

income tax. These two sources yield roughly 75 per cent of our general-fund revenue, which in the present budget amounts to approximately \$205 million.

We have been able to achieve a good balance between taxes on business and taxes on individuals, and we also have been able to attain an equilibrium of taxes on high incomes and taxes on low incomes. . . .

You will observe that the State's principal sources of revenue are geared closely to the economy, making the taxes extremely sensitive to economic prosperity or recession. In times of prosperity, there are more jobs and higher wages and salaries, boosting the yield from the income taxes. And, with more jobs and higher pay people buy more merchandise, increasing our returns from the sales tax.

The converse, of course, is true—that in times of recession employment drops off, wages and salaries decline and buying is reduced to a minimum, with the result that the State's income from the sales and income taxes is sharply curtailed.

There is a great deal to be said for synchronizing governmental revenues to the economy, but such a system is fraught with certain dangers and must be regulated and controlled to prevent serious financial trouble. There are the obvious perils of periods of economic decline. The cost of government does not fluctuate greatly, and when these costs continue to rise or remain steady when revenues drop, a government is hard put to find the money to meet its expenses.

There is as much, if not more, danger in times of prosperity when a government, be it national, state or local, finds itself, as the State of Maryland does right now, collecting more money than is needed to meet its expenses. This is the well-known danger of surplus financing—the temptation to overspend when times are good, to “live it up,” so to speak, during the seven years of plenty without forethought of the famine that may follow. When surplus funds are treated as though they were current revenues, making it easy to make appropriations in excess of current revenues, the level of governmental spending is increased to a degree that eventually new taxes will have been imposed to support the new programs.

We have only to go back a few years here in Maryland to find a classical example of how this use of surplus funds to meet current expenses operates. It was done in the State Budget for 1957, and again in 1958

As I stated before, Maryland is in a healthy condition financially at the present time. With economic recovery, we ended the 1959 fiscal year