
Jeremy Pilaar & Sam Whipple

Yale Law School, Legislative Advocacy Clinic

Appropriations Committee, Commerce Committee, Finance, Revenue and Bonding Committee, and Planning and Development Committee

March 23, 2018

Distinguished members of the Appropriations, Commerce, Finance, Revenue and Bonding, and Planning and Development Committees:

In its final report, the Commission urged lawmakers to judge fiscal reform proposals by the degree to which they improve the State’s “competitiveness.”1 We agree with the Commission that “[a] competitive state creates an environment that helps businesses and workers be productive and where residents enjoy a high quality of life.”2 However, Connecticut should not model itself after the “aspirational” states the Commission designated as among the country’s most competitive.

The Commission contradicted its own, broad definition of competitiveness by selecting aspirational states along just one dimension, the “cost of doing business.”3 This metric mainly encompasses taxation, regulatory compliance costs, and the price of business inputs.4 This narrow yardstick led the Commission to showcase three states known for their low taxes and minimal regulations: Florida, North Carolina, and Texas.5

These states fail to live up to the wide-ranging vision of prosperity that the Commission laid out in its report. Instead, they tell a cautionary tale about the price of cutting taxes and the vital services that tax revenues fund.

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2 Id. at 17.
3 Id. at 18.
4 Id. at 16.
First, Florida, North Carolina, and Texas display some of the worst poverty, health, and educational outcomes in the nation (see Exhibit A).

**Poverty.** In 2016, the percentage of people below poverty in these states was well above the 14 percent national average and the 9.8 percent rate in Connecticut. Florida’s poverty rate was 14.7 percent, North Carolina’s was 15.4 percent, and Texas’ was 15.6 percent. This translates to the 34th, 38th, and 39th-worst poverty levels in the country, respectively. The same pattern manifested itself with respect to child poverty. While 17.6 percent of American children and 15.7 percent of Connecticut children lived below 100 percent of poverty in 2016, this rate stood at 18 percent in Florida, 18.7 percent in North Carolina, and 18.9 percent in Texas—the 31st, 34th, and 37th-worst levels.

**Health Care.** These three states also achieve poor health outcomes across a range of indicators. In 2017, the United Health Foundation ranked Florida 32nd, North Carolina 33rd, and Texas 34th in overall health quality. That same year, these states had the 29th, 42nd, and 23rd-highest infant mortality rates in the country, respectively. Florida and Texas also had the 36th and 43rd-worst maternal mortality rates in the nation. By comparison, Connecticut was ranked 5th in overall health, 15th in maternal mortality, and 9th in infant mortality.

**Education.** Finally, these three states’ educational systems badly underperform both Connecticut and the national average. Education Week’s 2016 ranking of public K-12 system quality placed Florida 29th, North Carolina 39th, and Texas 40th. Similarly, these three states’ school financing levels ranked 28th, 38th, and 39th. This lack of investment was evident in poor test results. According to the Department of Education’s National Assessment of Educational Progress (NAEP), Florida, North Carolina, and

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7 Id.
10 Id. at 30.
12 UNITED HEALTH FOUNDATION, supra note 9.
13 Id. at 30.
14 UNITED HEALTH FOUNDATION, supra note 11.
Texas’ 8th graders respectively scored 32nd, 39th, and 38th in reading and 42nd, 30th, and 22nd in math.\textsuperscript{17} Connecticut, by contrast, was 5th in both overall school quality\textsuperscript{18} and finance,\textsuperscript{19} ranked 20th in reading,\textsuperscript{20} and placed 4th in math.\textsuperscript{21}

Second, these states’ low business costs have done little to stimulate their economies overall (see Exhibit A). In fact, with the occasional exception of Texas, these states exhibit some of the lowest per-capita GDPs, median family incomes, and employment growth rates in the nation.

\textit{Change in Employment Since 2007}. All three states experienced negative employment growth between 2007 and 2017. \textit{Over this period, the employment rate contracted by 0.3 percent in Texas, by 2.7 percent in North Carolina, and by 3.1 percent in Florida.}\textsuperscript{22} This translates to the 12th, 42nd, and 43rd-worst performances among all states.\textsuperscript{23}

\textit{GDP per capita}. While Connecticut’s 2016 GDP per capita was $63,636, Texas’ was $10,000 lower ($53,129), North Carolina’s was nearly $20,000 lower ($44,511), and Florida’s was almost $25,000 lower ($39,506).\textsuperscript{24} Put another way, \textit{while Connecticut’s 2016 per-capita GDP was the 5th-highest in the country, Texas’ was 15th, North Carolina’s was 31st, and Florida’s was 41st}.\textsuperscript{25}

\textit{Median Family Income}. In 2016, the median income for families with children stood at $92,200 in Connecticut.\textsuperscript{26} This placed it 3rd-highest in the nation. By contrast, \textit{Texas ranked 35th ($61,500), North Carolina ranked 37th ($59,600), and Florida ranked 40th ($56,900)}.\textsuperscript{27}

\textsuperscript{18} \textsc{Education Week Research Center, supra note 15}.
\textsuperscript{19} \textsc{Education Week Research Center, supra note 16}.
\textsuperscript{20} \textsc{National Center for Education Statistics, supra note 17}.
\textsuperscript{21} Id.
\textsuperscript{23} Id.
\textsuperscript{24} \textsc{Bureau of Economic Analysis, 2016 Per Capita Real GDP by State (Chained 2009 Dollars)}, https://www.bea.gov/iTable/drrd/cfnde.cfm?reqid=70&stepnum=11&AreaTypeKeyGdp=1&GeoFipsGdp=XX&ClassKeyGdp=naics&ComponentKey=1000&IndustryKey=1&YearGdp=2016&YearGdpBegin=-1&YearGdpEnd=-1&UnitOfMeasureKeyGdp=levels&RankKeyGdp=1&Drill=1&nRange=5.
\textsuperscript{25} Id.
\textsuperscript{26} \textsc{Annie E. Casey Foundation, Kids Count Data Center: Median Family Income Among Households With Children, 2016 (2017), http://datacenter.kidscount.org/data/tables/65-median-family-income-...households-with-children?loc=1&loct=2#ranking/2/any/true/870/any/365}.
\textsuperscript{27} Id.
Finally, all three states’ December 2017 unemployment rates stood near or above the national average of 4.1 percent.\textsuperscript{28} Texas’s unemployment rate was \textsuperscript{23}rd-highest in the nation (4 percent), Florida’s was \textsuperscript{22}nd (3.9 percent), and North Carolina’s was \textsuperscript{32}nd (4.5 percent).\textsuperscript{29}

These poor economic and social outcomes are unsurprising. The main reason Florida, North Carolina, and Texas rank highly in “business competitiveness” indices is that they have low or non-existent personal and corporate income taxes. Yet, decades of academic and case-based research have demonstrated that income tax cuts do not promote growth (see Exhibit B).\textsuperscript{30} Such reductions instead decimate public revenue and make it more difficult to fund the infrastructure, education, and health services needed to maintain an innovative workforce.\textsuperscript{31}

Connecticut should therefore resist the Commission’s call to emulate these states’ tax-cutting strategies. Rather, it should emulate states that have both high standards of living and strong economies, such as Massachusetts, Maryland, and Minnesota (see Exhibit A).

Thank you for this opportunity to testify. Please do not hesitate to contact us if we can be of any further help to this Committee’s deliberations.

Sincerely,

Jeremy Pilaar & Sam Whipple
Clinical Students
Yale Law School Legislative Advocacy Clinic
jeremy.pilaar@yale.edu
sam.whipple@yale.edu


\textsuperscript{29} Id.


Exhibit A
In its final report, the Commission on Fiscal Stability and Economic Growth urged lawmakers to model Connecticut after Texas, North Carolina, and Florida. It argued that Connecticut should emulate these states because their low tax rates make them more attractive to business. Lower taxes, however, come at the expense of public services. Consequently, these states have some of the worst poverty, health, and educational outcomes in the country. Increased “business competitiveness” also seems to have little bearing on the broader economy. Indeed, these states have some of the lowest per-capita GDPs and median family incomes nationally. If Connecticut wants to get serious about improving residents’ wellbeing, it should emulate the states that perform best along these metrics, such as Massachusetts, Minnesota, and Maryland.

<table>
<thead>
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<th>TAXES</th>
<th>ECONOMY</th>
<th>HEALTH</th>
<th>EDUCATION</th>
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<tr>
<td>FL</td>
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<td>41st ($39,506)</td>
<td>40th ($56,900)</td>
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<tr>
<td>NC</td>
<td>5th</td>
<td>31st ($44,511)</td>
<td>37th ($59,600)</td>
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<td>TX</td>
<td>2nd</td>
<td>15th ($53,129)</td>
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<tr>
<td>CT</td>
<td>43rd</td>
<td>5th ($63,636)</td>
<td>3rd ($92,200)</td>
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<td>20th</td>
<td>1st ($65,281)</td>
<td>1st ($98,400)</td>
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<td>30th</td>
<td>11th ($56,070)</td>
<td>4th ($91,700)</td>
</tr>
<tr>
<td>MN</td>
<td>4th</td>
<td>12th ($54,414)</td>
<td>6th ($85,100)</td>
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</tbody>
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Coding scheme (where 1st indicates the best performance and 50th indicates the worst):
- States ranked 1st to 10th
- States ranked 11th to 20th
- States ranked 21st to 30th
- States ranked 31st to 50th

Exhibit B
Debunking Income Tax Myths: Rate Reductions Won’t Grow the Economy

Jeremy Pilaar & Sam Whipple
Yale Law School

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On March 1st, 2018, the Connecticut Commission on Fiscal Stability and Economic Growth published its final report. The Commission faulted high taxes for making Connecticut an uncompetitive place to do business. Accordingly, its main recommendation was to “[d]ramatically reduce personal income tax rates, phased in over three years starting in FY 2020, by 18% in the top bracket (from 6.99% to 5.75%) [and] by similar or greater amounts in lower brackets . . .”\(^1\)

While the Commission had the best of intentions, its proposal is based on a supply-side theory that has been debunked by decades of empirical evidence. This theory suggests that decreasing tax rates will spur economic growth by increasing the return to work, savings, and investment. As a matter of implementation, however, this premise has not held up.

Over the past sixty years, both state and federal policymakers have tried to stimulate the economy by shrinking income taxes. None of these experiments, however, has produced the desired results. This is consistent with a broad academic consensus that income tax cuts have no significant effect on growth. Instead, such reductions mainly decimate public revenue and make it more difficult to fund the infrastructure, education, and health services needed to maintain a strong workforce.

In light of these failed experiments, it is clear that Connecticut cannot cut its way to prosperity. Slashing income taxes, as the Commission proposes, will do little to boost growth, while compromising the State’s ability to provide crucial services.

1. Prior National Income Tax Cuts Have Not Spurred Economic Growth

- Since the 1950s, Congress has continually reduced the top marginal income tax and capital gains rates. The top marginal rate remained above 90% throughout the late 1940s and 1950s. Today, it stands at just 37%. Similarly, while the top capital gains rate was 25% in the 1960s and 35% in the 1970s, it is now only 15%.\(^2\)

- Supply-side theory would predict that these rate decreases bolstered economic growth. However, a 2012 analysis by the non-partisan Congressional Research Service discovered that these changes were “uncorrelated with saving, investment, and productivity growth. The top tax rates appear to have little or no relation to the size of the economic pie.”\(^3\) A 2016 study by the Brookings Institution came to the same conclusion.\(^4\)
A closer look at individual tax reforms in that period reinforces this finding. In 1981 and 2001, Congress significantly lowered personal income tax rates, especially for high earners. In 1993 and 2012, by contrast, Congress raised income tax rates for the wealthiest Americans.

Supply-side theory would predict that the rate decreases much more positively affected growth than the increases. However, this was not the case. The average annual growth rate of 3.6% in the five years after the 1993 tax increase closely tracked the 3.9% growth rate in the five years following the 1981 tax cut. These two growth rates were also much higher than the 2.6% average growth rate achieved in the five years after the 2001 tax cut, which was similar to the five-year average growth rate of 2.1% that followed the 2012 tax increase.\(^5\)

In short, there is little national-level evidence that cutting income taxes for high earners boosts growth.

2. Prior State Income Tax Cuts Have Not Spurred Economic Growth

The story is much the same at the state level. Decades of reform experiments have shown that reducing state income taxes does not promote growth.

During the late 1990s, six states significantly reduced personal income taxes: Colorado, Connecticut, Delaware, Massachusetts, New Jersey and New York. Proponents of the cuts predicted that they would strengthen their states’ economies. However, between 2000 and 2007, the first full economic cycle after the cuts’ implementation, these states created fewer jobs and had slower income growth than the rest of the country. The top five tax-cutting states experienced average job growth of less than 0.3% per year, compared to 1.0% for the other 44 states. Furthermore, in all of these states but Delaware, personal income grew more slowly than in the other 44 states.\(^6\)

This pattern repeated itself in the 2000s. In the years before the great recession, six states enacted major personal income tax cuts: Arizona, Louisiana, Ohio, Rhode Island, New Mexico, and Oklahoma. The first four of these states saw their share of national income decline between the year they were enacted and 2014. Only Oklahoma witnessed significant growth. However, as an oil- and natural gas-rich state, it likely owed its success to rise of fracking and to the tripling of oil prices in the mid-2000s.\(^7\)

Astonishingly, given these results, yet more states have undertaken tax cuts in the current decade. Since 2010, more than a dozen states have reduced personal income tax rates in the hopes of boosting economic growth. Five states cut their rates particularly dramatically between 2010 and 2015: Kansas, Maine, Ohio, Wisconsin, and North Carolina. Predictably, none of these states has seen its economy surge. Instead, job growth in Kansas, Maine, Ohio, and Wisconsin has lagged the national average in the years since their tax cuts were enacted.\(^8\)
Individual examples demonstrate that large-scale tax cuts in fact lead to fiscal catastrophe.

- Kansas paid a heavy price for adopting the most aggressive state income tax decreases in American history.
  - In 2012 and 2013, the state slashed its top income tax rate by nearly 30% and cut taxes on pass-through businesses to zero. Governor Sam Brownback declared that the reforms would stick “a shot of adrenaline into the heart of the Kansas economy.”
  - Instead, the state badly underperformed relative to its neighbors and the rest of the country. Between December 2012 and May 2017, Kansas’ private-sector job growth rate averaged just 4.2%. This was lower than in all surrounding states other than Oklahoma and less than half of the 9.4% national growth rate.
  - Similarly, the number of Kansans reporting income from a pass-through business grew by just 4.1% between 2012 and 2015. This was well below the 6.2% rate for nearby Colorado and the 5.4% rate for the United States as a whole.
  - As a result, the state’s inflation-adjusted gross domestic product lagged both neighboring and national averages. Between the fourth quarter of 2012 and the second quarter of 2017, Kansas’ economic output grew by just 5.4%, compared to 11.4% for the United States and 9.7%, 12.4%, and 16.7% for neighboring Nebraska, Iowa, and Colorado, respectively.
  - Altogether, as a 2018 study by the Center on Budget and Policy Priorities concluded, “there is overwhelming evidence that Kansas’ enormous tax cuts failed to improve the state’s economic performance relative to its neighboring states and all 50 states taken together to any significant degree.” This finding is consistent with the three academic studies that have examined the Kansas reform.

- Louisiana passed a $600 million tax cut in 2008 that continues to destabilize its budget.
  - Corporate credits and subsidies failed to deliver promised growth. In 2016, the state paid out $210 million more to corporations than it received from them in taxes.
  - Because the offsetting economic growth never arrived, a structural budget deficit has emerged. Since 2008, the state legislature has reconciled annual shortfalls by cobbling together temporary taxes and raids on the rainy day fund.
A temporary sales tax increase worth $1 billion is set to expire in June 2018, which has forced the legislature into emergency session.\textsuperscript{17}

- **Oklahoma** enacted drastic tax reductions while riding on unreliably high oil production.

  - Since 2004, the state has lowered top marginal income tax rates by one quarter. Combined, these breaks are now costing the state $1 billion in revenue per year.\textsuperscript{18} The most recent round came in 2014, just as oil prices were falling.

  - The state slashed its oil and gas taxes from 7\% to 2\% for most new wells, which is the lowest rate in the country. Foregone revenue amounts to $450 million annually.\textsuperscript{19} Even so, oil drilling collapsed after 2014, in step with dropping oil prices and international trends.

  - Today, U.S. News ranks Oklahoma’s economy 36\textsuperscript{th} among the states. It is 27\textsuperscript{th} in growth, 41\textsuperscript{st} in employment, and 34\textsuperscript{th} in business environment.\textsuperscript{20}

  - These state portraits affirm a clear academic consensus that lowering personal income taxes does not promote growth. Since 2000, scholars have published 15 studies in high-impact journals exploring the link between state personal income tax levels and economic growth. Of these, 11 have found no significant effects and one has produced internally inconsistent results.\textsuperscript{21}

3. **State Income Tax Reductions Have Prompted Devastating Cuts to Public Services**

- While income tax cuts do not generate growth, they do have severe fiscal effects: draining state coffers of billions of dollars in revenue and making public service cuts all but inevitable.

- **Here again, individual state histories are instructive. They show that tax reductions leave governments unable to support critical services.**
  - **Kansas**' income tax reductions sent its budget into a tailspin.
    - Between fiscal years 2012 and 2016, nominal General Fund spending rose just 0.3 percent. Inflation-adjusted General Fund spending per resident actually decreased by 5.5 percent over the four-year period. Relatedly, the number of state employees fell by 4 percent.\textsuperscript{22}
    - Between 2012 and 2017, Kansas reduced real per-student higher education investment by 2 percent.\textsuperscript{23}
    - To bridge persistent deficits, the state further raided funds and delayed payments to the score of $3.1 billion. This included
diverting $2.5 billion from the State Highway Fund, preventing the state from undertaking badly-needed road maintenance; postponing payments of more than $407 million to the employee retirement system; draining $127 million from economic development programs; and re-allocating $47 million originally set aside for children’s programs.24

- Kansas also borrowed $1 billion to stabilize its employee retirement account, adding to the state’s long-run debt burden.25
- Ultimately, chronic deficits and program cuts became too much for voters and their representatives to bear: in June 2017, the Kansas legislature terminated its supply-side experiment, moving personal income and business tax rates back to where they were in 2012.26

  o **Louisiana** now faces looming cuts amounting to 30% of all discretionary spending.
    - The legislature convened an emergency session to consider a new sales tax hike and a change to personal income tax deductions. Unless the legislature can raise revenue, a “doomsday budget” will force massive cuts to education and healthcare.27
    - In-state college tuition grants through the Taylor Opportunity Program for Students (TOPS) would be cut by $233 million (80%). Incoming students are choosing their schools without any guarantee of TOPS grants. Health services funding would fall by $660 million, primarily hitting charity hospitals, clinics for the poor, and programs for the elderly and disabled.28

  o **Oklahoma** has cut many agencies by 40% and is sacrificing basic services.
    - After slashing school funding by 23.6% between 2008 and 2015, Oklahoma cut an additional 16.5% in 2016 alone. Many districts are now operating on a four-day school week, and uncompetitive teacher pay is pushing talent out of the state.29
    - In 2017, state patrol officers were assigned mileage limits to save on gasoline, and prison overcrowding pushed the corrections system into crisis.30
ENDNOTES


3 Id.


7 Id. at 4–5.

8 Id. at 2–3.


10 Id. at 6.

11 Id. at 9.

12 Id. at 7.

13 Id. at 10.


19 David Blatt, We must end oil and gas tax breaks to save Oklahoma communities (Oklahoma Policy Institute, Apr. 2017), https://okpolicy.org/must-end-oil-gas-tax-breaks-save-oklahoma-communities/.


21 Leachman & Mazerov, supra note 6, at 6–9.

22 Mazerov, supra note 9, at 16–17.
23 Id. at 17.


25 Id.

26 Mazerov, supra note 9, at 1.


