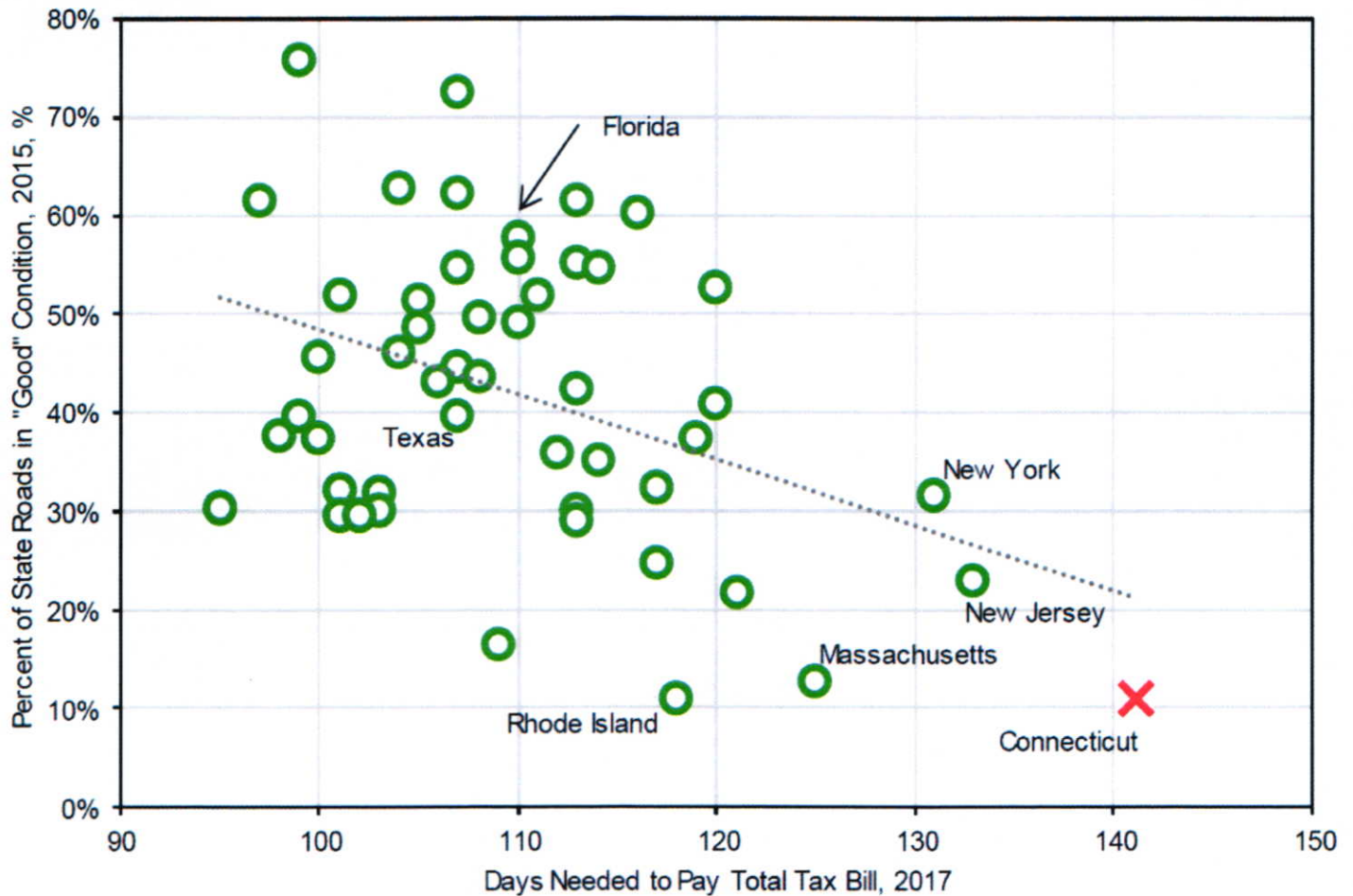


# Connecticut's Economic Freefall: Sources, Consequences and Policies to Restore Prosperity

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The 50 States: Road Quality vs. Tax Freedom Day<sup>1</sup>



<sup>1</sup> Tax Freedom Day is a study done by Tax Foundation to determine how many days it takes for each state to pay off its federal, state and local tax burden. Source: <https://files.taxfoundation.org/20170418101758/Tax-Foundation-TFD-2017.pdf>

## SUMMARY

### Part 1: the Story of Connecticut

#### Connecticut—What's Wrong Now

- Connecticut's gross state product (GSP) growth ranks 46<sup>th</sup> nationally since the Great Recession, and is the worst among the New England states.
- Connecticut's personal income growth since the Great Recession is 49<sup>th</sup> in the nation.
- Connecticut's debt as a share of GSP is the 3<sup>rd</sup> worst in the nation (2015).
- Connecticut's credit rating is tied for third lowest according to Standard & Poor's.
- According to Pew Research, Connecticut's pensions are the 4<sup>th</sup> worst funded in the nation (2015).
- Connecticut has the 2<sup>nd</sup> worst net in-migration of adjusted gross income (AGI) for the latest tax year 2015 (see back cover). This one year's net loss totaled \$1.3 billion in reported adjusted gross income.
- Major corporate HQs are fleeing Connecticut: GE (2016), Aetna (2018), and now Alexion (2018).
- Connecticut has the 2<sup>nd</sup> worst roads in the nation (2015)—(see front page exhibit)

#### What's Wrong Longer-Term

- As of 2016 Connecticut has had the slowest employment growth of all 50 states since 1992 when the state first adopted its income tax.
- Connecticut currently ranks 5<sup>th</sup> best among all states for productivity (GSP per worker). However, since 1992, the first year after the state adopted its income tax, growth in Connecticut's productivity level was relatively weak: 21<sup>st</sup> in the nation
- Connecticut's housing prices are falling relative to the nation, eroding residents' net worth
- Over the 22 years after Connecticut adopted the state income tax, the state lost a net 8.8% of its adjusted gross income to other states (5<sup>th</sup> worst in the nation).

#### Connecticut—Why it is wrong

- In 1991, Connecticut adopted a state income tax. In the years 1992, 2003, 2009, 2011, and 2015, Connecticut's legislature raised (with the governor's approval) income tax rates and made the tax levy more progressive. The highest tax rate was increased from what was a flat 4.5% to a progressive tax with a top rate of 6.99%
- In 1992 Connecticut had 50 less full time equivalent (FTE) government employees per 10,000 population than the national average (9.7% less). In 2015, Connecticut had 28 more FTE government employees per 10,000 population than the national average (5.5% more).
- Connecticut has the 2<sup>nd</sup> highest paid FTE public welfare workers (2015).<sup>2</sup>
- According to Tax Foundation, Connecticut has the highest total tax burden in the nation (Tax Freedom Day in 2017 was May 21—Connecticut is #50).
- Connecticut is the only state with both a gift and estate tax, which drives retirees from the state. An astounding net amount of \$6 billion in adjusted gross income (AGI) migrated to Florida from 2005 to 2015 (see appendix).
- Workers compensation costs in Connecticut are the 5<sup>th</sup> highest in the nation.

<sup>2</sup> The official Census Bureau name for this type of government employee is "Public Welfare Worker," and they include: the administration of various public assistance programs for the needy, veteran services, operation of nursing homes, indigent care institutions, and programs that provide payments for medical care, handicap transportation, and other services for the needy.

- Connecticut's property taxes are 3<sup>rd</sup> highest for collections per person and 6<sup>th</sup> highest as a share of GSP (2015).

**Part 2: Fixing Connecticut**

**What to do**

- Phase out the income tax over eight years.
- Decrease or entirely eliminate the corporate income tax with revenue triggers.
- Eliminate the gift and estate tax as part of the first budget in office.
- Embrace zero-based budgeting.
- Empower the people through a tax payer bill of rights.
- Adjust spending to revenue and not the other way around.

**To get Connecticut to grow again, we must play the film backwards**

- For the 15 years, between 1976 and 1991 (before the state income tax existed), Connecticut's growth in per capita gross state product was #1 in the nation. We need to return to the prosperous past.
- The table below shows what happened to the 11 states that added an income tax after 1960, including Connecticut. Each and every state declined relative to the rest of the U.S. in every major metric!

	Metrics of the 11 States That Adopted an Income Tax Post-1960 (including CT and CT separately) versus the Percentage of the 39 Remaining States										
	Maximum Tax rate		Population			GSP			Tax Revenue		
	Initial	Current	5 Years Before	2016	% Change	5 Years Before	2016	% Change	5 Years Before	2015	% Change
11 State Equal Wt. Average	3.2%	5.9%	45.1%	29.0%	36% Decline	49.2%	29.0%	41% Decline	42.5%	31.0%	27% Decline
Connecticut	1.5%	7.0%	1.8%	1.4%	21% Decline	2.4%	1.9%	22% Decline	2.4%	2.2%	5% Decline

Source: U.S. Census Bureau, Bureau of Economic Analysis, Tax Foundation

- The reason why Connecticut's declines are less than the 11-state average is simply because the other 10 states introduced their income taxes longer ago than Connecticut and, therefore, had more time to collapse than Connecticut has had.