Connecticut’s economy has serious problems. From the Great Recession through the coronavirus pandemic-induced recession—a period that included the longest economic expansion on record—Connecticut ranked 49th out of 50 in state-level growth in economic output, and in fact the state’s economic output decreased overall. Over the same period, the distribution of wages in Connecticut’s economy remained highly inequitable, exceeding even the high level in the U.S. as a whole. This combination of a shrunken economy with a highly inequitable distribution has weakened both the state’s fiscal standing and the standard of living for most families. The purpose of this report, which proceeds in three sections, is to highlight the depth and scope of state’s economic problems and to provide policy options to address those problems.

The first section of the report provides an overview of Connecticut’s economic output growth, which is important because it increases the tax base and thereby strengthens a state’s ability both to pay down long-term obligations and to maintain and/or increase support for working- and middle-class families. This section proceeds in three parts: The first part provides an overview of job growth, one of two main components of economic output growth. The second part provides an overview of labor productivity growth, the other main component of economic output growth. The third part provides an overview of economic output growth. The following is a summary of the key findings:

**Job growth.** Connecticut spent most of the three decades before the coronavirus pandemic-induced recession of 2020 slowly recovering jobs lost in three prior recessions rather than increase the overall number of jobs. The result is an overall job growth gap of more than 36 percentage points compared to the U.S. as a whole, and the state’s weak job growth applies to every major sector of the job market. Further, like the three prior recessions, the recession of 2020 generated a deeper job loss in Connecticut than the U.S. as a whole; and like the past three recoveries, the current recovery in Connecticut will likely take several years and likely significantly lag the pace for the U.S. as a whole.

**Labor productivity growth.** Connecticut has experienced an even greater slowdown in labor productivity growth than the recent historic slowdown in the U.S. as a whole.

**Economic output growth.** Connecticut’s economic output contracted by 7.6 percent from 2007 through 2020 when adjusting for inflation, whereas economic output in the U.S. grew by 17.9 percent. The result is an overall economic output growth gap of more than 25 percentage points, and the state’s weak economic output growth applies to nearly every major sector of the economy.

Altogether, the analysis shows that since the Great Recession, Connecticut’s economy has shrunk overall and underperformed the U.S. in economic output growth in nearly every major economic sector due to a combination of slower job growth in all major sectors of the job market and slower labor productivity growth. Moreover, based on the current slower pace of job growth in Connecticut, the state’s economy is on track to grow slower than the U.S. economy during the recovery from the recent recession.
In addition to increasing the tax base and thereby strengthening a state’s ability both to pay down long-term obligations and to maintain and/or increase support for working- and middle-class families, growth in economic output is important because, when equitably distributed, it increases the material standard of living for all families through wage growth in the job (or labor) market. The second section of the report provides an overview of Connecticut’s economic distribution and it proceeds in three parts: The first part provides an overview of wage inequality. The second part provides an overview of wage gaps, which exacerbate wage inequality for certain groups of workers, especially workers of color. The third part provides an overview of worker power. The following is a summary of the key findings:

Wage inequality. The rise in wage inequality in Connecticut is even greater than the historic rise in the U.S. as a whole, and it contributes to income inequality and wealth inequality.

Wage gaps. The racial wage gap in Connecticut is even greater than in the U.S. as a whole, and it contributes to the racial income gap and racial wealth gap, which exacerbate income and wealth inequality for families of color. The rise in wage inequality also includes several other notable wage gaps, such as a gender wage gap, an education wage gap, and a union wage gap.

Worker power. The decline of unions and the rise of routine excessive unemployment both contribute to the decline of worker power, especially for workers of color, and that in turn contributes to rising wage inequality and substantial wage gaps.

Altogether, the analysis shows that Connecticut’s economy has a highly inequitable distribution that harms low- and middle-wage workers (or working- and middle-class families), especially workers of color. This is due in large part to the decline of unions and the rise of routine excessive unemployment, both of which weaken worker power, especially for workers of color.

Lastly, to address Connecticut’s primary economic problems—an economy that has shrunk substantially, has a highly inequitable distribution, and is on track to grow slower than the U.S. economy during the recovery from the recent recession—the third section of the report proceeds in two parts. The first part provides an overview of the benefits of using the budget as an economic policy instrument. The second part provides several policy options. The following is a summary of the key points:

The budget as an economic policy instrument. The budget is an effective economic policy instrument because it can work to boost economic growth by increasing both broad job growth and labor productivity growth; at the same time, it can work to create a more equitable economic distribution by reducing both income inequality and income gaps.

Policy options.
Progressive tax reform would support the state’s economy and working- and middle-class families, especially families of color.

Progressive spending reform would support the state’s economy and working- and middle-class families, especially families of color.

Progressive budget (tax and spending) reform would provide even more support for the state’s economy and working- and middle-class families, especially families of color.

Progressive budget (tax and spending) reform along with an overall increase in tax and spending levels has the potential to provide the greatest support for state’s economy and working- and middle-class families, especially families of color.