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Remarks to COFSEG

Before we get to jobs, economic, and tax policy, it's critically important to **make one thing clear**. They say politics flows downstream of culture. Well, with our state's finances, outmigration and tax hikes flow downstream of unaffordable labor policy. In Connecticut, our labor policy informs our fiscal policy, and our fiscal policy informs our economy. If you remember only one thing that I say, make it be this chain of causation: unaffordable deals raise the state's cost of doing business, which causes it to raise taxes, which in turn increases your cost of doing business, hurting our economy and the people. The more they hurt, the more people simply move out. Remember that: the policies Carol and Suzanne talked about are the reason our economy, and your businesses, are overburdened.

Now, let's say we manage to reduce those burdens and help remove the chains tying down the private sector. Unchaining the animal is a good start, but that thing is still hungry, and tired! **It's not going anywhere!** We still need better economic and tax policy. Economic policy to fuel it, and a break from taxes.

For the kind of economic policy that can help return jobs to our state, let me suggest one bottom-up approach for aspiring entrepreneurs and one top-down approach for job creators. The Kauffman Foundation measures entrepreneurship in the states, including firm scale-up and the rate of start-up growth. Connecticut routinely underperforms compared to our region. One way to reverse that trend is to let loose some of the red tape that stops individuals from starting their own businesses. Our state imposes far too many **occupational licenses**. Two summers ago, the Office of Legislative Research put together a memo summarizing all of them. It was about 30 pages long. People need the state's permission to be upholsterers, barbers, even sign language interpreter. Occupational licensing has disproportionate impacts on low-income individuals, women, people of minority status, and ex-offenders simply trying to get back into the labor force. Reviewing and repealing the ones that we don't need is something that would likely receive bipartisan buy-in, and improve entrepreneurship in this state from the bottom up.

For established and growing businesses, **regulatory reform** is a way for the state to ease burdens while we wait for a chance at fundamental tax reform. The Mercatus Center at George Mason University quantifies regulatory mandates in states, and in Connecticut's regulatory code found more than 96,000 regulatory restrictions bound up in more than 5.9 million words. How can anyone navigate all that, particularly new and small businesses?

Thankfully, there remedies out there. In 2001, **British Columbia, Canada**, was suffering terrible economic growth, trailing the rest of the nation by 1.1 percentage points. They decided to cut down on the red tape, and instituted a one-in, one-out policy, a "regulatory budget," as well as some other reforms. The goal was to turn regulators into stewards of the code, rather than agents of expansion. In

the five years following their sweeping regulatory reform, British Columbia went from trailing the rest of Canada's growth to leading it by 1.9 percentage points. Making regulatory reform a remedial, rather than adversarial process, is something we should pursue here aggressively.

In addition to the British Columbia model, a bill that has been previously introduced, but not passed, would help. **First time forgiveness** for new businesses that, absent malice, erroneously failed to comply with regulations.

Now, on to **taxes**. Admittedly, we are some time away from the fundamental tax reform Connecticut desperately needs to be more competitive. First, we must tackle labor and fiscal policy. However, we can simplify our code and eliminate inefficient sources of revenue that do little more than burden businesses and people. One example of a good trade-off would be reducing the amount of tax incentives afforded by programs like Small Business Express, and instead offering broad-based reform. Since 2012, the state has awarded grants and loans in excess of \$260 million for slightly more than 1,600 businesses. There are more than 60,000 small businesses in the state. It would take only a fractional reduction of SBE to completely eliminate the business entity tax, simplifying our code and providing relief to thousands of businesses.

We want Connecticut to not only be the kind of place you can start a business, but rather, the kind of place you want to start a business. To that end, I believe that the mere existence of this commission is a signal that our elected officials are starting to take concerns from people like you very seriously. That's a good first step. The next step, of course, is to make sure that sound policy recommendations from this commission stay on the agenda for as long as necessary. Yankee Institute is committed to that.

That's all I have. Tried to be brief, I hope you found it brilliant, and, if the legislature takes recommendations from this commission and our business community at large seriously, I believe fewer Connecticut residents will be gone. We're happy to take any questions.