THE STATE OF WORKING CONNECTICUT:

A SMALLER, LESS-INCLUSIVE MIDDLE CLASS IN THE AFTERMATH OF THE GREAT RECESSION

CONNECTICUT VOICES FOR CHILDREN

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#StateOfWorkingCT

Labor Day became a federal holiday in 1894 in response to rising inequality and double-digit unemployment during a major economic downturn—the Panic of 1893 and its aftermath—all of which severely weakened any "middle class" of the Gilded Age. This month, we celebrate the 125th anniversary of Labor Day during the longest economic expansion in U.S. history, making it an ideal time to examine the status of the middle class in the aftermath of our most recent downturn—the Great Recession of December 2007 to June 2009[1]—and a period increasingly referred to as the Second or New Gilded Age.[2]

A strong, inclusive middle class—which we measure in economic terms as the middle-income group—is one of the key foundations of a thriving economy and society. Most notably, it positively impacts economic growth, child development and education, and child and family health.

In this report on the state of working Connecticut, we provide three key, related findings. First, we show that we are currently experiencing a low-participation, slow-growing, highly-unequal economic expansion at both the national level and the state level. Second, we show that, in line with the deeply-troubling aspects of the economic expansion, the size of the middle class in Connecticut is smaller than before the Great Recession. Third, we show that the middle class in Connecticut is not only smaller but also less racially and ethnically inclusive than before the Great Recession.

Based on these findings, future reports will provide policy recommendations that we believe will be most effective in supporting a stronger, more-inclusive middle class in Connecticut.

A LOW-PARTICIPATION, SLOW-GROWING, HIGHLY-UNEQUAL ECONOMIC EXPANSION

In order to provide a comprehensive overview of the economy at both the national level and the state level, this section of the report examines five key economic indicators: (1) the unemployment rate, (2) the labor force participation rate, (3) the length of the economic expansion, (4) the economic growth rate, and (5) the income share for the top 1 percent of the population.

First, the U.S. unemployment rate (UR)—measured as the percentage of the population 16 years old and over that is "jobless, looking for a job, and available for work"—averaged 3.9 percent in 2018, the lowest level since the 1960s.[3] This prominent indicator has been commonly used as evidence that the economy is "booming."[4]

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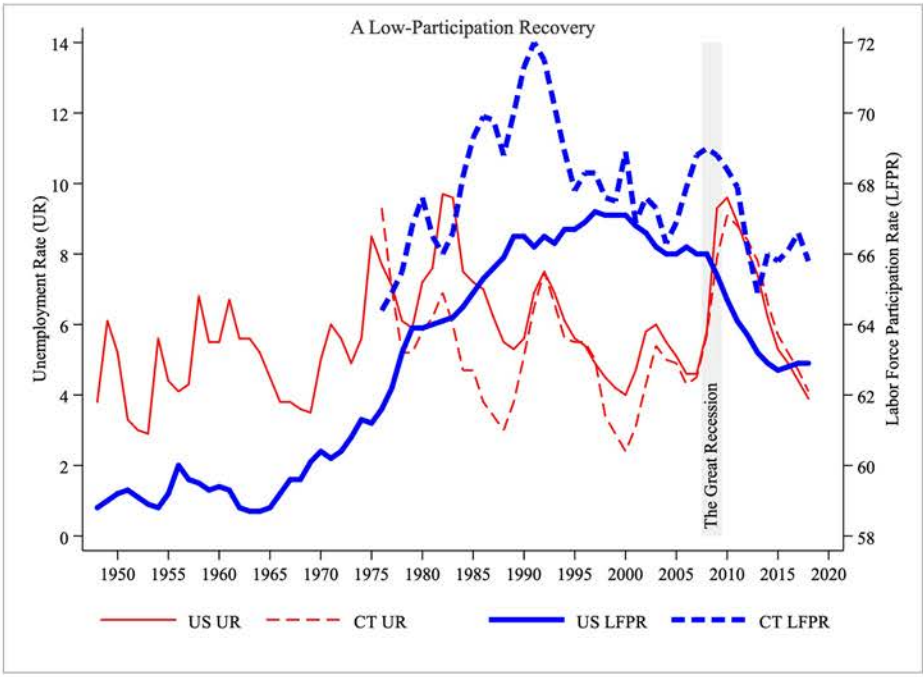
However, a related, second key indicator—the labor force participation rate (LFPR)—provides a contrasting picture. Measured as the percentage of the population 16 years old and over that is "either working or actively seeking work," the U.S. labor force participation rate averaged 63 percent in 2018, down from 66 percent in 2007 and largely offsetting the low unemployment rate.[5] To be clear, it is essential to examine the labor force participation rate and the unemployment rate together because the latter declines not only when more people become employed but also when more people are no longer "actively seeking work" due to a long-term failure to become employed. For example, in 2012, Federal Reserve Chair Ben Bernanke stressed the significance of the declining labor force participation rate due to the slow economic recovery, explaining, "This has never happened in the post-war period in the United States. [The long-term unemployed] are losing the skills they had, they are losing their connections, their attachment to the labor force."[6]

A similar dynamic has played out at the state level. The Connecticut unemployment rate averaged 4.1 percent in 2018, the lowest level since the early 2000s. However, the labor force participation rate averaged 66 percent in 2018, down from 69 percent at the start of the Great Recession and largely offsetting the low unemployment rate.

For a more detailed overview, **Figure 1** shows that the Connecticut labor force participation rate began to decline during the recession of the early 1990s, the U.S. labor force participation rate began to decline during the recession of the early 2000s, and the decline at both the state level and the national level then accelerated during the Great Recession of 2007–09.[7] There are several explanations for this development—for example, the beginning of the retirement of the baby boom generation and the substantial departure from the job market of men in their prime working years, especially less-educated men[8]—but the key finding is that, at both the national level and the state level, the benefits of the economy's low unemployment rate are offset in large part by its low labor force participation rate.

Next, at 122 months and counting—or 10-plus years—the third key indicator is that the current economic expansion is the longest in U.S. history. Along with the unemployment rate, the length of the expansion has been commonly used as evidence that the economy is "booming." However, a fourth key indicator—the economic growth rate—provides a contrasting picture. Measured as the annual percentage change in the "value of the goods and services produced," the U.S. economic growth rate has not reached 3 percent or higher for a single year since the Great Recession.[9] A 3 percent growth rate is often used as a benchmark for a strong growing economy and the failure to reach it makes the current recovery arguably the slowest in modern U.S. history.[10]

Figure 1. Unemployment and Labor Force Participation Rates in the U.S. and Connecticut

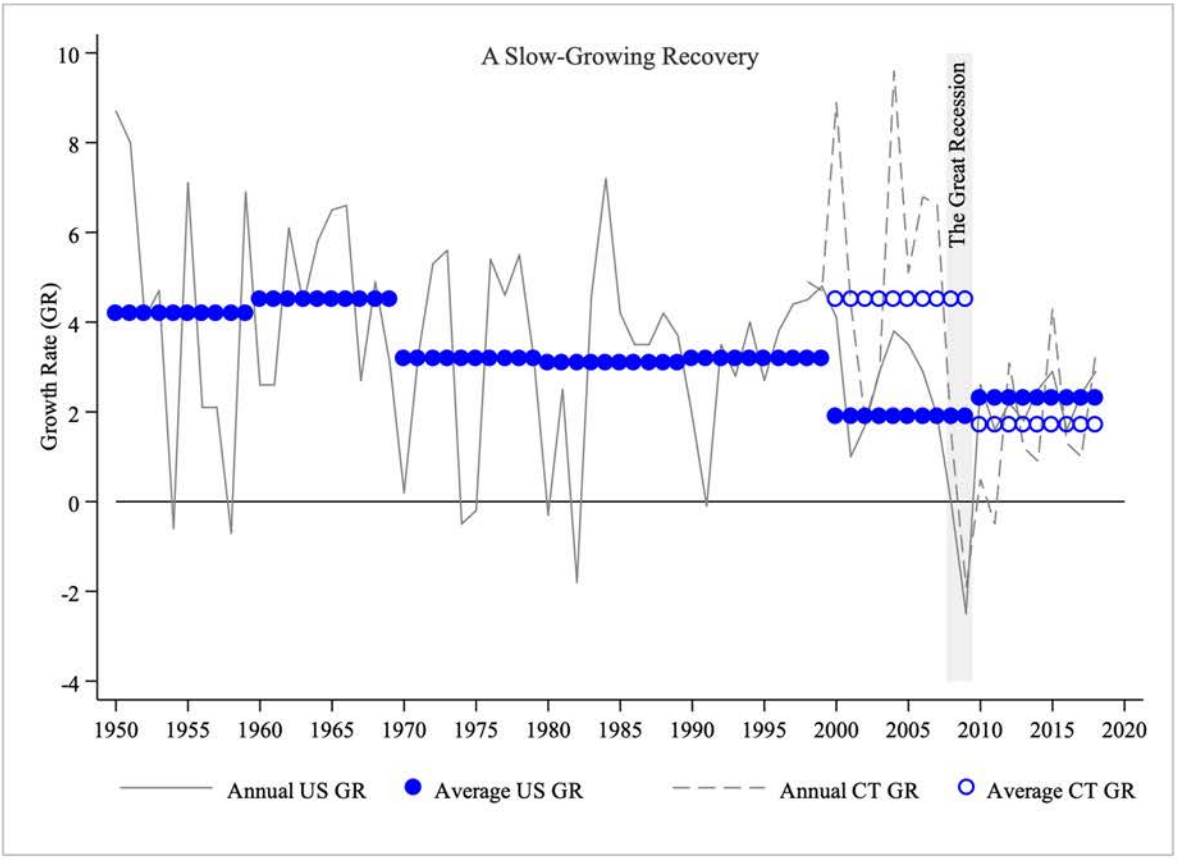


*See note 7 for data source.

A similar dynamic has played out at the state level. The Connecticut economic growth rate averaged 1.7 percent during the eight years following the Great Recession, down from an average of 4.5 percent during the decade preceding it, meaning the economic recovery in Connecticut is even slower than the historically-slow national recovery.

For a more detailed overview, **Figure 2** shows that the U.S. economic growth rate has usually exceeded 4 percent in the years immediately following a downturn and in several cases the rate has been significantly higher.[11] For example, in the three years after the recessions of 1973–75 and 1981–82, economic growth averaged 5.2 and 5.3 percent, respectively. In contrast, economic growth became relatively slow during the early 2000s and it has continued to be slow since the Great Recession. There are several theories to explain this development—for example, the limits of increased innovation, "quarterly capitalism," and an aging population[12]—but the key finding is that, at both the national level and the state level, the benefits of the economy's lengthy expansion are offset in large part by its historically-slow average growth rate.

Figure 2. Economic Growth Rate in the U.S. and Connecticut

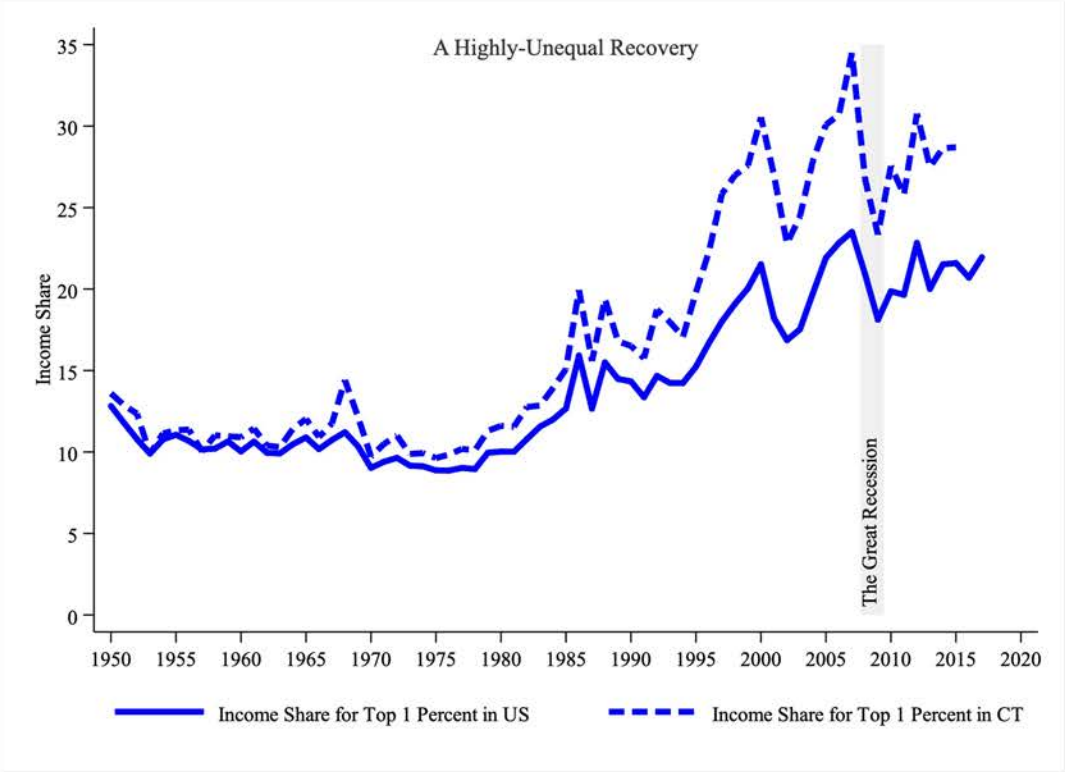


*See note 11 for data sources.

Lastly, the fifth key indicator is that the gains of the economic expansion have been distributed highly unequally. One leading measure of this is the share of pre-tax income going to various populations. For example, from the 1950s through the 1970s, an average of 10 percent of pre-tax income went to the top 1 percent of the population in the U.S. In contrast, from 2010 through 2017, that average jumped to 21 percent. This makes the current economic recovery one of the most unequal in modern U.S. history.

A similar dynamic has played out at the state level. For example, from the 1950s through the 1970s, an average of 11 percent of pre-tax income went to the top 1 percent of the population in Connecticut. In contrast, from 2010 through 2015, that average jumped to 28 percent, meaning the economic recovery in Connecticut is even more unequal than the historically-unequal national recovery.

Figure 3. Distribution of Income in the U.S. and Connecticut



*See note 13 for data sources

For a more detailed overview, **Figure 3** shows that the pre-tax share of income for the top 1 percent of the population in both the U.S. and Connecticut remained relatively low from the 1950s through the 1970s and it then began to increase during the 1980s and has continued to do so for several decades.[13] There are many theories to explain this rise in inequality—for example, globalization, technological change, and the growth of "superstars"[14]—but the key finding is that, at both the national level and the state level, income inequality has remained exceptionally high throughout the current economic expansion.

Altogether, the economic indicators reviewed here show that the U.S. has a historically-low unemployment rate and is experiencing the longest expansion in its history but those factors are offset in large part by a low labor force participation rate, slow growth, and a highly-unequal distribution of income. Additionally, the economic indicators show that in Connecticut the economic recovery is even slower and more unequal than the historically-slow and historically-unequal national recovery.

A SMALLER MIDDLE CLASS

A strong middle class—which we measure in economic terms as the middle-income group—is one of the key foundations of a thriving economy and society, especially in the areas of economic growth, child development and education, and child and family health. Importantly, however—and consistent with the troubling aspects of the economic expansion—the middle class in Connecticut is smaller than before the Great Recession. This section of the report addresses both issues: the importance of a strong middle class and its recent decline.

First, a strong middle class positively impacts economic growth. For example, a 2005 study of U.S. states finds that "[i]f inequality rises too much … growth will eventually decline."[15] Likewise, a 2012 review of leading research concludes that there is substantial evidence that a "strong middle class creates a stable source of demand for goods and services," it "incubates the next generation of entrepreneurs," and it "supports inclusive political and economic institutions, which underpin economic growth."[16]

Second, a strong middle class positively impacts child development and education. For example, a 2011 study finds that "a stronger middle class boosts [educational] achievement through both school-funding and nonschool-funding mechanisms," the latter of which includes middle-class families having "an especially strong incentive to invest their time and energy to make public schools work."[17] Additionally, a 2014 review of leading research addresses how adequately-funded schools in turn support both the middle class and those working to reach that level. As the review explains, "For middle-class families—and those trying to get there—access to affordable, high quality childcare and early education programs can set them up for success. On average, children who attend high-quality preschool programs gain 4 months of additional learning and the highest quality programs have produced learning gains of 6 to 12 months. While gains are particularly pronounced for children of color … and low-income children, middle-class children also benefit." In all, "the life-cycle effects of early childhood programs create at least a 10 percent return on investment, which is a higher return than in almost any other policy area."[18]

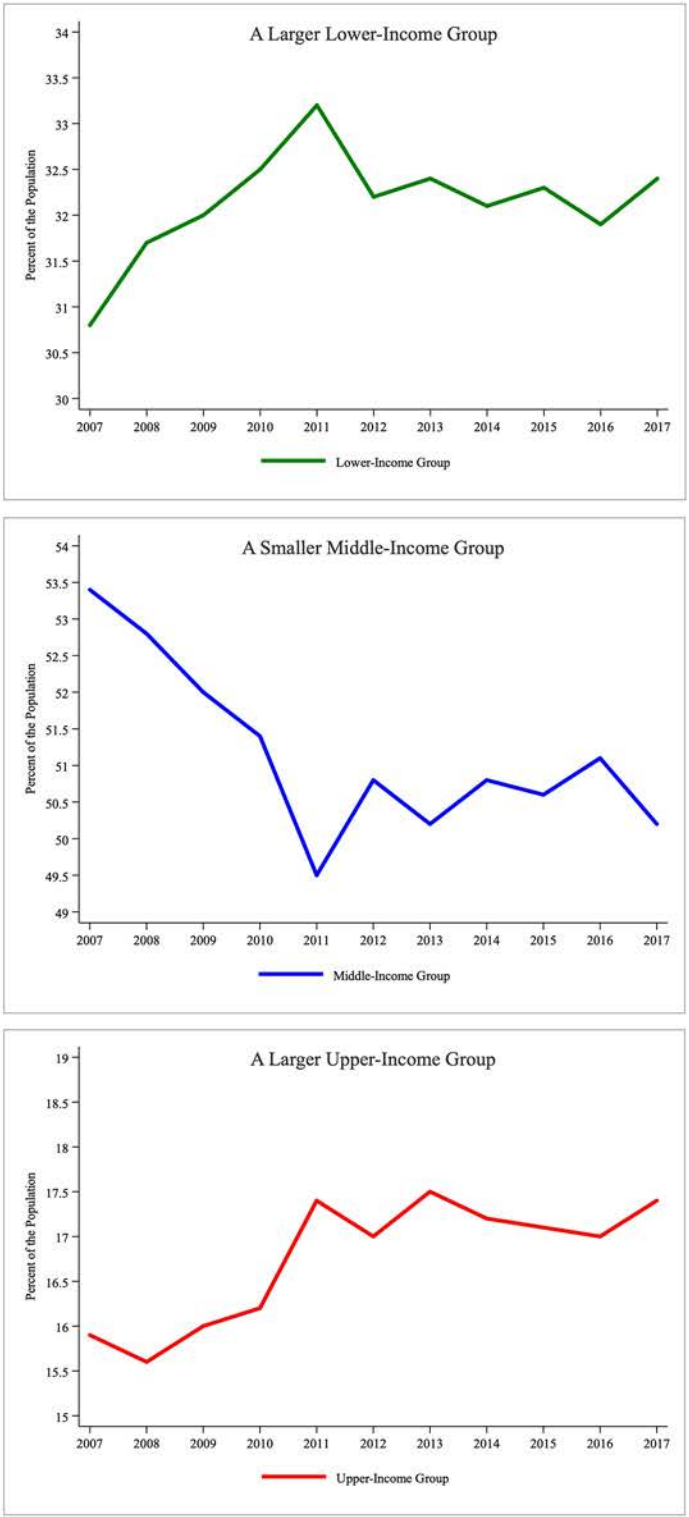
Third, a strong middle class positively impacts child and family health. For example, a 2014 review of leading research explains, “During the past two decades, the public health community’s attention has been drawn increasingly to the social determinants of health (SDH)—the factors apart from medical care that can be influenced by social policies and shape health in powerful ways.” In particular, “[e]vidence has accumulated … pointing to socioeconomic factors such as income, wealth, and education as the fundamental causes of a wide range of health outcomes.”[19]

Likewise, a 2015 review of leading research concludes, “In the United States as in other countries, the higher one’s income, the better one’s health. This income health gradient spans all levels of income and holds true for most measures of health, from life expectancy to the prevalence of diseases and health behaviors. It is found at most ages, appearing first in childhood, continuing into adolescence and adulthood, and then dissipating in old age …. One recent study found that being poor or near poor imposes a greater societal health burden than any other risk factor, including the two leading behavioral causes of death—tobacco use and obesity …. Another study showed that income accounts for 52 percent of the difference in life expectancy after age 1 between black and white men and 59 percent of the difference among women.”[20*]

Taking into account the positive impact on economic growth, child development and education, and child and family health, it is clear that a strong middle class operates as one of the key foundations of a thriving economy and society. Yet, in line with the preceding analysis of the current economic expansion, new data show another troubling trend: the middle class in Connecticut remains smaller than before the Great Recession.

*[Note: CT Voices maintains that the aforementioned behavioral patterns are largely the result of social and systemic inequities such as but not limited to poverty and existence of food deserts. These behaviors are not inherent to race or ethnicity.]

Figure 4. Percent of the Population in Each Income Group in Connecticut



*See note 21 for data source.

For a detailed overview, **Figure 4** shows the percent of the population in the lower-income, middle-income, and upper-income groups in Connecticut between 2007 and 2017—the last year data are available.[21] As noted, we define middle class in economic terms as the middle-income group and we calculate this as the percentage of the population that falls between 67 and 200 percent of the median state income—an approach that is similar to other recent studies at the national level.[22] The key finding is that the size of the middle class—or middle-income group—declined by 3.1 percentage points (or nearly 6 percent) over the decade following the start of the Great Recession; in contrast, the size of the lower-income group increased by 1.6 percentage points (or more than 5 percent), and the size of the upper-income group increased by 1.5 percentage points (or more than 9 percent).

Additionally, new research provides evidence that the middle class in the U.S. has been shrinking for several decades, which reinforces the preceding finding of its recent decline in Connecticut. For example, a 2016 study explains, "One of the defining features of the 'American Dream' is the ideal that children have a higher standard of living than their parents... When children are asked to assess their economic progress, they frequently compare their own standard of living to that of their parents …. Such measures of absolute income mobility – the fraction of children earning or consuming more than their parents – are also often the focus of policy makers when judging the degree of economic opportunity."

The study then shows "that rates of absolute upward income mobility in the United States have fallen sharply since 1940." In particular, "the fraction of children earning more than their parents fell from 92% in the 1940 birth cohort to 50% in the 1984 birth cohort. Rates of absolute mobility fell the most for children with parents in the middle class."[23]

A LESS-INCLUSIVE MIDDLE CLASS

One essential step to strengthen the middle class is to support racial and ethnic inclusion. However, the middle class in Connecticut is not only smaller than before the Great Recession but also less racially and ethnically inclusive. This section of the report addresses both issues—the importance of an inclusive middle class and its recent decline.

Like the nation as a whole, Connecticut is becoming increasingly diverse.[24] Importantly, from 2000 to 2018, the population in Connecticut that identified as "Black or African American alone" increased from 9.1 percent to 12 percent and the population that identified as "Hispanic or Latino" increased from 9.4 percent to 16.5 percent.[25]

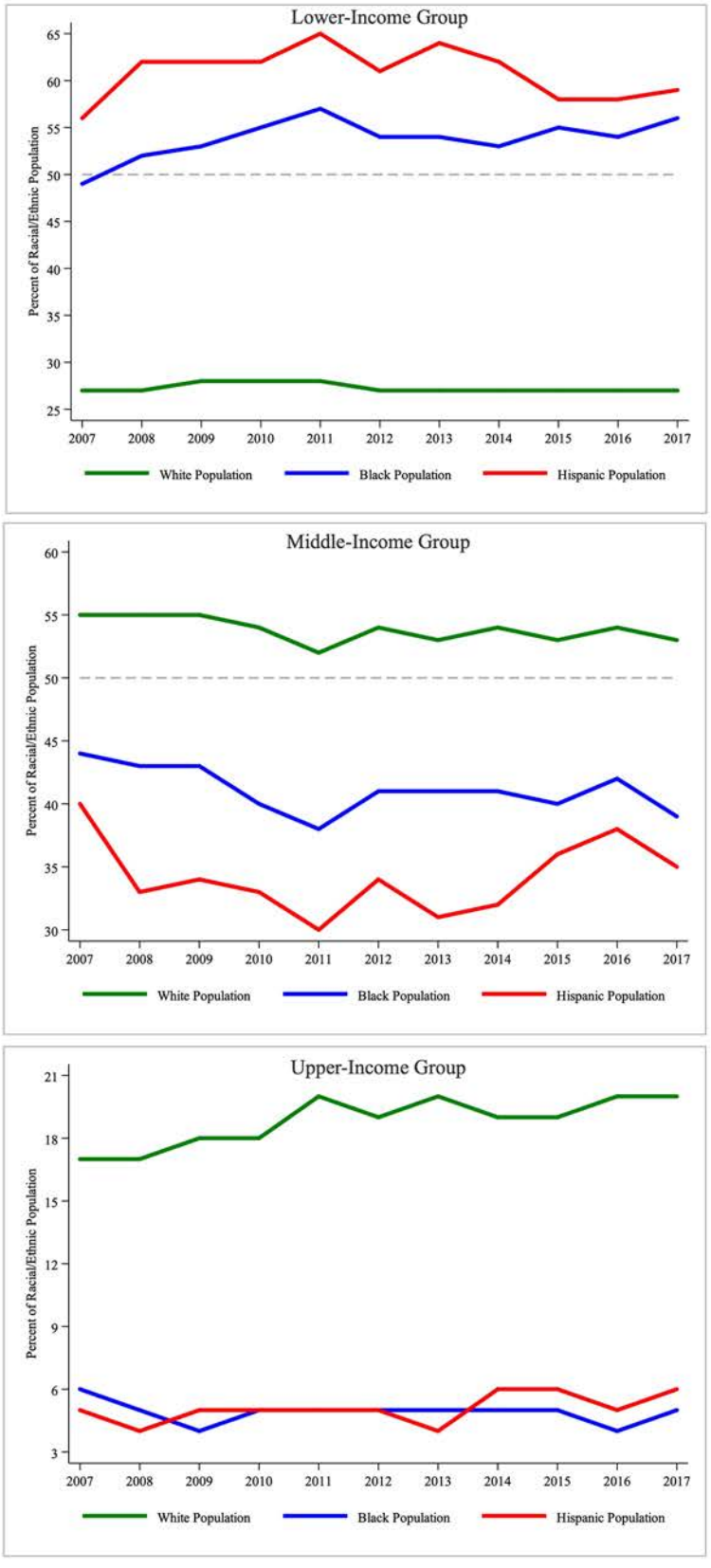
Equally important, although average "rates of absolute upward income mobility in the United States have fallen sharply since 1940," some racial and ethnic groups are even less likely to move up into the middle class. For example, a 2018 study finds that "black Americans have substantially lower rates of upward mobility and higher rates of downward mobility than whites, leading to large income disparities that persist across generations." In particular, the study finds that "black children with parents at the 25th percentile reach an income rank of 32.6 on average, 12.6 percentiles below white children born to parents with comparable incomes. Racial disparities persist even at the highest income levels: among children whose parents are in the top 1% … the black-white gap remains at 12.4 percentiles."[26] Additionally, a 2018 report identifies several factors contributing to the "inheritance of black poverty." These include "educational inequalities, neighborhood effects, workplace discrimination, parenting, access to credit, rates of incarceration," and more.[27]

Based on the growing size of the Black and Hispanic populations in Connecticut, racial and ethnic inclusion has become increasingly essential to maintain a strong middle class. Yet, in line with recent research on the "lower rates of upward mobility and higher rates of downward mobility" for some racial and ethnic groups, the middle class in Connecticut is now less inclusive than before the Great Recession.

For a detailed overview, **Figure 5** shows the percent of the population for three racial or ethnic groups—white, Black, and Hispanic—in each of the income groups in Connecticut from 2007 through 2017.[28] First, the analysis shows that the lower-income group is compromised of a relatively stable minority of the white population, an increasing majority of the Black population, and an increasing majority of the Hispanic population—the latter two populations increased by 6 percentage points and 3 percentage points, respectively. Second, the middle-income group is compromised of a relatively stable majority of the white population, a decreasing minority of the Black population, and a decreasing minority of the Hispanic population—the latter two populations both decreased by 5 percentage points. Third, the upper-income group is comprised of an increasing, relatively substantial minority of the white population, a relatively stable and insubstantial minority of the Black population, and a relatively stable and insubstantial minority of the Hispanic population.

The key finding is that the middle class—or middle-income group—in Connecticut is less racially and ethnically inclusive following the Great Recession due in large part to a downward shift in the income of the Black and Hispanic populations, especially the Black population.

Figure 5. Percent of the Racial/Ethnic Population in Each Income Group in Connecticut



*See note 28 for data source.

CONCLUSION

The primary objective of this report is to examine the state of working Connecticut in the aftermath of the Great Recession. As demonstrated, the U.S. and Connecticut are both experiencing a low-participation, slow-growing, highly-unequal economic recovery. And Connecticut's recovery is even slower and more unequal than the historically-slow and historically-unequal national recovery. This has translated into a smaller, less-inclusive middle class in Connecticut, which is deeply troubling considering that a strong, inclusive middle class is one of the key foundations of a thriving economy and society, especially in positively impacting economic growth, child development and education, and child and family health.

To be sure, Connecticut has taken important steps this year in passing legislation to raise the minimum wage and to require paid family and medical leave. Yet, far more work remains to be done to restore the middle class to even its pre-Great Recession size, much less its size during the middle part of the twentieth century before several decades of rising inequality.

Future reports will explore these and other issue areas more deeply and include community-informed policy recommendations that we believe will have the greatest impact in supporting a stronger, more-inclusive middle class in Connecticut.

This report was funded by the Stoneman Family Foundations, the Grossman Family Foundation, and the Melville Charitable Trust.
A special thanks to Richard Fry for his methodological assistance.

1 Robert Rich, "The Great Recession," *Federal Reserve History,* November 12, 2013.

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3 "How the Government Measures Unemployment," *Bureau of Labor Statistics*. Accessed at <https://www.bls.gov/cps/cps_htgm.htm#definitions>.

4 For examples, see Matthew J. Belvedere, "Booming US Economy May Soon Be the 'Strongest Since 1999,' " *CNBC*, October 4, 2018; Neil Irwin, "The Economy That Wasn't Supposed to Happen: Booming Jobs, Low Inflation," *New York Times,* May 3, 2019; Derek Thompson, "Why No One Wants to Talk About the Booming Economy," *Atlantic*, August 5, 2019.

5 "How the Government Measures Unemployment," *Bureau of Labor Statistics*.

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7 There are six data sources:
(1) U.S. annual unemployment data from "Unemployment Rate (LNS14000000)," *Bureau of Labor Statistics*. Accessed at <https://data.bls.gov/timeseries/LNS14000000>.
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(3) U.S. annual labor force participation data for 1979-2018 from Economic Policy Institute Analysis of Current Population Survey Microdata. Accessed at <https://earn.us/member-resources/data-tools/>.
(4) Connecticut annual unemployment data from "Unemployment Rate in Connecticut (CTUR)," *Federal Reserve Bank of St. Louis*. Accessed at <https://fred.stlouisfed.org/series/CTUR>.
(5) Connecticut annual labor force participation data for 1976-1978 from "Labor Force Participation Rate for Connecticut (LBSSA09)," *Federal Reserve Bank of St. Louis*. Accessed at <https://fred.stlouisfed.org/series/LBSSA09#0>.
(6) Connecticut annual labor force participation data for 1979-2018 from Economic Policy Institute Analysis of Current Population Survey Microdata. Accessed at <https://earn.us/member-resources/data-tools/>.

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10 For an example of 3 percent growth as a benchmark, see Harriet Torry, "Economists Don't See Path to 3% Growth in 2019," *Wall Street Journal*, September 12, 2009.

11 There are two data sources:
(1) U.S. annual GDP data from the Bureau of Economic Analysis. Accessed at <https://www.bea.gov/national/xls/gdpchg.xlsx>.
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12 Alana Semuels, "Why Economic Growth Is So Lackluster," *The Atlantic*, October 21, 2016.

13 There are two data sources:
(1) U.S. annual income data from Thomas Piketty and Emmanuel Saez, "Income Inequality In The United States, 1913-1998," *Quarterly Journal of Economics* (2003), 1-39. Data ("Top 1%" including capital gains) updated to 2017 and accessed at <https://eml.berkeley.edu/~saez/>.
(2) Connecticut annual income data from World Inequality Database. Accessed at <https://wid.world/data/>.

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16 Heather Boushey and Adam S. Hersh, "The American Middle Class, Income Inequality, and the Strength of Our Economy: New Evidence in Economics," *Center for American Progress*, May 2012, quote on 3.

17 David Madland and Nick Bunker, "The Middle Class Is Key to a Better-Educated Nation: A Stronger Middle Class Is Associated with Better Educational Outcomes," *Center for American Progress*, quotes on 7 and 10.

18 "The Middle-Class Squeeze: A Picture of Stagnant Incomes, Rising Costs, and What We Can Do to Strengthen America's Middle Class," ed. Jennifer Erickson, *Center for American Progress*, quotes on 51–52.

19 Paula Braveman and Laura Gottlieb, "The Social Determinants of Health: It's Time to Consider the Cause of the Causes," *Public Health Reports*, 129 (2014), 19–31, quote on 19.

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21 Data from Steven Ruggles, Sarah Flood, Ronald Goeken, Josiah Grover, Erin Meyer, Jose Pacas and Matthew Sobek. IPUMS USA: Version 9.0 [dataset]. Minneapolis, MN: IPUMS, 2019. Using this dataset, we classify households as middle income if total adjusted household income falls between 67 and 200 percent of the state median; we used the averages of 2016 and 2017 CPI values to adjust for inflation so all income data is expressed in 2016-2017 real dollars; and we standardized the number of people living in households to a size of 3.

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