

## ***Treating the Wrong Problem: Spending Cuts Can't Fix the State's Revenue Ills***

Connecticut's budget ill has been misdiagnosed as excessive spending

**Connecticut does not have a spending problem; we are the second most frugal state in the United States.** *The Connecticut Economy* magazine ranked CT 2<sup>nd</sup> most frugal state in the nation, using five relative measures of state and local government size. In addition, US Census data on government spending per \$1000 of personal income (in FY 99) finds CT:

- ♦ 50<sup>th</sup> in spending on education, 49<sup>th</sup> in spending on transportation and on wages for state and local government employees, 48<sup>th</sup> in total spending on programs, operations and capital projects and on spending on housing and the environment, 39<sup>th</sup> in social services spending and 38<sup>th</sup> in public welfare spending.

**The prescription has been (mistakenly) aimed at spending:**

- ♦ More than \$750 million of cuts already to address deficits
- ♦ Governor Rowland's current proposal would bring the number to ~\$1 billion in cuts
- ♦ State spending cuts are the worst option a state can choose because they delay economic recovery (according to the 2001 Nobel laureate in economics, Joseph Stiglitz).

**The cuts do not "trim fat" from the budget, they dig into muscle and even vital organs - further evidence that the problem is not wasteful spending. A few examples:**

- ♦ Neighborhood Youth Centers already reduced from actual FY 01 appropriations by nearly 37%; Governor's proposal is to eliminate all funding.
- ♦ Community Health Services already reduced from actual FY 01 appropriations by more than 25%; Governor's proposal is to cut an additional \$2.6 million.
- ♦ School Based Health Clinics already reduced from actual FY 01 appropriations by a little less than 1%; Governor's proposal is to cut an additional \$591,000, or nearly 10%.
- ♦ The LEAP program already reduced from actual FY 01 appropriations by more than 22%; LEAP programs in four cities have already been discontinued, with one remaining. Governor's proposal is to eliminate all funding.
- ♦ Drugs Don't Work has been reduced from actual FY 01 appropriations by more than 50%. Governor's proposal is to eliminate all funding.

The evidence - based diagnosis: Connecticut has a revenue problem  
The evidence - based remedy: Restore our revenue stream

**Permanent erosion of Connecticut's tax base over the last decade, in reliance upon temporarily inflated income, caused a structural budget deficit.**

- ♦ The inflated stock market of the late 1990s created a huge increase in capital gains income from \$2.5 billion in 1994 to \$11.8 billion in 1999, resulting in much higher tax revenues for the state. Because the spending cap limited state spending, budget surpluses resulted.
- ♦ Nearly \$2 billion in new tax breaks affecting all of Connecticut's major taxes were enacted between 1997 and 2002 in reliance on these extraordinarily high, but temporary revenues.

**The only effective remedy: restore our revenue stream fairly, while keeping Connecticut competitive.**<sup>1</sup>

- ♦ *A more progressive income tax:*
  - Connecticut's top rate, at 4.5%, is below Maine, New York, New Jersey and Massachusetts.
  - Connecticut's wealthiest taxpayers' incomes grew dramatically during the 1990s. (From 1993 to 2000, the real CT adjusted gross income of the top ½% of taxpayers grew by 127%; during the 1990s the top 20% saw their income grow by 21% while the bottom 40% saw a decline in income and the middle 20% barely stayed even. In Connecticut, more than in any other state during the 1990s, the rich got richer while the poor got poorer.)
  - The federal government will "subsidize" the tax increase for taxpayers who itemize deductions.
  - The Governor's proposed "millionaire's tax" is an important part of a more graduated income tax.
- ♦ *Repeal of corporate subsidies that disadvantage small businesses:*
  - Corporate subsidies through preferential tax breaks enacted in the 1990s cost Connecticut \$800 million *each year*.
  - Large multi-state and multi-national companies have disproportionately benefited from these tax breaks.
  - Connecticut's corporate income tax, at 7.5%, is now at the national average, an important benchmark for economic competitiveness.
  - Corporate tax breaks have brought the income tax liability of many large companies far below the 7.5%, and as recently as 2000, down to zero. (A modest cap on tax credits enacted in 2002 has begun to address this problem, but much more needs to be done to bring the share of taxes paid by big businesses into line with the relative tax share paid by small businesses and individuals.)
- ♦ *Preserve reasonable gift, estate & inheritance taxes:*
  - Connecticut should join all our neighbors, including New York, New Jersey and Pennsylvania, in de-coupling our estate tax from federal changes.
  - Roll back and freeze the phase-out of Connecticut's inheritance tax at 1/1/99 levels.
  - Continue to freeze gift tax phase-out at 1/1/01 levels.
- ♦ *Increase federal funds coming to Connecticut:*
  - Federal revenue sharing is considered essential by many economists to help states deal with current deficits.
  - Federal funds available to the state now should be sought.

Wiser spending and strategic savings can help, too

**Although Connecticut's problem is essentially one of revenue shortfalls, certain savings on the spending side can be an important part of the solution.** A few examples:

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<sup>1</sup> For a more detailed budget proposal, see **The One Connecticut Budget: The Budget Plan to Fix CT's Fiscal Ship & Not Throw People Overboard**, prepared by CT Voices for Children and approved unanimously by One Connecticut on 12/12/02.

- ♦ \$500,000/year for urine testing of greyhounds at the dog track. This expense, in the DRS budget, should not be borne by CT taxpayers, but rather by the dog track owners through a special assessment.
- ♦ More than \$100 million/year can be saved by moving the non-violent offender population, especially those with drug or mental health problems, to community based centers. This would have triple benefits: financial benefit of less costly confinement; better rehabilitation results for the offenders, benefiting them and their families; safer streets and lower long term costs for all of us due to the enhanced rehabilitation.
- ♦ More than \$100 million from state labor union agreed-upon savings.

Connecticut's children, families and businesses cannot prosper without smart state investments

**Connecticut's high quality of life and economic competitiveness have not been accidental, but rather the result of strategic investments. We can, and must, *maintain* those investments so that we can preserve what we have accomplished for so many, and make Connecticut's advantages a reality for all of its children, adults, families and businesses.**

**For further information, contact CT Voices for Children at 203-498-4240**

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