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The State of Working Connecticut 2015

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Six years after the official end of the Great Recession, Connecticut has yet to fully recover. Despite lower levels of unemployment, the recovery has left behind many of our state's residents, including people of color, young workers, those paid low wages, and many with relatively low levels of education. These trends have made it more difficult for families to afford their most basic needs.

Major trends include:

- After a long-term slowdown in Connecticut's economy, **the percentage of the state's population that is employed has picked up in recent years.**
- **Despite this recent improvement, Connecticut has yet to fully recover from the Great Recession**, with unemployment still higher, and nearly 20,000 fewer jobs, than before the economic downturn began.
- **Worker pay has fallen for nearly all since 2000**, and has failed to keep up with worker productivity. If Connecticut's wage growth had kept pace with productivity since 1979, the average worker would have made \$35.24 an hour in 2013 instead of the actual median wage of \$20.46 an hour.
- **These trends have disproportionately hurt working men and women of color, young workers, those making low wages, and people with low levels of education.** Only one in two black residents over the age of 16 is working, the lowest rate on record in the state. People of color who have found employment make a median hourly wage that is, on average, \$7.25 to \$8 less than white workers.

These trends have a direct impact on children and families today and on shared prosperity over the long term. Failure to address the needs of our children sets us up for an intergenerational cycle of poverty that will undermine preparedness for work in a state that has long boasted one of the nation's most productive and highly educated workforces.

To maintain its competitive advantage, Connecticut should break the cycle of poverty by helping low-wage working families lift themselves out of poverty and by investing in high-quality education for all children and youth, cradle to career. Reforms to our state tax system can help by:

- **Providing tax credits for low-income working families and families with dependents;**
- **Balancing property taxes** to address resource disparities from place to place that threaten the quality of schools and other services.

For full information on the trends in this report, including employment and wage statistics dating back to 1979, access our interactive State of Working Connecticut web page at www.ctvoices.org/StateofWork.

Introduction

Connecticut's recovery is mixed; some people are in a much better position than others. On one hand, the unemployment rate is down, and more people are in the labor force, including a larger share of young people. On the other hand, Connecticut remains roughly 20,000 short of the 119,000 jobs lost. Median hourly pay has dropped by over three percent (and an even larger 11 percent drop since 2009), a steeper fall than in other states in the region or in the nation as a whole. Although state per capita income remains the highest in the nation, the state's young, minority, low-income, and less-educated workers have disproportionately experienced falling wages and higher joblessness.¹ These trends translate into a dramatic and increasing gap between the wealthiest residents and the rest, making Connecticut second only to New York in income inequality.²

As the economic well-being of many of Connecticut's workers has diminished, prospects for their children have suffered. Children do best when families do best, and families do best when they have good jobs that pay enough to afford necessities and save for the future. Economic instability threatens children's health, performance in school, and success in adulthood, and can cause damaging stress that harms developing brains with lifelong implications.³

Our state cannot prosper if our children do not prosper. A small state with slow population growth cannot afford to leave behind any of its future workers, parents, and leaders. Yet nearly one third of Connecticut's children live in or near poverty. Children of color live in poverty at a greater rate than their share of the state population. One in three black and Hispanic children live in poverty compared to one in 20 white children.⁴ Moreover, because a disproportionate number of children of color in Connecticut live in communities of extreme poverty, these children often live in neighborhoods where that lack the resources needed to develop their full potential.⁵ In failing to provide opportunities for success for all our children, we put the entire state's long-term success at risk.

This report assesses the state's economy through four key measures: jobs, unemployment, wages, and labor force participation.

Section I: Connecticut's Job Recovery Remains Weak

Employment can be measured in two key ways: the number of jobs and the rate of unemployment.

Major findings for Jobs and Job Recovery:

- Connecticut's job recovery is weak: the state remains nearly 20,000 jobs short of full recovery, and over 9,000 jobs short of the level in 2000.
- From June 2014 to June 2015, Connecticut's job growth of 1.5 percent continued to lag the national growth rate of 2.1 percent. Weak job growth pre-dates the Great Recession, with the trend line nearly flat from 1989 to today.
- Since the onset of the Great Recession, the state has lost high-paying jobs, with most new jobs coming in industries that pay lower wages.

Recovery from the Great Recession has been slow across the nation. Last June, the number of jobs in the United States reached the pre-Great Recession level; however, during the same period of time, the population grew by 14.5 million people.

In Connecticut, we have neither regained all jobs lost during the Great Recession nor compensated for working age population growth. Indeed, as of September 2015, Connecticut had nearly 20,000 fewer jobs

than at the end of 2007, and was 9,100 jobs shy of the number in 2000, even as the population (16 years and over) has grown by nearly 300,000 since the turn of the century.



Figure 1. Source: Connecticut Voices analysis of State Department of Labor data.

Job Growth Over Time

The growth of jobs in Connecticut has been slower than the nation as a whole. Between June 2014 and June 2015, Connecticut’s job growth of 1.5 percent lagged the national growth rate of 2.1 percent. This slower growth rate is not new: Connecticut has trailed the nation in job growth nearly every year for the past 25 years.

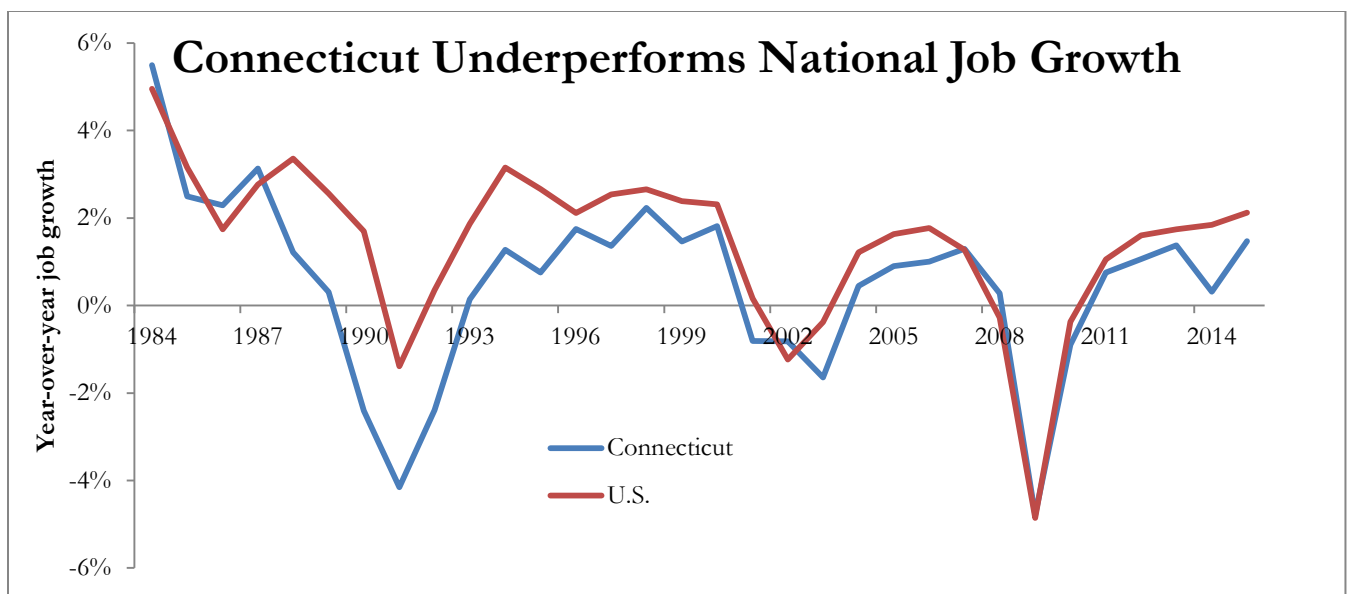


Figure 2. Source: Connecticut Voices analysis of U.S. Bureau of Labor Statistics and State Department of Labor data. Job growth measured as difference between June employment levels.

Jobs by Industry

While Connecticut has added jobs since the end of the Great Recession, the industry makeup of these jobs has shifted. Of the state's eight largest employment sectors — manufacturing, construction, retail trade, finance and insurance, government, health care and social assistance, accommodation and food services, and professional services — five have not recovered jobs to 2007 levels. Only two, health care and social assistance and accommodation and food services, saw meaningful job growth.

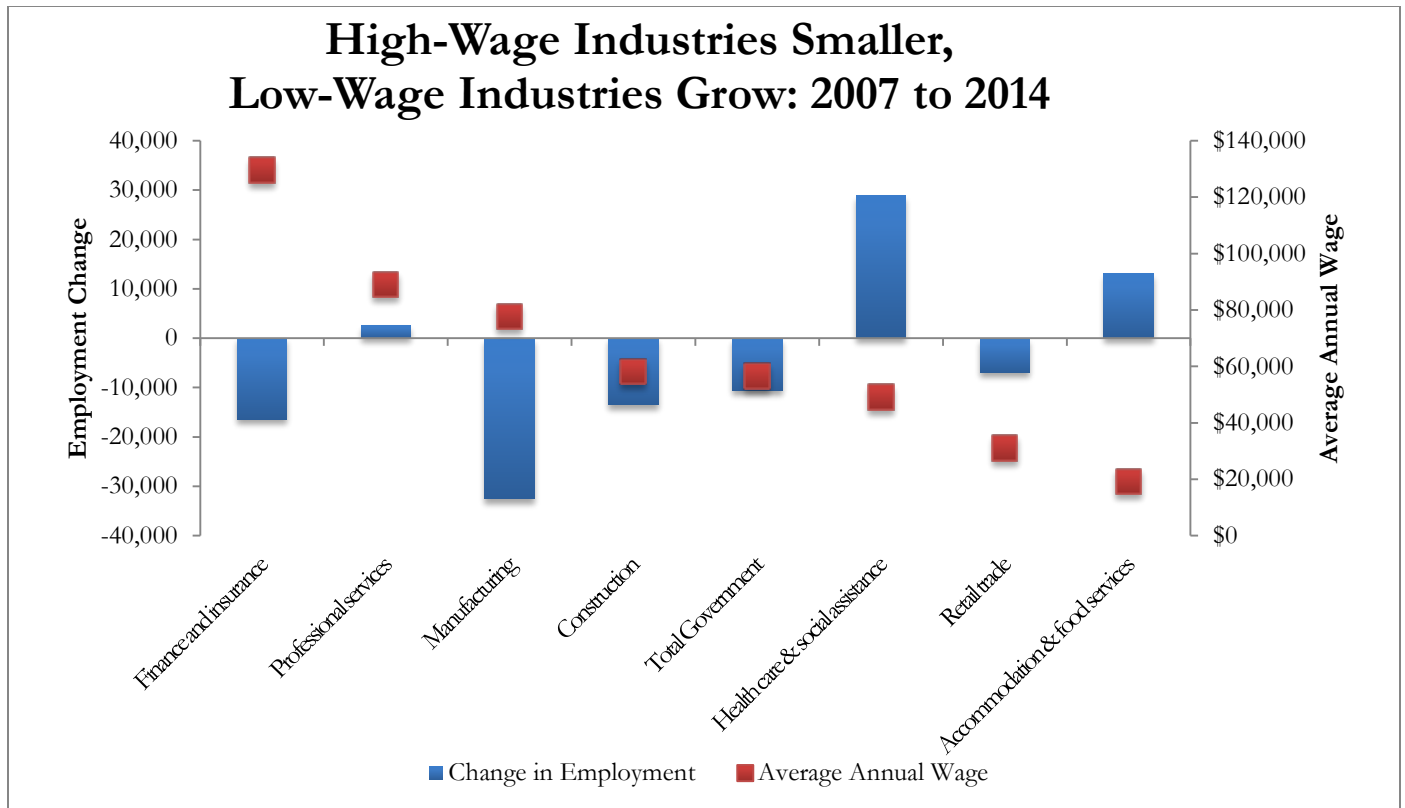


Figure 3. Source: Connecticut Voices analysis of State Department of Labor data. Change in employment measured from Q2 2007 to Q2 2014. Average Annual Wage estimated using Q2 2014 data.

This shift in job sectors has contributed to Connecticut's falling wages (see section C for more information). The industries that have not fully recovered since the recession offer higher average annual wages (almost \$57,000 in the public sector and nearly \$130,000 in finance and insurance), than those in the industries that have experienced the strongest post-recession growth (such as \$49,000 in health care and social assistance, and \$19,000 in accommodation and food services). Even while Connecticut residents return to work, the decreased number of family-sustaining jobs extends the economic challenge facing many.

Section II: Big Employment Differences by Education, Place, Race, and Age

Examining employment trends shows the same picture as wages: too many workers continue to face the disparate impact of the Great Recession.

Major findings in Unemployment:

- Although Connecticut's unemployment rate has fallen significantly, it remains higher than pre-Great Recession rates at 5.2%.

- Young, minority, and less educated workers continue to suffer disproportionately high unemployment. For example, from 2012 to 2014 the unemployment rate for black residents fell just 0.3 percentage points compared to a 1.7 percentage point drop for white residents and a 4.8 percentage point drop for Hispanic residents.
- Nearly 40 percent of the jobless in Connecticut are considered long-term unemployed, a higher share than in previous downturns and ninth highest in the nation.

Overall Unemployment

The unemployment rate offers only a partial measure of labor market conditions, as it doesn't count those who have become discouraged from seeking employment.⁶ Still, the measure remains a well-accepted indicator of economic conditions. Connecticut's unemployment rate roughly matched those of four similar, peer states – Massachusetts, New Jersey, New York, and Rhode Island – throughout the Great Recession.

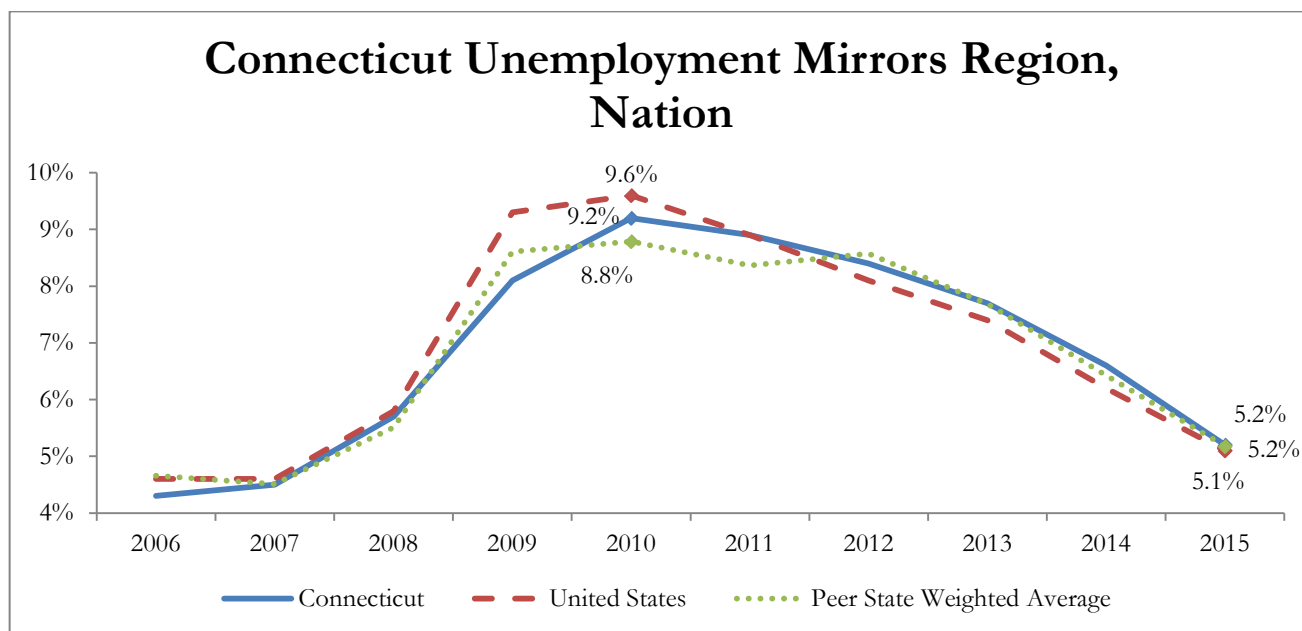


Figure 4. Source: Connecticut Voices and Economic Policy Institute (EPI) analysis of U.S. Census Current Population Survey (CPS) data and Bureau of Labor Statistics (BLS) data for July 2015. 2015 data reflects July 2015 unemployment rate. Seasonally adjusted. Peer states are Massachusetts, New Jersey, New York, and Rhode Island.

In September 2015, unemployment in Connecticut and the average unemployment rate in the other four states was 5.2 percent, higher than the national rate of 5.1 percent, and higher than pre-recession levels, when it fell below 5 percent.

Unemployment by Geography

While the overall rate for Connecticut tracks the rate in those other four states, the statewide average masks vast differences among regions within the state. For example the rate is significantly higher in the cities of New Haven, Waterbury, Bridgeport, and Hartford than in the state as a whole.

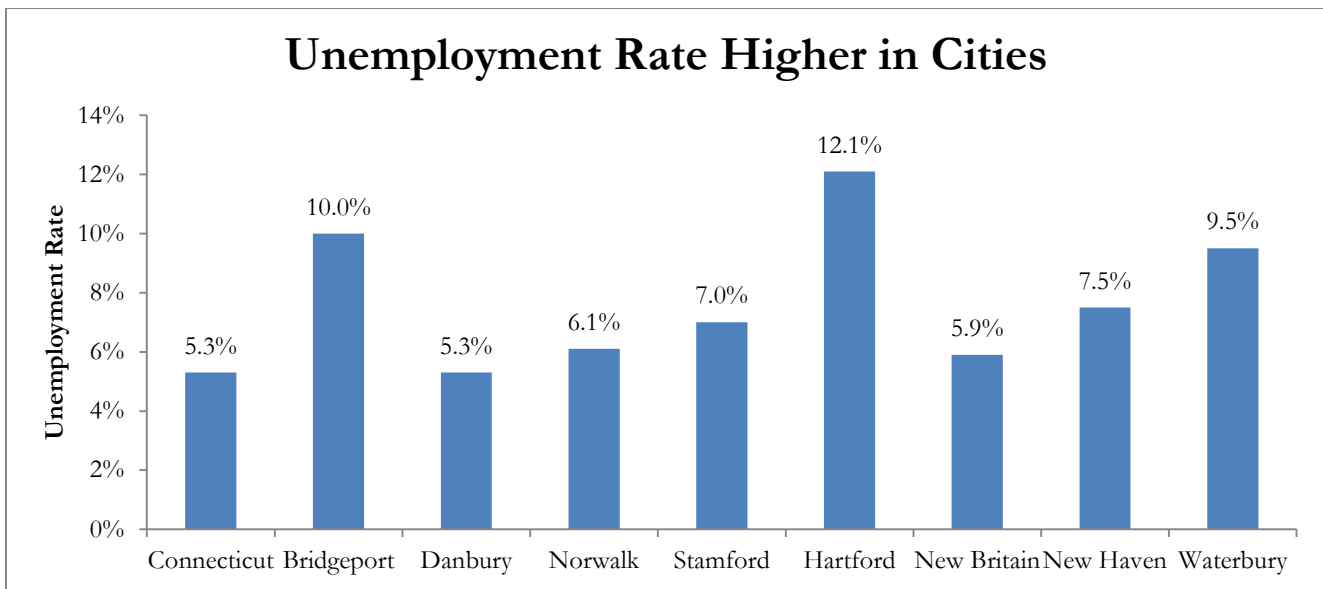


Figure 5. Source: Connecticut Voices analysis of 2014 U.S. Census American Community Survey 5-year estimates.

Unemployment by Race and Ethnicity

People of color face far greater rates of unemployment than whites. Before the recession, the unemployment rate for people of color exceeded that of whites by nearly five percentage points. At the height of the Great Recession, that gap widened, to nearly 18 percent for people of color and 7.5 percent for whites.

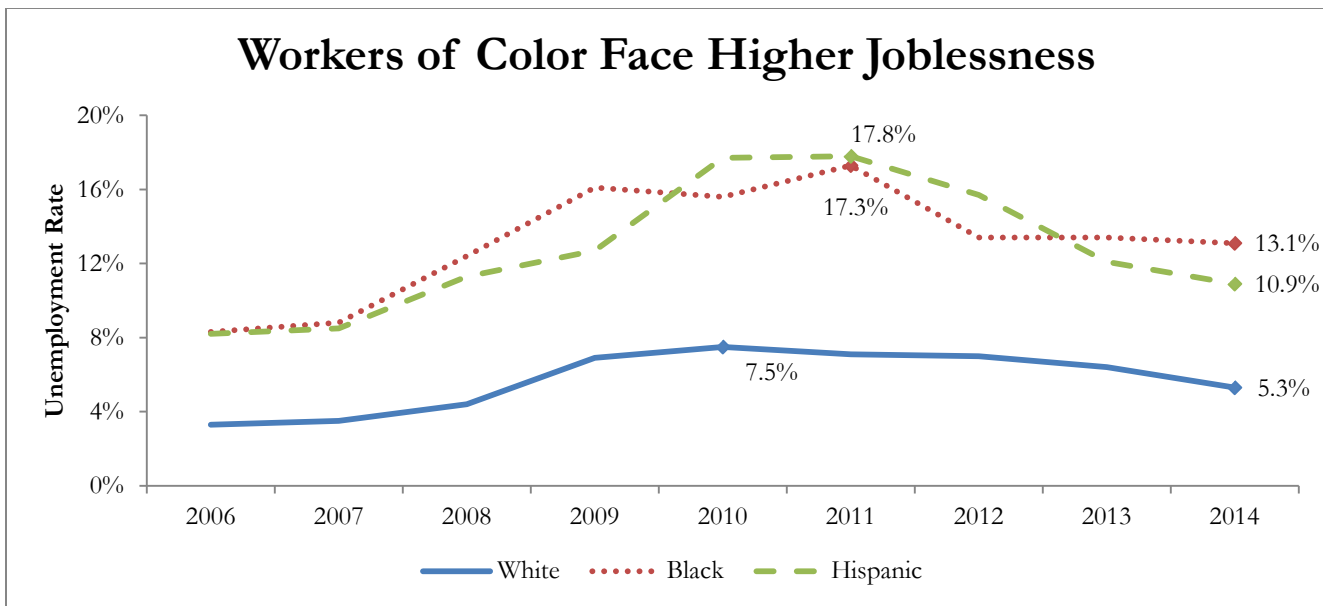


Figure 6. Source: Connecticut Voices and EPI analysis of CPS data. Seasonally adjusted.

Even after unemployment rates peaked, workers of color, particularly black workers, have continued to experience disproportionately high unemployment levels. From 2012 to 2014, despite the economic recovery, the unemployment rate for black residents fell just 0.3 percentage points (to 13.1 percent from 13.4) as compared with a 1.7 percentage point drop for white residents (to 5.3 percent from 7.0) and a 4.8 percentage point drop for Hispanic residents (to 10.9 percent from 15.7).

Unemployment by Age

Much as joblessness has affected workers differently depending on geography, race, and ethnicity, so too has it varied based on age, with the highest rates of unemployment among workers aged 16 to 24. In 2014, youth unemployment was 12.1 percent – roughly double the rate for older workers, a proportion that held steady through the Recession and the recovery. This rate does not include full-time students, who are considered to be outside the labor force, so youth unemployment represents only those who are neither full-time students nor working. While the unemployment rate among youth has dropped faster than any age group since the height of the Great Recession, lack of employment remains a challenge for younger workers who still face rates about twice that of older workers.

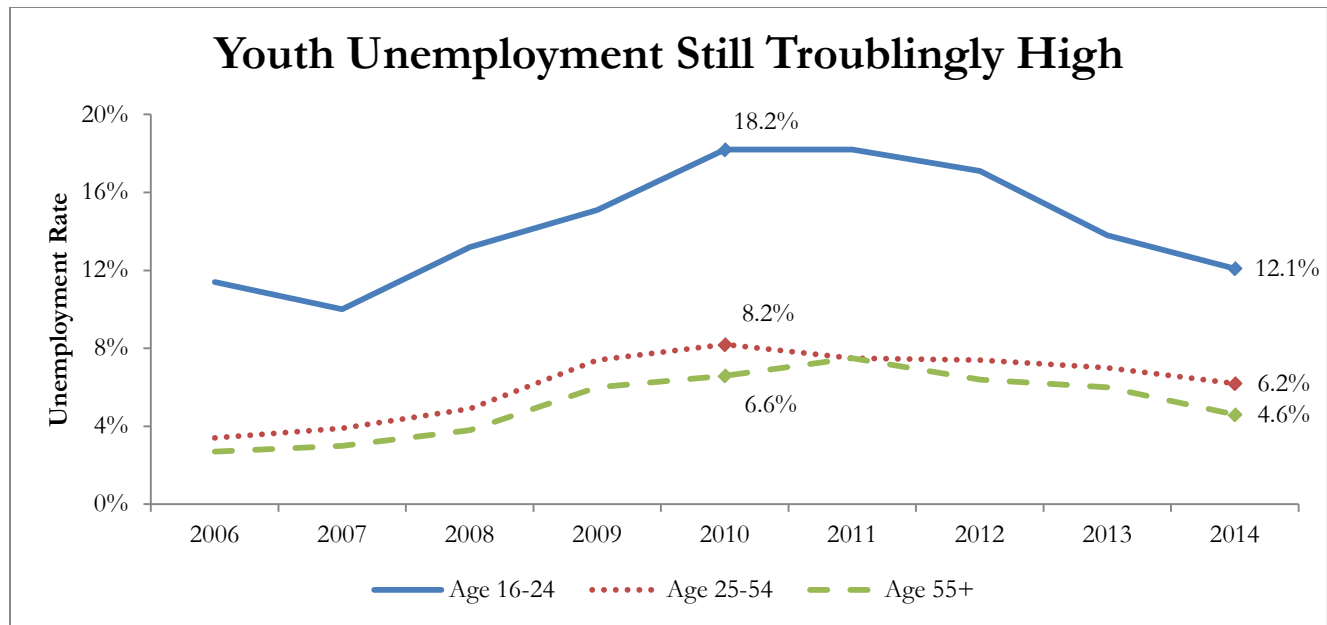


Figure 7. Source: Connecticut Voices and EPI analysis of CPS data. Seasonally adjusted.

As is generally the case, Connecticut’s cities are home to the highest proportion of unemployed residents, and the trend holds true for young workers. All but two of Connecticut’s largest cities have greater youth unemployment than the rate for young people in the state as a whole (9.9 percent)⁷

As with overall unemployment, youth unemployment varies substantially by geography. For workers ages 16-24, the estimated level of unemployment ranges from roughly 1 in 20 in New Britain to over 1 in 5 in Hartford. These rates demonstrate the continued need for targeted town- and city-level policies to address youth unemployment.

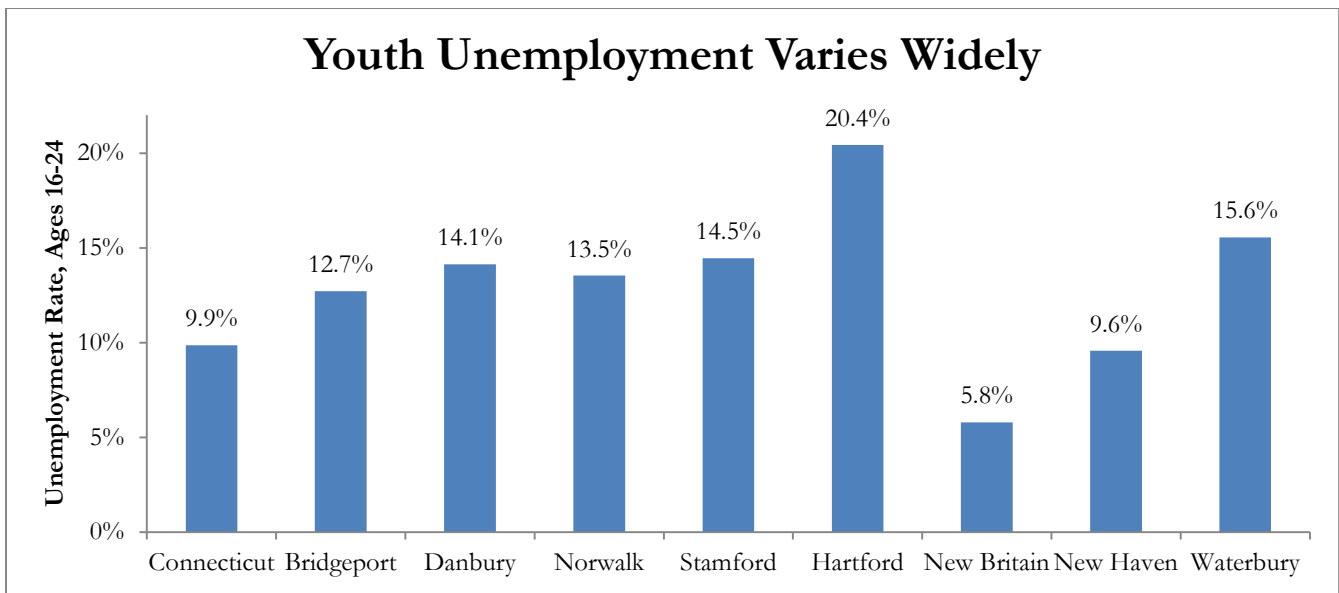


Figure 8. Source: Connecticut Voices analysis of U.S. Census American Community Survey 2014 estimates.

Unemployment by Education

The Great Recession did not discriminate based on educational attainment: the rate of unemployment doubled for citizens at every education level. Moving out of the recession, workers with lower education levels experienced a steeper decline in their rate of unemployment, to 15.9 percent in 2013 from a height of 21.8 percent. This is in line with the finding discussed above, that job growth since the Great Recession has favored low-wage, low-education job sectors.

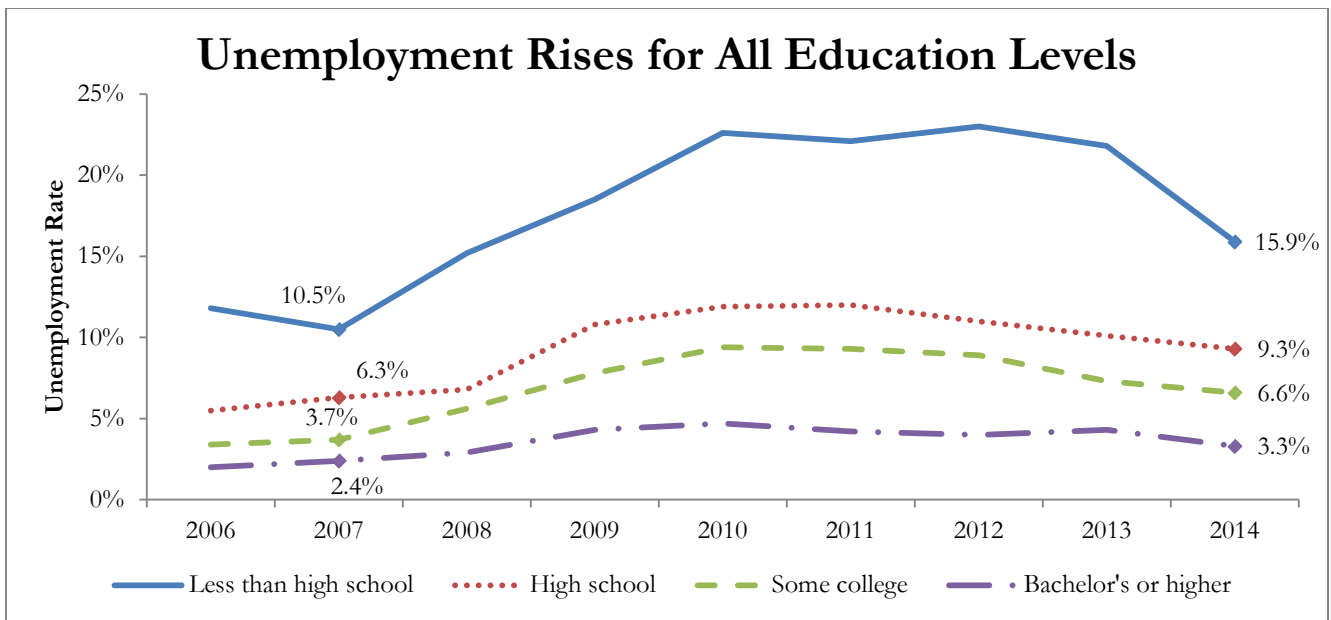


Figure 9. Source: Connecticut Voices and EPI analysis of CPS data. Seasonally adjusted.

Unemployment by Gender

Unemployment varies by gender as well as by race, age, and education. Since 1980, the rate of unemployment has been slightly lower for women than for men.⁸ This gender-based disparity has in the past increased after a recession. Following the 1991 recession, for example, the gender unemployment gap in Connecticut nearly tripled, increasing to 3.2 percentage points in 1992 from 1.1 percentage points in 1991..

The historical trend held true following the Great Recession, as the gender gap in unemployment grew to 1.5 percentage points from 0.5.

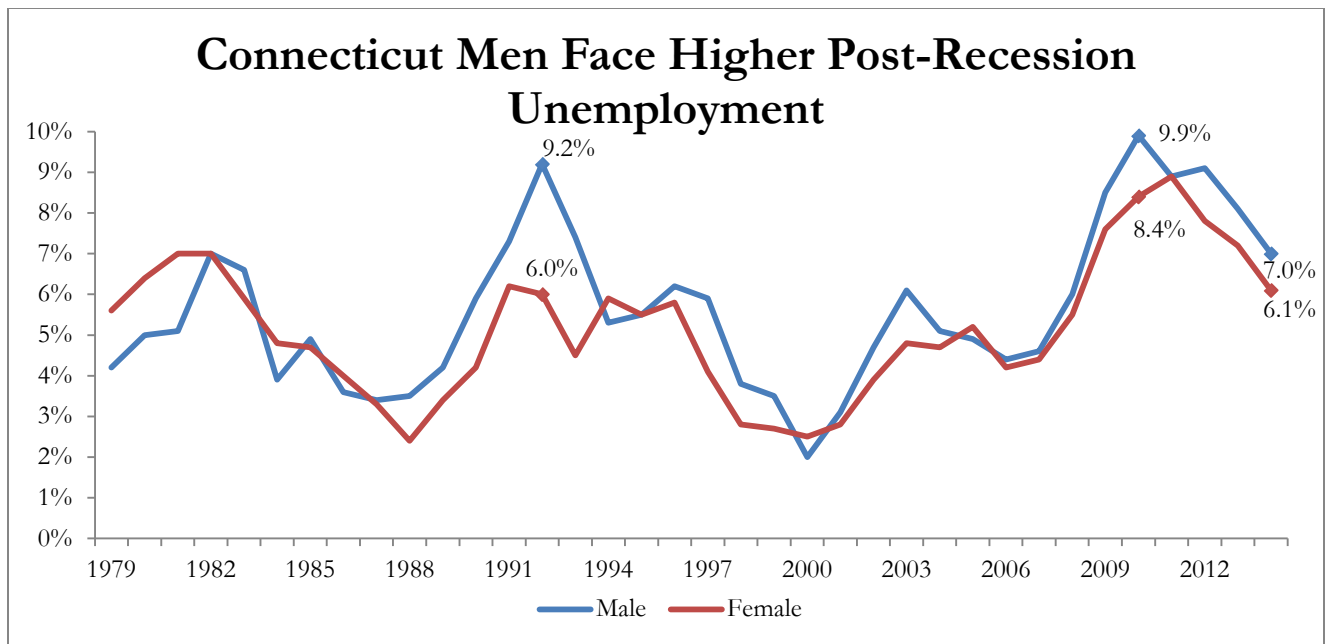


Figure 10. Source: Connecticut Voices and EPI analysis of CPS data. Seasonally adjusted.

Long-term Unemployment

Long-term unemployment, the share of the unemployed who have been out of work for more than half a year and continue to search for employment, poses particular hardship to workers as they face steeper hurdles to finding new work and, after 26 weeks, become ineligible for unemployment benefits.⁹ In two previous recessions, long-term unemployment peaked at the one- (1991 recession) or two- (1981 recession) year marks. In contrast, long-term unemployment during the Great Recession continued to rise after year two, peaking at nearly 50 percent in 2010 and dwarfing the 1991 peak of 35.5 percent. Today nearly 40 percent of Connecticut’s unemployed are still considered long-term unemployed.

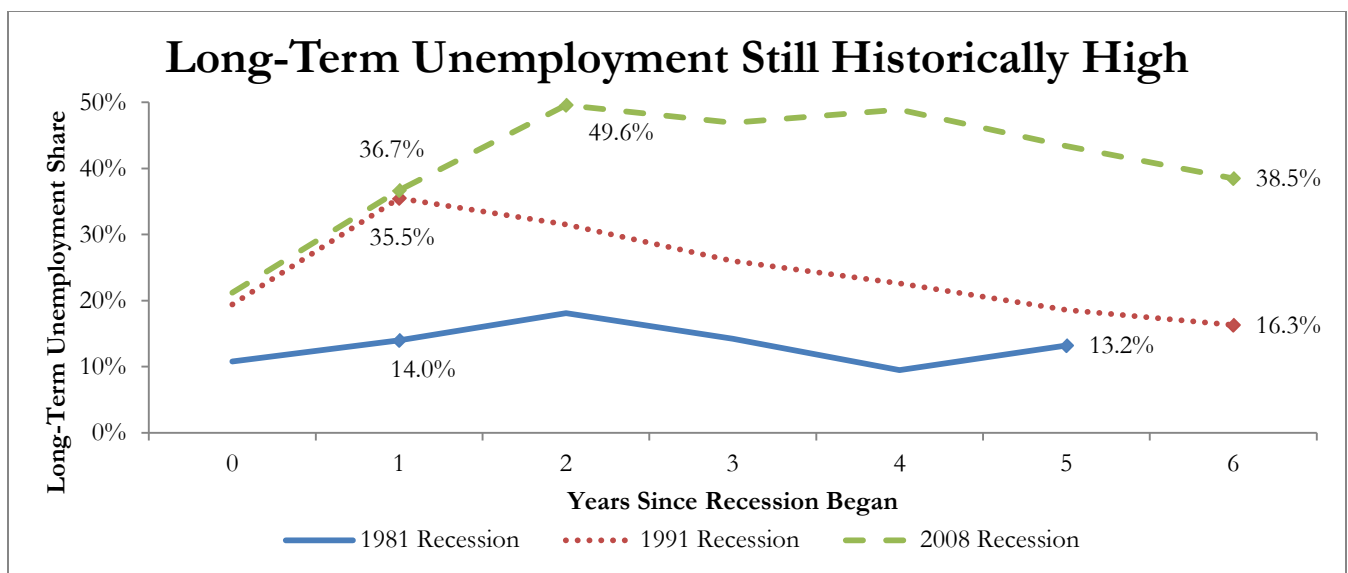


Figure 11. Source: Connecticut Voices and EPI analysis of CPS data. Seasonally adjusted.

While high long-term unemployment is a national trend, Connecticut's share of long-term unemployed at its peak was among the highest in the United States. In 2012, only Florida saw a higher share of unemployed workers without a job for more than half a year. While Connecticut's long-term unemployed share has since dropped to ninth in the nation from second, the state still has a long way to go before reaching pre-recession rates.

An examination of long-term unemployment share in Connecticut by race, however, shows similar disparity. Black workers have suffered about 5 percentage points higher long-term unemployment share than white and Hispanic workers, and this gap has narrowed over time.

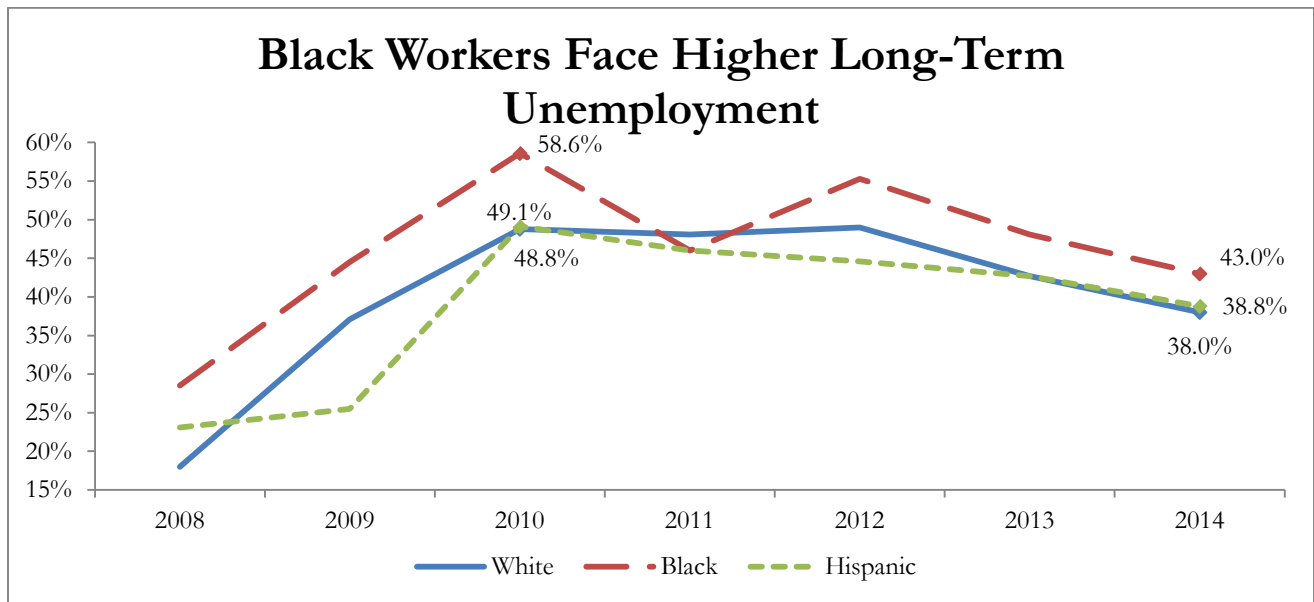


Figure 12. Source: Connecticut Voices and EPI analysis of CPS data. Seasonally adjusted.

Section III: Falling Wages and Growing Disparity

Since 2000, wages for Connecticut's workers have stagnated, and for many, even fallen, increasing the burden on families. Minority low-wage workers have experienced disproportionately large decreases in pay. All figures in this section, unless otherwise specified, are presented in 2014 inflation-adjusted dollars.

Major findings:

- Connecticut's median hourly wage has long failed to keep pace with productivity: if Connecticut's wage growth had kept pace with productivity since 1979, the average worker would earn a median hourly wage of \$35.24 in 2013, compared with the actual wage of \$20.46 in 2013.
- From 2009, when the recovery began, to 2014, Connecticut's median hourly wage dropped \$2.50, or 11.1 percent, compared to a 5.3 percent drop in nearby states and a 4.0 percent drop nationally.
- The state's gender pay gap, at \$4.75 in 2014, has not closed at the same rate as nationally over the last three decades.
- Connecticut's racial pay gap hasn't narrowed since data began to be reported in 2002. Workers of color in Connecticut can expect a median hourly wage that is, on average, \$7.25 to \$8 lower than that of white workers.
- Since 2000, wages have either remained flat or fallen for workers (regardless of education level) for all but the highest income households – and even they have seen a decrease since the Great Recession.

Overall Median Hourly Wage

Trends in median hourly wages play an enormous role in the well-being of workers and families. As most workers rely on wages and employer-sponsored benefits for most of their income, slow wage growth or a decline in wages significantly harm the economic security of children and families.¹⁰ Since 2000, while median hourly wages have grown 1.4 percent on average for nearby states and 0.4 percent nationally, median hourly wages have dropped by an alarming 3 percent in Connecticut. From 2009, when the recovery began, to 2014, Connecticut's median wage dropped \$2.50, or 11.1 percent, compared to a 5.3 percent drop in nearby states and a 4.0 percent drop nationally. Outperforming the nation in wage growth is essential for a high-cost state, and lagging it threatens families' economic stability.

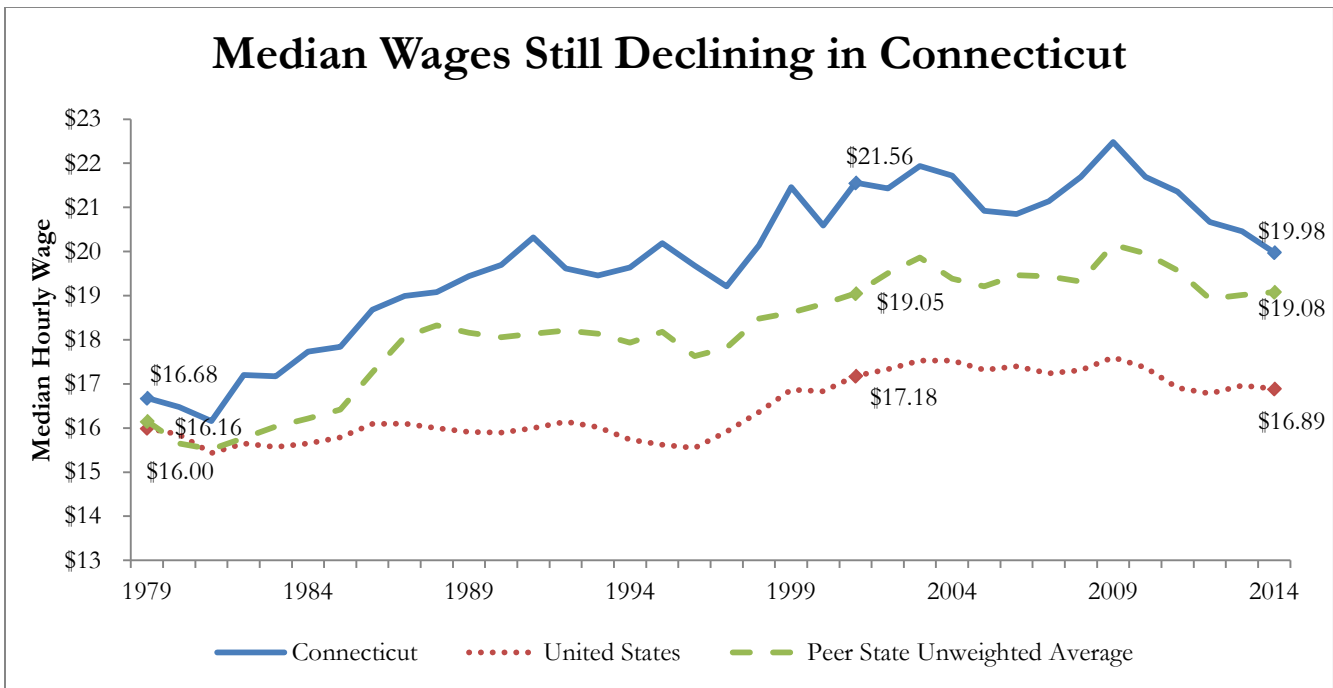


Figure 13. Source: Connecticut Voices and EPI analysis of CPS data in 2014 inflation adjusted dollars using CPI-U-RS. Peer states are Massachusetts, New Jersey, New York, and Rhode Island.

Wage stagnation has occurred even as productivity increases. Since 1979, hourly pay for most workers in the United States has failed to keep pace with growth in productivity, increasing barely 6 percent, compared to a nearly 76 percent increase in productivity. This disconnect is true for Connecticut as well. While the state median hourly wage increase of 22.7 percent from 1979 to 2013 exceeded the national increase, the state increase in productivity exceeded that of the nation as well, increasing by 111.3 percent. Had Connecticut's wage growth kept pace with productivity, the average worker would enjoy a median hourly wage of \$35.24 in 2013 – a 72 percent raise over the actual \$20.46 median hourly wage.

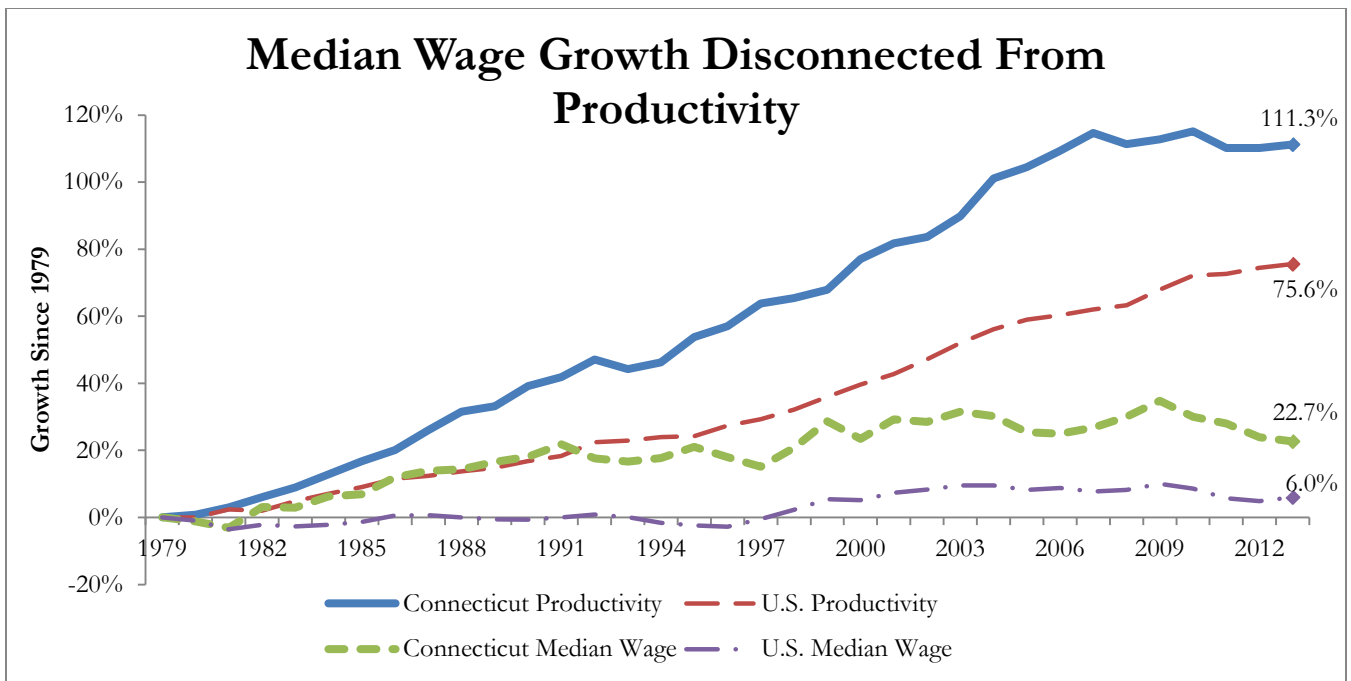


Figure 14. Source: Connecticut Voices and EPI analysis of BEA data. Productivity and wages normalized at 0% in 1979.

Median Hourly Wages by Race and Ethnicity

Similar wage disparities exist by race and ethnicity, with the gaps in Connecticut higher than those of the nation.

Nationally, the difference between median hourly wages by race and ethnicity increased to approximately \$4.75 for black workers and \$5.50 for Hispanic workers in 2014, from \$3.00 in 1979.. Median hourly wages in 2014 for black (\$13.97) and Hispanic (\$13.01) workers fell short of median hourly wages for white workers (\$18.67) by 70 to 75 percent.

In Connecticut, the difference has stayed relatively unchanged from about \$6.25 for black workers and \$8.50 for Hispanic workers in 2002 (the first year data is available) to \$7.25 for black workers and \$8.00 for Hispanic workers in 2014. That put black workers at 66.6 percent of the median hourly wage for white workers and Hispanics at 62.9 percent. In other words, workers of color in Connecticut can expect a median hourly wage that is, on average, \$7.25 to \$8 lower than that of white workers.

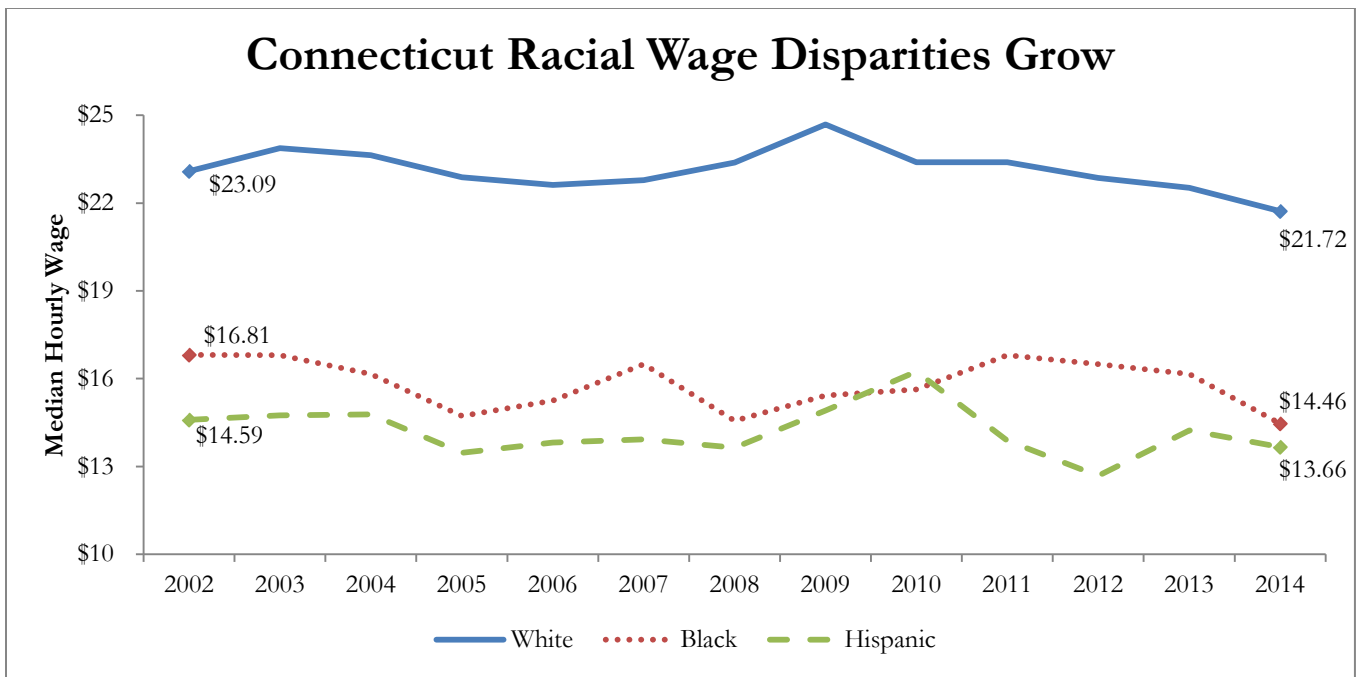


Figure 15. Source: Connecticut Voices and EPI analysis of CPS data in 2014 inflation-adjusted dollars using CPI-U-RS.

Median Hourly Wage by Gender

One of the few bright spots in wage data is the progress made on wage equality across genders. Nationally, female workers have improved to a \$3.13 gap in 2013, when the women’s median wage was 82.9 percent of men’s from a \$7.52 wage gap in 1979 – when female worker’s median hourly wage was 62.6 percent that of their male counterparts. This narrowing is due to both a drop in male wages as well as a rise in female wages.

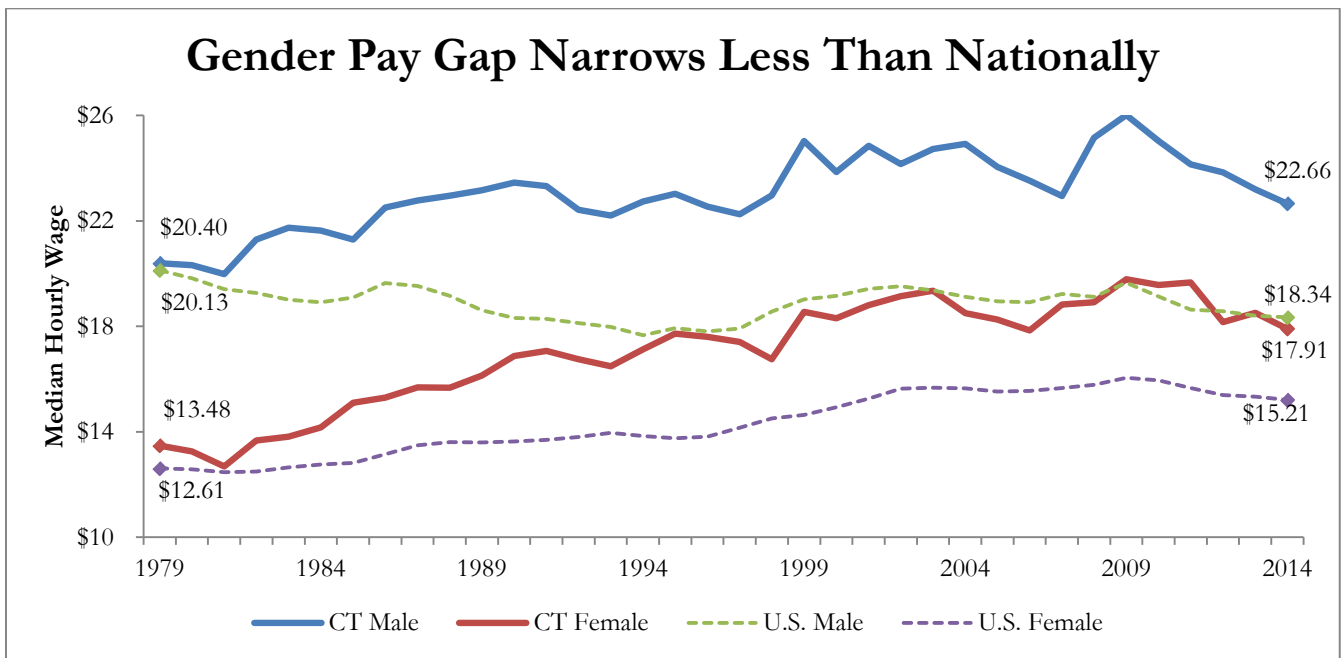


Figure 16. Source: CT Voices and EPI analysis of CPS data in 2014 inflation adjusted dollars using CPI-U-RS.

In Connecticut, however, the news is less bright. While the state gender pay gap was lower than the national gap in 1979, at \$6.92, that gap only fell to \$4.75 in 2014 – 50 percent larger than the national pay gap. This

parity results in large part from the overall increase in both male and female wages in Connecticut, which contrasts with the overall decrease in wages for men nationally.

Median Hourly Wage by Education

As might be expected, higher levels of education are associated with higher median hourly wages, a gap that has steadily increased since 1979. Then, Connecticut workers with a bachelor’s degree or more could expect to receive a median wage about \$8 higher than workers with just a high school education. In 2014 that figure grew to over \$15, reflecting the lackluster wage growth for workers with only a high school education, whose real median wage in 2014 was only 7 cents higher than in 1979. Workers who attended college but did not graduate fared even worse, with a decrease in their real median wages, falling 1979 to \$15.68 in 2014 from \$16.48 in 1979..

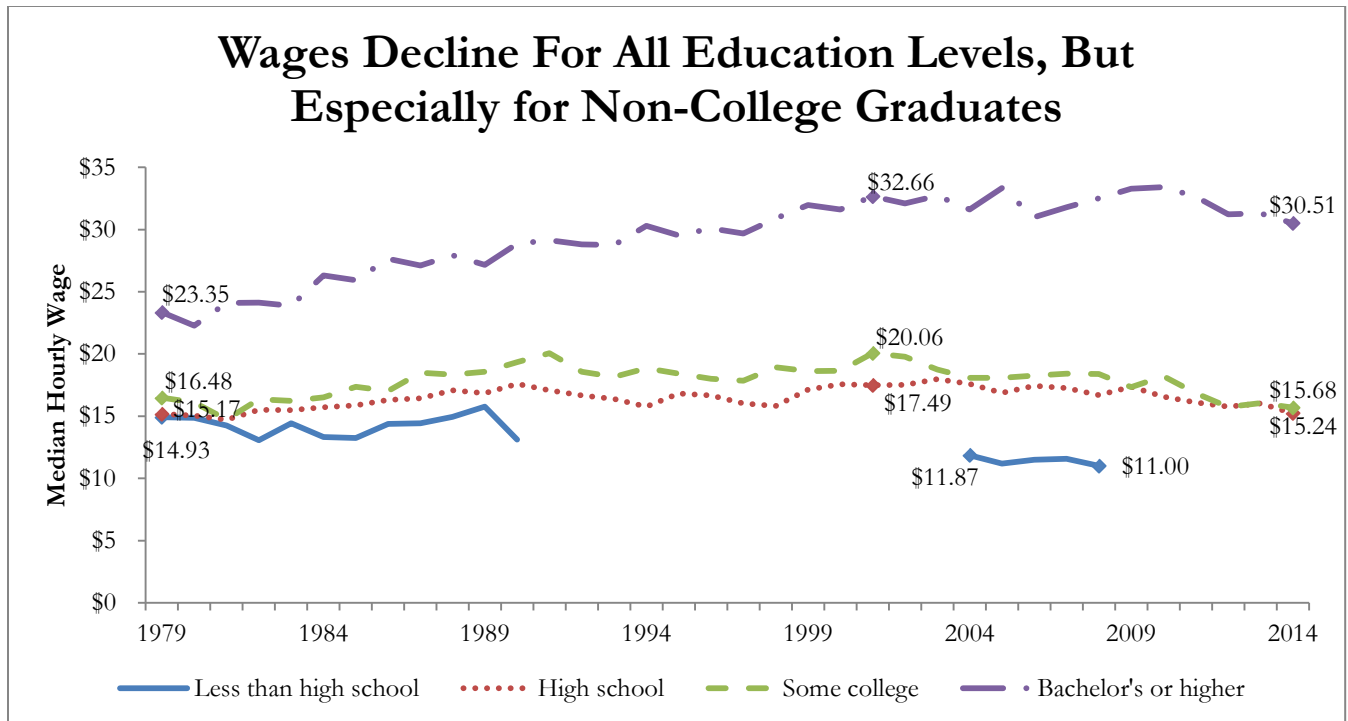


Figure 17. Source: Connecticut Voices and EPI analysis of CPS data in 2014 inflation adjusted dollars using CPI-U-RS. 1991-2003 and Post-2008 “less than high school” data are unavailable.

While workers with higher levels of education receive a higher median wage, well-educated workers have not avoided the broader trend of weak wage growth or wage decline in recent years. Since 2000, workers with at least a bachelor’s degree have seen their median hourly wages decline by \$1.10, or 3.5 percent. While this is smaller than the decline for those with only a high school education over the same period (12.9 percent), it still demonstrates that even the well-educated are susceptible to falling wages. As demonstrated in the next section, most of the wage gains of the past decade have accumulated to the state’s wealthiest people.

Wage Inequality

The long-term wage trend for workers in Connecticut is clear: the relatively few people with the highest incomes have enjoyed strong hourly wage growth since 1979, while those making less have watched their real wages stagnate. Between 1979 and 2014, workers in the top 10 percent of wages enjoyed a raise of over 45 percent, to \$48.17 an hour from \$33.17. Over the same 35-year period, workers whose wages put them in the lowest 10 percent saw their real wages fall by 26 cents an hour.

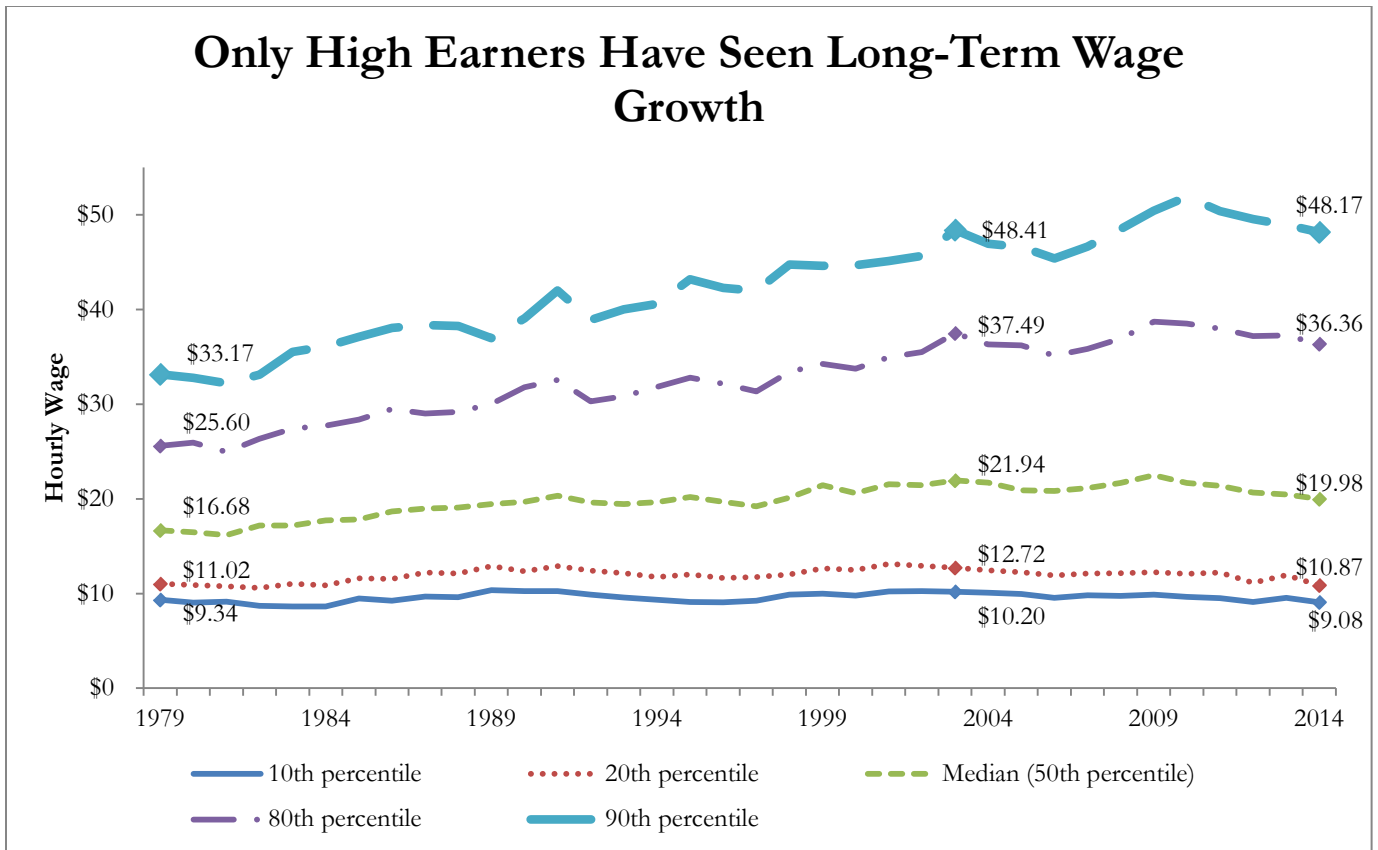


Figure 18. Source: Connecticut Voices and EPI analysis of CPS data in 2014 inflation adjusted dollars using CPI-U-RS.

Note that when wages are adjusted for inflation, the Great Recession has affected even the highest income people in Connecticut. Since 2003, everyone has seen their wage decrease when adjusted for inflation. This decrease has the most impact on those paid the least, who already struggle to make ends meet. Addressing this challenge – and increasing wages for everyone is critical both to family economic wellbeing and growing Connecticut’s economy.

Section IV: Rebounding Labor Force Measures Vary by Demographic

This final section analyzes changes in two broader indicators – labor force participation and the employment-to-population ratio. The labor force participation rate measures the percentage of the civilian population age 16 and over that is engaged in the labor force. It counts both those working and those unemployed and seeking work, while excluding workers who no longer search for employment.¹¹ The employment-to-population ratio measures the portion of the civilian population that is employed. Unlike the labor force participation rate, it does not count any unemployed workers, not even those looking for work.¹² In the wake of the Great Recession, the employment-to-population ratio has been acknowledged as an undistorted indicator of economic health.

Major findings:

- The state’s labor force participation rate and employment-to-population ratio, once among the highest in the nation, have fallen over the past few decades, although they show signs of rebounding in recent years.
- Older workers are stay in the labor force longer, and leave less room for younger workers.
- People of color have seen the largest drop in the employment-to-population ratio: roughly one in every two black residents in Connecticut is not employed.

Labor Force Participation

Connecticut enjoyed a high labor force participation rate for decades, peaking at 72 percent in 1991 (when the national rate was 66.2 percent). Since then, Connecticut's rate, like that of the nation, has declined. It reached a 34-year low of 64.9 percent in 2013.

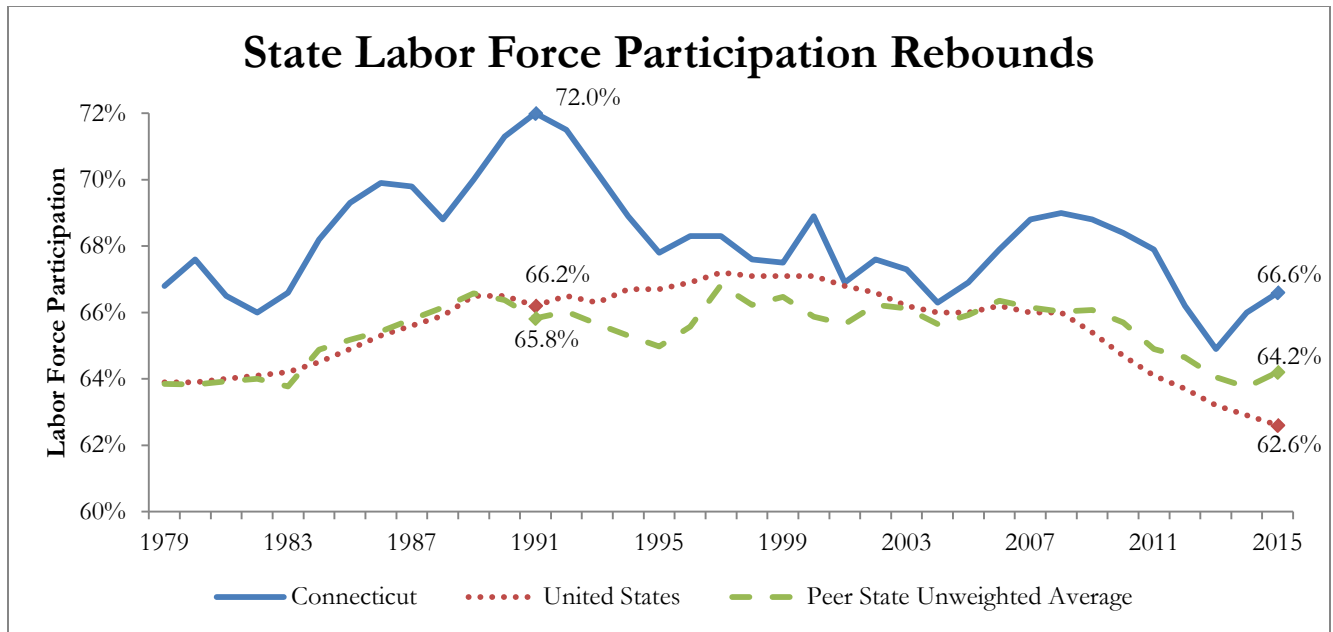


Figure 19. Source: Connecticut Voices and EPI analysis of CPS data. Seasonally adjusted. Peer states are Massachusetts, New Jersey, New York, and Rhode Island.

Since 2013, Connecticut's labor force participation rate has rebounded 1.7 percentage points, a higher rate than that of its neighboring states – and in contrast to the national trend, which has continued to decrease.

Labor Force Participation by Age

For years, the largest decline in labor force participation had been among Connecticut's youngest workers, a trend that reversed slightly in 2014. From 1985 to 2013, labor force participation for workers ages 16-24 fell to 53.1 percent from 75.1 percent – a drop of 22 percentage points. In 2014, the rate for young workers increased 3.1 percentage points to 56.1 percent, a hopeful sign that Connecticut's economy may be friendlier to young workers. In contrast, since 1985, the labor force participation rate for workers older than 55 increased to 44.6 percent from 35.1.

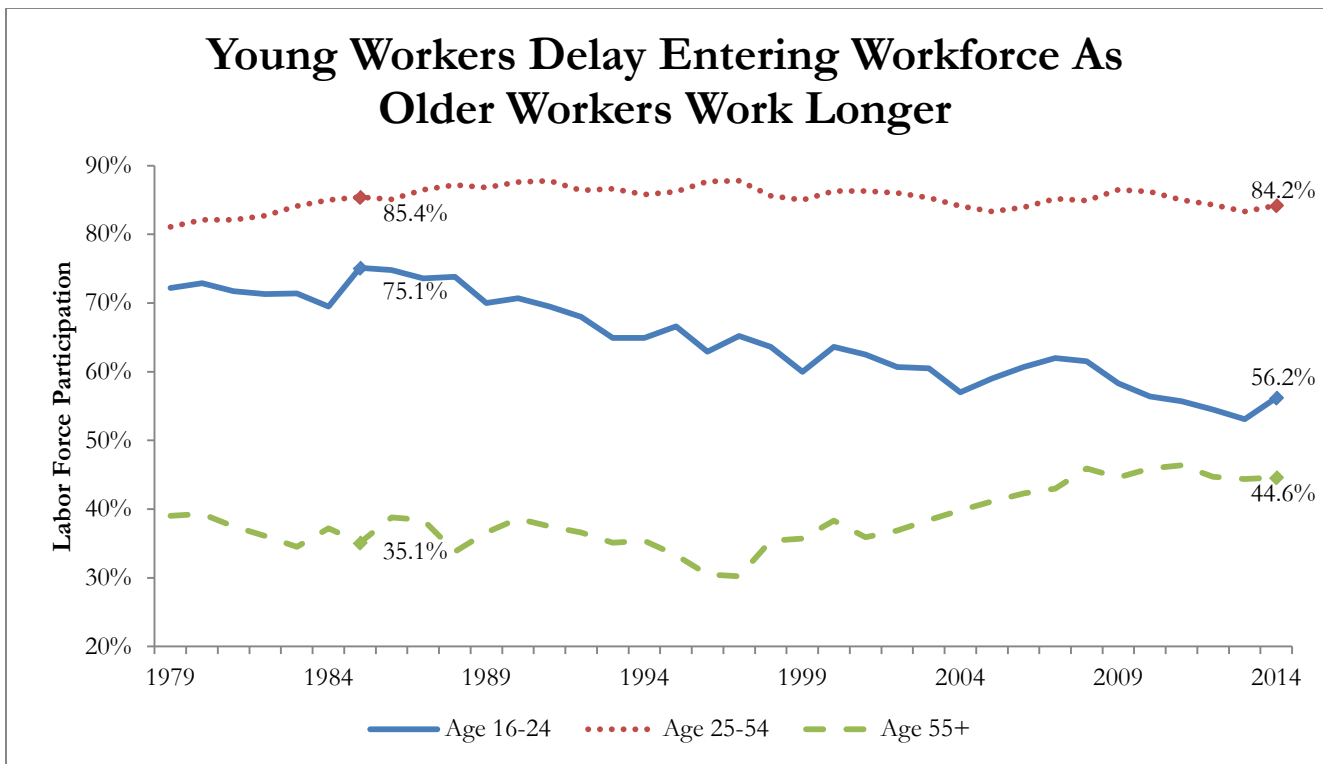


Figure 20. Source: Connecticut Voices and EPI analysis of CPS data. Seasonally adjusted.

These trends depict a labor force undergoing significant change accelerated by the Great Recession. A greater number of older workers delay retirement and remain in the workforce, while more young workers delay joining the labor force, due either to a longer educational pathway or inability to find work. While young workers benefit from additional educational qualifications, it is crucial they eventually find stable employment. Young workers who face challenges entering the labor force make comparatively lower wages and have lower job mobility, which dampens overall lifetime earnings.¹³

Prime Age Employment-to-Population Ratio

The prime age employment-to-population ratio covers workers from 25 to 54 as over time this group has tended to be the most stable and as a result tends to be a good measure of underlying labor force health. Traditionally, Connecticut has enjoyed a high prime age employment-to-population ratio. It was never lower than third in the nation during the 1980s – peaking at 85.3 percent in 1988. Since then, Connecticut’s ratio has fallen relative to other states, coming in at 79 percent in 2013, which was 16th in the country.

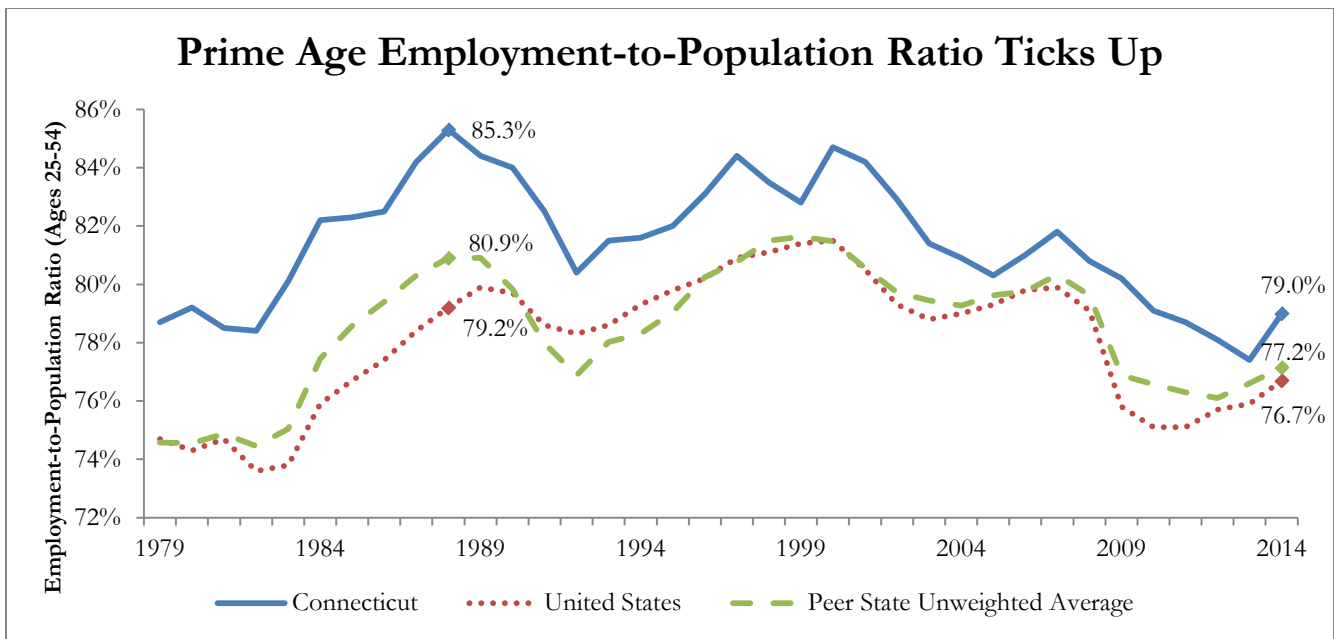


Figure 21. Source: Connecticut Voices and EPI analysis of CPS data. Seasonally adjusted. Peer states are Massachusetts, New Jersey, New York, and Rhode Island.

From 2009 to 2013, Connecticut’s prime age employment-to-population ratio dropped 3 percentage points, while the nation experienced a slight increase. In 2013 and 2014, however, it rose – a positive sign when assessing state economic recovery.

Employment-to-Population Ratio by Color and Ethnicity

White, black, and Hispanic workers had roughly similar employment-to-population ratios before the Great Recession, with black workers doing slightly better than other races with a ratio of 66.9 percent. But workers of color, particularly black workers, have felt the effects of the economic downturn more acutely than white workers. From 2006 to 2013, white workers’ employment-to-population ratio decreased by 4.5 percentage points compared to 5.5 points for Hispanic workers and 11.6 points for black workers. This trend accelerated in 2014 for black workers, whose employment-to-population ratio dropped 2.1 percentage points to 53.2 percent as white and Hispanic workers continued to see employment gains.

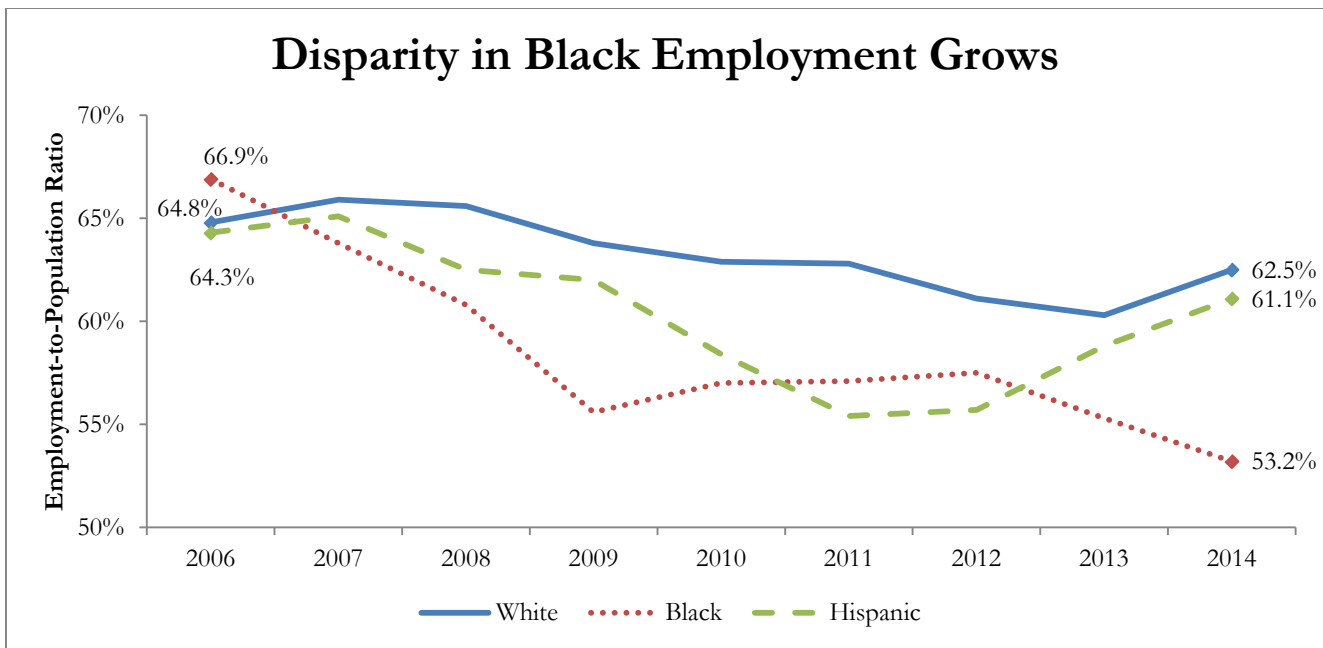


Figure 22. Source: Connecticut Voices and EPI analysis of CPS data. Seasonally adjusted.

These figures are in part the continuation of a gradual decline in all three groups' employment-to-population ratio. In 1988, the ratio was 66.1 percent for whites, 71.3 for black, and 76 for Hispanic workers. Since then, each group has seen a long-term decrease in its employment-to-population ratios, although the ratios for black and Hispanic workers tend to be more responsive to economic downturns and recoveries, as seen in the chart above. The rate of 53.2 percent for black workers, the lowest rate since at least 1979, signifies that barely one in every two black Connecticut residents is employed.

Recommendations

Connecticut's economy remains in recovery, but this economic growth has not benefitted all workers equally.

As the demographics of our state change, with increasing diversity and with an aging population causing a decline in the worker-to-beneficiary ratio, we need to ensure that all workers are able to find jobs that pay enough to offer pathways to the middle class. Although Connecticut maintains its edge in the U.S. due to a very healthy and highly educated workforce, maintaining that edge will require strategic increases in our human capital investments. Key proposals to reverse Connecticut's growing disparities and ensure economic opportunity for all of our state's future workers include:

Reform the state's tax system to better support working families by making taxes based more than they are now on ability to pay, restoring the state's earned income tax credit to 30 percent of the federal credit, and adding a tax credit or exemption to make up for the high cost of raising children.

- In Connecticut the higher a household's income the lower share of that income it pays in state and local taxes. In fact, the lowest-income families pay more than three times the share of their income in state and local taxes as the wealthiest.¹⁴ The state should change this system to support working . The earned income tax credit (EITC) is a program with bipartisan support that helps working people who are paid low wages by offsetting some of the taxes they pay. It raises more children out of poverty than any other and boosts parents' employment by making work pay. Cut in 2013 when the state had a budget shortfall, it was due to return to its full value this year but was instead held flat

at 27.5 percent of the federal credit. Restoring the EITC would benefit nearly 200,000 families, living in every one of the state's 169 towns.¹⁵

- A dependent care credit or child tax credit against the state personal income tax would support working families with children and bring Connecticut's income tax in line with that of nearly every other state. Connecticut is one of just two states with a tax code that does not adjust for the cost of raising children.¹⁶

Reform state funding for K-12 schools, colleges, and early childhood education so everyone can get the benefits.

- High-quality early education enjoys bipartisan support and offers a high return on state investment – \$3 to \$6 for every dollar spent.¹⁷ It improves children's education and provides a lifelong boost.¹⁸ Connecticut must build on recent progress and ensure every child gets a great early education.
- Excellent K-12 schools are the essential next step after high-quality preschool, yet too many low-income children and children of color – already disproportionately hurt by the down economy – lack well-regarded K-12 schools, hurting their chances of future success.¹⁹
- Lower-income towns have less ability to raise the revenue required to support public services. This lack of capacity disproportionately affects Connecticut's black and Hispanic residents.
- Pursuing fundamental property tax reform that equalizes school funding across communities would allow the state to redress the existing opportunity gap and prepare all of its students for the workplace of tomorrow.
- Other fiscal measures, such as a property tax circuit breaker that prevents families from paying more than a certain percentage of their income in property taxes, would offer some measure of assistance for children in communities across the state, pending more comprehensive reform.

Reversing the trends identified in this report will require concerted action and cross-cutting policies to increase economic security for working families and to ensure long term economic success for the state as a whole. Before the state makes any investment, whether in economic development, education, or support for working families, it should ask whether the investment will decrease the existing disparity in economic opportunity and whether it will increase the workforce preparedness of our youth. Unless the answer to at least one of those questions is yes, the state should question the strategic value of its investment. Our youth, and the future of our state, cannot afford otherwise.

¹ Youth and young adults are used interchangeably in this report to refer to those between the ages of 16 and 24.

² See: 2014 American Community Survey, U.S. Census

³ Newlin, C. (2011). Overview of the Adverse Experiences in Childhood (ACE) Study. National Children's Advocacy Center.

⁴ Connecticut Voices for Children. "Poverty, Median Income, and Health Insurance in Connecticut: Summary of 2014 American Community Survey Census Data." Sept. 2015.

⁵ *Ibid.*

⁶ Unemployment is defined by the share of people in the labor force who are not employed but have actively sought work in the past four weeks. Workers who have become discouraged from searching for work are not counted as part of the labor force and are not counted in this measure.

⁷ The youth unemployment rate differs between the Bureau of Labor Statistics rate in Figure 7 and the U.S. Census rate in Figure 8 because the two rates measure different time periods, use different surveys, and the BLS rate is seasonally adjusted. The Census rate is used in this instance as it allows a detailed breakdown by age.

⁸ Albanesi, Stefania and Ayşegül Şahin. "The Gender Unemployment Gap." Federal Reserve Bank of New York. March 2013.

⁹ Nichols, Austin et al. "The Consequences of Long-Term Unemployment." The Urban Institute, August 20, 2013.

¹⁰ Bivens, Josh; Gould, Elise; Mishel, Lawrence; Shierholz, Heidi. "Raising America's Pay: Why it's Our Central Economic Policy Challenge." Economic Policy Institute. June 4, 2014.

¹¹ The labor force participation rate is defined as the percentage of people aged 16 or older who are either employed or unemployed divided by the entire population aged 16 or older, not counting institutionalized individuals or those in the military. It does not count discouraged workers.

¹² The employment-to-population ratio is defined as the number of employed people 16 or older divided by the entire population aged 16 or older, not counting institutionalized individuals or those in the military. It does not count any type of unemployed worker.

¹³ Wee, Shu Lin. "Born Under a Bad Sign: The Cost of Entering the Job Market During a Recession." University of Maryland, December 2015.

¹⁴ Department of Revenue Service, "Connecticut Tax Incidence," (December 2014), <http://www.ct.gov/drs/lib/drs/research/drstaxincidencereport2014.pdf>.

¹⁵ Gibson, Wade; Santacroce, Matt. "Pro-Family Tax Reform in Connecticut: A Roadmap for Improvement." CT Voices for Children. April 2014.

¹⁶ *Id.*

¹⁷ Duncan, Greg J., and Katherine Magnuson. 2013. "Investing in Preschool Programs." *Journal of Economic Perspectives*, 27(2): 109-32.

¹⁸ Heckman, James et al. "A New Cost-Benefit and Rate of Return Analysis for the Perry Preschool Program: A Summary." National Bureau of Economic Research, 2010.

¹⁹ For more information, see: Feder, Kenny et al. "Unequal Schools," Connecticut Voices for Children, March 2015.