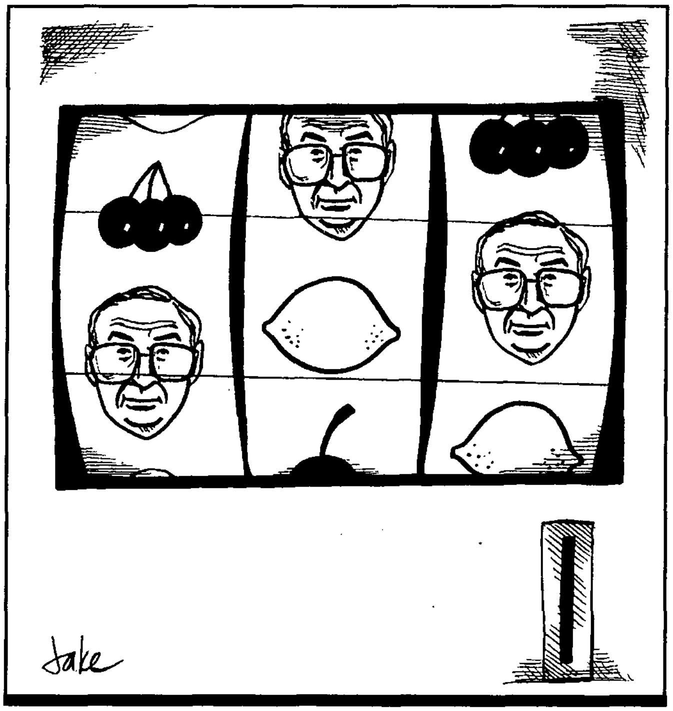
James Ring Adams

Clintonism in One State

Gov. Lowell Weicker won liberal plaudits when he passed Connecticut's first-ever income tax two years ago. It is destroying the state's economy. His next move: casino gambling. (Oh, yes—he's just decided not to run for re-election.)



The Mashantucket Pequot Indians, the luckiest 200 people in America, hit paydirt in a quirk in federal law, and turned their high-stakes bingo game in Ledyard into the nation's most profitable casino. In spite of massive layoffs at nearby Groton, headquarters of the nuclear submarine fleet, the casino drew enough business to make Connecticut's southeastern corner the fastest-growing part of the state.

The casino's managers wanted to keep the game going by introducing the next wave in gaming technology, video slot machines, so they decided on a bold stroke, not only to get permission for the games but to establish a monopoly. The Mashantuckets offered Governor Lowell P. Weicker, Jr. a cash contribution of $100 million toward his budget deficit in return for exclusive rights to the slots. The money in theory compensated the state for the taxes it might have collected if other gaming outlets, like jai alai frontons and dog-racing parks, could also install the machines. In mid-January, Weicker, a model of political correctness, gladly took the deal.

But Weicker signed the offer with "the sovereign nation of the Mashantucket Pequots" just as Las Vegas gaming mogul Steve Wynn began to lobby seriously for plans to build casinos in Hartford and Bridgeport. Famous for his Golden Nugget and Mirage resorts, Wynn was born in New Haven but moved at an early age as his father, a professional manager of bingo parlors, followed the charity gambling business to upstate New York. Wynn says his business inspiration is Walt Disney, and his Mirage Resort is a Las Vegas fantasyland, where white tigers live in a habitat along the corridor to the casino, dolphins sport in their own pool, and an imitation volcano spews 50-foot flames at night. Connecticut friends saw him as the savior of the state's run-down cities. Eager to gain a new frontier for gaming, Wynn pumped a million dollars last spring into lobbying for legislative approval.

Along the way, he made a counter-offer for the video slot business. Topping the Mashantuckets, he said that he and his coalition of fronton and dog-park owners would guarantee the state a take of $130 million in slot video taxes; if the collections on that tax fell short, he personally would arrange to make up the difference.

A subsidy from Indians was one thing. But an identical arrangement with Las Vegas raised Governor Weicker's moral hackles. Not only did he spurn Wynn, he broke up the gaming coalition by offering a tax break to the jai alai players and greyhound runners. In a capitol coup, legislative leaders refused to schedule a vote on casino gam-

James Ring Adams is business editor of the Waterbury Republican-American.

bling, and Wynn left the Connecticut political tables a lot like his own customers, considerably lighter in his pocketbook.

The Mashantuckets had paid their first installment by the end of the legislative session, allowing Governor Weicker to declare a budget surplus. The state's solons spent their final days in Hartford squabbling over the division of the "Indian money."

That the state that once boasted the most vibrant economy in the Northeast should turn to gambling for its salvation represents a comedown of classical proportions. There is a lively debate over the causes of this collapse, and many, including the politicians in charge, want to portray it as the result of external pressures. But evidence is building that lays the blame on the kind of economic policy that now dominates the Clinton administration. Connecticut has destroyed its economic recovery by increasing taxes by a billion dollars and above all by imposing a personal income tax where none existed before. As private enterprise wanes, the state government is trying to save jobs by a form of state industrial policy that some of Clinton's economic advisers would find congenial. Connecticut now may be the future of America.

The Connecticut Business and Industry Association endorsed the tax and still supports it. Far from class treason, Weicker's policy drew significant support from wealthy businessmen.

How to Destroy an Economy

The Nutmeg State has been a center of Yankee commerce and invention since the eighteenth century. (Its nickname referred to a less savory side of its ingenuity; farmers spent their winters carving wood to look like nutmeg cloves, which pedlars would sell in their summer rounds to unsuspecting Midwesterners.) As the home of Samuel Colt and Eli Whitney, it was a hotbed of manufacturing technology.

Since World War II, the state had flourished both as a center of the defense industry and a low-tax haven for high-income commuters from New York. As its neighbors imposed state income taxes, Connecticut's legislature, dominated by the colorful conservative J. Henry Roraback of Litchfield County, rejected the measure as a matter of faith and policy. Fugitive New Yorkers moved their homes and their millions into J. Henry's backyard. Connecticut's per capita income rose to the highest in the nation, a distinction it still holds, barely.

All this changed in the last recession, which began in February 1989 and in Connecticut has not yet really ended. As of the latest labor reports, the state had lost around 200,000 jobs. Much of its defense industry collapsed with the end of the Cold War. Efforts to establish new industries, of which there are many, labor against some invisible drag. The national recovery has passed the state by. Income growth in Connecticut is now the lowest in the nation, and it may soon yield its status as the wealthiest state to New Jersey. Connecticut now lags in all the indicators of recovery, and was the only state last year reporting a net population loss.

Some of the state's decline followed organically from its economic flowering. Connecticut's largest private employers included United Technologies Corporation and the Electric Boat division of General Dynamics, and for decades there had been worries about excessive dependence on the defense industry. These didn't come solely from the left; too much of the state's manufacturing base had developed the bad habits engendered by military procurement. Even worse, the image of wealthy suburbanites and Yale-educated gentleman farmers obscured serious problems of urban poverty. Welfare dependency in Hartford, the capital, touched more than 20 percent of the population, and the social disintegration in Bridgeport and New Haven accelerated with the growth of the drug gangs.

Yet a sharp break in policy in the last two years has exacerbated all these problems. It is an obvious cause of this dramatic decline, but the state is extremely reluctant to face it. In mid-1991, newly elected Governor Weicker bullied and harangued the legislature into passing a state personal income tax. Never mind that a broad spectrum of economists warned that any kind of tax increase would intensify the recession. The income tax was billed as a conservative pro-business policy, pushed by a myopic business lobby.

Passing the Income Tax

Lowell Weicker is a wealthy liberal Republican from the posh executive suburbs of Fairfield County. (His family derived its wealth from the Squibb pharmaceutical corporation.) A gadfly fixture in the U.S. Senate, he lost his seat in 1988 to the popular former New Haven congressman and state attorney general Joseph Lieberman. After a stint running a Squibb-financed foundation, in 1990 he entered a three-way race for governor as an independent. The Democrats were discredited by the red ink generated by Governor William O'Neill; their candidate finished last. The Republican, John Rowland, wasn't helped any by his position as a member of Congress, even though he campaigned strenuously against a state income tax. Weicker, who kept quiet on the issue, rode the same anti-incumbent tide that had defeated him two years earlier, and won with 40 percent of the vote.

Weicker inherited a $7 billion budget with a built-in and growing deficit of nearly $500 million. He telegraphed his solution even before his inauguration, when he chose William J. Cibes, Jr. as his chief budget adviser. Cibes, professor of government at Connecticut College, former assistant minority leader and head of the finance committee in the state legislature, was one of the legislature's leading advocates for an income tax. When Cibes and Weicker took office in January 1991, the deficit projections were topping $1 billion.

But none of this indicated just how stubbornly Weicker would fight for the tax. In February, the governor announced a budget based on the income tax. By May a coalition of Republicans and Senate Democrats had solidified behind a budget balanced by everything but a levy on incomes. To avoid that political taboo, the legislators were willing to expand the base of the sales tax, already a high 8 percent, raise business taxes, and defer paying off the previous year's budget deficit. Weicker vetoed their first budget in June. In early July, at the start of the new fiscal year, the senate killed the income tax again. Weicker responded by giving 20,000 state workers a furlough and closing state parks over the Fourth of July weekend. In early August he vetoed another budget, denouncing his opponents with a characteristic dose of insult and self-righteousness. "Only those residing on Pluto could fail to see the empty office buildings, the closed factories, the forest of 'for sale' signs," he said in a typical live broadcast.

At the end of August, Weicker managed to convert three senate Democrats, later giving one of them a cushy state job, and at 3:06 a.m. on August 22, the senate voted 18-18 on the tax. Lieutenant Governor Eunice Groark cast the tie-breaking vote. Hours later, the House passed the tax by a vote of 75-73, with three Democrats and three Republicans crossing over to Weicker at the last minute. Several of these are now on his payroll.

Weicker's basic argument appealed to the upper-crust corporate mentality. The income tax, he told the state's business and industry lobbyists, would shift the burden away from business and onto individuals. Part of the package was a gradual reduction of the top corporate tax rate. Weicker's tax agents exerted another form of persuasion at the ground level. The gray areas in the state tax on manufacturing equipment allow a number of arbitrary decisions, and the tax collectors, some businessmen say, began to extort support for the income tax by making rulings that vastly extended the scope of the existing levies. Manufacturing equipment, for instance, now included newspaper printing presses.

Weicker found another upper-class constituency for the tax. The state already levied a stiff dividends-and-interest tax, defining returns on investments as "unearned income." Weicker's plan folded this tax into the new income tax, cutting the rate from 7 percent to 4.5 percent. One of the first studies of the tax found earlier this year that it fell proportionately less heavily on the highest brackets than on the middle class. The Fairfield County delegation provided stronger-than-expected backing. The Connecticut Business and Industry Association, the "establishment" business lobby, endorsed the tax and still supports it. Far from class treason, Weicker's policy drew significant support from wealthy businessmen.

And that was not lost on citizens; the opposition was populist and intense. An anti-tax rally at the state capitol that fall drew an angry, shouting throng of 40,000. Weicker went out in his shirt-sleeves to confront the protesters and had to be pulled from the jostling crowd by state troopers. (He made plenty of hay from the incident later, accusing the anti-taxers of hate-mongering.)

But a lot of the steam left the movement in 1992 when its organizer, former legislator Tom Scott, decided to run for Congress. (He lost.) In the same election, however, statewide voters made their most decisive statement on the issue in a referendum for a constitutional cap on state spending; it passed by more than four to one. A computer study by the *Waterbury Republican-American* concluded that if the cap had gone into effect a decade earlier, it would have eliminated the accumulated deficit that was used to justify the income tax.

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Why Business Was Wrong

Although Weicker and Cibes defend the income tax to this day, it's hard to see how their arguments could satisfy any economically literate observer of the past two decades. Even though political winds have shifted, and the wind-sock arbiters of public opinion would like to write off the Reagan years, "supply-side economics" now has the support of a substantial body of evidence, much of it from state governments that have cut or raised taxes.

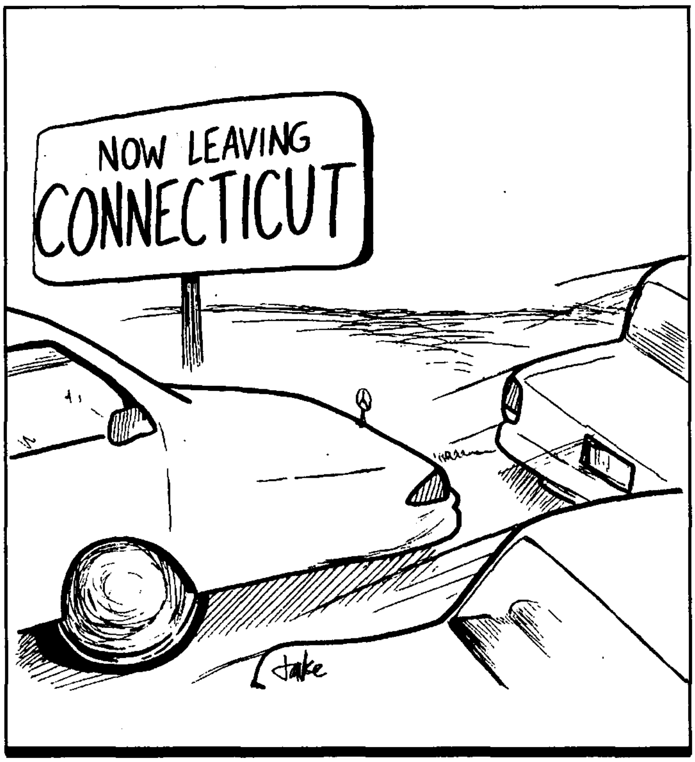
As should be well known, in the middle of California's tax revolt in the late 1970s, Arthur Laffer ran a comparison of major states with high and low property taxes, and found a close relation with their economic performance. Less well known is that a young economist at Chicago's Harris Trust and Savings bank carried the research even further.

Robert Genetski decided to track relative performance of all fifty states. The key word in this exercise was "relative." First he measured the total burden of state and local levies (as a percent of total personal income) for each state. Then he charted the tax burden as a proportion of the national average. Then Genetski and his colleagues tracked each state's relative economic performance. For simplicity, they used the growth in each state's personal income, as a proportion of the national average. Genetski looked at the two numbers together, and—lo and behold, there was no relation. A state with a high tax burden might be doing well: a state with a low tax burden might be doing poorly.

But this was just the start of the story. In the crucial step, they began to test the impact of the *rate of change* of the tax burden. The theory here was basic. If a state suddenly increased its tax burden when everyone else held theirs steady, economic activity would roll across the border to more stable, lower-cost environments.

This result began to show up with a one-year-lag, but not dramatically. So Genetski and his colleagues decided to give the tax rises more time to take effect. They reasoned that people might wait a year or two before reacting to the tax trend. And this was the key. When they allowed a three-year lag between the tax change and the economic results, the match was dramatic. States with a shrinking tax burden showed the highest growth. States with rapidly rising burdens went into a tailspin.

More computer runs over the years, by Genetski, Laffer and others, have confirmed this effect, and even produced a prediction. Each percent increase in the relative tax burden, says Genetski, will produce a decrease in relative personal income of 0.3 to 0.6 percent. "I can't find one experience for any country throughout all history in which a net tax increase has resulted in anything but disappointing economic conditions," Genetski says. Nor, he adds, "when tax cuts have produced anything but economic growth."



The Predicted Disaster

Connecticut has become one of recent memory's more dramatic examples of a tax-induced disaster. In 1988, the state tax burden was about 7 percent below the national average. It started to rise then, with a surge from 1989 to 1990 that put it at parity with the 50-state index. By 1991, it was 7 percent above the national average. And all this happened before the state income tax began to kick in during the last half of 1991. The full impact of Weicker's tax bill is more than a billion dollars a year.

The economic drain shows up in a July release from the Commerce Department's Bureau of Economic Analysis, which compiles state personal-income figures. The Bureau measured state performance in the economic recovery by taking personal-income growth from the trough of the recession (the first quarter of 1991) to the first quarter for 1993. For this total of eight quarters, Connecticut finished dead last. Its personal income grew by 2.3 percent, just half of the national average. It was one of only four states that grew less than the inflation rate, meaning that Nutmeggers actually lost money over the period. (The number-one state, North Dakota, grew by 8.7 percent.)

These statistics are a pale reflection of the depressing reality that weighs daily on more than 3 million people. When Weicker argued that his income tax was needed to salvage the business climate, he pointed to the 86,000 jobs that had then been lost in the recession. Two years later, the job loss stands at 200,000. More than 100,000 jobs vanished *after* the income tax.

The job loss translates into an unemployment rate that was well below the national average as the recession took hold, but peaked earlier this year substantially higher than the national rate. (In May 1993, the state rate was 7.4 percent, compared to a national rate of 6.9 percent. But in recent months it has fluctuated below the national rate.)

Emigration from Connecticut was already fourth highest in the nation, BIT (Before the Income Tax). From March 1990 to March 1991, the state lost a net total of 47,000 people, 1.4 percent of its population. An academic group monitoring the state economy projects that an average of 25,000 a year over the next three years will be packing their U-Hauls, and this estimate may be low. The academics offer one consolation: if these people had stayed, the unemployment rate would have been even higher.

The Defense Defense

Weicker's defenders look at these numbers and say: It isn't our fault. Defense-dependent Connecticut has been hammered by cutbacks in high-tech military hardware, and in a real stroke of bad luck its civilian fallback, the commercial airline industry, is going through its own traumatic shakeup. In this view, the paradigm of the state economy is the ordeal of Pratt & Whitney.

Pratt is a division of the military industrial giant United Technologies Corporation, the state's biggest manufacturer. When outbreaks of peace put a damper on Air Force procurement, Pratt turned for jet-engine contracts to the airline industry. A host of auxiliary industries flourished in its train, building everything from the tools Pratt used in its plants to the guidance systems in the airliners' cockpits. As a double backup, Pratt kept going even when new jet engine sales dropped off because it also had a corner on refurbishing and maintaining the engines already in use.

But this time around, nothing worked. When military orders collapsed, the airlines were reeling from their own Cold War, following deregulation, fare wars, and the oil-price shock from Desert Storm. Carriers and leasing companies were cancelling aircraft orders as fast as they could break their contracts. Even the refurbishing business mysteriously disappeared, as the airlines cannibalized the engines on their vast fleets grounded in the Arizona desert.

As its earnings dropped like a stone, Pratt announced a "restructuring," an "expansion of the restructuring," and finally late this spring, a total of 9,000 layoffs and the closing of all its manufacturing in Connecticut. The job loss was only five percent of the recession's total, but the psychological impact on the state was devastating. (The pessimism was well founded, since the ripple effect of Pratt's closings could have destroyed a host of smaller machine shops and service companies in its supply chain and cost the state another 20,000 jobs. The final impact remains to be seen.)

"I can't find one experience for any country throughout all history in which a net tax increase has resulted in anything but disappointing economic conditions," Genetski says.

The Weicker administration brags that its response to the Pratt disaster was one of its finest hours, and indeed it may have been. Pratt said it was moving 2,300 of the threatened jobs to its plants in Maine and Georgia, where labor costs were $6-8 an hour lower. State economic officials labored with the company and the Machinists' union to reduce labor costs enough to keep some of Connecticut's production lines open. The state legislature passed a series of cuts in workers' compensation that had long been sought by the business lobby, and it zipped through a research-and-development tax credit structured so that United Technologies was one of a handful of companies that would derive the full benefit. In an emotional and embittered vote, the Machinists' union membership narrowly approved a package of pay cuts. One local analyst called it the most significant development in the state's aerospace industry since the founding of Pratt & Whitney itself.

But this purely defensive "victory" showed the circular logic of the Weicker administration. Government increased its tax bite on the community in the name of improving the business climate. But the higher taxes began to drive jobs from the state; workers who saw income taxes taking a bite from their pay stubs turned around and demanded higher wages to keep up their take-home pay, thus increasing labor costs. So the state used the revenues from the new tax to give the company inducements to make up for the increased labor costs. This is not only a vicious circle, but a spiral which at each turn gives government a greater role in the corporations it sets out to help. Such a corporate state has always had its appeal to the bureaucracies of both big business and big government, the two cultures that shaped Lowell Weicker. In one telling detail, the state aid package for Pratt included a grant for training workers in the Japanese management technique called Kairen, an extraordinary intrusion of government into the details of running the business.

The state's fixation on Pratt underscored its neglect of the real victims of its tax policy, the small entrepreneurial companies pioneering new technologies. Rhetoric from both Weicker and Clinton acknowledges that these garage companies become the Apples and Microsofts of the future. Weicker even brags about a number of state programs aimed at the "new-tech" infants. But this is the same corporatist spiral on another level: After making life miserable for all entrepreneurs, the state tries to repair the damage with a select few.

And it's during these periods of technological transition that tax increases can do the most damage. Businesses and industries seem to have a natural life span, and Connecticut has already gone through many generations of technology. Its water-powered factories gave way to coal-fired boilers. Its brass works and builders of steam locomotives faded out, but jet engines and computer software took their place. The much-bruited problem of "defense conversion" is a special case of the same phenomenon, with the difference that government-subsidized industries are making way for private enterprise.

The new technologies are there to take up the slack. Telecommunications equipment makers in nearly incomprehensible press releases describe modems that will vastly speed the flow of data from one computer to another; they are leaders in LANS and WANS, the local-area and wide-area networking that is making IBM mainframes obsolete. The alloy metallurgy of the state's Brass Valley, once the very model of a dying industry, is evolving into materials technology at the cutting edge of superconductivity. Local companies provide "attitude (cq) sensors" that keep satellites in stationary orbit, and they insulate chambers that chill off to a few degrees above absolute zero, at which molecular motion ceases. Laparoscopic surgery, using fiber-optic television images to guide instruments that work within the body, has given rise to a whole new medical supply industry around Danbury, with its own new technology of tool-making, ultrasonic welding. But the new-tech companies which could propel the state economy into the next century are gasping for air.

The new-tech entrepreneurs will give many reasons for the drag they encounter. There's the "credit crunch," the aversion to risk of a state banking system that has just gone through a Texas-style real estate and fraud debacle. There are the high business costs of a state with one of the nation's most expensive worker's compensation systems and a bankrupt unemployment insurance trust fund. There is the lingering hostility of large parts of the state bureaucracy. But there is also the state income tax, which falls heavily on the high-paid, highly skilled engineers the new companies need, not to mention on the entrepreneurs themselves.

The job impact shows up in the breakdown of employment provided monthly by the state Labor Department. As of the end of this spring, goods-producing industries had declined by 4.4 percent over the year, with a 14 percent drop in makers of "transportation equipment" (read: Pratt). Service producers are down by 1.1 percent, including a 2.5 percent drop in FIRE (finance, insurance and real estate). Significant growth comes only in health services, legal and professional, and state and local government. By some accounts, state government leads the pack, with a recent growth rate of 3.1 percent.

This is a pattern likely to intensify as the full impact of the income tax begins to be felt, which Genetski's computer runs indicate will happen in the third year after its full bite. Since the first full year of collections came in 1992, this bodes ill for at least two more long years.

Even worse, Connecticut stands as a reasonable microcosm for the national economy, as President Clinton's tax increase takes effect. By this standard, the country is in for years of stagnation, frustrated technological development, and growth in government employment. The one difference is that Washington won't have the Indians to bail it out. ❐

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Fairness Most Foul

by John Corry

It may indeed be the "Hush Rush" bill, just as the *Wall Street Journal* said, or it may be only the reflex action of liberal politicians still frozen in time, but whatever it is, it has censorship written all over it. The Fairness Doctrine, not long ago pronounced dead and buried, has been disinterred. A bill to write it into law has sneaked through the Senate, and is making its way through the House. The thought police once again are up to no good, and the Rush in "Hush Rush" is Rush Limbaugh. The thought police may succeed. The press is not paying much attention—the *New York Times* neglected even to report the passage of the Senate bill—and the White House is supine. All concerned say they venerate free speech, but as always, they venerate some kinds of speech more than others. Limbaugh is an irritant in polite media circles and an annoyance to congressional liberals, and nobody really likes him except his millions of listeners. Under those circumstances, the Fairness Doctrine would be the way to do him in.

You must understand the doctrine's tortuous background in these matters. The Federal Communications Commission, created in 1934 when radio was the only electronic medium, said broadcasters could not deal in controversy or express their opinions. Station licenses were hard to come by then, and the broadcast spectrum was limited. The fear was that broadcasters might take ideological advantage of their monopoly positions.

Over the years, however, the FCC changed its mind, at least in part, and in 1949 it invented the Fairness Doctrine. At first it was unclear what the doctrine meant, but its requirements were eventually defined as follows: "(1) The broadcaster must devote a reasonable percentage of time to public issues; and (2) his coverage of these issues must be fair in the sense that it provides an opportunity . . . for contrasting points of view."

The devil was in number (2), and the First Amendment was turned on its head. Determining whether coverage is fair or balanced should not be left up to bureaucrats or politicians. Given the chance they will promote their own agenda. As a former assistant secretary of commerce in the Kennedy administration once candidly confessed, "Our massive strategy was to use the Fairness Doctrine to challenge and harass the right-wing broadcasters, and hope that the challenges would be so costly to them that they would be inhibited and decide it was too costly to continue."

Indeed, the Kennedy administration was successful at this, although it is no good now saying only Democrats could be so unscrupulous. The Nixon administration also abused the Fairness Doctrine; it surreptitiously pushed the FCC to penalize stations that broadcast left-wing critics. Meanwhile, various interest groups also found in the Fairness Doctrine a useful tool. They would complain that a radio or television station was being unfair to whatever the cause was they favored. If the station did not meet their demands, they would turn to the FCC. Then the station would face the possibility of being fined, or even losing its license. The hell with it, the stations decided, and avoided covering subjects that might make the interest groups complain. This was what broadcasters meant when they said the Fairness Doctrine had a "chilling effect."

Emancipation came in the 1980s. Mark Fowler, libertarian chairman of the FCC, said the commission would no longer enforce the Fairness Doctrine. Generally, it was liberals who opposed him, but some prominent conservatives objected, too. Phyllis Schlafly, for example, had used the doctrine in her successful battle against the Equal Rights Amendment, and wanted it retained; so did Reed Irvine. Fowler, howev-

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