SUPPORTING CONNECTICUT’S ECONOMY:
A PROGRAM TO MANAGE THE CORONAVIRUS RECESSON AND RECOVERY
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JUST FACTS

Following the longest economic expansion in U.S. history, a coronavirus recession now appears inevitable. For example, the Goldman Sachs economic outlook is forecasting an annualized economic growth rate of -24 percent during the second quarter of 2020, which would be far and away the largest quarterly contraction on record. Additionally, the U.S. Department of Labor reported that 3.28 million people filed for unemployment in a single week in March—more than four times the record—and the Economic Policy Institute projects that altogether 14 million people could lose their jobs by this summer, including more than 150,000 people in Connecticut.

The purpose of this report is to outline a program for managing the recession and recovery:

USING MONETARY AND FISCAL POLICY TO SUPPORT THE U.S. ECONOMY

To support the U.S. economy, which in turn will help to support the well-being of Connecticut’s children and families, especially those that have been historically disadvantaged and/or most directly impacted by the recession, CT Voices recommends the following at the federal level:

• In managing the recession, the Federal Reserve should keep its primary short-term interest rate target at zero and continue to aggressively employ its unconventional monetary policy instruments.

• In managing the recovery, the Federal Reserve should not raise its primary short-term interest rate target before the economy returns to full employment, which, as recent history shows, means an unemployment rate below 4 percent and possibly lower. Importantly, research shows that a low unemployment rate benefits low- and moderate-income workers the most and it also helps to narrow racial employment gaps.

• In managing the recession, Congress and the president should provide significantly more fiscal support. In particular, the Coronavirus Aid, Relief and Economic Security (CARES) Act provides $300 billion in cash payments to households and $150 billion in aid to state and local governments—with an estimated $1.38 billion for Connecticut. However, more aid will be necessary to support working- and middle-class households and state and local governments, which in turn helps to support the economy. As detailed in this report, each $1 increase in transfers to individuals or state and local governments increases economic output by more than $1.

• In managing the recovery, Congress and the president should not move to reduce the deficit and debt before the economy returns to full employment. Moreover, when that move occurs, it should be accomplished through an increase in progressive taxes, not a reduction in spending. As the Great Recession and its recovery demonstrated, the Federal Reserve’s ability to boost the economy has
diminished considerably, making it essential that fiscal policy remain expansionary until the economy reaches full employment. Also important, to cover the cost of spending once the economy reaches full employment, the federal government should raise progressive taxes, such as repealing parts of the Tax Cut and Jobs Act that disproportionately benefit the wealthy, imposing a wealth tax, and reforming capital gains taxation. This approach to fiscal policy will help to gradually decrease the deficit and debt through greater economic growth. As detailed in this report, government spending increases economic output more than a tax increase on the wealthy decreases economic output.

**USING FISCAL POLICY TO SUPPORT CONNECTICUT’S ECONOMY**

To support Connecticut’s economy, which in turn will help to further support the well-being of the Connecticut’s children and families, especially those that have been historically disadvantaged and/or most directly impacted by the recession, CT Voices recommends the following at the state level:

- In managing the recession, the Connecticut government should immediately use the Budget Reserve Fund to establish a state emergency relief program, to increase government capacity and accountability, and to maintain government spending more generally. There are three parts to this recommendation. First, the Connecticut government should establish an emergency relief program that provides cash assistance to any state resident that requires immediate support in meeting basic needs during the coronavirus pandemic and recession. This would supplement existing federal and state assistance programs and could be overseen by the Department of Social Services. Future reports will provide more details.

Second, after years of restricting the size of the state workforce, the Connecticut government should increase its capacity as well as its accountability and oversight to ensure that all new emergency relief programs are administered in a timely and appropriate manner. For example, due to a state workforce that is too small for the economic situation at hand, the Connecticut Department of Labor recently announced that its average time to process an unemployment claim has increased from no more than three days to at least three weeks.

Third, the Connecticut government should maintain its spending more generally. According to the most recent projection from the Office of Fiscal Analysis (OFA), “The scale of the public health crisis triggered by the global pandemic and the resulting economic impact is extraordinary and will negatively impact multiple fiscal years.” In particular, the OFA now projects deficits in fiscal year 2020 of $178.2 million and $23.8 million for the General Fund and Special Transportation Fund, respectively. The OFA also warns that “[f]urther significant revenue adjustments … are likely.” Although tax revenues are declining,
the state should not reduce its spending. This helps to prevent a vicious economic cycle—a reduction in government spending as tax revenues decline would further weaken the economy, which would further decrease tax revenues, and that would require a further reduction in government spending and so on.

All three parts of this recommendation would support Connecticut’s economy. As detailed in this report, each $1 increase in government spending during a recession increases economic output by more than $1, especially spending that supports essential needs

• In managing the recession and recovery, the Connecticut government should increase taxes on the wealthy in order, first, to maintain spending and, second, to lower the disproportionate tax burden borne by working- and middle-class families. There are two parts to this recommendation. First, if and when the Budget Reserve Fund is fully expended, the Connecticut government should increase taxes on individuals and families in the top 1 percent of the income distribution and on estates in the top 5 percent of the wealth distribution. These tax increases could be permanent or temporary and would help to maintain government spending during the recession. Importantly, the income tax increase would only apply to those who continue to do extremely well. Moreover, the estate tax increase would primarily reverse recent reductions. For details, see the CT Voices report “Reforming Connecticut’s Tax System: A Program to Strengthen Working- and Middle-Class Families.”

Second, once the recovery begins and tax revenues rise, the Connecticut government should use the tax increase on the wealthy to cover the cost of reducing taxes on working- and middle-class families. This includes expanding the Connecticut Earned Income Tax Credit (CT EITC) and creating the Connecticut Child Tax Credit (CT CTC). These tax credits could be permanent or temporary and would help to boost Connecticut’s economy as the recovery begins. Importantly, these tax credits would simply lower the disproportionate tax burden currently borne by working- and middle-class families. For details, see the CT Voices report “Reforming Connecticut’s Tax System: A Program to Strengthen Working- and Middle-Class Families.”

Both parts of this recommendation would support Connecticut’s economy. As detailed in this report, government spending and tax cuts for working- and middle-class families, especially in the form the EITC and CTC, both increase economic output more than a tax increase on the wealthy decreases economic output.

Altogether, this program shows that there is no tradeoff between supporting Connecticut’s economy and supporting the state’s lower- and middle-income residents—or, put differently, its working- and middle-class families. Rather, to support Connecticut’s economy, it is essential first and foremost to support the economic well-being of the state’s working- and middle-class families, especially those that have been historically disadvantaged and/or most directly impacted by the recession.