EXECUTIVE SUMMARY

THE STATE OF WORKING CONNECTICUT

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The purpose of Connecticut Voices for Children’s (CT Voices’) annual State of Working Connecticut report is to provide an overview of Connecticut’s economy, especially its labor market, to dive deeper into the status of certain workers, and to provide policy options to support Connecticut’s economy and workers. To that end, the report proceeds in three sections reviewed below.

The first section provides an overview of Connecticut’s economy and it proceeds in three parts: (1) an overview of employment growth, which is important because hourly wages and annual salaries from jobs are the primary source of income for most families; (2) an overview of personal income growth, which is important because it is the primary economic indicator impacting allowable growth in budget appropriations under Connecticut’s spending cap; and (3) an overview of gross domestic product (GDP) growth, which is important because Connecticut has a high level of long-term obligations and when GDP grows, the tax base increases, making it easier for the state to generate the revenue it needs to service long-term obligations while also increasing spending on critical public investments and providing tax cuts for low- and middle-income families to make the tax system fairer. The key findings are summarized below.

Employment Growth

• Using the pandemic-induced recession as a baseline, Connecticut’s nonfarm employment growth through June 2023 is 3.1 percentage points lower than the growth rate for the U.S. as a whole. If Connecticut’s nonfarm employment growth had mirrored the growth rate for the U.S. over this period, the state would have nearly 53,000 additional jobs.

• Using the Great Recession as a baseline, Connecticut’s nonfarm employment growth through June 2023 is 14.4 percentage points lower than the growth rate for the U.S. as a whole. If Connecticut’s nonfarm employment growth had mirrored the growth rate for the U.S. over this period, the state would have about 246,000 additional jobs.

Personal Income Growth

• Using the pandemic-induced recession as a baseline, Connecticut’s total personal income growth through the fourth quarter of 2022 is 4.2 percentage points lower than the growth rate for the U.S. as a whole, and the state’s compound annual growth rate is 1.3 percentage points lower. If Connecticut’s personal income growth had mirrored the growth rate for the U.S. over this period, the state’s budget could include on average nearly $200 million per year in additional spending on critical public investments.

• Using the Great Recession as a baseline, Connecticut’s total personal income growth through the fourth quarter of 2022 is 30.2 percentage points lower than the growth rate for the U.S. as a whole, and the state’s compound annual growth rate is 1.3 percentage points lower. If Connecticut’s personal income growth had mirrored the growth rate for the U.S. over this period, the state’s budget could include on average at least several hundreds of millions of dollars more, and potentially billions of dollars more, each year on critical public investments.
Gross Domestic Product Growth

- Using the pandemic-induced recession as a baseline, Connecticut’s nominal GDP growth through the fourth quarter of 2022 is 7.5 percentage points lower than the growth rate for the U.S. as a whole. If Connecticut’s GDP growth had mirrored the growth rate for the U.S. over this period, the state’s GDP would be nearly $22 billion larger, which would provide more than a billion dollars in additional revenue without raising tax rates and could be used to pay the state’s high-level of long-term obligations while also both increasing spending on critical public investments and providing tax cuts for low- and middle-income families to make the tax system fairer.

- Using the Great Recession as a baseline, Connecticut’s nominal GDP growth through the fourth quarter of 2022 is 37.9 percentage points lower than the growth rate for the U.S. as a whole. If Connecticut’s GDP growth had mirrored the growth rate for the U.S. over this period, the state’s GDP would be nearly $89 billion larger, which would provide billions of dollars in additional revenue without raising tax rates and could be used to pay the state’s high-level of long-term obligations while also both increasing spending on critical public investments and providing tax cuts for low- and middle-income families to make the tax system fairer.

The second section provides an overview of wages in Connecticut for different groups of workers and it proceeds in three parts: (1) an overview of wage growth; (2) an overview of wage inequality; and (3) an overview of wage gaps. The key findings are summarized below.

Wage Growth

- From 2019 through 2022, which covers most of the recovery from the pandemic-induced recession, wage growth in Connecticut for low-wage workers exceeded wage growth for middle-wage workers, and wage growth for both low- and middle-wage workers was greater on average in Connecticut than in the U.S. as a whole. Moreover, in both the U.S. and Connecticut, wage growth for low- and middle-wage workers generally exceeded inflation, which helped to raise the standard of living for low- and middle-wage workers, especially low-wage workers.

- From 2021 through 2022, which covers only the more recent recovery from the pandemic-induced recession, wage growth in Connecticut for low-wage workers generally exceeded wage growth for middle-wage workers, and wage growth for low-wage workers, but not middle-wage workers, was greater on average in Connecticut than in the U.S. as a whole. However, in both the U.S. and Connecticut, wage growth for low- and middle-wage workers was generally lower than inflation, which partially offset the gains in 2020 and 2021 in the standard of living for low- and middle-wage workers.
Wage Inequality

- Higher real wage growth for low-wage workers compared to middle-wage workers partially reduces Connecticut’s high level of wage inequality. However, the primary source of wage inequality in Connecticut is the difference in wages for high-wage workers compared to low- and middle-wage workers, and data limitations prevent an analysis of that dynamic in 2022.

- Public sector jobs, which are highly unionized, are essential for reducing Connecticut’s high level of wage inequality.

Wage Gaps

- The gender wage gap, racial wage gap, and ethnic wage gap are all substantial and increase at higher wage percentiles, connecting all three wage gaps to wage inequality.

The third section provides policy options to support Connecticut’s economy and workers and the policy options are presented in four broad categories: housing, justice, employment, and taxation. The policy options are summarized below.

Policy Options

- Make housing more affordable, especially by increasing the supply of housing. Making housing more affordable will make it easier both for existing workers to stay in the state and for potential workers to move to the state, which will increase the labor force and job growth and that in turn will increase personal income growth and GDP growth. At the same time, it will help to offset in part the negative impact of wage inequality and wage gaps by reducing the percentage of income that workers spend on housing. Among the many housing policy options to support Connecticut’s economy and workers presented in CT Voices’ recent research, four are highlighted here:
  
  o Use “sticks” and “carrots” to incentivize municipalities to promote affordable housing development.

  o Create more incentives to encourage the construction of mixed-income housing close to public transportation.

  o Increase investment in the remediation of blighted properties and put them back into productive use to benefit the communities where they are located.

  o Expand the jurisdiction of public housing authorities.
• Provide increased support and reduce barriers to work for residents with involvement in the criminal legal system. Providing increased support and reducing barriers to work for residents with involvement in the criminal legal system will strengthen and increase the state’s labor force and job growth and that in turn will increase personal income growth and GDP growth. At the same time, it will help to reduce wage inequality and wage gaps by increasing the skills of these workers and the job opportunities available, which in turn will increase their potential earnings. Among the many justice policy options to support Connecticut’s economy and workers presented in CT Voices’ recent research, four are highlighted here:

  o Require correctional facilities to begin career planning and preparation before individuals reenter their communities and also expand work release programs.
  o Limit occupational exclusionary policies to those where exclusions are necessary for job duties and requirements.
  o Ensure that eligible individuals have a driver’s license in hand upon leaving carceral facilities and also repeal policies that suspend or revoke a driver’s license for reasons unrelated to driving incidents.
  o Reinvest savings from reducing carceral facilities into reentry and prevention services.

• Strengthen the early care and education (ECE) system and labor market more generally. Strengthening the ECE system and labor market more generally will increase the size of the state’s labor force and job growth and that in turn will increase personal income growth and GDP growth. At the same time, it will help to reduce wage inequality and wage gaps, first, by increasing the pay of ECE workers—who are generally low-wage workers and disproportionately women and workers of color—and, second, by increasing the percentage of workers in unions, which tend to have a fairer wage distribution. It will also help to offset in part the negative impact of wage inequality and wage gaps by reducing the percentage of income that low- and middle-wage workers pay for ECE. Among the many ECE and broader labor market policy options to support Connecticut’s economy and workers presented in CT Voices’ recent research, four options are highlighted here:

  o Increase compensation for ECE workers while also capping co-pays to ensure that no family pays more than seven percent of their income on ECE.
  o Provide sufficient funding to fill public sector jobs.
  o Require employers to provide a fair work week schedule.
  o Limit the ability of employers to use noncompete agreements.

• Make the tax system fairer. Making the tax system fairer will increase the post-tax income of low- and middle-wage workers, which will increase consumer spending and in turn GDP growth. At the same time, it will reduce post-tax income inequality and income gaps, offsetting in part the negative impact of wage inequality and wage gaps. Among the many tax policy options presented in CT Voices’ recent research, four are highlighted here:

  o Eliminate or reduce Connecticut’s tax gap to generate revenue.
  o Eliminate or reduce high cost, high growth tax expenditures to generate revenue.
  o Use the additional revenue to create a fully refundable Connecticut child tax credit.
  o Use the additional revenue to improve the Connecticut property tax credit.