

# CLOSING THE INEQUALITY DIVIDE

## A Strategy for Fostering Genuine Progress in Maryland

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March 2013

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The authors would like to thank the following people who provided valuable input into this report: John Cavanagh, Sam Pizzigati, Emily Schwartz Greco, Noel Ortega, Neil Bergsman, Neil Zimmerman, Rebecca Ruggles, Stuart Clarke, Sacoby Wilson, Vernice Miller-Travis, Christine Real de Azua, and Kathleen Planco Waybright.

This report is endorsed by: Maryland Environmental Health Network; Progressive Maryland Education Fund; Progressive Neighbors; Dr. Sacoby Wilson, Director, Community Engagement, Environmental Justice, and Health, Maryland Institute for Applied Environmental Health; and Vernice Miller-Travis, Vice Chair, Maryland Commission on Environmental Justice and Sustainable Communities.

Layout and design by Kinga Dow, Noel Ortega, and Brian Cruikshank.

*This report was made possible with generous funding from the Town Creek Foundation.*

# Key Findings

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If Maryland returned to late-1960s income equity levels, an analysis based on Maryland's Genuine Progress Indicator (GPI) suggests that, all other factors being equal:

- A return to the more equitable level of income achieved in 1968 would generate over \$65 billion in economic benefits (which is equivalent to more than one-fifth of Maryland's gross state product of \$300 billion) to the state each year in the form of personal consumption expenditures, decreased social and environmental costs, increased access to higher education, and additional spending by the poor.
- Such a return to 1968 income equity would have the effect of increasing earnings of the bottom three quintiles by \$6 billion each, doubling the average household income of the poorest households from \$15,000 to nearly \$30,000 and generating nearly \$49 billion in economic benefits to the state each year in the form of increases in the value of personal consumption expenditures.
- Additional spending by low- and middle-income families could add another \$10 billion in economic benefits to the state.
- Depending on how many household livelihoods improve, another \$7 billion in benefits could be generated through lowered costs of crime, family changes, underemployment, and vehicle accidents and increased benefits from consumer durables and higher education.

Maryland's inequality has grown over the past few decades:

- Inequality in Maryland manifests itself in a wide income gap between wealthy and poor households. The wealthiest 3 percent of Marylanders earn 36 percent of the state's income while the poorest 24 percent of Marylanders earn just 9 percent. There is also a wide income gap between white and black households and between white and Latino households.
- Inequality in Maryland also takes the form of unequal access to the good things in life — time spent with family and friends, quality education, reliable public services, modern household appliances, and opportunities for civic engagement.
- Low-income households and communities of color in Maryland also bear the brunt of environmental degradation, crime, family stress, unemployment, poor health, and unsafe living conditions.
- Inequality in Maryland is worsening over time. The costs of inequality have steadily risen since 1968 and are presently at their highest levels.
- Whereas our reliance on GDP as an indicator of economic health reinforces the widespread inattention to inequality, the GPI not only calls attention to inequality, but helps us to better see the myriad ways in which it undermines our prosperity.

There are sensible policies to narrow the income gap in Maryland, including making our tax system more progressive; reducing unemployment and underemployment; reducing toxins and other pollutants in our environment; expanding health care coverage; providing more affordable housing; enhancing the social safety net; extending access to higher education, and better ensuring community safety.

# Executive Summary

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Most Americans didn't see it coming.

Back at the end of 2004, our nation's leading economic indicator, the Gross Domestic Product, was soaring along at a robust rate of over 4 percent per year. The prospects for continued prosperity, the GDP figures suggested, seemed comfortably high. In fact, that apparent prosperity did not continue long. Within four years, our U.S. economy would collapse into the Great Recession and the "Great Stagnation" that followed.

Analysts have devoted considerable attention to many of the factors that fed that sudden, unexpected economic collapse. But few have questioned how our leading economic indicator, GDP, failed so utterly to warn us of the coming economic crisis. And few have pondered what other options for tracking our economic progress might better help us avoid a future economic, social, and environmental meltdown.

Fortunately, some observers have done this pondering — and then acted upon it. In 2009, with the economic crisis still ravaging the nation, Maryland Governor Martin O'Malley put in place a bold new economic indicator, the Genuine Progress Indicator, to begin to assess more precisely what has gone right — and wrong — in his state's economy. The GPI provides a much more holistic view of how the Maryland state economy is faring for all Maryland residents than the standard state economic measure, the Gross State Product (GSP).

In Maryland, as in the rest of the United States, nothing has gone more wrong over recent decades than the distribution of income. The state and the nation have become staggeringly more unequal. Yet our standard economic indicator, GDP, does not track inequality at all. The top 1 percent can get ever richer, the bottom 99 percent poorer, and our GDP may measure only a "growing economy."

In hindsight, we now see growing inequality as a key driver behind the housing bubble that triggered



*Yachts and urban blight juxtaposed in Maryland. How does this inequality divide affect Maryland's commitment to genuine progress for all?*

our financial industry meltdown. Our increasingly top-heavy distribution of income combined with the deregulation of Wall Street left millions of American families without the wherewithal to obtain low-interest traditional mortgages. That same top-heavy distribution left the nation's most affluent with vast pools of excess cash ready to invest. Banks and other high-finance firms would compete vigorously for those investment dollars, rushing to market ever more exotic and risky securities that rested on reckless and even fraudulent high-interest mortgage debt.

We all know the rest of the story. “Too big to fail” banks bailed out with billions in taxpayer dollars. A vast evaporation of home, pension and other real wealth for America's bottom 99 percent.

The Genuine Progress Indicator now in place in Maryland has income

inequality as one of its 26 prime indicators. It also addresses inequality in other dimensions — such as access to quality education, public services and time with family. It should be noted and stressed that although the economic model does not include race and culture in its 26 indicators, significant racial and ethnic disparities exist in virtually all of the indicators of individual, family and community wellbeing.

Low-income households and communities of color suffer disproportionately from exposure to pollutants and toxins of all types because they often live in close proximity to such hazards. These harsh realities further exacerbate inequities of wellbeing.

This study zeroes in on inequality, in the context of the GPI, to answer the question: How has inequality affected the overall economic, social, and environmental fabric of Maryland, and what can be done about it? This study compares the current Maryland income inequality situation with the income picture back in 1968, the year that saw the narrowest overall income inequality divide in modern U.S. history. We then pose the question: How different would our current GPI indicators be — what quality of life would Marylanders enjoy today — had we kept the level of Maryland inequality at 1968 levels?

Our most fundamental finding: Inequality has imposed a very real economic drag on Maryland as a whole, a drag that, if left uncorrected, also promises a continuing downward spiral for Maryland's poorest residents.

By the same token, if we could return income inequality to the narrower divides of the late 1960s, all Marylanders would enjoy very real and significant economic and social benefits. And this must be emphasized: *The annual economic benefits of returning income inequality to 1968 levels would be equivalent to adding a whopping 22 percent to Maryland's annual current Gross State Product.*

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Our key findings are as follows:

If Maryland returned to late-1960s income equity levels, an analysis based on Maryland's GPI suggests that, all other factors being equal:

- A return to the more equitable level of income achieved in 1968 would generate over \$65 billion in economic benefits (which is equivalent to more than one-fifth of Maryland's gross state product of \$300 billion) to the state each year in the form of personal consumption expenditures, decreased social and environmental costs, increased access to higher education, and additional spending by the poor.
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- Inequality in Maryland also takes the form of unequal access to the good things in life — time spent with family and friends, quality education, reliable public services, modern household appliances, and opportunities for civic engagement.
- The poor, families and communities of color in Maryland also bear the brunt of environmental degradation, crime, family stress, unemployment, poor health, and unsafe living conditions.
- Inequality in Maryland is worsening over time. The costs of inequality have steadily risen since 1968 and are presently at their highest levels.
- Whereas our reliance on GDP as an indicator of economic health reinforces the widespread inattention to inequality, the GPI not only calls attention to inequality, but helps us to better see the myriad ways that it undermines our prosperity.

As other jurisdictions — such as Vermont, where the GPI is also in place-- are beginning to understand, the GPI gives us data that the standard GDP (and, by extension, Gross State Product or GSP) does not. Put simply, the standard GDP functions like a giant calorie counter. The GPI, by contrast, can tell us which calories can make us healthier — and which might eventually kill us. Had the GPI been in place at the federal level in 2004, we would have likely had a metric that rendered a far more nuanced analysis of our genuine progress to date and of our future. By training our attention much more

firmly on our widening inequality divide, the GPI might have been able to help us avoid the economic hardship and stagnation that ensued.

As this report demonstrates, the GPI also offers an important lens to rethink policy. Policies that advance fair taxation, full employment, environmental justice, and access to higher education could substantially level the playing field and give those with the least economic resources a fair chance at sustainable livelihoods for their families. Maryland's new GPI, this brief demonstrates, offers a means to assess both the costs of inaction and the benefits of moving forward with these progressive reforms, and to clearly convey these costs and benefits to decision-makers, investors, and the public.

# 1. The State of Inequality in Maryland through a GPI Lens

## A. Inequality in Maryland Is Stark, and Growing

Unequal access to economic opportunity is a ubiquitous and worsening impediment to economic growth and other aspects of sustainable development in the state of Maryland, in the United States and around the world. The UN's World Institute for Development and Economics Research finds that the richest 2 percent of adults now own more than half of all global wealth, with the richest 1 percent alone accounting for 40 percent of global assets.<sup>1</sup>

Income is similarly distorted. In the United States, the Census Bureau reports that in 2011 the richest 5 percent of Americans earned 22 percent of aggregate income. Income inequality in Maryland is worse.

In Maryland, the State Comptroller maintains annual statistics on the number of taxpayers by 26 income classes ranging from below \$5,000 to over \$500,000 per year and differentiates between gross income reported on federal tax returns (federal income) and Maryland adjusted gross state income (state income) that is left over and thus taxable after taxpayers take advantage of state and local tax deductions and credits.<sup>2</sup> These data reveal both the exclusive nature and disproportionate share of income received by the top income brackets (Figures 1 and 2).

In 2010, 3 percent of Marylanders earned over \$250,000. These top 3 percent received nearly 36 percent of aggregate federal income in the state. These affluent Marylanders averaged \$918,118 per household in federal income. Marylanders in the bottom fifth of state income brackets averaged \$28,573 and received only 8.55 percent of federal aggregate income in the state.

Figure 1:

### Maryland Share of Taxpayers and Income by Income Class

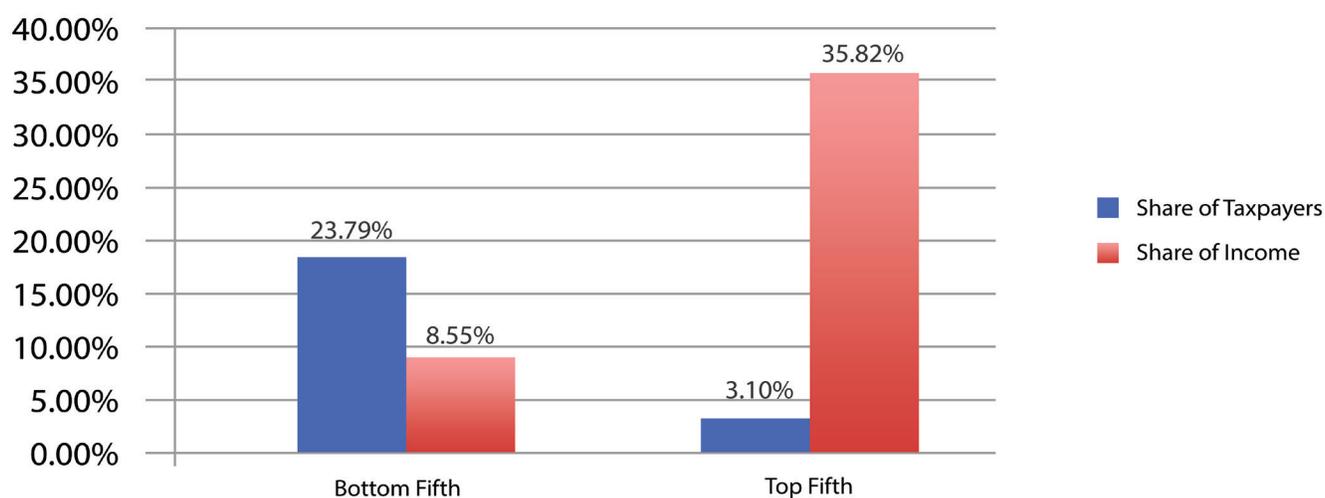
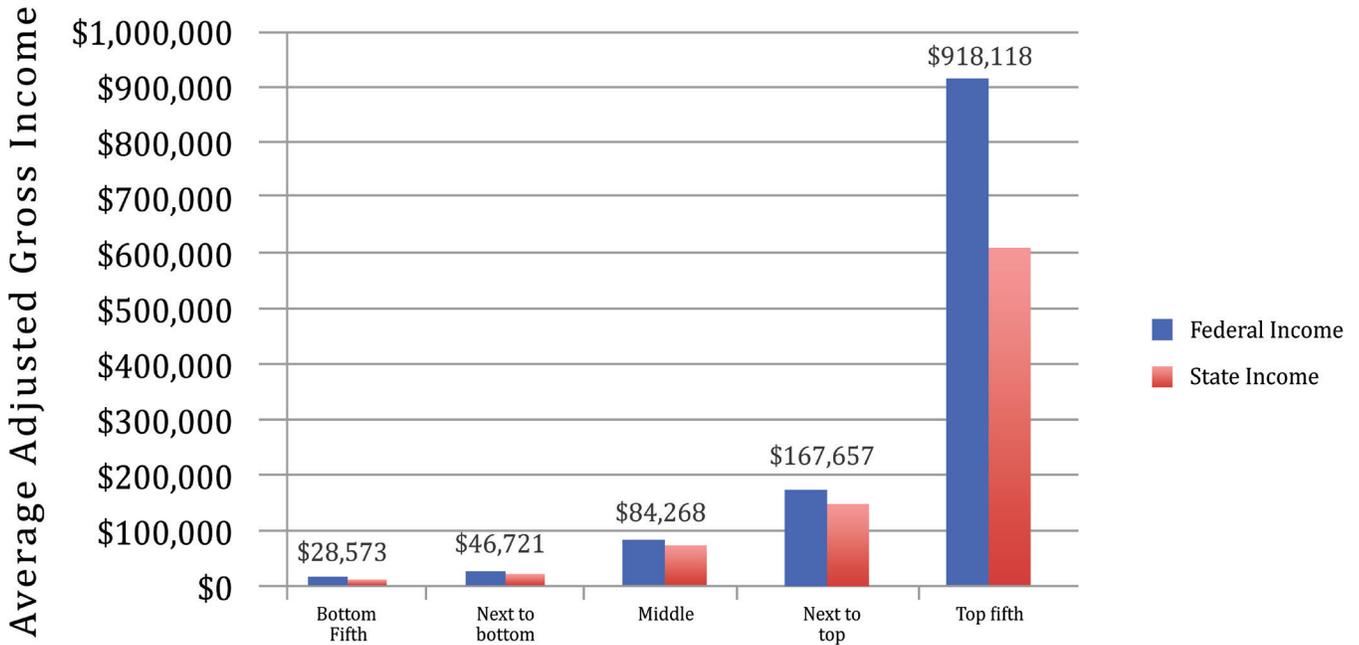


Figure 2:  
Maryland Average Income by Income Class



Alarming, income inequality in Maryland is steadily increasing. Each year, the Census Bureau publishes a metric known as the Gini coefficient, which is a measure of income distribution that ranges from 0 (which assumes perfect equality, where all income quintiles earn the same) to 1 (perfect inequality, where one quintile earns everything). After reaching a historic low — i.e. a maximum level of income equity — in 1968 with a value of .3480, the Gini coefficient has been steadily rising. In 2010, Maryland’s Gini rose to .4510, its highest value on record.<sup>3</sup> (See Figure 3.) Income is also distorted by race and gender (See box: “How Race, Gender and Geography Affect Wellbeing in Maryland.”)

While a highly skewed distribution of income is one important manifestation of inequality, there are many other, more disturbing dimensions. Take unemployment. In the Great Recession, the correlation between income level and unemployment could not have been more dramatic. In Maryland, Those in the highest income bracket suffered a modest 3.2 percent unemployment rate — not significantly different from what economists call the “background” or natural rate of unemployment — while those in the lowest income bracket faced rampant unemployment with an unemployment rate of nearly 31 percent.<sup>11</sup>

Or take exposure to environmental contamination. For decades, environmental justice advocates have been calling attention to the disproportionate burden of environmental risks borne by those with lower socioeconomic status. Maryland data demonstrates this all too well. For example, in Baltimore County, low-income households face a 54 percent greater risk of exposure to toxic chemical releases, a 16 percent greater risk of cancer from air pollution and far greater concentrations of highly polluted sites per square mile than those in high-income neighborhoods.<sup>12</sup>

Poor health is yet another manifestation of the inequality divide. Low socioeconomic status is associated with increased morbidity and mortality, mental disorders, substance abuse, and child behavioral problems.<sup>13</sup> Low income correlates with environmentally mediated epidemics such as asthma, poor birth outcomes, and obesity. Relative to the wealthy, those with low socioeconomic status are far more likely to smoke, develop heart disease and lack adequate health insurance.<sup>14</sup> According to the federal Health Resources and Services Administration, the connection between socioeconomic

## How Race, Gender and Geography Affect Wellbeing in Maryland

By Noel Ortega and Karen Dolan

The GPI does not measure all aspects of wellbeing in Maryland. Indeed, with 26 indicators, a lot is measured but a lot is left out. There are vibrant conversations about other indicators that could be included in future versions of the GPI. A key set of factors in any state is how income and income inequality break down across race, gender, and geography. As in most states, income for African-American and Latino families trails White family income. Women's income is less than men's, and women-led households are particularly hard hit. And, Maryland has extreme differences of income across county lines. Here is a brief snapshot of how income in Maryland breaks down across race, gender and geography lines.

### Race

Income for Maryland's Latino and African-American communities tell two different stories. Compared to the national average, Latinos and African-Americans in Maryland are better educated and have higher incomes than their counterparts in other states.<sup>4</sup> Maryland, for example, has the highest median household income for Latinos in the nation.<sup>5</sup> However, within Maryland, income levels for Latinos and African-Americans are considerably lower than whites. On average, in 2010, African-Americans and Latinos made around two-thirds the income of whites (African-Americans earn 70 percent and Latinos earn 63 percent of whites).<sup>6</sup> The gap between median household income for Latinos and whites in Maryland has

steadily increased from a ratio of 1:1.10 in 1990 to 1:1.59 in 2010. Unemployment is a key driver of income inequality in Maryland and nationwide. The unemployment rate in Maryland for African-Americans in 2011 was 10.3 %; for Latinos it stood at 7.0 %; for whites it was only 5.7 %.<sup>7</sup> Family poverty statistics reveal another aspect of differences in wellbeing: In 2010, the family poverty ratio for African-Americans and Latinos was 10.4 percent and 9.2 percent respectively, whereas for whites it was 3.6 %.<sup>8</sup>

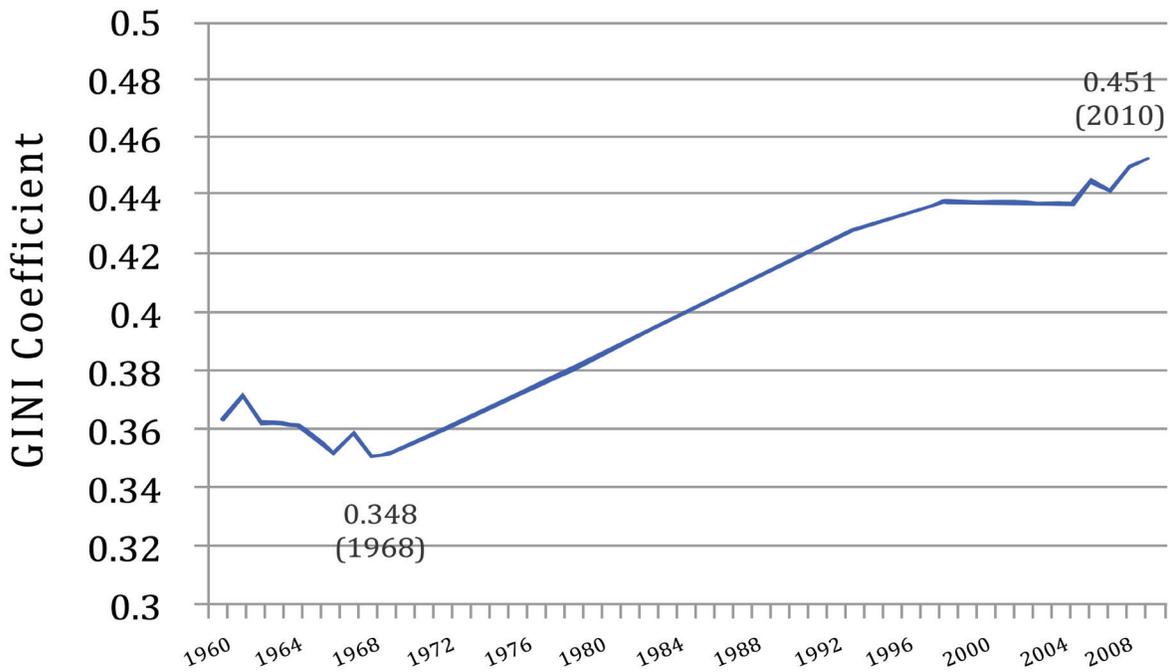
### Gender

As in the rest of the country, women still make less than men for comparable jobs. And, single-parent households have less than two-thirds the income of families with two-parent households among whites, Latinos, and African-Americans. Again, reflecting a national trend, women-led single parent households made the least: \$45,000 on average in 2010.<sup>9</sup>

### Geography

Finally, where you live in Maryland is central to income levels. Median household income from 2007-2011 reached as high as \$106,000 in Howard County and \$96,000 in Montgomery County, but only \$39,000 in Allegheny County and \$41,000 in Somerset County. Median household income was \$65,000 in the county with the biggest metropolitan area: Baltimore County.<sup>10</sup>

Figure 3:  
Income Inequality in Maryland is Increasing  
Trends in the Gini Coefficient 1960-2010



status and health disparities is so strong that income and education levels often serve as proxies for health status.<sup>15</sup> Low socioeconomic status is also highly correlated with increased risk of injuries and fatalities from traffic accidents, crime, and divorce.<sup>16</sup> Table 1 provides a snapshot of these disparities as quantified in studies throughout the United States and in Maryland, where available.

Table 1 also provides ample evidence of unequal access to the good things in life — leisure and entertainment, college education, consumer durables, energy for adequate heating and cooling, and outdoor recreation. The education divide is especially worrisome since — along with income — it is often a bellwether for access to a broad range of life’s amenities.

Taken together, the disproportionate share of social and environmental costs borne by low-income households and their relative lack of access to these amenities amplifies the effects of income inequality and lowers quality of life for all as long as the inequality divide keeps growing. Quality of life research has consistently shown social preferences for less inequality. Progressive commentator Thom Hartmann succinctly reported the results of his analysis from 111 country data sets around the world that maintain quality of life measures: “Quality of life was far worse in nations with great income disparities than in nations with small income disparities.”<sup>34</sup>

### B. Inequality Impedes Efforts to Advance Genuine Progress

In 2010, to better help measure economic progress in Maryland, Governor Martin O’Malley unveiled a new economic indicator to supplement “Gross State Product,” or GSP, the state-level equivalent to the Gross Domestic Product, or GDP. This new indicator: the Genuine Progress Indicator, or GPI.<sup>35</sup>

Why bring in a new yardstick?

Many assume that the GDP is synonymous with economic wellbeing. But the GDP was never designed to measure wellbeing — and falls short of this goal on five significant counts.

First, the GDP does tell us something about the quantity of goods and services our economy is generating and how much we pay for them. But the GDP tells us nothing about the societal and personal wellbeing that results.

**Table 1:**  
**Maryland’s Inequality Divide Manifests in Many Other Ways Than Income**

Factor	Socioeconomic Status		Source
	Low	High	
Unemployment rate (Great Recession)	30.8%	3.2%	Sum et al. (2010) <sup>17</sup>
Indicator of toxic chemical releases	86,000	56,000	GoodGuide (2011) <sup>18</sup>
Cancer-air pollution added risks per million	720	620	GoodGuide (2011)
Superfund sites per square mile	0.110	0.084	GoodGuide (2011)
Facilities per sq. mile emitting pollutants	3.4	2.8	GoodGuide (2011)
Percent with four-year degree	14.1%	70.3%	CED (2012) <sup>19</sup>
College graduation rates (U.S.)	9%	54%	Bailey and Dynarski (2011) <sup>20</sup>
Consumer durable ownership (13 items)	69.6%	91.5%	U.S. Census Bureau (2009) <sup>21</sup>
Participation in outdoor activities	12%	30%	Statista.com (2011) <sup>22</sup>
Student internet access at home	3%	50%	Purcell et al. (2013) <sup>23</sup>
Energy consumption (MBTUs/household/yr)	65,248	204,742	U.S. Census Bureau (2005) <sup>24</sup>
Share of leisure and entertainment spending	6%	48%	White Hutchinson (2012) <sup>25</sup>
Vehicle crash injuries per 100 intersections	111.8	46.4	Morency et al. (2012) <sup>26</sup>
Vehicle crash mortality rate/ 100k person-yrs	32.1	18.8	Cubbin et al. (2000) <sup>27</sup>
Smoking prevalence	18.6%	6.2%	American Lung Association (2010) <sup>28</sup>
Framingham heart risk score	7.0	5.8	Franks et al. (2011) <sup>29</sup>
No health insurance	25.60%	1.70%	CED (2012) <sup>30</sup>
Property crimes per 1,000 households	169	119	Truman (2011) <sup>31</sup>
Divorce rate per 1,000 women	11.11	9.43	Elliot and Simmons (2011) <sup>32</sup>
Divorce rate per 1,000 men	10.45	8.87	Elliot and Simmons (2011)
Probability of divorce after 15 years (women)	65%	31%	Bramlett and Moser (2002) <sup>33</sup>

Why does this distinction matter? If incidents of cancer in a society suddenly increase — a sure sign that something horrible has gone wrong in that society — the GDP numbers will suggest a society doing just fine, since the GDP will rise as the society spends more on cancer treatment.

Secondly, the GDP fails to distinguish between expenditures such as education that enhance wellbeing and those expenditures — like emergency medical care, national defense, and home security systems — that simply keep current levels of wellbeing intact.

Third, the GDP tells us nothing about sustainability. All economic activity and societal wellbeing ultimately depends on underlying stocks of human, built, social, natural, and financial capital, much in the same way that the dividends taken from investments depend on how much money has been invested.<sup>36</sup> If economic activity is eroding that capital — by creating political strife, depleting natural resources, or diminishing manufacturing capacity — the economy ultimately pays the price. We become unable to generate enough in the way of goods, services, and opportunity to sustain wellbeing. Unfortunately, the GDP grows even when societies deplete their capital stocks.

Debt also undermines sustainability. If we finance current consumption through borrowing from abroad or consumer debt that cannot be repaid, the GDP gives no signal that such habits cannot continue indefinitely. Nor does the GDP distinguish between real value and speculative assets. The volatile value created by derivatives, mortgage-backed securities, collateralized debt obligations, and other vaporous instruments concocted over recent years all shows up as positive in GDP accounts.

Fourth, the Gross Domestic Product simply excludes all non-market aspects of the economy. Benefits gleaned from volunteer work, parenting, housework, or from the vital air and water filtration, and other “goods and services” that nature provides for free do not show up in GDP calculations, despite the significant contributions they make to our economic wellbeing. Conversely, non-market costs — the losses the economy suffers from deforestation, ravaged farmland, lost wetlands, and pollution — don’t show up in the GDP either. How ridiculous has the impact of the GDP’s obliviousness to these “externalities” become? The GDP grows when the economy generates toxic wastes and other pollutants, and then increases still again when our governments spend enormous sums cleaning these pollutants up.

Finally, the GDP says nothing about the distribution of wealth, income, or opportunity in society. Income may drop for the majority of the population, rise robustly for a handful at the top, and the GDP will show an overall gain. The GDP in no way accounts for economic inequality, a failing especially devastating at a time when, as noted in the 2007 UN Human Development Report, “the rising tide of global prosperity has lifted some boats faster than others — and some boats are sinking fast.”<sup>37</sup>

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*By differentiating between economic activity that diminishes stocks of human, built, social and natural capital and activity that builds them, the GPI measures sustainable economic wellbeing rather than economic activity alone.*

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The Genuine Progress Indicator offers an alternative. Economist Herman Daly, a professor emeritus at the University of Maryland, and theologian John Cobb developed the first version of the GPI in the 1980s. The GPI would be later refined by a non-profit called Redefining Progress. Maryland has adopted a version of the GPI based on a version published in 2006.<sup>38</sup> This latest version features 26 separate economic, social, and environmental components aggregated into one value.

The GPI addresses each of the GDP's most serious shortcomings. It uses the same personal consumption data as the standard GDP, but makes a variety of deductions and additions. The deductions take into account income inequality, environmental degradation, loss of leisure, rising debt levels, and resources expended for crime prevention and other "defensive expenditures." The additions take into account the non-market benefits generated by consumer durables, volunteering, housework, education and public infrastructure. All forms of essential capital, including human, social and natural capital, are addressed. By differentiating between economic activity that diminishes stocks of human, built, social and natural capital and activity that builds them, the GPI measures sustainable economic wellbeing rather than economic activity alone.

Most GPI studies that have been conducted show a growing divide between the GDP and the GPI after the mid-1970s.<sup>39</sup> Growing environmental degradation and social ills caused by unsustainable economic growth have played a role in this widening gap. So has growing inequality. This is because greater inequality impedes genuine progress as measured by the GPI in several ways:

- People prefer, and have a higher quality of life, when the distribution of income is more equal.<sup>40</sup>
- When income growth rises only in the top brackets it counts less from a wellbeing standpoint than if it were concentrated in low and middle-income households.
- Less money circulates when the income distribution is skewed towards the top. This is because each dollar earned by low and middle-income households is more likely to be spent on goods and services that benefit the local economy rather than invested in other regions and spent on luxuries.<sup>41</sup>
- As amply demonstrated in Table 1, a higher number of households in the lowest income brackets means higher costs of pollution, crime, divorce, accidents, poor health, and unemployment and fewer benefits from higher education, consumer durables, and leisure.

Because of these factors, the GPI shrinks or grows less than it would have if there were less inequality. If the level of equity had remained stable over the past four-and-a-half decades, rather than steeply declining, Maryland's GPI would undoubtedly be much higher today.

### C. Maryland's Genuine Progress Indicator Demonstrates the Value of Greater Equity

To estimate the magnitude of this, we explored what Maryland's GPI would be if the level of income equity achieved in 1968 (the year that the Gini coefficient demonstrated that income was the most equal) was present to this day. Our analysis made a series of adjustments to Maryland's 2011 GPI components where the relationship to inequality is established well enough by the literature to make changes to the GPI calculation methodology.<sup>42</sup> Of the GPI's 26 components, we were able to make adjustments to eight based on currently available data. Adjustments can be grouped into three major categories: personal consumption expenditures, social and environmental costs, and social benefits.

### i. Increased Value of Personal Consumption Expenditures

We began by adjusting the GPI's weighted personal consumption expenditure column (PCE), which is its first major component. PCE is a measure of spending by households on final goods and services in the economy. For the reasons set forth above, the GPI includes an explicit discount or weighting of PCE to account for the effects of income inequality with the key assumption being that spending by the wealthy counts less (i.e. has lower social utility) than spending by those least well off.<sup>43</sup>

But there are secondary PCE benefits to consider as well. If a more equitable tax code and other policies redistributed income to the lower- and middle-income brackets from the highest income brackets, more of that money would be spent in the local economy generating more jobs and income throughout Maryland. This is captured in the multiplier effect. In essence, the multiplier effect quantifies the full bang for the buck each dollar of spending by low-, middle-, and high-income households has on the economy as their money circulates first to businesses on which they spend this money, next on suppliers those businesses do business with, and lastly employee's income throughout the supply chain. The Congressional Budget Office estimates that the multiplier of a dollar spent by low- and middle-income families has an average value of 0.9 – meaning 90 cents of additional economic activity is generated by each dollar spent. For high-income households, the average multiplier is just 0.35, or almost one-third the value of the low and middle-income families' expenditures. This is a reflection of the fact that wealthier households spend a lower share of their incomes on local goods and services, and tend to save or invest when they can.<sup>44</sup>

Thus, by eliminating the costs of inequality and boosting spending of low- and middle-income households, we estimate that maintaining historic levels of income equity would have increased the GPI's weighted personal consumption expenditure component from \$139.25 to \$197.89 billion in 2011. This is an increase of over \$58 billion — close to 42 percent (Table 2).

### ii. Reduced Social Costs

As illustrated in Table 1, socioeconomic status is an important factor in the incidence of many of the social and environmental cost components included in the GPI. As such, greater income equity could be expected to lower these costs. However, at this time, we can only address four of these cost categories with data that are readily available: the cost of underemployment, the cost of family changes, the cost of crime, and the cost of motor vehicle crashes. Our calculations show that reducing income inequality in Maryland to 1968 levels would result in an overall reduction of social costs of \$1.17 billion a year.<sup>45</sup>

### iii. Enhanced Social Benefits

As also illustrated in Table 1, socioeconomic status is an important factor in the degree to which Maryland households enjoy various social benefits such as those associated with higher education, improved health care, or access to outdoor amenities. Greater income equity could be expected to increase these benefits and thus the GPI. Given the limitations of existing data, there were just two

of these benefit categories that we were able to address: the services of consumer durables and the benefits of higher education.

Changes in the GPI associated with a return to historic levels of income equity were calculated in the same manner as before with social costs. An income distribution that shifts

households up from the lowest income brackets implies more households are able to purchase and enjoy consumer durables like modern stoves, washers and dryers, refrigerators, computers, air conditioners, heaters, and flat screen TVs.<sup>46</sup> The likelihood of a household having at least one college graduate also increases dramatically.<sup>47</sup> By applying these data to Maryland's GPI, we estimate that a return to a more equitable income distribution would boost the value of higher education in Maryland by over \$880 million or 4.09 percent and the net benefits associated with consumer durables (benefits minus increased cost of purchases) by 18.61 percent or \$6.10 billion each year.

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*We conservatively estimate that a return to historic levels of income equity would be reflected in a GPI today that is over \$65 billion dollars higher than what was reported in 2011.*

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#### **D. Key Result: Maryland's GPI Would Be Significantly Higher with Greater Income Equity**

Table 2 presents the results of adjustments to eight GPI components discussed above. For each component, Table 2 presents the baseline 2011 value reported by the State, the "equity adjusted value" that could be achieved, the difference, and the percent change. The net result of these changes is a substantial improvement in Maryland's GPI. By considering just eight adjustments we estimate that a return to historic levels of income equity would be reflected in a GPI today that is more than \$65 billion dollars larger than what was reported in 2011. This amounts to an increase in the GPI of over 46 percent. The substantial increase in genuine progress in Maryland associated with improved equity underscores the urgency of implementing policies to close the inequality divide, and the economic justification for generous funding of programs to do so.

## 2. Measures to Close the Inequality Divide in Maryland

It was not that long ago — roughly 35 years — that lower inequality in the state of Maryland and in the United States at large contributed significantly to a greater societal wellbeing: better paying, more secure jobs, higher college graduation rates, and lower rates of unemployment.<sup>48</sup> Back just over three decades ago, between 1977 and 1979, Maryland’s top fifth of households were pulling in 4.7 times as much income as the state’s bottom fifth. By the years between 2005 and 2007, that ratio had almost doubled, rising to 7.9 to 1.49. Nationally, the ratio between top and bottom fifth increased from 5.2 to 1 to 8.3 to 1 over the same time period.

**Table 2:**  
How the GPI Would Improve if Historical Levels of Income Equity Were Achieved

GPI Component	2011 Baseline (billions)	Equity Adjusted (billions)	Difference (billions)	% Change
Weighted Personal Consumption Expenditures	\$139.25	\$197.89	\$58.34	41.81%
Services of Consumer Durables	\$32.76	\$38.86	\$6.10	18.61%
Cost of Consumer Durables	-\$20.13	-\$21.19	\$1.06	5.26%
Cost of Underemployment	-\$5.90	-5.50	\$0.40	6.78%
Net Capital Investment	\$5.88	\$5.88	-	-
Cost of Water Pollution	-\$0.20	-\$0.20	-	-
Cost of Air Pollution	-\$0.49	-\$0.49	-	-
Cost of Noise Pollution	-\$0.44	-\$0.44	-	-
Cost of Net Wetland Change	-\$0.24	-\$0.24	-	-
Cost of Net Farmland Change	-\$1.01	-\$1.01	-	-
Cost of Net Forest Cover Change	-\$1.01	-\$1.01	-	-
Cost of Climate Change	-\$8.18	-\$8.18	-	-
Cost of Ozone Depletion	-\$8.96	-\$8.96	-	-
Cost of Nonrenewable Energy Depletion	-\$20.09	-\$20.09	-	-
Value of Housework	\$32.48	\$32.48	-	-
Cost of Family Changes	-\$1.55	-1.50	\$0.50	2.91%
Cost of Crime	-\$1.42	-1.23	\$0.19	13.38%
Cost of Personal Pollution Abatement	-\$1.23	-\$1.23	-	-
Value of Volunteer Work	\$3.33	\$3.33	-	-
Cost of Lost Leisure Time	-\$13.13	-\$13.13	-	-
Value of Higher Education	\$21.53	\$22.41	\$0.88	4.09%
Services of Highways and Streets	\$1.39	\$1.39	-	-
Cost of Commuting	-\$9.58	-\$9.58	-	-
Cost of Motor Vehicle Crashes	-\$2.67	-2.59	\$0.08	3.00%
<b>Total</b>	<b>\$140.39</b>	<b>\$205.67</b>	<b>\$65.28</b>	<b>46.5%</b>

That relative equality of the late 1970s reflected the progressive policies put in place in the aftermath of the Great Depression, initiatives that included a federal income tax that rose as high as 94 percent in the 1940s on income over \$200,000 and then dipped to 70 percent in the late 1970s.<sup>50</sup> These policies that encouraged greater American equality would gradually unravel over the next three decades. Income tax rates, for instance, fell for the richest Marylanders as they did for all wealthy Americans. Over time, real wages for our poorest stagnated or grew only modestly.

Today, Maryland — and the nation as a whole — is experiencing a yawning inequality gap. To ensure that our poor don't get poorer and to foster genuine progress, both the state and nation need to make a course correction, and a wide array of progressive groups within Maryland is now pushing for this change, tackling inequality from a number of angles. Finally, policy solutions need to be designed and administered in a culturally sensitive manner and with full participation by members of the affected communities. We highlight here eight areas that seem to hold the most promise.

### A. Make Our Tax System More Progressive

Maryland, like many states, has a regressive tax code, with higher-income earners paying less of their income in taxes than lower-wage workers. A December 2011 report by the Maryland Comptroller's office showed that the bottom fifth of Marylanders paid 5.37 percent of their income in taxes.<sup>51</sup> The next three-fifths paid between 5.8 and 6.5 percent. The top 20 percent paid just 4.94 percent, with the top 1 percent — those making over \$493,000 — paying a mere 3.1 percent of income in state taxes.

In the 2012 legislative session, Maryland lawmakers did make the state tax code slightly more progressive. They increased each tax bracket's tax rate by 0.25 percentage points and raised the income tax for those making over \$500,000 to 5.75 percent. Lawmakers also expanded the earned income tax credit and closed a few corporate tax loopholes.

From 2008 to 2010, the Maryland income tax rate stood at 6.25 percent on income over \$1 million per year. That tax rate for millionaires expired in 2011. Progressive Maryland and other groups are calling for a restoration of this "millionaires' tax."

Now in the offing in the current legislative session: a boost in the tax on cigarettes and a gas and possibly sales tax increase. All these measures would be inherently regressive. To limit this negative impact, the Maryland Budget and Tax Policy Institute is recommending that the gas tax be increased with inflation and the resulting revenues be spent on public transportation and highway repairs.<sup>52</sup>

The Earned Income Tax Credit (EITC) offers a refundable income tax credit for low- to moderate-income working individuals and families. If the tax credit exceeds the amount of taxes owed, federal tax filers can qualify for a tax refund. In 2010, 390,000 Marylanders claimed the federal earned income tax credit, receiving on average \$2,111 in refunds. Maryland also offers a 25 percent refundable, or a 50 percent non-refundable, EITC for state income taxes filed.<sup>53</sup> The Maryland Budget and Tax Policy Institute recommends that the amount of the state refundable EITC should increase to 30 percent of the federal credit from 25 percent.

## B. Reduce Unemployment and Underemployment

As Maryland's 2011 GPI indicates, underemployment costs Maryland nearly \$6 billion per year (Table 2), a sum that reflects the lost productivity of those who are in job situations ill-suited for their talents or that provide only part-time work when they want to work full time. Maryland's unemployment rate, while below the national rate, is still hovering around 6.6 percent. Creating good paying jobs — and helping workers keep them — needs to remain one of Maryland's top policy priorities. Among the policy measures groups in Maryland are currently promoting to address the state's employment issues:

- **Guarantee paid sick leave.** The Maryland Tax and Budget Policy Institute considers paid sick leave as one way to help workers keep their jobs and increase the benefits available to workers in low-wage jobs. According to the Economic Policy Institute, more than 700,000 Maryland workers do not have the benefit of paid sick leave, an absence that poses risks for the workers, their families, and the public. Working parents often must choose between caring for a sick child or going to work to keep their jobs. Sending sick children to school exposes others in the school environment to illness.<sup>54</sup> Workers who feel they must go to work ill, fearing loss of job or pay if they do not, risk their health, the health of their co-workers, and the health of the public. Maryland's pending "Earned Sick and Safe Time Act" would require employers to allow workers to earn a limited number of annual paid sick days.<sup>55</sup>
- **Increase the state minimum wage and expand the "living wage."** The minimum wage in Maryland currently stands at \$7.25 per hour. With food, transportation, rent, and other costs of daily life on a steady uptick, the case for raising this minimum could hardly be clearer. In 2007, Maryland became the first state in the nation to put in place a "living wage" law, legislation that requires businesses that take government contracts to pay their employees a starting wage higher than the minimum wage — currently \$12.49 or \$9.39 per hour, the lower wage effective in rural counties.<sup>56</sup> The state "living wage" does not apply to county and municipal contracts and exempts construction and certain other work. But four localities — Baltimore City, Montgomery County, Howard County, and Prince George's County — have also adopted their own "living wage" ordinances.<sup>57</sup>
- **Restore funding for employer-based training programs.** These programs help ensure that Maryland businesses can expand and provide the state's workers with the skills needed for new jobs. Funding for these programs has been nearly eliminated by recent budget cuts. The Maryland Budget and Tax Policy Institute argues that the funding should be restored to its pre-recession level of \$3.5 million.<sup>58</sup>

## C. Reduce Toxins and Other Pollutants in Our Environment

Air and water pollution adversely affect our entire state population, but low-income people remain the most vulnerable since they often reside the closest to polluted sites. Of particular concern: the incinerators and power plants that emit mercury, particulate matter, and sulfur dioxide. Maryland currently has seven coal-fired power plants.<sup>59</sup> Pollutants from these plants particularly endanger the young, whose lungs are still forming, and the old and immune-compromised. Researchers have linked these harmful emissions to heart, blood, and neurological problems. Progressive groups are focusing in particular on the Crane and Wagner coal-fired power plants, just outside of Baltimore, whose pollution range covers more than 100 parks, recreation areas, and schools, potentially harming

35,000 children in Baltimore and Anne Arundel counties, according to the Sierra Club.<sup>60</sup>

The just-released Maryland Children’s Environmental Health Progress Report recommends a variety of solutions to safeguard children’s health. The state, the report notes, should arrange more centralized reporting of what pesticides are applied and better identify asthma, autism, and childhood cancer illness clusters in our communities. The state should also situate schools, athletic fields, and other sites where children congregate away from polluting industries, highways, and transportation hubs.

Also needed: policies that would encourage better storm-water runoff management and, in the process, reduce children’s accidental exposure to raw sewage during flooding. The new Maryland Children’s Environmental Health Progress Report calls as well for improved data gathering to better assess child environmental health priorities and the development of clean energy sources — such as offshore wind — to better secure the future health of our children.

#### D. Expand Health Care Coverage

According to the Maryland Budget and Tax Policy Institute, 765,000 Marylanders lack health insurance coverage.<sup>61</sup> The number of Marylanders who receive health coverage through their employers continues to decline, while the number of those getting public coverage — Medicare, Medicaid, and Children’s Health Insurance — is increasing. Maryland does lead the nation in setting up the health care exchanges stipulated in the 2010 Obama Health Care Reform Act, but another section of that legislation, the mandated state expansion of Medicaid, was struck down by the Supreme Court in July 2012. To ensure health care for all Marylanders, federal and state funding for Medicaid and Children’s Health Insurance should be protected and increased.

#### E. Provide More Affordable Housing

Access to safe, decent, and affordable housing remains critical for Maryland’s low-income and poor populations. Existing benefit programs for veterans and Marylanders with disabilities, and other current government and private rental assistance programs, are leaving many Marylanders without adequate housing opportunities. Maryland Non-Profits is supporting the Maryland Housing Opportunities Made Equal Act (“HOME”) to ban discrimination in housing based on the renter or purchaser’s source of income. Another reform effort, the Rental Housing Works Initiative, would provide funding for up to 20 affordable housing projects, support more than 1,100 jobs, and double the amount of funding in the capital budget for rental housing projects.<sup>62</sup>

#### F. Enhance the Social Safety Net

As budget cuts loom at the federal level, and are in turn passed down to states and localities, existing programs and services must act more effectively as a safety net for poor and low-income people. One source of the revenue needed to mend our safety net could come from the state gasoline tax. Maryland’s gas tax of 23.5 cents per gallon hasn’t increased since 1992. If we were to add one extra penny, Maryland could boost state revenue by an extra \$700 million dollars. The proceeds from any gas tax increase could and should also support public transit and bike lanes. A modest improvement in the low-income tax credit could offset any regressive gas tax impact — or the impact of any other tax increase that would adversely affect low-income people.

Additional revenue could come from changing the earned income offset. Under current policy, recipients of this credit get to keep more of their earnings during a transition period before cash assistance payments benefits run out. Under the earned income tax credit, “welfare” benefits disappear when recipients attain a job. An extension in the Earned Income Tax Credit would allow the newly hired to maintain benefits until job stability is ensured.

### G. Extend Access to Higher Education

For low- and middle-income Marylanders, the lack of affordable higher education continues to loom large. The total outlay to full-time undergraduates at four-year colleges for Maryland’s median in-state tuition and fees amounted to \$6,906 for the 2010-2011 school year, representing 10.8 percent of the state’s median household income for that year.<sup>63</sup> To address this disincentive to attend college, a variety of groups are recommending capping tuition at 2013 levels for two years and adjusting it by 4 percent per year, while increasing funding for need-based financial aid.<sup>64</sup>

The Maryland Budget and Tax Policy Institute is also calling on the state to make two years of postsecondary education or training available on a sliding scale basis to all residents, based on income, and the United States Student Association in 2012 called for passage nationally of the Student Loan Forgiveness Act of 2012 (H.R 4170), a measure that would allow the ability to discharge private student loans during bankruptcy.<sup>65</sup>

### H. Better Ensure Community Safety

Most crimes severely affect low-income populations. The poor suffer the most from gun violence, an ongoing reality that makes the gun control proposals recently advanced by Governor O’Malley so vitally important. The governor has proposed banning assault weapons, restricting visitor access to schools, requiring prospective gun owners to complete a hands-on gun-safety course and undergo a background check to be licensed, and keeping guns out of the hands of those with mental illness that show violent tendencies.

But equally important to the safety of our communities would be breaking the cycle of recidivism and crime. The state needs to lessen barriers, post-incarceration, to full reentry into the community by increasing access to employment, education, housing, health, and social services.<sup>66</sup> The repeal of the death penalty, totally aside from the philosophical issues involved, would also help us redirect time and resources to more effective crime-prevention programs.

# Conclusion

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Growing inequality is a drag on economic growth and our quality of lives. We know this intuitively, but we rarely see the evidence since the nation's most ubiquitous measure of economic performance — the GDP — pays no attention to disparities in income, wealth, or opportunity. The overall GDP can grow even if all income gains concentrate in the pockets of our top 1 percent while the rest of us face shrinking incomes, fewer public services, and more restricted access to quality health care, education, and safe neighborhoods.

Maryland has moved beyond GDP and adopted a new metric — the Genuine Progress Indicator (GPI) — far better able to measure real economic wellbeing in the state. Unlike the Gross Domestic Product, the GPI gives us a sense of how widely the benefits of economic growth are distributed, how sustainable that growth is over time, and what costs are generated when the economy grows in ways that harm the environment or leave too many households struggling to make ends meet. As such, the GPI can be more than just a metric. The GPI offers a lens through which problems like inequality can be examined in detail — and policies to address these problems evaluated.

This report quantifies how a more equitable Maryland could affect the state's GPI. Maryland, like so many other states, suffers from a highly skewed distribution of income, with the top few income brackets representing an exclusive club that brings in a wildly disproportional share of the state's income. But inequality manifests itself in so many other ways than income. Households of low socioeconomic status bear the brunt of crime, family disruptions, underemployment, environmental contamination, and many other social ills. The GPI addresses all these dimensions of inequality.

We have estimated, in this study, what would happen to today's GPI if we achieved a more equitable income distribution. We looked back to the year 1968 when Maryland achieved its highest level of income equity and recalculated what the GPI would be today if that level of equity had been maintained to the present day. The compelling results: Maryland would generate an additional \$65 billion in annual economic benefits if more low-income families were able to move beyond chronic financial stress and benefit from higher living standards, college education, safer neighborhoods, and more stable families. Policies to help attain a more equal distribution of Maryland income — through a more equitable tax code or investments in job training, education, environmental quality, health care, housing, social services and education — are thus well worth their cost.

A year ago, in President Barack Obama's annual economic report, he underscored the necessity of moving beyond anachronistic measures of economic performance. Improving traditional economic indicators and developing new indicators of societal wellbeing, he noted, "will help bring about further improvements in the nation's quality of life and the economy."<sup>67</sup> The Genuine Progress Indicator, this report demonstrates, can help us move to the next measurement level. Unlike GDP, the GPI takes quality of life factors such as inequality into account and, even more importantly, helps us measure the economic benefits of policies that could close the inequality divide. Governor O'Malley, by bringing the GPI to Maryland, has taken an important step. Future administrations in Annapolis can and should build on that step — and take full advantage of the GPI's superiority over conventional economic indicators as a means to evaluate the impact of legislation and policy initiatives on the wellbeing of all Marylanders.

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  42. It is beyond the scope of this analysis to provide details of how the GPI is calculated, so we ask those readers who want to explore this more deeply to review the State's GPI web portal (note 4) where all the calculations are explained step by step.
  43. The adjustment is based on an index of income inequality, which is simply the ratio of the current Gini coefficient to the Gini coefficient at a benchmark year. The official 2011 Maryland GPI accounts use 1970 as a benchmark year. The Gini in 1970 had a value of 0.3530. The current Gini value taken from the Census Bureau is 0.4460. The ratio of the 2011 to the 1970 Gini results in a discount factor of 1.26. Following the GPI methodology, dividing the official PCE estimate for Maryland (\$187.99 billion) by this reduces PCE by 21 percent and yields a value reported by the GPI as \$149.19 billion. The difference — or \$38.80 billion — reflects the costs of income inequality. However, this may be an underestimate. Previously, we demonstrated how Maryland's Gini is significantly worse when state rather than federal income is used as a basis. This is because wealthy households have both additional tax breaks they can take advantage of and more ability to use them. Using the state income Gini coefficient of .4688 and a base year when inequality was at its lowest point (.3480 in 1968) yields a discount factor of 1.35. Dividing the official PCE estimate for Maryland (\$187.99 billion) by this reduces PCE by nearly 26 percent and yields a value reported by the GPI as \$139.25 billion. The difference — or \$48.74 billion annually — is perhaps a more accurate measure of the costs of income inequality. A return to the 1968 income distribution would eliminate this cost in the GPI framework and thus represent a \$48.74 billion dollar benefit to Maryland's GPI each year.
  44. To estimate the secondary effect of improved income equity on PCE, we first determined the amount of additional income that

would have to be earned by Marylanders in the lowest three quintiles (\$14,987 to \$49,242 per year) to bring the Gini coefficient down to its historic low of .3480. That amount was roughly \$18 billion. Keeping the total income pie constant, this change in earnings would leave the top quintile receiving 46 percent rather than 56 percent of total income, and raise the bottom quintile's income share from roughly 4 percent to 7 percent. If we assume an equal portion (\$6 billion each) in additional earnings to each of the bottom three quintiles, the effect would be to nearly double the average household income of the lowest quintile from \$14,987 to \$28,391, increase the average income of the second quintile by nearly 45 percent and the third by roughly 27 percent. The fourth quintile was unchanged, and the top quintile's average income was reduced by 18 percent. We then applied the CBO multipliers to this adjusted income distribution to determine the net effect on the GPI — an increase of personal consumption expenditures of roughly \$9.9 billion each year.

45. For each of these categories, our analysis of the effects of improved income equity followed a similar track. There were two basic steps. First, for each cost component, we developed a baseline distribution of costs by 10 income brackets (two for each quintile) based on the published literature and Maryland's existing (2011) distribution of taxpayers in each bracket. For example, the GPI includes a deduction for the costs of crime, which is broken down into several types of crime: murder, rape, robberies, assault, breaking and entering, larceny thefts, and motor vehicle thefts. For each of these crime categories, there are published data that correlate the incidence of crime (i.e. rate per 1,000 households) with income brackets (Truman 2011, op. cit. note 31). Similar data were available on the incidence of underemployment, family changes, and motor vehicle crashes. By incorporating these data, we were able to "distribute" the costs actually reported in Maryland's 2011 GPI to each income bracket. The second step was to predict how costs would change if the income distribution were shifted by an infusion of \$6 billion each year in income to the lowest three income quintiles — the amount needed to lower the Gini coefficient to its historic low. More income for the lowest income households means fewer households in the lowest income brackets and thus a lower incidence of crime, underemployment, family changes, and motor vehicle crashes. To illustrate — the current number of Maryland households reporting state income of \$12,499 or less is 217,784. The analysis by Sum et al (2011, op. cit, note 17) suggests the current underemployment rate for this bracket to be nearly 22 percent. With historic income equity, the number of households in this bracket would be cut in half — to 108,892. The other half would be shifted up to the next income bracket (\$12,500 - \$20,000) with a lower underemployment rate of 13.51 percent. In this way, the overall costs of underemployment would fall. By applying this general method we estimate that the costs of underemployment would be reduced by 6.78 percent, family changes by 2.91 percent, crime by 13.38 percent and motor vehicle crashes by 3%. The impact on the GPI would be an overall reduction of social costs of over \$1.17 billion per year.
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57. <http://www.chamberactionnetwork.com/documents/LivingWage.pdf> p.5
58. Austell et al. 2012, op. cit., note 52.
59. [http://www.catf.us/resources/factsheets/files/Children\\_at\\_Risk-Maryland.pdf](http://www.catf.us/resources/factsheets/files/Children_at_Risk-Maryland.pdf)
60. [http://action.sierraclub.org/site/DocServer/Families\\_at\\_Risk\\_-\\_Toxic\\_Pollution\\_Threatens\\_Baltimore\\_s.pdf?docID=11461](http://action.sierraclub.org/site/DocServer/Families_at_Risk_-_Toxic_Pollution_Threatens_Baltimore_s.pdf?docID=11461)
61. Austell et al. 2012, op. cit., note 52.
62. <http://www.governor.maryland.gov/blog/?p=3445>
63. Austell et al. 2012, op. cit., note 52.
64. Senator Jim Rosapepe (D-College Park) and 28 other Maryland state senators have introduced SB 809, Tuition Cap and College Opportunity Act of 2007, to permanently cap undergraduate tuition increases for Maryland students at 4% annually and provide stable state funding comparable to what other states do.
65. <http://www.usstudents.org/work/debt/>
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67. Economic Report of the President, 2012, page 266.