

House Republican Press Release

January 24, 2009
Press Office: 860-240-8700

Time for the Economic Heavy Lifting



By John E. Stripp

A new session has begun at the State Capitol and it is quite the economic conundrum. I recommend you read the January 24th New York Times article entitled "In Fiscal Balance, a Sisyphus-Like Labor" by Gregory Hladky for a great summary of what is in-store for Connecticut in the coming months and years. This is the year in which we set the state budget for the next two years. These years present a combined deficit projected at over \$6 billion. Before that though we will have to deal with a deficit of almost \$1 billion for this fiscal year which ends June 30, 2009.

We didn't get here overnight. In 1991, when Connecticut first adopted an income tax, our annual spending was at \$4 billion. Now it is at \$18 billion. The income tax has become the largest source of revenue, 45% of which comes from Fairfield County. Clearly Fairfield County has been counted on to fuel the spending rocket of the state.

Having rejected the Governor's efforts to address the fiscal crisis in two special sessions over the past six months, the legislature can't duck it any longer. Since we are required to produce a balanced budget, there are really only three options: 1. Reduce spending, 2. Raise taxes, 3. Call Uncle Sam.

To reduce spending is a real challenge, just by the make-up our budget. Personnel costs, debt service and entitlements together amount to half our expenses. So any reductions are limited to the rest of the budget. Included there are programs that meet real needs and on which many people depend. There are also expenses that have a strong political constituency, but that can be safely deferred. There are going to be tough choices and a need for political courage. This session I am continuing my seat on the Appropriations Committee. I don't look forward to more all-nighters in Hartford, but I am excited to be at a key point in the solution process. Spending is where our trouble began. Spending is where solutions have to be found.

There is little enthusiasm for raising taxes, even among those who usually warm to the idea. Income tax revenues are currently reported to be down 12% while sales tax returns have slumped 16%. To increase the sales tax would certainly delay recovery and increase a regressive tax on people who already can't afford their purchases. The income tax take comes mostly from people at the upper income levels. But there are fewer people at those

levels, so the income tax would have to raise more money from broader base. The 12% decline in income tax revenues would need to be overcome just to bring us back to where we were. So to find a broad solution in the income tax would require a very major boost in the tax rate and its extension to more modest income levels. Some see an opportunity to increase the gasoline tax since gas prices have fallen. But the feds may have an eye on the same thing and gas prices are not likely to remain low forever.

Finally, there is a persistent hope that Washington will come through for us. Indeed, a large stimulus package seems likely and in fact we have suggested a number of local "shovel-ready" projects to be put in Connecticut's stocking. Certainly, funding projects in Connecticut will create jobs for people who will pay taxes, and purchase goods and services. But that is likely to be a more-longer term result. This aid will not take care of any budgetary problem that we face in the short term. Connecticut can't expect to just get a big check every year from DC. Hey, we're not GM.