taxes Stimulate Economic Development? Myths and Realities

ABELL SALUTES: Educational Opportunity Program at Lake Clifton High School: "soft hearts and hard data" are making a difference . . .

In the realm of urban public education, what works is hard to find. The problem lies partly in definition; what do we mean by "working"? Skeptics insist on seeing hard data before making the judgement that an intervention is indeed working.

These skeptics will like what they see when they examine the data that makes the case for the "Educational Opportunity Program" (EOP) operating in Baltimore City's Lake Clifton-Eastern Senior High School. From 1986 through 1994, to take only one set of data, of 177 students enrolled in the program, 111 *not only stayed in school through graduation but were accepted into college*—this in a school where 70 percent of the students are entitled to free lunch; where historically less than 30 percent of its students graduate; and where the per capita income of the families is less than $15,000 a year. That is "working" by the strictest of definitions.

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Johns Hopkins research scientists argue: Maryland's personal income taxes are not out of line; Maryland is not a "high tax state;" a reduction in the state's personal income tax will not stimulate economic development.

by **Michael Bell**, *Principal Research Scientist, Johns Hopkins Institute For Policy Studies and* **Murray Johnston**, *Research Assistant*

In this paper, two Johns Hopkins research scientists examine the arguments advanced by those advocating that the state's personal income tax needs to be lowered significantly so as to stimulate economic development. The paper has been commissioned by The Abell Foundation as a contribution to the discussion looking to arrive at the appropriate state tax policy.

Maryland's economy is not healthy. It has been undergoing major restructuring and downsizing for the last 10 years, and prospects for the immediate future are not bright. Maryland's manufacturing sector continued to decline in the first half of the 1990s — at twice the rate of manufacturing nationally. Cuts in federal employment ripple through the state's economy and federal research facilities in the state are vulnerable to future federal budget cuts. Firm restructuring and downsizing affects the State's traditionally strong industries such as transportation, utilities, finance, business services, and health services. According to Charles McMillion, President of MBG Information Services, there has been no real job growth in Maryland for the past 12 months.[1]

In response to the challenges presented by these trends, Governor Glendening created the Maryland Economic Development Commission to develop a strategy for overcoming the State's anemic economic performance. Their report, ***Strategic Directions for Increasing Maryland's Competitiveness***, documents the State's economic problems and proposes a comprehensive strategy to promote job growth in the state. One element of that strategy, reducing the state personal income tax in Maryland, has received significant attention in the press and the 1997 session of the General Assembly. In short, the report concludes that Maryland's high personal income taxes create a ***red flag*** that is deterring both existing and out-of-state firms from investing in the

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state and state personal income taxes should be lowered by 15 percent by 1999 and another 10 percent after that.

The purpose of this paper is to examine more comprehensively and systematically the arguments advanced by those advocating that Maryland's personal income tax needs to be lowered significantly to stimulate private economic activity and critically important related issues. By examining the facts, we can sort out the myths and preconceived notions from reality and make a more informed policy judgement about how best to promote economic development in the State.

Personal Income Taxes in Maryland Are Not Out Of Line: The View That They Are Is Not Supported By The Facts

The Maryland Economic Development Commission found that "Maryland's personal income taxes are high relative to the benchmark states and create a ***red flag*** that is deterring both existing and out-of-state firms from investing in the State."[2] The report concludes that the personal income tax is a defining tax in Maryland and the legislature needs to reduce the tax by 15 percent by 1999 and another 10 percent after that.[3]

A couple of facts are important to consider before proceeding down this tax cut route too far, too quickly. First, based on information in the October 1996 **State Tax Guide**, published by the Commerce Clearing House, seven states have no state personal income tax[4] and only five states have maximum marginal tax rates for their state personal income taxes that are ***lower*** than Maryland's 5.0 percent.[5] In reality Maryland's state personal income tax rate structure is relatively low, even when compared to the maximum rates for state personal income taxes in our neighboring states — e.g. Virginia, 5.75 percent; North Carolina, 7.75 percent; New Jersey, 6.37 percent; New York, 7.125 percent; and Ohio, 7.0 percent. In addition, all of these states have a more progressive rate structure for their state personal income tax than Maryland. Looking only at this information, **one would conclude that Maryland's state personal income tax structure should be made more progressive and that there is some room to actually raise the top marginal tax rate some.**

Mixing Apples and Oranges

A second concern about the personal income tax in Maryland, however, is that local governments in Maryland depend heavily on the personal income tax for their own-source revenues — ***20 percent compared with 3 percent for local governments nationally***. For example, in Maryland local income taxes represent fully one-third of all income tax collections in the state. This is higher than any of the comparison states. In addition, three of the six comparison states used by the Maryland Economic Development Commission to make the case Maryland's taxes are high, collect virtually no local income taxes — New Jersey, North Carolina, and Virginia.

Similarly, Maryland's local governments rely on the income tax for nearly 21 percent of their own-source revenues. This is more than 50 percent higher than Ohio which relies on local income taxes for 13.3 percent of local own-source revenues. Three states — New Jersey, North Carolina, and Virginia — generate virtually no local revenues from the income tax. Thus, comparing total personal income tax collections in Maryland to only state personal income taxes in Virginia, North Carolina, New Jersey and all the other comparison states is a misleading mixing of apples and oranges which gives a distorted picture of the relative burden of financing state and local governments and leads to inappropriate policy conclusions.

An alternative perspective on this issue can be gained by simply examining the marginal personal income tax rates for various states. Data collected from the October 1996 **State Tax Guide** indicate that Maryland's marginal tax rates for **local** income taxes are relatively high. This information, contained in Appendix B, indicates that of the sixteen states that have some authority for local income taxes, only Kentucky, New York, Ohio and Pennsylvania have maximum local tax rates near Maryland's. Thus, if Maryland is different then other states by having relatively high ***aggregate*** income tax collections, it is because local governments in Maryland rely on the personal income tax for own-source revenues to a greater extent then local governments in any other state. If there is a concern about the aggregate personal income tax burden in Maryland, the issue is not how much to lower the ***state*** personal income tax, but rather whether the ***local*** income tax should continue to be a major source of revenue for local governments in the State.

Wrong Solution, Wrong Problem

In sum, the reality is that Maryland's state personal income tax is ***not*** out of line with other states. In fact, it is relatively low and not very progressive compared to other states. Maryland does have, however, a high local income tax — higher than any other state in the nation. If the policy concern is with the high level of aggregate personal income taxes in the state, the appropriate policy issue is not how to reduce ***state*** personal income taxes even further, but rather whether the ***local*** income tax should continue to play such

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111 S. Calvert Street
Baltimore, Maryland 21202
(410) 547-1300

a critical role in financing local governments in the state. In short, those advocating cuts in the state personal income tax as a means of stimulating business development in the state have the wrong solution to the wrong issue.

Trends in Revenue Raising in Maryland: Maryland IS Different

Since the founding of the United States, principles of free enterprise have guided the establishment of its institutions and its government. This early focus on the "unalienable rights" of the individual to "Life, Liberty and the Pursuit of Happiness" represents the belief that individuals are the best agents of their own welfare. Individuals know their preferences best and pursue their different interests through the market place. As a general rule, we typically prefer to keep more of our income to spend as we see fit and give less to government to spend.

Public Education is High Priority

State and local governments in Maryland have historically provided their residents with a high level of government services. For instance, public education is a high priority in Maryland, and the state has a national reputation for schools and students that are some of the finest in the nation. Similarly, the availability of high quality health care to all citizens in Maryland is another state priority, and Maryland's unique public health system testifies to that widely held value. Finally, Maryland's transportation network is more extensive than neighboring states and is in much better condition than transportation systems nationally.

According to the data in Table 2, in 1993 citizens in Maryland paid approximately $139 per $1,000 of State personal income to support state and local governments — nine percent less than in 1981. This compares with a national average of over $153 per $1,000 personal income. State and local governments in Maryland took nearly 10 percent less personal income than state and local governments nationally. In fact, the size of state and local government in Maryland, relative to personal income, ranked 45th in the nation in 1993 — down from 29th in 1981. In 1993, only Arkansas, New Hampshire, Virginia, Illinois, Tennessee, and Missouri made a smaller effort to fund state and local government services relative to personal income than Maryland. **In short, the financial support for the activities of our state and local governments by the citizens in Maryland is among the lowest in the nation and it is not accurate to characterize Maryland as a high tax state. In fact, one might be more legitimately concerned whether the level and quality of services is adequate to support greater economic growth.**

In addition to the shrinking size of state and local government, the discrepancy between growth rates of the State and local sectors' own-source revenues has significant implications for fiscal policy in Maryland. While the state sector has always been larger than the local sector in Maryland, local governments have had to pick up more of the slack during this downsizing of State government. U.S. Census data in Table 4 show that in Maryland local own-source revenues, as a percentage of State own-source revenues, grew from 72.9 percent in 1981 to 79.9 percent in 1993. Nationally, local revenues raised from own-sources, relative to state own-source revenues, increased modestly during this period, from 77.8 percent in 1981 to 80.3 percent in 1993. While relative stability characterizes the national trend, there is a clear trend in Maryland to shift increasing revenue raising responsibility to local governments. Is this good/desirable public policy given other changes taking place in our federal system? How would an ***ad hoc*** cut in the state personal income tax affect this trend?

In fact, the reality is that Maryland has shifted revenue raising responsibility to local governments at a more rapid rate than most other states. As a result, the local share of total state and local revenues in Maryland ranked 26th in 1981, but increased to 15th in 1993 — only 14 states are more dependent on their local governments for revenue raising than Maryland. While the local share of total state and local own-source revenues increased by nearly 10 percent in Maryland from 1981 to 1993, data in Table 4 indicate that is more than all the comparison states except for Kentucky and North Carolina, both of which have relatively centralized state and local systems to begin with. New Jersey, which was more decentralized than Maryland in 1981, has become more centralized and now is below the national average, in terms of the role of local government in raising revenues. Similarly, Ohio has become more centralized but is still more dependent on local governments for revenue raising than local governments nationally.

Second Serious Concern

At the same time, in Maryland, own-source local revenues increased as a percentage of total local general revenues from 58.0 percent in 1979 to 70.8 percent in 1993. Nationally, the share of local revenues generated from own-sources increased only modestly, from 55 percent in 1979 to 62 percent in 1993. In all years, however, local governments in Maryland were responsible for raising a larger share of their revenues from own-sources than local governments nationally.

The trend to shift funding responsibility for various governmental functions from the state and federal governments to local governments in Maryland leads to a second serious concern: the types of revenue sources available to State government compared to those available for local governments. Local governments in Maryland generate 45 percent of their own-source revenues

from the property tax and an additional 16 percent from user charges — both of which are generally regarded as being stable, albeit regressive revenue sources.[6] Local governments receive about 20 percent of their revenues from the personal income tax. Alternatively, the State receives fully one-third of its own-source revenues from the personal income tax and only 13 percent from property taxes and user charges combined.[7] Thus, the shifting of government financing from State to local governments means that more regressive taxes will pay for government services and lower income households will be asked to bear more of the tax burden.

In sum, the reality is that Maryland reduced its effort to finance state and local governments by 9 percent from 1981 to 1993, and is now among the 5 states with the lowest effort to financially support the activities of their state and local governments. During this downsizing of government, revenue raising responsibility has shifted from the State to local governments in Maryland. Also, local governments have become more dependent on own-source revenues during this period — more than local governments nationally and more than in 1981. This implies that an increasing share of government revenues in Maryland are being raised by more regressive means, thereby shifting the burden of financing government to those least able to pay.

Taxes and Economic Development; Is There A Connection?

State and local tax rates are a salient issue for the Maryland General Assembly. Traditionally, the Maryland business lobby argues that the state projects the image of levying high taxes. The argument asserts that the perception of onerous taxes leads some businesses to locate in places other than Maryland or leads some Maryland businesses to decide against expanding. This debate over the impact of Maryland's state and local taxes, therefore, requires us to ask what is known about the impact of taxes on business activity.

Studies on the effect of taxes on business location decisions in the 1950s, 1960s and the early and middle 1970s generally did not find statistically significant negative tax effects on state and local economic growth.[8] This trend, however, has changed. In 1991, researcher Timothy J. Bartik published the results of his comprehensive review of 84 published and unpublished studies done since 1979 which examine the relationship between economic growth, taxes, and public services.[9] Of the studies that compared business location decisions across different metropolitan areas, 70 percent had at least one statistically significant negative tax effect. Of these inter-metropolitan area studies that sought to keep the level of public services constant for the purposes of comparison, 80 percent had at least one statistically significant negative tax effect; and of these studies that sought to take account for the inherent characteristics of the specific metropolitan communities in question, 92 percent of the studies show at least one statistically significant negative tax effect. For every one percent increase in taxes, business activity decreased by a mean of 0.25 percent, 0.33 percent and 0.44 percent in each set of studies respectively.

It must be emphasized here that **these empirical results typically assume that the level and quality of public services are held constant**. That is, without a change in the level and quality of services, higher taxes may discourage growth in some places for some industries at the margin. If taxes are decreased, and there is a subsequent decrease in the level and quality of public services provided, the net effect could very easily be an overall negative impact on economic growth and development. Thus, those arguing that a reduction in the personal income tax in Maryland will stimulate economic development and growth must guarantee that the level and quality of public services provided by state and local governments will not be diminished — otherwise the empirical evidence does not support their case.

For the business location studies that look at decisions among localities within a single metropolitan area, the negative tax effect is greater, albeit fewer studies found such an effect. Fifty-seven percent of these studies had at least one negative tax effect, and 70 percent of intra-metropolitan studies that took into account the characteristics of the individual localities had at least one negative tax effect. These results suggest that taxes do have a negative impact on business activity when the level and quality of services are held constant, and the tax effects are stronger within a metropolitan area than among different metropolitan areas. Bartik attributes this finding to the theory that businesses choose metropolitan areas based on many market conditions of which taxes are a minor, though significant consideration. Within a metropolitan area, however, relative state and local taxes play a more important role in location decisions. Furthermore, when the unobserved state and local characteristics that effect growth are taken into account, the negative tax effects are more consistent and more pronounced.

Evidence is Mixed

An important characteristic of these studies, and Bartik's analysis, is that manufacturing industries play a prominent role in the analysis, although they are a very small share of the Maryland economy. Thus, **the empirical findings of studies looking only at manufacturing industries cannot be easily applied to non-manufacturing sectors.** Each sector makes its location decisions based on a different set of considerations and the findings for one sector cannot be extended to all other sectors.

In the final analysis, the empirical literature on the link between taxes and

economic performance is mixed. While there are some general themes that emerge from this literature, the findings are not robust enough — across all taxes, locations and industries — to make any blanket recommendations. The major caveat, however, is that the level and quality of publicly provided services must be maintained. Therefore, the Legislature must proceed with caution when making policy in this area.

If, as some argue, taxes reduce growth or inhibit development, then presumably no democratic government would collect taxes unless there were offsetting benefits. Accurate estimates of the possible negative effects of taxes require similar estimates of those possible benefits from the public services financed by the taxes.[10] This is the subject of the next section.

Public Spending and Economic Development; A Matter of Creative Allocation

While the evidence suggests that under some circumstances tax increases may have a negative impact upon economic activity, the purpose to which the tax revenues are applied can be equally as significant in influencing location decisions of both firms and families. Increases in some public services — roads, infrastructure, police and fire service, and education — have a tendency to improve business activity. Thus, if the revenues from a tax increase are directed toward public services that industry desires, then businesses are more likely to choose to locate in that jurisdiction. Alternatively, if taxes are cut, and, as a result so are public services that businesses want, some firms may shun the low-tax jurisdiction with declining services. For example, researcher L. Jay Helms finds that tax increases that do not go into business-related public services "significantly retard economic growth," but if the revenues are used to fund improved public services such as education, highways, public health and safety, then the favorable impact of these services may more than counterbalance the adverse impacts of the tax increases.[11]

Bartik's 1991 analysis of the economic impact of taxes also surveys 30 studies of the effect of public services on business location decisions. Of these inter-metropolitan studies, 60 percent find at least one type of public service having a positive and statistically significant impact on business location decisions. In particular, infrastructure and education "have the most consistently positive relationship to local business activity."[12] On the other hand, Bartik also observes that 7 of 12 studies that looked at the economic impact of increased welfare spending have at least one negative and statistically significant impact. Thus, there is some empirical evidence that suggests public spending does promote economic development, but how that spending is allocated can indicate the direction of the net impact of the tax increase necessary to pay for it.

Primary and Secondary Education: The Known Positive Impacts On Economic Development

While many of the previously mentioned articles indicate that increased spending on primary and secondary education has positive impacts upon the business location or manufacturing output, the relationship between educational spending and educational outcomes is complicated. Higher education expenditures, in and of themselves, do not necessarily result in better educational outcomes. The landmark 1966 report *Equality of Educational Opportunity* — also known as the Coleman report — and a more recent article "The Economics of Schooling: Production and Efficiency in the Public Schools"[13] both found little relationship between educational inputs (i.e. class size, length of school day, teacher experience, teacher pay) and educational outcome as measured by scores on standardized tests. Further analysis of the data evaluated in the second study, however, consistently concludes that class size and teacher experience and skill do effect student performance.[14] More educational funding can permit higher salaries that attract and retain more and better teachers. The implication of this research is that additional educational funding which has the effect of (1) reducing class size through the hiring of more teachers and of (2) increasing teacher pay that attracts the more skilled and retains experienced teachers will lead to better academic performances by the students.

The issue of equality of educational opportunity also draws attention to education funding levels. State court rulings on state constitutions across the nation have required states to provide equal educational opportunities to all its students. This has led to efforts to make sure that all students have similar opportunities through schools that have access to adequate resources. The measure of the equality of opportunity has generally come down to the level of a school's expenditure per pupil. For these reasons, educational spending in principle can and does have an impact on educational outcomes.

While the relationship between educational funding and outcomes remains contentious, empirical evidence consistently indicates a positive relationship between higher education funding and improved economic development. International statistical analyses show a robust finding that the initial average level of school contributes positively to growth.[15] It is important to note, however, that increases in the level of schooling do not have a similar positive impact on economic growth, and economist Zvi Griliches believes this is because, on the international level, the highly educated tend to con-

centrate in the public sector where their productivity is more difficult to measure.[16] This leads us to conclude that higher education can improve economic growth, but how the increases in education are utilized has implications for economic development.

Education scholars may argue about the relationship between increased educational spending and educational outcomes. Nevertheless, experience shows a consistent finding that primary and secondary education spending has a positive impact on economic development and business location. Education is a public service that businesses desire and seem to react to favorably. Other public services have a positive impact on economic development also, in particular, public investments in infrastructure.

Bottom Line: "Maintaining the Level and Quality of Services Necessary to Promote Growth and Development May Be More Inportant Than Further Cuts in Taxes"

As the General Assembly convenes in Annapolis for 1997, the defining issue of this legislative session seems to be determining how to reduce the state's personal income tax. The Chamber of Commerce, the Governor, the Speaker of the House of Delegates and others have all put forward initiatives to reduce personal income taxes in Maryland. The facts reviewed in this report, however, suggest that such a policy is the wrong response to the wrong problem and may actually have adverse effects on economic growth in the state.

The purpose of this paper is to examine more thoroughly the notion that state personal income taxes must be reduced and to consider other related issues. The facts presented suggest that Maryland's state personal income tax is ***not*** out of line with other states and the more serious threat to future economic development may be the ability of state and local governments to provide the level and quality of services necessary to support that development. Based on the information presented above, the following ***Myths*** and ***Realities*** emerge.

Myth: Maryland's state personal income tax is out of line with our neighboring states.

Reality: Maryland's state personal income tax has a maximum marginal rate of 5 percent reached at $3500 income. Of the 43 states that have personal income taxes, only 5 have a maximum marginal tax rate ***lower*** than Maryland's. Thus, the reality is that Maryland has one of the lowest top marginal tax rates in the country and one of the least progressive personal income taxes in the nation. Our aggregate personal income tax collections are high relative to other states because local governments depend heavily on the personal income tax as a source of revenue — more than local governments in any other state.

Myth: Maryland is a high tax state.

Reality: Maryland residents paid $139 per $1000 of personal income in 1993 to support state and local governments. This is 9 percent less then in 1981 and is 10 percent below the national average. In fact, only five states — Arkansas, New Hampshire, Virginia, Illinois, Tennessee and Missouri — devote a smaller share of their personal income to supporting state and local governments than Maryland. The reality is that Maryland is a low tax state.

Myth: Growth in state spending is out of control and the major contributor to the structural deficit in the state budget.

Reality: State spending has not increased as fast as personal income in any of the last 10 years. State spending has declined as a share of personal income from 9 percent in 1979 to 7.7 percent in 1994. If State revenue in 1994 accounted for the same share of personal income as they did in 1979, total State revenues would have been $1.5 billion greater. More troubling is the shift in revenue raising responsibility from the state to local governments in Maryland. Since local governments rely on more regressive revenue sources, this involves a shift in financing state and local government to those in society least able to afford it.

Myth: If the state personal income tax is reduced, economic development will be stimulated in the state.

Reality: The economic literature reviewed in this report makes it clear that both taxes and the level and quality of government services provided are important influences on the location choices of firms and families. There is no ***a priori*** reason to suspect, and the empirical evidence does not support the conclusion, that reductions in taxes would automatically stimulate more economic activity — especially if the level and quality of services decline because of inadequate revenues. Given the relatively low effort by citizens in Maryland to support basic governmental services it is more likely that declining service qualities will be an important deterrent to growth in the State than state personal income taxes which are low compared to other states.

Two final points. The empirical analyses reviewed here indicate that both sides of the state and local budget are important in influencing location decisions of both families and firms. Both taxes and expenditures are important. There is no ***a priori*** reason to assume that a high tax/high service jurisdiction will be less desirable than a low tax/low service jurisdiction. In fact, there is evidence in Maryland that both families and businesses are willing to tax themselves more for a higher

level of public service. This is consistent with the overall set of recommendations of the Maryland Economic Development Commission that also expressed serious concerns about the overall quality of life in Maryland — where quality of life is determined in large part by how effectively government acts to protect the environment, provide high quality education and transportation.

Second, efforts to evaluate the business tax climate in Maryland that look only at one tax or service at a time can be misleading and are not a strong foundation for policy making. For example, an alternative way to evaluate the business tax climate of a state is to take a representative firm and calculate its overall tax liability in Maryland and other comparison states to see what impact it has on the bottom line of the firm. Since different industries respond to different location factors, the analysis should be done for representative firms in different industries.

Such a study has been done by Robert Tannenwald, Senior Economist, Federal Reserve Bank of Boston. Hypothetical firms representative of selected industries are assumed to be located at various sites around the nation. It is assumed that the firms' pre-tax rate of return, asset mix, capital/labor ratio, and non-tax costs are identical at all sites. The only difference across sites, therefore, are state and local tax characteristics. Tannenwald applied this approach by comparing after tax rates of return across 22 states for 5 different industries — men's clothing, fabricated metals, computers, electronic components, scientific instruments.[17] The results of this comparison of state tax climates are displayed in Table 5. It is important to note that all five industries obtain their second highest after tax rate of return in Maryland, behind only Alabama. Thus, one must conclude, that based on this comprehensive approach to evaluating the business tax climate in a state, at least for these five industries, the business tax climate in Maryland is very favorable relative to the other 21 comparison states.

Businesses Willing to Tax Themselves Higher

Policy makers must consider what people actually do, not just what they say. For example, although the Chamber of Commerce has been outspoken in support of the personal income tax cut, there is evidence that the business community values a high level and quality of public services and is willing to tax themselves higher in order to provide better services. Specifically, in downtown Baltimore the business community got together to form a Special Benefits District. The District imposes a higher property tax on the businesses within the district and earmarks the revenues from that tax for improved public services, e.g. street lighting, aesthetics, safety, etc. Similarly, the business community participated in creating a Special Benefits District in Charles Village for basically the same purposes. Finally, there is an economic literature explaining the prices paid for single family homes which also demonstrates unambiguously that families are willing to pay higher prices for housing in local jurisdictions with a higher level and quality of public services. In all of these cases, businesses and families reveal their preferences for paying higher taxes in order to receive a higher level and quality of public services.

In the final analysis, decision makers must consider both sides of the budget when making tax and/or spending decisions. In the current small government environment in Maryland, where the size of state and local government has declined by nearly 9 percent since 1980, one could argue that maintaining the level and quality of services necessary to promote growth and development may be more important at this point in time in Maryland than considering further cuts in taxes, which, in all likelihood, will lead to further reductions in the ability of state and local government to provide the level and quality of services demanded by its citizens and businesses.

This report is a condensation of the full and more detailed report, which contain all referenced tables. For a copy, contact The Abell Foundation.

Some Recent Grants by The Abell Foundation

Trust for Public Land/West Shore Conservancy — $75,000
Toward the purchase of Seton Belt Home Farm, a significant 515-acre woodland and songbird habitat in Prince George's County.

Baltimore City Public Schools/ Mt. Royal Elementary/Middle School — $25,620
For the purchase of brass and woodwind instruments for the student Mt. Royal symphonic Orchestra.

Baltimore City Public Schools/ Universal Breakfast Project — $18,000
For costs related to serving "universal" breakfast in four schools to measure impact of a nutritional breakfast on learning outcomes.

Children's Literacy Initiative — $20,792
For expenses related to parent literacy training workshops at 57 Head Start Centers in Baltimore City.

Episcopal Social Ministries, Inc. — $15,000
To create a model recovery house based on the Oxford House precepts at Phoenix Place for recovering females and their children.

Girl Scouts of Central Maryland — $20,000
For start-up costs for two Project H.O.P.E after-school drop-in centers for adolescent at-risk girls in Baltimore City.

Helen Keller International — $209,490
For support of CHILDSIGHT, an eye screening program for inner city students in Baltimore City public middle schools.

Maryland State Department of Education — $88,500
Second-year funding of the Connector Corps program to coordinate school-based service-learning programs in communities across the state.

St. Elizabeth of Hungary School — $46,000
To provide tuition assistance for children of buyers of East Fayette Street Community Development Corporation homes.

Association of Baltimore Area Grantmakers — $40,000
For support of the Maryland Service Funding Collaborative to provide community service programs in Maryland schools and colleges.

Footnotes

[1] See Michelle Singletary, "Area Job Growth Slow, But Unemployment Falls," **Washington Post**, December 6, 1996, p. B11. There is some recent evidence that the state's economy may be starting to turn around. See Michael Conte, Regional Economic Studies Institute, Towson State University, "Taxation, Site Selection and Economic Development," testimony presented before the Joint Select House Committee on Competitive Taxation and Economic Development, Annapolis, Maryland, December 11, 1996.

[2] ***Strategic Directions***, op. cit., Chapter 2, p. 11. Emphasis added.

[3] Ibid., Chapter III, p. 9.

[4] Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming.

[5] Connecticut (4.5%), Illinois (3.0%), Indiana (3.0%), Michigan (4.4%), and Pennsylvania (2.8%).

[6] The property tax in Maryland was found to be generally regressive, especially for families with incomes above $10,000. See Robert M. Schwab, ***The Incidence of Maryland Property, Income and Sales Taxes***, in **Technical Supplement to the Report of the Maryland Commission on State Taxes and Tax Structure, Volume 1, December 1990**.

[7] The personal income tax in Maryland was found to be generally progressive up to $30,000 income, declining somewhat to $50,000 and then increasing again. The sales tax in Maryland was found to be generally regressive across all income classes. See Robert M. Schwab, ***The Incidence of Maryland Property, Income and Sales Taxes,*** ibid.

[8] Bartik, Timothy J. 1991. *Who Benefits from State and Local Economic Development Policies?* Kalamazoo, Michigan: W.E. Upjohn Institute for Employment Research. p. 39

[9] Bartik, 1991. p. 38 - 43, 216 - 247

[10] Ronald C. Fisher, ***The Effects of State and Local Public Services on Economic Development***, a paper prepared for presentation at a symposium on **The Effects of State and Local Public Policies on Economic Development**, Federal Reserve Bank of Boston, November 8, 1996.

[11] Helms, L. Jay. 1985. "The Effect of State and Local Taxes on Economic Growth: A Time Series-Cross Section Approach" *Review of Economics and Statistics*. 67 (February): 574-582.

[12] Bartik, 1991. p. 46 - 48, 248 - 253, 46.

[13] Eric Hanushek. 1986. "The Economics of Schooling: Production and Efficiency in the Public Schools" *Journal of Economic Literature*. 24 (September): 1162.

[14] National Education Association by the Corporation for Enterprise Development (CFED). 1995. *How Education Spending Matters to Economic Development*. National Education Association, Research Division. Washington, DC: NEA. p. 22-27.

[15] Griliches, Zvi. 1996. *Education , Human Capital, and Growth: A Personal Perspective*. National Bureau of Economic Research Working Paper 5426 (January). Cambridge, Massachusetts: NBER. p. 10.

[16] Griliches, 1996. p. 11.

[17] Robert Tannenwald, "State Business Tax Climate: How Should It Be Measured and How Important Is It?" **New England Economic Review**, January/February 1996.

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How does it work?

Baltimore's EOP is modeled after the very successful "I Have A Dream" initiative, the brainchild of New York philanthropist Eugene Lang. The Baltimore version of the program provides a full-time counselor to support students beginning in the ninth grade and continuing through high school graduation. Figures suggest that the program is working well at Lake Clifton.

Typically encouraging stats are those of the EOP class that started in 1986, in the same Lake Clifton. Of 55 students enrolled in the program, 52 graduated (95 percent!) ; 51 were accepted to college (93 percent!) and as for those in the too-familiar category of "trouble with the law"—zero.

"The linking chain . . . is the dedication . . . of these citizen leaders."

But student candidates need more than incentive to meet the criteria; they need emotional support and financial support, love, commitment and unflagging, round-the-clock concern and follow-through—all of which are supplied in generous measure by a loyal cadre of teachers and counselors, led by retired business executive Robert Bonnell, vice president of Sylvan Learning Systems Oscar Jobe, and Principal Stanley Holmes; facilitators Russell Williams and Nathaniel McFadden (now State Senator McFadden) and counselor Michele Thornton. "The linking chain..." according to a history of the program by Avon J. Bellamy, "appears to be the genuine love and dedication of these citizen-leaders of the program for these youngsters."

The Abell Foundation salutes the soft hearts and hard data that make EOP happen.