CONNECTICUT VOICES FOR CHILDREN

VOICES COMMENTARY

EXCERPTED FROM THE HARTFORD COURANT

DECEMBER 08,2002

STATE SPENDING IS NOT THE PROBLEM

Shelley Geballe. J.D., MPH

There is a fundamental misdiagnosis of why Connecticut faces the budget challenges it does. Connecticut's budget problem is *not* a spending problem.

Over the 1990s, Connecticut's growth in state spending was below national averages and well below spending growth in the state in the late 1980s -- even though we have 107,000 more schoolchildren to educate than in 1990, more children in foster care, and more children and seniors relying on Medicaid for their health care.

Indeed, according to the latest issue of *Connecticut Economy*, the state is a picture of Yankee thrift.

Among all states, we have the second smallest government sector. Sure, we have some areas of state spending that are growing too fast and that need to be better managed —like spending on prescription drugs — but overall, we're a frugal state.

Rather, Connecticut's current budget problem is a revenue problem.

Our shortfall in revenues resulted in large part from more than $2 billion in permanent cuts to our revenue stream made in the late 1990s. These tax cuts were based on unprecedented, but temporary, capital gains revenues from a wildly exuberant stock market.

In fact, in 1997 the nonpartisan Office of Fiscal Analysis had predicted a state deficit even before the recession and stock market fall began.

Since our challenge is revenues rather than spending, huge cuts to state spending really aren't the solution. According to the 2001 Nobel laureate in economics, Joseph Stiglitz, state spending cuts are the worst option a state can choose in balancing its budget because they delay a state's economic recovery.

Yet that is the course of treatment that has been prescribed.

To date, the governor and General Assembly have addressed a cumulative deficit of $2.3 billion largely through about $800 million in spending cuts and millions more in one-time revenue measures. Only 12% of the solution has involved restoring ongoing tax revenues.

In an effort to trim fat, we're cutting into muscle and vital organs, and already we're seeing the consequences.

Programs serving at-risk youths are closing their doors. People with mental illness aren't getting needed medications from outreach workers. Lower-wage families who rely on child-care subsidies to stay at work are finding these subsidies cut. Cutbacks in alternative-to-incarceration programs are driving more people into our prisons, at greater long-term cost.

The remedy the governor has just prescribed for this year's

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Shelley Geballe, J.D., MPH
Co-President and
Senior Policy Fellow

CT Voices for Children

CONNECTICUT
VOICES
FOR CHILDREN

33 Whitney Avenue
New Haven, CT 06510

Phone: 203-498-4240
Fax: 203-498-4242
Email: voices@ctkidslink.org

On the web at
www.ctkidslink.org

Connecticut Voices for Children is a statewide nonprofit committed to the vision that all Connecticut children and families need love and good health, to live in safety and economic security, grow as successful learners, and give back to their communities.

Spending is Not the Problem...

remaining $500 million deficit -- $200 million in revenue increases, $300 million in cuts, and putting 2,800 state employees in the unemployment line -- continues to assume, wrongly, that spending is the problem.

The good news for Connecticut, as compared to many other states, is that we have the economic means to address the real budget problem that we face and still keep current tax rates below neighboring states.

Smart, balanced revenue-enhancing options can prevent harmful and counterproductive cuts to the adequacy of our state revenue stream.

We can build on the governor's proposal to increase the state income tax on income over $1 million by adding more modest rate increases for income over $250,000 a year. This will affect the wealthiest 4.5% of all Connecticut taxpayers who enjoyed significant income growth over the 1990s and will also enjoy a substantial cut in their federal income taxes this year. The federal government will subsidize this income tax increase; taxpayers can deduct the increase on their federal returns, reducing their out-of-pocket cost by about one-third.

We also can revitalize our sales and corporate taxes and make them fairer to small businesses. Repeal of tax loopholes and credits that preferentially help large multinational corporations could even allow a modest reduction in tax rates. Business taxes fell by $1.3 billion over the 1990s (from 19% of state revenues in 1991 to about 8% now). It's fair for corporations to contribute more toward the state services and high quality of life that they also enjoy.

By restoring our revenue stream, we'll be able to maintain state services and save money in the long term. The alternative is bleak. For example, further cuts to mental health and substance abuse services will result in more residents with untreated problems winding up in our prisons. Even at current growth rates, by 2010 we'll have 50% more inmates than we do today -- at an additional cost of $562 million a year.

Time is wasting.

The risk of a continued wrong diagnosis is that we'll end up with a Connecticut we don't want to live in and a Connecticut we can't afford.

Resources

A Fair Share Budget for CT (One CT, 2002)

Helping Connecticut Weather a Perfect Budget Storm (Geballe, 2002)

Spending is Not the Problem. (Geballe, 2002) Online at the Hartford Courant — //www.ctnow.com/news/opinion/

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