

PENSION MELTDOWN

Connecticut Fiscal Woes Highlight Blue Model Decay

In deep-blue Connecticut, a hard truth is setting in: another round of tax hikes on the wealthiest is not a sustainable fix for the state's unaffordable public sector pension crisis. *The Wall Street Journal* reports:

The wealthiest state in the U.S. is having trouble collecting enough money to pay its bills, and the Democratic governor doesn't think taxing the rich is the answer anymore. [...]

Gov. Dannel Malloy has twice before bet that taxing the wealthy would help solve the state's fiscal problems. But neither increase resulted in sustained revenue growth, according to his administration, which says it would be a mistake to do it a third time. [...]

The state projects a \$5.1 billion budget deficit over the next two fiscal years, fueled by increases in fixed costs over that period including pension obligations, health-care expenses and debt servicing.

Connecticut is among the U.S. states with the largest unfunded pension liabilities. It is also home to a wealthy cohort of hedge fund managers who pay high tax rates to fund a large portion of those obligations. But income tax revenue from the wealthy tends to be volatile and unreliable—in Connecticut's case, as the *WSJ* notes, the hedge fund industry's decline has led to lower-than-expected tax receipts (states like California have run into similar problems when taxing their own economic elite). Moreover, financiers are mobile, and can move to other states if rates get too high.

It's tempting for blue model partisans to see the state and local pension crisis as a temporary problem that can be papered over with high-end tax hikes. And while the rich may well need to pay more to address the problem, it won't be enough. The forces that have brought about the blue model crisis are structural: Overly-powerful public sector unions, dishonest accounting practices, chronic political can-kicking, and a defined-benefit pension model that doesn't work in the 21st century. These are deep-rooted problems that will require major reforms in the way government runs and the way the civil service is organized. As Connecticut Democrats are realizing, the Bernie Sanders approach to government deficits—tax the millionaires and billionaires, then tax them some more—is simply not adequate to the scope of the crisis.

Posted: Yesterday at 3:15 AM