Wage freezes, school cuts in Connecticut budget

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The state of Connecticut is facing a growing budget deficit for its current fiscal year, which ends June 30, 2013. In monthly press releases issued by the comptroller, the projected gap grew from $60 million in the November estimates to $415 million only a month later. While the bourgeois press blames the usual bugaboos—increased state spending, especially on Medicaid—and insists on the usual "reforms"—attacks on state jobs and on public education—the state's debacle is, in fact, being caused by the global economic crisis.

Democratic governor Dannel Malloy and the state Office of Policy and Management are proposing mid-year cuts of nearly $400 million because of the gap, to take effect before the end of the fiscal year on June 30. The Department of Social Services will be especially hard hit: the governor already rescinded more than $32 million from its budget at the end of November, and his latest "roadmap" includes additional cuts of nearly $122 million. The cuts will be realized through wage freezes, the elimination of jobs, and the closing of programs and facilities.

A total of $37 million in employee benefits would be cut statewide, according to the proposal dated December 7. Cuts of $22 million are proposed for the Department of Education, $23 million for the Department of Children and Families, $26.7 million for the Department of Developmental Services, and $1.5 million for the State Library.

Connecticut has already cut more than 11,000 state jobs in recent years and has begun a battle against public education. During his first two years in office, Malloy forced through legislation tying teachers' pay to performance evaluations. His predecessor, a Republican, negotiated more than $700 million in wage and benefit cuts with the public employee unions. The state's fiscal year 2011 financial statements detailed that agreement as follows: "the agreement imposed a wage freeze for two years, capped the salary level used to calculate pensions, increased the pension reduction for early retirement, imposed a 3 percent contribution rate on active employees to fund retiree health care, lowered the minimum cost of living pension adjustment and implemented a Health Enhancement Program designed to reduce health care costs by promoting preventative care and by more appropriately directing points of service delivery."

The immediate causes of the current crisis are lower-than-expected tax revenues—especially from regressive sales taxes—and increased spending on Medicaid. Planned changes to that program have resulted in the enrollment since July of 4,000 low-income adults not previously covered. Republicans have used this limited increase in social benefits to attack Malloy as a liberal spendthrift.

The increase in Medicaid enrollees should, however, be reconciled to Connecticut's growing unemployment rate and income inequality. Unemployment increased from 7.8 percent in May to 8.9 percent in November and 9 percent in December. In some areas, such as Waterbury and Willimantic, it is above 10 percent, while in New Haven it stood at 9.3 percent as of September. The state lost 117,500 nonfarm jobs between March 2008 and February 2010, and has recovered only 30,000 since then.

The Winter 2013 edition of "The Connecticut Economy," a review published by the University of Connecticut (UConn), reported that the state lost 4,000 jobs in the second three months of this year and another 1,700 between July and September. Of these, 1,800 were in construction and 2,400 in the "transportation, trade and utilities sector," which includes retail workers. Nearly 1,300 temps lost their jobs, many in

the areas of the state closest to New York and its investment firms.

The UConn review also found that workers' productivity is increasing while their wages stay flat. In contrast to the recovery periods after the recessions of the 1980s and early 1990s, workers' wages have hardly increased since February 2010. Yet, "in 2011, when Connecticut ranked 10th in GDP growth among states, manufacturing was responsible for more than a quarter of the state's 2 percent increase in real output," despite the decrease in manufacturing jobs that has occurred since 1970.

While working harder, people are struggling to afford their homes. Before the 2008 crash, workers' ability to buy homes in Connecticut was being squeezed by prices. A 2006 Federal Reserve Bank of Boston report titled "Two Tales of Connecticut" found that, between 1995 and 2005, the Real Annual Median Income for the third quintile of workers decreased in comparison to the income needed to buy a median-price house. In the Bridgeport-Stamford-Norwalk area, the ratio dropped from about 1.1 to less than 0.75; in the Hartford area, from more than 1.25 to about 1.1.

According to more-recent figures from the Federal Reserve, the foreclosure rate in Connecticut (as a percentage of existing loans) soared to nearly 1 percent by the beginning of 2010. Among the New England states, only Rhode Island had a higher rate. In August 2012, according to the state comptroller's figures, the median price of a home was $240,000.

As governor, Malloy inherited a structural deficit of more than $3 billion from Jodi Rell, his predecessor. He reacted by forcing income and sales tax increases through the legislature. What he didn't address are the policies causing crises in Massachusetts and other states: cut-rate taxes on corporations and huge debts owed to predatory bond lenders.

In fiscal year 2012, income taxes made up 45 percent of revenues in Connecticut's general fund, and sales taxes 20 percent. In crass language, the *National Review* complained that when it increased taxes, the government "stuck it to the poor, ending sales-tax exemptions on necessities including non-prescription medications and cheap children's clothing."

Not only are sales and income taxes regressive, they are unstable. While sales tax revenues went up by nearly $500 million after 2011 rate increases, they are now falling again and adding to the projected deficit. The same is true of income taxes, which fell by 2 percent in the third quarter of this fiscal year. Not surprisingly, capital gains tax revenues are more volatile than income taxes on workers, who cannot afford lawyers and accountants to shield their money.

As is commonplace now in the United States, corporate taxes are a pittance in Connecticut. In fiscal year 2012, they were only 4 percent of general fund revenues, according to the Comptroller. The 2006 "Two Tales of Connecticut" report by the Federal Reserve found that the state's business taxes as a percentage of profits was 32.5, the 11th lowest in the country and lower than the US average of 35.8 percent.

The state's 2011 financial statements boasted of "special attention to keeping Connecticut's tax structure competitive with the tax provisions found in other states in the region." In other words, corporations threaten to relocate to cheaper places, thereby bullying the state into cutting its rates.

At the end of fiscal year 2012 (June 30, 2012), Connecticut owed $17.28 billion on borrowings for its general and transportation funds. Per capita, this burden was $5,200—the highest rate in the country. The debt was 9.5 percent of total personal income, tying Connecticut with Massachusetts for the second-highest rate. Connecticut paid $165 million in debt service that year, more than enough to cover all the threatened cuts to the Department of Social Services.