

ADVANCING ECONOMIC JUSTICE THROUGH TAX REFORM

EXECUTIVE SUMMARY



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Connecticut's economy has a highly unjust distribution of income and wealth in general as well as a highly unjust distribution of income and wealth by race. A major cause of economic injustice in Connecticut is the unfair distribution of pre-tax income and wealth gains from economic growth, which have gone primarily to the wealthy for the last several decades. For example, the average pre-tax income in 2018 for the top one percent of tax filers (\$3,092,389) was 40.6 times greater than the pre-tax income for the median household (\$76,106) and 64.6 times greater than the pre-tax income for the median Black household (\$47,856).

Another major cause of economic injustice in Connecticut is the regressive—or unfair—state and local tax system, which requires working- and middle-class families, especially those of color, to pay a higher percentage of their incomes in taxes than the wealthy. For example, Connecticut requires working-class families (those earning \$53,418 a year or less) to pay on average 23.62 percent of their income in state and local taxes but requires the wealthiest families (those earning \$681,862 a year or more) to pay on average only 7.44 percent of their income in state and local taxes. This exacerbates pre-tax income inequality and thereby contributes to wealth inequality. Moreover, by decreasing the income and wealth available for working- and middle-class families to spend and increase economic demand, Connecticut's regressive tax system slows economic growth, which hurts all of the state's families.

Along with the decades-long rise of economic injustice and the regressive tax system contributing to that problem, the ongoing coronavirus pandemic-induced recession is accelerating the rise of economic injustice and causing substantial budget deficits that are creating considerable pressure to cut government spending on essential services at a time when government support is more needed than ever.

This combination of economic problems in Connecticut severely threatens the well-being of the state's working- and middle-class families, especially those of color. At the same time, it provides an opportunity to step back and consider sweeping proposals. To guide that discussion, this report proceeds in four sections.



The first section provides an overview of economic injustice in Connecticut. The following is a summary of the key findings:

- Income inequality has been rising for several decades in the U.S. and has recently reached the highest levels since at least the end of the Second World War in 1945; and income inequality is even greater in Connecticut than in the U.S. as a whole.
- The decades-long rise in income inequality in the U.S. includes a substantial racial income gap, which exacerbates income inequality for households of color; and the racial income gap in Connecticut is even greater than in the U.S. as a whole.
- Wealth inequality has been rising for several decades in the U.S. and has recently reached the highest levels since at least the end of the Second World War in 1945; and wealth inequality is even greater in Connecticut than in the U.S. as a whole.
- The decades-long rise in wealth inequality in the U.S. includes a substantial racial wealth gap, which exacerbates wealth inequality for households of color; and the racial wealth gap in Connecticut is even greater than in the U.S. as a whole.
- Economic growth in the U.S. has slowed to the lowest average level since at least the end of the Second World War in 1945, and economic growth has slowed even more in Connecticut than in the U.S. as a whole since the Great Recession of 2007–09.
- Altogether, these economic indicators show that in the U.S. in general and in Connecticut in particular the income and wealth shares from an increasingly slow-growing economy have overwhelmingly gone to the wealthiest families, meaning the distribution of the current economic system is highly unjust, especially for families of color. Moreover, economic injustice is important not simply in its own right but because of the ways in which it harms children from working- and middle-class families, especially those of color, in the areas of educational success, health, economic mobility, and more.

The second section provides an overview of Connecticut's regressive tax system. The following is a summary of the key findings:

- Connecticut is not an especially high-tax state when taking into account each state's personal income level—or ability to pay. And Connecticut is a low-tax state if taxation is defined more broadly to include all of the revenue that a state actually collects from its residents.
- Connecticut's tax system is regressive, meaning it requires working- and middle-class families to pay a higher percentage of their incomes in taxes than upper-class families and the wealthiest families.
- Connecticut's regressive tax system exacerbates a high level of income inequality and a substantial racial income gap, which in turn contribute to wealth inequality, the racial wealth gap, and slow economic growth.
- Altogether, this analysis shows that the most pressing tax issue in Connecticut is not the overall tax burden but rather the regressive distribution of that burden, which contributes to economic injustice.

The third section provides an overview of Connecticut's projected revenue shortfall and deficits due to the coronavirus pandemic-induced recession. The following is a summary of the key findings:

- Connecticut is projecting a multi-year revenue shortfall and substantial budget deficits.
- Filling the projected revenue shortfall would prevent cuts in government spending, which would support Connecticut's economy in general and the state's neediest families and children in particular.
- Filling the projected revenue shortfall provides an opportunity to reform Connecticut's tax system, which would further support Connecticut's economy in general and the state's neediest families and children in particular.
- The volatility cap establishes restrictions on certain revenue sources but it does not preclude policymakers from filling the projected revenue shortfall by raising taxes on the wealthy.

The fourth section provides an overview of fair tax reform options to address the three preceding problems and ensure that Connecticut's tax system works to advance economic justice rather than continue to contribute to economic injustice. The following is a summary of the key findings:

- Policymakers can raise a combination of income and wealth taxes on the wealthy in order to simultaneously raise revenue to fund essential government services, combat rising income and wealth inequality, and support the economy.
- Policymakers can raise a combination of income and wealth taxes on the wealthy *and also* lower taxes for working- and middle-class families in order to simultaneously raise revenue to fund essential government services, combat rising income and wealth inequality, and support the economy. This second approach adds a tax cut component that provides more support for working- and middle-class families and therefore more effectively combats income and wealth inequality and more effectively supports the economy.
- The Budget Reserve Fund can effectively supplement a tax reform program.
- Support from the federal government can supplement a tax reform program but it is an unreliable instrument.
- The state's capacity to borrow is severely restricted, and borrowing is a regressive instrument in the absence of tax reform.