



## **Spending Cap Hearing Testimony**

Submitted by Carol Platt Liebau, President

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Good afternoon. My name is Carol Platt Liebau. I am the president of the Yankee Institute for Public Policy, a Connecticut-based free market think tank. Our goal at Yankee is to transform Connecticut into a place where everyone is free to succeed.

As you know, 24 years ago a significant majority of voters approved a constitutional spending cap. This cap was part of a bargain negotiated between those who wanted a state income tax, and those who did not. The cap was meant to address the concerns of those who worried that state spending would grow too fast once an income tax was adopted.

Clearly, those fears were well founded. This year marks the 25<sup>th</sup> anniversary of the state income tax, and the cost of state government has grown at a much faster pace than the economy as a whole.

Last year, the Yankee Institute polled 1,000 Connecticut residents on whether they still support a spending cap – and the response was overwhelming. When asked, “Do you agree or disagree that Connecticut should still have a cap on state spending?” 82 percent of respondents agreed that a cap should be in place.

This support crossed all age groups, all ethnic groups, all political ideologies and all party affiliations. The majority of Connecticut residents unequivocally support a cap on state spending.

Voters wanted a constitutional spending cap in 1992 -- and continue to do so today -- because the people of Connecticut want a government that they can afford. They know that when spending increases faster than household income, this means that taxes go up, as well – and taxes in our state are already too high. Connecticut’s high taxes are hurting people; they are hurting job creators; and they are hurting our state’s economic growth.

This is why the best way to cap spending is to measure spending against personal income growth – this method ensures that the government does not grow faster than a household's ability to pay for the government.

Last year, lawmakers changed the definition of the statutory spending cap. The change weakened the spending cap by including payments for pension liabilities as “evidences of indebtedness,” which are exempt from the cap. This change sets a very dangerous precedent.

Connecticut's pension liabilities already place a huge burden on the state's budget. By allowing pension liabilities to grow outside the cap, taxpayers are placed at further risk from these ballooning obligations. Removing pension liabilities from the cap's protection could also incentivize future legislators to raid or under-fund the pension funds. State employee pay and benefits are a significant part of the day-to-day cost of state government, and must be treated as part of our general spending.

The Yankee Institute also continues to be concerned about the growth of state debt, which is allowed to grow outside of the cap. As part of your deliberations, we respectfully ask that you address whether the cap should limit the growth of debt service payments.

Thank you for your work to define the key terms of the spending cap. We wish you well in undertaking this difficult but crucial challenge.

Thank you.