Testimony of
Lori J. Pelletier, President
Connecticut AFL-CIO

Finance, Revenue and Bonding Committee
April 2, 2018

HB 5584 An Act Establishing A Tax Credit for Employers That Provide Paid Family and Medical Leave Benefits and Concerning Family Medical Leave Accounts

HB 5587 An Act Concerning the Commission on Fiscal Stability and Economic Growth

SB 531 An Act Concerning the Assessment of a Fee on Certain Employers

SB 538 An Act Establishing An Office of Regional Efficiency Development

Good afternoon Representative Rojas, Senator Fonfara, Senator Frantz and members of the Appropriations Committee. I am Lori Pelletier and I am proud to serve as President of the Connecticut AFL-CIO on behalf of over 900 affiliated local unions that represent more than 220,000 working men and women in every city and town of our great state. Thank you for the opportunity to provide testimony a number of bills on your agenda today.

HB 5584 An Act Establishing A Tax Credit for Employers That Provide Paid Family and Medical Leave Benefits and Concerning Family Medical Leave Accounts

All working men and women deserve the security of paid leave to deal with serious personal and family health issues, but an employer-based tax credit will not guarantee that all workers have access to paid leave. Tax credits will subsidize companies that have already made investments in paid family leave. There is no evidence that additional companies will offer new paid leave benefits.

An employer-based tax credit would increase, rather than decrease, disparities in access to paid family leave by offering incentives to employers who are already inclined to do the right thing while doing nothing to provide access to people who work for employers who are unwilling to make changes – those who have large and mainly lower-paid workforces.

A tax credit means that employers will be paying less income tax and that will either have to be offset by a reduction in government services or an increase in taxes somewhere else. That may be a worthwhile public investment, if paid family and medical leave could be universally accessed in this manner. Sadly, the bill does not make the provision.

While we are glad to see that paid family and medical leave has become an issue that legislators on both sides of the aisle recognize as critical to the wellbeing of workers, families and businesses in Connecticut, we cannot support the establishment of a tax credit that will not provide any benefit to the workers who need it most. Instead, we welcome bipartisan support for SB 1, which creates a comprehensive paid family leave program that can be accessed by all Connecticut workers. Under SB 1, workers would contribute to the program via payroll contributions and would receive 100% of their weekly earnings up to a cap of $1,000 when they need to take time off from work to care for an ill loved one, a new baby, or themselves.

We urge the Committee to reject HB 5584 and instead urge members to SB 1.
SB 531 An Act Concerning the Assessment of a Fee on Certain Employers

Thank you for raising this bill. The Connecticut AFL-CIO wholeheartedly supports SB 531.

For the last several years, the state budget has been faced with a series of deficits. For many of those years, working families have shouldered the burden to close the gaps. From cutting public services and extracting wage freezes and concessions, the state has gleaned sacrifices from low and middle-income taxpayers while the wealthiest continue to escape unscathed. SB 531 begins to right the ship by holding large, mega-profitable corporations accountable for the taxpayer-funded services they steal.

Huge corporations like Walmart, Amazon, McDonald’s, Target and others exploit our safety net. It’s become part of their brazen business models. Rather than pay their workers living wages and provide them with healthcare benefits, they instead encourage, and in some cases instruct, their employees to enroll in HUSKY, apply for food stamps, claim the Earned Income Tax Credit, seek out childcare subsidies and obtain other methods of public assistance. This model allows these companies to yield tremendous profits and pay their CEOs astronomical salaries and bonuses while we, the taxpayers, foot the bill.

SB 531 would require the state to recoup just a small portion of what these companies take from us every year. The Office of Fiscal Analysis has estimated in previous sessions that bills like SB 531 would generate approximately $300 million per year. What could our state do with an additional $300 million each year? We could do a number of important things, not least of which would be to fully fund PreK-12 public education or other municipal aid streams. At the very least, we could close our current budget deficit.

SB 531 essentially applies to large retail and restaurant employers. Despite threats from the business community, they will not leave because Connecticut consumers are too lucrative a customer base to abandon. In addition, these corporations just received a significant windfall from a fifteen percent cut in the federal corporate income tax rate. There’s no question that this cut provides corporations the ability to raise wages, but we don’t have to just stand by and cross our fingers, hoping that employers will do the right thing. We can spur wage growth which has a direct correlation to sustained economic growth by passing SB 531.

In order for our economy to grow, families need to thrive as well. One does not work without the other. For that to happen, workers need to earn a fair wage. Low-wage workers typically spend the vast majority of their earnings in their local communities, shopping at retail establishments, paying rent and childcare fees and accessing public transportation. Raising wages boosts spending which creates demand for products and services, which in turn creates jobs in our state. Simple economics dictates that raising wages augments the state’s income and sales tax revenue collections without raising taxes.

Wage stagnation is not the inevitable outcome of economic forces. It is the result of the wealthy and powerful people, big corporations and Wall Street designing a global economy where wages stay low. Either the wealthy corporations start paying their employees a living wage or they pay a fee to recover the money the state has laid out to help these workers. We urge the Committee to act swiftly and favorably on SB 531 so our economy can benefit from the much needed economic boost that comes from wage growth and our budget no longer subsidizes the bottom lines of mega-profitable corporations.

SB 538 An Act Establishing An Office of Regional Efficiency Development

The Connecticut AFL-CIO supports this bill. The General Assembly has made repeated good-faith efforts to incentivize the regionalization of municipal services. Unfortunately, those well-intentioned carrots have failed to generate the full cooperation of municipal leaders. It’s time for the stick.

For too long, taxpayers have subsidized the inefficiencies of home rule. It’s time for municipal governments to provide the same level of cooperation, coordination and shared functions that other states provide at a far more affordable price.
Home rule is a fragmented, decentralized system fraught with political patronage and other disincentives to modernize and economize. That is why we welcome the creation of an executive branch office to direct regional efficiencies. However, in order for such an endeavor to be successful, it is imperative that frontline municipal workers engaged in the direct delivery of services be represented in this process. Their voices and experience can contribute greatly to successful implementation of regionalization strategies.

**HB 5587 An Act Concerning the Commission on Fiscal Stability and Economic Growth**

This Commission on Fiscal Stability and Economic Growth was given an important charge. The working women and men we proudly represent live in, work in and love Connecticut. They want to see our state be the best it can be for their families and their communities.

Sadly, the direction the Commission took and its report a tremendous disappointment. We were led to believe the recommendations would be a bold prescription for economic revitalization, but they are nothing short of a full-frontal attack on working people. The report is a rehash of divisive, failed ideas that if implemented, would continue to dampen wage growth and exacerbate inequality throughout Connecticut. Furthermore, the report is a missed opportunity to unite policymakers and taxpayers behind a plan of shared prosperity and long-term economic growth.

The Economic Policy Institute calls the Commission’s report the “wrong prescription for Connecticut” and “rife with misinformation and sloppy research.” Instead, EPI economists recommend and investment approach, believing that Connecticut is spending too little, not too much, on public services and investments to reduce unfunded liabilities. Raising revenue in a progressive fashion, they assert, would spare our most vulnerable citizens and reduce inequality, while less harm to the economy and economic growth than further cuts to vital public services.

Extending the life of this Commission that almost exclusively represents the interests of the 1% is a colossally bad idea. Giving the Commission more time to develop further recommendations that seek to “protect the wealthy,” as one Commission member explained, ignores the concerns of working- and middle-class taxpayers who have felt the brunt of austerity measures. HB 5587 doubles down on failed “trickle down” economic policies.

By charging the Commission to provide a revised report by January 1, 2019, HB 5587 also invites a new phase of slush-fund sponsored shadowy operations. Commission Co-Chairs established a 501(c)(3) non-profit organization and raised hundreds of thousands of dollars to hire consultants and public relations experts to produce the first report. How much more dark money will they raise and spend in the round two? Which vendors will have a financial interest in the report’s recommendations? We will probably never know unless the General Assembly acts favorably on HB 5271, legislation passed two weeks ago by the Government Administrations and Elections Committee to make this 501(c)(3), and any other created by a body established by the General Assembly, subject to the requirements of the Freedom of Information Act.

HB 5587 is an irresponsible abdication of the General Assembly’s responsibility. We urge the Committee to reject this bill.

We also urge the Committee to reject provisions of the Commission’s report that:

- Raise taxes that disproportionately impact working and middle class workers while providing massive tax cuts for the wealthy.

---

1. [https://www.epi.org/publication/fiscal-commission-has-the-wrong-prescription-for-connecticut/](https://www.epi.org/publication/fiscal-commission-has-the-wrong-prescription-for-connecticut/)

Increasing the regressive sales and gas taxes, while *eliminating* the estate and gift taxes shifts tax burdens away from those who are best able to meet them. Countless studies show that this kind of trickle-down tax policy actually slows economic growth because working and middle class workers spend a larger percentage of their income, thereby generating local economic activity. If they pay more in taxes, they will have less disposable income.

**Eliminate workers’ rights to collectively bargain.**

It has become a tired bit of hyperbole that state workers are the cause of all of Connecticut’s budget problems. Even though it’s politically popular to go after state workers and their medical and retirement benefits, the attacks are not based in fact:

- Pensions for average retired state employees are around $30,000 per year and dropping – *far less than the hundreds of millions distributed in corporate welfare that receive far less scrutiny*.
- 82% of the payment into the state employee pension fund was to make up for contributions not made in the past or for lost investment earnings. For 32 years, the legislature put away $0. After that, they spent the next several decades contributing less than required. Governor Malloy is the first Governor to fully fund the pension at the actuarially required amounts.
- Pensions play an important role in Connecticut’s economy by supporting jobs and generating purchasing power in our communities. In 2014, expenditures stemming from state and local pensions supported 33,792 jobs, $5.4 billion in total economic output, and $1.3 billion in federal, state, and local tax revenues.

The notion that we can solve Connecticut’s unfunded liability problems by ‘elevating them to the General Assembly’ is ill-informed. For the first four decades, Connecticut’s state employees’ pension plan was controlled solely by politicians. That is precisely when the unfunded liability was created. Through collective bargaining, workers created an enforceable funding obligation and a funding system that is affordable and sustainable for the long term.

The commission’s proposal turns a blind eye to the fact that state employees, through their unions, have saved taxpayers billions in cost saving agreements reached in 2009, 2011 and 2017. No other constituency has given as much to close Connecticut’s budget deficits. *Collective bargaining is the solution, not the problem.*

**Amend binding arbitration laws to permit award of compromise outcomes.**

The Commission proposes changing binding arbitration requirements for municipal employees and teachers to permit so-called “binding interest arbitration” instead of “last best offer” arbitration. They claim it would save time and money by allowing arbitrators to make compromise awards. They are wrong.

In “last best offer” arbitration, the arbitrator must choose the position of the party with the strongest case, based upon the statutory factors set by the General Assembly. He or she is not allowed to compromise. Allowing the Arbitrator to compromise encourages the parties to establish extreme positions, knowing the arbitrator will instead choose a middle ground. Because the current “last best offer” system requires parties to present legitimate, rational cases to support their positions, it removes the posturing an inflation that can come with “binding interest arbitration.” The current “last best offer” arbitration system in fact encourages more settlements, decreases overall arbitration costs, and reduces the differences among the parties if they do go to arbitration.

The last time the General Assembly extensively reviewed arbitration in 2006, the bipartisan Program Review and Investigations Committee found that arbitration was used for only ten percent
of teachers’ settlements and four percent of municipal settlements.\(^3\) The same report found that the majority of awards were made in favor of the employer. Binding arbitration works well in Connecticut and we should not change it.

- **Raise prevailing wage thresholds.**  
The Commission’s recommendation to raise the prevailing wage threshold to $1 million on renovation projects is a short-sighted attempt to cut workers’ wages. If implemented, that action would have detrimental impacts on workers, local economies, workforce development efforts and public construction projects.

Connecticut is one of thirty-one states with prevailing wage laws that serve as a wage floor to ensure a level playing field for workers and contractors. It ensures construction projects are top-quality by using highly skilled and well-trained workers to complete projects on time and on budget.

Prevailing wage laws safeguard local construction workers against unscrupulous contractors who seek competitive advantage in the “low bid wins” world of public construction by utilizing a “low road” business model predicated upon a low-wage, low-skill, out-of-state and easily exploitable workforce. By setting wage rates, the prevailing wage allows contractors to compete fairly and win bids based on merit, productivity and efficiency.

Prevailing wage laws promote local training opportunities in skilled trades, particularly for historically underserved communities, such as minorities, youth, women and veterans. They ensure local workers gain access to job and a career training opportunity, which in turn contributes to economic growth. By earning living wages, workers spend more at local businesses and boost the economy.

After conducting a major review on prevailing wages, the Economic Policy Institute concluded in 2008 that “prevailing wage regulations do not increase government contracting costs.” There is also no good evidence that any state actually realized cost savings from repeal. In 1996, Kentucky applied its prevailing wage law to state-funded school construction. In 1997, Ohio chose exactly the opposite, exempting school construction from its prevailing wage law. The result was that median square foot costs for school construction did not increase in Kentucky, nor did they drop in Ohio.

- **Require more austerity budget cuts.**  
Recommending a further $1 billion cut to public services would be devastating to working families in our state. Further cuts to public education, public safety and other core services would make Connecticut unrecognizable. State and local government employment in Connecticut has already shrunk by 15,000 jobs (6.3%) since 2008. Further shrinking public services, and thereby the state workforce, would only serve as a drag on the economy. Austerity begets more austerity.

The economic impact of further spending cuts would be more damaging to economic growth than progressive tax increases on higher-income households or corporations. The Tax Cuts and Jobs Act passed by Congress at the end of last year gave large and permanent tax cuts to Connecticut corporations and their owners. Given this windfall, they should be able to afford modest increases in state taxes, rather than reaping the additional tax cuts the Commission proposes.

Rather than engage in yet another round of harmful austerity cuts, the state should stop subsidizing the inefficiencies of home rule. It’s long overdue for municipal governments to provide the same level of cooperation, coordination and shared functions that other states provide at a far more affordable price.

**PROCESS CONCERNS**

---

The contents of this report are no real surprise. It is the product of mostly wealthy, out-of-touch CEOs to benefit wealthy, out-of-touch CEOS. By highlighting yachts on its draft version of the report, members seemed clueless and tone-deaf about how working families are struggling to make ends meet in an economy that is stacked against them. Yet even more concerning than the substance of the Commission’s recommendations are the processes by which the Commission arrived at its proposals.

Commission membership is not a balanced representation of Connecticut’s population and members appear to have deep roots in organizations most interested in preserving a status quo that economically benefit them. Those who appear to gain the most are the Connecticut Conference of Municipalities (CCM) and the Connecticut Business & Industry Association (CBIA). Not surprisingly, many of the Commission members are directly or indirectly tied to CBIA – either as current or former board members, or with their company as a member of the business lobby. In fact, CBIA was so confident they would profit from the Commission’s recommendations that they added them to their legislative agenda before they were even made public. CCM unanimously endorsed the report.

In addition, this entire process has been plagued by a lack of transparency. The commission met behind closed doors and most of the commission members had less than 24 hours to review the recommendations before they were released.

On top of that, Commission Co-Chair, Bob Patricelli, quietly created a nonprofit organization a month before the Commission even met for the first time. Connecticut Rising, Inc., a 501(c)(3), has raised money in order to hire financial, budget, economic, public relations and other consultants to aid the Commission. According to media reports, Mr. Patricelli raised $100,000 each from Webster Bank, Yale University and his own family foundation. In the appendices, the report states an expectation that additional contributions are forthcoming from other Commission members or from organizations with whom Commission members have ties. Mr. Patricelli has not disclosed a list of who has been solicited, how much has been spent, which contracts have been executed or how vendors were selected.

The language that created the Commission on Fiscal Stability and Economic Growth provides the Commission with significant assistance, including staff from OPM and DECD. In addition, the Commission could request any office, department, board, commission or other agency of the state to supply information and assistance needed to fulfill its responsibilities. There was no need to hire additional staff, let alone create an organization and raise funds to do so. Instead, the Commission chose to proceed in the shadowy manner it did. Now we have a report created by a body that may or may not have employed individuals or firms who may or may not benefit from the policy recommendations it contains.

Mr. Patricelli has stated publicly that Connecticut Rising, Inc. will continue to exist, even though the Commission ceased its work March 1, in order to advocate for implementation of the Commission’s policy recommendations. If that is the case, the General Assembly should take every step to ensure Connecticut Rising, Inc. registers with the Office of State Ethics as a client lobbyist and files appropriate disclosure reports.

**GOING FORWARD: THE HIGH ROAD TO ECONOMIC GROWTH**

Austerity budgets and trickle-down tax policy have only worsened Connecticut’s financial troubles. It’s neither courageous, nor groundbreaking for business leaders to recommend more of what benefits them directly.

The Commission ignored proven, tested economic strategies to spur growth that would allow Connecticut to meet its obligations and restore its long-term fiscal health. While these approaches are not included in the Commission’s report, examples of an investment strategy include:

- Ending the practice by irresponsible employers of misclassifying workers as independent contractors to circumvent labor laws in order to come in as the lowest bidder on public works projects. This hurts workers and prevents honest employers from being able to compete on a level playing field.
• Recouping safety-net costs from irresponsible mega-profitable employers who pay their workers so little that they are eligible to enroll in HUSKY, apply for food stamps, claim the Earned Income Tax Credit, seek out childcare subsidies and obtain other methods of public assistance.

• Making significant investments in the state’s deteriorating infrastructure and public transportation, which creates jobs, attracts and retains millennial workers and improves our state’s quality of life.

• Investing more heavily in preK-12 education, higher education and workforce training and development programs. Connecticut has one of the best educated, highly skilled workforces, but austerity budgets have impeded efforts to prepare today's workers for tomorrow’s jobs.

• Raising the minimum wage to $15/hour for full- and part-time workers of all ages, regions and sectors by 2021 and index it to inflation beginning in 2022.

Connecticut has thrived and survived because of its ingenuity, its integrity, and its people. For too long, too many have bought into the notion that Connecticut’s success is in the past. This “rooting for failure club” has perpetuated myths, rather than focusing on our strengths. For too long, too many have bought into the notion that to make Connecticut businesses richer, you have to make its workers poorer. Workers are always willing to come to the table and do their part, but for too long now workers have been the only ones stepping up.

Connecticut needs strength. Connecticut needs a plan that doesn't scapegoat any one group, but unites us in creating a future for our children and grandchildren. We are One Connecticut, but we need an economy that works for everyone, not just the wealthy few.

We urge the General Assembly to reject this self-interested report and instead focus their attention on taking the high road. Focus on our strengths by prioritizing investments in education, higher education, workforce development and modernizing infrastructure in order to yield long-term, sustainable economic growth.
Fiscal commission has the wrong prescription for Connecticut

Report • By Josh Bivens, Monique Morrissey, and Mark Stelzner • March 22, 2018

Economic context

The Connecticut economy and the state’s fiscal position have faced headwinds in recent years. These include an economy that relies on precision manufacturing, finance, and insurance and thus is vulnerable to the loss of middle-class jobs from foreign competition, computers, and outsourcing. The state has also seen slow population growth, with actual declines since 2014.

Some of Connecticut’s problems could have been avoided, notably delays in paying for the pensions of teachers and other public-sector workers. These legacy costs date back decades. In the case of state employees, for example, the unfunded liability can be traced to the pensions of workers employed before July 1, 1984—very few of whom are still working. Similar shortsightedness has also led to underinvestment in infrastructure and higher education (Phaneuf 2017a).

The slow recovery from the Great Recession and a shrinking population make repaying debts and investing in the future more challenging. However, these challenges should not be exaggerated to justify drastic and counterproductive measures, such as those proposed by the state’s Commission on Fiscal Stability and Economic Growth (2018). Connecticut also has many advantages, including a highly skilled, educated, and productive workforce and, in most of the state, median incomes that are high even relative to the high cost of living (authors’ analysis of EPI 2018 and Bullard 2017). The state’s high income inequality creates demand for safety net programs, but also means more income is subject to the higher marginal tax rates in the state’s tax code.

Though the economic recovery has been more sluggish in Connecticut than in the rest of the country, per capita income grew faster before, and did not fall as sharply during, the Great Recession. Therefore, living standards in the state have grown about as much in the new millennium as in the rest of the country, and from a higher starting point (authors’ analysis of BEA 2018a).
Budget shortfall

The state has a $2 billion budget deficit, which is projected to grow as legacy pension costs come due. As laid out in a recent EPI report, Connecticut should close its fiscal gap by raising revenues in a progressive fashion (Bivens 2017). State and local government spending in Connecticut was 8.4 percent of the state’s gross domestic product in 2015, lower than average for the United States (9.0 percent) (authors’ analysis of BEA 2018b). While the state faces budget shortfalls, the economic impact of further spending cuts would be more damaging to economic growth than tax increases, especially progressive ones (tax hikes on higher-income households or corporations).

It is possible to boost aggregate demand and create jobs even while closing a deficit by raising revenues in ways that do less damage and by directing spending in ways that do more good. Connecticut should focus on policies that foster job creation, invest in human and physical capital, and boost the incomes and benefits of low- and middle-class families—who have a higher propensity to consume in the state and might otherwise rely on means-tested government benefits.

Moody’s economist Mark Zandi has estimated that a dollar of spending by state governments has roughly four times the fiscal stimulus as a dollar of income tax cuts (in the case of Zandi’s analysis, making the Bush tax cuts permanent) (Zandi 2010). Conversely, closing a budget shortfall by reducing spending does roughly four times as much damage to the economy as closing it by increasing revenues—and the difference is greater with well-targeted revenue increases or poorly targeted spending cuts.

Recommendations of the Commission on Fiscal Stability and Economic Growth

The report of the Commission on Fiscal Stability and Economic Growth (2018) gets this exactly wrong. Instead of closing the budget shortfall with the least damage to the economy by heeding macroeconomic multipliers, the commission would magnify the damage by closing the deficit on the spending side while shifting the tax burden to enrich the wealthy at the expense of low- and moderate-income families. While wealthy households save more of their money and spend more of it out of state, spending by low- and middle-income families fuels the state’s economy. Lower-income families already pay a much higher share of their incomes in state taxes—around 24 percent for households with adjusted gross incomes under $48,000—than millionaires, whose income share going to state taxes ranges from around 6 to 8 percent, according to a 2014 government report (Connecticut Department of Revenue Services 2014).
The commission’s regressive tax plan

Instead of addressing this gross inequity, the commission proposes a revenue-neutral tax overhaul that reduces progressive income taxes while increasing regressive sales and payroll taxes. It scraps progressive estate and gift taxes altogether. A new payroll tax proposed is effectively a tax on employment borne in large part by workers, though the commission characterizes the tax as a “corporation tax” to give the impression of shared sacrifice. Smaller employers would be fully or partially exempt from this tax, which is presumably intended to spur entrepreneurship but is as likely to increase outsourcing to subcontractors whose only competitive advantages is lower pay. A proposal to raise tolls and gasoline taxes, though earmarked toward needed transportation infrastructure, is also regressive.

The commission bemoans the volatility of tax revenues, but this volatility is only a problem when state policymakers fail to smooth spending over the business cycle. Pro-cyclical taxation (as opposed to pro-cyclical spending) actually dampens business cycles in a potentially useful way. The key is ensuring that taxes in flush years are used to pay down the pension debt or increase savings in the rainy day fund rather than increase spending or cut taxes. However, the “bond lock” provision included in the state’s 2018–2019 budget is poorly designed and draconian, and hence fails as a smart mechanism for this tax smoothing (Noonan, Marks, and Shemitz 2018). (The commission praised the bond-lock provision, but conceded that it was enacted without hearings and should be deferred a year pending further study.)

The commission provides little justification for its proposals beyond self-serving claims that the tax overhaul would make the state more competitive. It makes much of the fact that high-income taxpayers are moving to states like Florida, which has no state income tax (as well as poor schools and public services). But of course, much outmigration to states like Florida is driven by weather and retirement decisions, not tax rates.

The commission’s report implies, but fails to demonstrate, that lowering taxes on the wealthy would stem outmigration enough to recoup revenues lost from lower rates. This is highly doubtful, because all wealthy residents—not just those who might be dissuaded from leaving—would see tax cuts. Research has shown that income taxes have little effect on migration, certainly not enough to suggest that lowering rates would result in higher revenues (for an overview, see Bivens 2017 and Young et al. 2016). While the commission’s report shows that migrants to Connecticut from New York, Massachusetts, New Jersey, and California have somewhat higher incomes than migrants leaving Connecticut for these states, all these states except Massachusetts also have a higher cost of living (BEA 2018c). Connecticut is similar to other northeastern states in having net outmigration to warmer, cheaper parts of the country, especially by retirees. What differentiates Connecticut from other states in the region is not outmigration but a low birthrate. Whether or not this should be considered a problem, it is not one the commission tackles by addressing childcare costs or other means.
The commission’s harmful budget cuts

The commission recommends $1 billion in unspecified cuts to the annual budget in addition to further cuts to employee benefits. State and local government employment in Connecticut has already shrunk by 15,000 jobs (6.3 percent of the total) since 2008. While public-sector employment fell nationwide in the wake of the Great Recession and has not fully recovered, Connecticut, which had lower-than-average government employment even before the recession, is unusual in that it continues to shed government jobs (authors’ analysis of BEA 2018d; Phaneuf 2017b).

The state should not further shrink public-sector employment, which would only serve as a drag on the state’s feeble recovery and further degrade public services. Once the economy picks up steam, the state can look for ways to deploy these resources more effectively through local government consolidation and by better taking advantage of economies of scale and the state’s bargaining power to restrain health cost inflation.

The commission’s attacks on workers

The commission scapegoats public-sector workers and their unions, who have already borne the brunt of a shortfall they had no role in creating. Collective bargaining is not to blame for pension underfunding. As the AFL-CIO has pointed out, the state began prefunding pension benefits only after state workers won the right to bargain over these benefits (Pelletier 2018). In just the latest round of bargaining, state employees agreed to over $24 billion in pay and benefit cuts to help pay back a shortfall created decades ago when benefits were legislated, not collectively bargained (Phaneuf 2017c). These cuts included further reductions to pension and health benefits, including the creation of yet another lower pension tier for newly hired workers.

Nevertheless, the commission recommends revoking unions’ ability to bargain over benefits—core components of public-sector compensation that encourage employee retention. But today’s teachers and state employees are already paying a steep price for the state’s failure to pay for their predecessors’ benefits. Workers’ pension contributions have doubled while retiree health benefits have been slashed (Phaneuf 2017d). Since public-sector workers are already paid less than their private-sector counterparts, benefit cuts would have to be more than offset by higher salaries to avoid losing skilled workers (Morrissey 2016).

Unions reduce inequality and grow the middle class. While claiming concern over income disparities, the commission wants to weaken laws designed to ensure that government-funded construction projects do not undercut union pay standards. The commission also meddles in arbitration rules to promote untested methods that give neither side in an employer-employee dispute an incentive to bargain in good faith or share information and that bestow too much power on individual arbitrators.
Protecting workers’ rights also strengthens the economy. Recent research has found that unions have a positive net fiscal impact on governments by turning bad jobs into middle-class ones with benefits, thereby reducing reliance on public services (Sojourner and Pacas 2018). Even unions that raise public-sector workers’ pay reduce costs to taxpayers. This counterintuitive finding stems from the fact that public-sector unions have the largest effect on the pay and benefits of lower-paid workers who might otherwise qualify for Medicaid and other means-tested programs. An EPI report (Morrissey 2016) found that in Connecticut, as in the rest of the country, public-sector unions raise pay among less-educated workers more than among highly educated workers. Even with a union pay advantage, college-educated public-sector workers remain underpaid compared with their private-sector counterparts.

**Conclusion**

The recommendations of the Commission on Fiscal Stability and Economic Growth are unlikely to be adopted in their entirety as the co-chairs have urged. However, the report may be used as a basis for further discussion and policy advocacy, even though it is rife with misinformation and sloppy research. This includes a claim that Connecticut’s regressive sales taxes are low by national standards, which the report’s own figures belie. Another misleading claim is that pension benefits are overgenerous, based on comparisons that do not take into account salaries, years of service, or the benefit cuts Connecticut workers have already experienced. In fact, benefits are modest, especially for teachers who are not eligible for Social Security yet have a benefit multiplier equal to just 2 percent of final average salary per year of service. This is in line with what many workers receive on top of Social Security (authors’ analysis of NEA 2016 and CRR 2016).

The report exaggerates the pension shortfall by reducing projected returns on pension fund assets even though these are in line with realized returns. The commission bases its claim on 10-year returns in a period that included the 2008 financial crisis, while inflation-adjusted returns have exceeded current assumptions over both shorter and longer time periods (authors’ analysis of Connecticut Office of the Treasurer 2017; Cavanaugh Macdonald 2017a, 2017b, 2017c; and BLS 2017). Far from being aggressive, the 6.9 percent investment return assumption used by the State Employees Retirement System is already one of the most conservative in the country (NASRA 2017).

Connecticut should not make fiscal decisions that ignore national developments. The Tax Cuts and Jobs Act passed by Congress at the end of last year gave large and permanent tax cuts to Connecticut corporations and their owners. Given this windfall, they should be able to afford modest increases in state taxes, rather than reaping additional tax cuts. Further, recent federal proposals for both infrastructure and Medicaid would offload federal responsibilities for financing them onto states. These proposals have not been passed into law yet, but they seem to presage states needing more, not less, revenue in the near future.
Connecticut is spending too little, not too much, on public services and investments as it tries to repay debts incurred decades ago. The smart way out of this predicament is to raise taxes in a progressive fashion. This not only spares its most vulnerable citizens, but also does the least harm to the economy and reduces inequality. In a nod to addressing “the issue of income disparity,” the commission expresses support for an increase in the minimum wage—as do we. But this nod appears more like a feint in light of everything else in the report that would greatly increase income inequality while slowing economic growth.

About the authors

Josh Bivens is the research director at the Economic Policy Institute (EPI). Monique Morrissey is an economist at EPI. Mark Stelzner is visiting assistant professor of Economics at Connecticut College.

—The authors thank Zane Mokhiber for research assistance.

References


