THE STATE OF WORKING CONNECTICUT
EXECUTIVE SUMMARY

CONNECTICUT VOICES FOR CHILDREN

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Executive Summary

The annual *State of Working Connecticut* report has three primary objectives: to provide an overview of Connecticut's economy, with a particular focus on its labor market; to analyze major wage dynamics, especially for low- and middle-wage workers; and to present policy options designed to support the state's economy and workers. As detailed below, the 2024 edition of the report is structured into three sections to achieve these objectives.

Overview of Connecticut's Economy

The first section provides an overview of Connecticut's economy, and it proceeds in three parts: job growth, personal income growth, and gross domestic product growth.

Job Growth

Jobs are important for Connecticut because wages and salaries are the primary income source for most families, especially for low- and middle-income families. Jobs are also important because—as addressed more in the next two parts—job growth significantly impacts personal income growth and gross domestic product growth, which are essential for increasing the state's ability both to make critical public investments and to make the tax system that funds those public investments less regressive. Two key findings regarding job growth include:

- From the pandemic-induced recession through January 2024, Connecticut's job growth is nearly 3.3 percentage points lower than the growth rate for the U.S., translating to 55,560 fewer jobs compared to if the state's job growth had kept pace with the U.S. since February 2020.
- From the Great Recession through January 2024—a longer-term comparison—Connecticut's job growth is 14.5 percentage points lower than the growth rate for the U.S., translating to 248,000 fewer jobs compared to if the state's job growth had kept pace with the U.S. since December 2007.

Personal Income Growth

Personal income includes wages and salaries, government benefits, business income, and more. Wages and salaries are the largest component of personal income, highlighting the close relationship between job growth and personal income growth. Moreover, personal income growth is especially important for Connecticut because it is the primary restriction on the growth in annual budget appropriations under the state's spending cap. Two key findings regarding personal income growth include:

- From the pandemic-induced recession through 2023, Connecticut's personal income growth is 6.8 percentage points lower than the growth rate for the U.S., translating to potentially hundreds of millions of dollars in reduced allowable spending on critical public investments under the spending cap compared to if the state's personal income growth had kept pace with the U.S. since 2019.

- From the Great Recession through 2023—a longer-term comparison—Connecticut's personal income growth is 35.3 percentage points lower than the growth rate for the U.S., translating to possibly billions of dollars in reduced allowable spending on critical public investments under the spending cap compared to if the state's personal income growth had kept pace with the U.S. since 2007.

Gross Domestic Product Growth

Gross domestic product (GDP) growth is a measure of the increase in the final value of goods and services produced, and it is connected to job growth and personal income growth because consumer spending, driven by wages and salaries, is the largest component of GDP. Moreover, GDP growth is especially important for Connecticut because it is essential for increasing tax revenue to fund critical public investments and tax reforms. Two key findings regarding Connecticut's GDP growth include:

- From the pandemic-induced recession through 2023, Connecticut's nominal GDP growth is 7.6 percentage points lower than the growth rate for the U.S., translating to an estimated $22 billion in total missed economic growth since 2019 and nearly $1.3 billion in missed tax revenue in 2023 compared to if the state's economic growth had kept pace with the U.S.

- From the Great Recession through 2023—a longer-term comparison—Connecticut's nominal GDP growth is 38.5 percentage points lower than the growth rate for the U.S., translating to an estimated $90.5 billion in total missed economic growth since 2007 and nearly $5.5 billion in missed tax revenue in 2023 compared to if the state's economic growth had kept pace with the U.S.

Overview of Connecticut's Wages

The second section of the report provides an overview of Connecticut's wages, and it proceeds in three parts: wage growth, wage inequality, and wage gaps.

Wage Growth

The standard approach to analyzing variation in wage growth is to compare growth rates at different percentiles of the wage distribution, generally ranging from the 10th percentile to the 90th percentile. In this report, low-wage workers are defined as those in the bottom 50 percent of the wage

distribution, and middle-wage workers are defined as those in the next 40 percent of the wage distribution. Two key findings concerning wage growth in Connecticut include:

- From 2019 to 2023, real wage growth in Connecticut was the highest for low-wage workers, averaging 11.4 percent and helping improve their standard of living. In contrast, real wage growth averaged -0.5 percent for middle-wage workers, making it more difficult for these workers to maintain their standard of living.
- The historic surge in inflation starting in 2021 eroded much of the gains for low-wage workers and made it even more difficult for middle-wage workers to maintain their standard of living.

Wage Inequality

Wage inequality is the disparity in wages for workers at different percentiles of the wage distribution. A standard approach is to examine wage ratios between workers at the 90th and 10th percentiles, the 90th and 50th percentiles, and the 50th and 10th percentiles. Two key findings concerning wage inequality in Connecticut include:

- Higher real wage growth for low-wage workers from 2019 to 2023 reduced Connecticut's wage inequality within the bottom 90 percent of the wage distribution by an average of 13.4 percent.
- Filling public sector jobs would further reduce Connecticut's high level of wage inequality.

Wage Gaps

Wage gaps here refer to the disparity in wages for workers based on gender, race, and ethnicity, and the analysis includes two approaches. The first approach is to measure average unadjusted and adjusted wage gaps over time. For reference, an "unadjusted" wage gap does not control for differences in key wage factors, such as age, education, industry, and occupation, whereas an "adjusted" wage gap uses statistical methods to control for those factors. The second approach is to measure unadjusted wage gaps by percentile in 2023. The key finding concerning Connecticut's wage gaps includes:

- Connecticut continues to have substantial gender, racial, and ethnic wage gaps—even generally when controlling for many key factors—and the wage gaps apply to both low- and middle-wage workers.

Policy Options

The third section of the report provides policy options to support Connecticut's economy and workers, and the policy options are grouped into two broad categories: labor market policy options and tax policy options.

Labor Market Policy Options

Addressing major problems in the labor market will increase the state's labor force and job growth, leading to increased personal income growth and gross domestic product (GDP) growth, which in turn will increase the state's spending cap capacity and tax revenue. It will also help to increase wage growth, reduce wage inequality, and reduce wage gaps. The labor market policy options highlighted in this report include:

- Eliminate the subminimum wage
- Establish predictable scheduling
- Limit the use of noncompete agreements
- Fill public sector jobs
- Improve the early care and education (ECE) system by increasing the pay for ECE workers and making child care more affordable for families

Tax Policy Options

Making the tax system less regressive will increase the post-tax income of low- and middle-wage workers and their families. The resulting increase in consumer spending will boost job growth, personal income growth, and GDP growth, which in turn will help to increase the state's spending cap capacity and tax revenue. Making the tax system less regressive will also reduce post-tax income inequality and income gaps, offsetting in part the negative impact of wage inequality and wage gaps. The tax policy options highlighted in this report include:

- Reduce Connecticut's tax gap to generate additional revenue
- Eliminate and/or reduce high cost, high growth tax expenditures to generate additional revenue
- Reform Connecticut's fiscal controls to generate additional revenue
- Provide support to low- and middle-wage workers and their families by using the additional revenue to establish a fully refundable Connecticut Child Tax Credit
- Provide support to low- and middle-wage workers and their families by using the additional revenue to make the Connecticut Property Tax Credit fully refundable and available to renters
- Provide support to low- and middle-wage workers by using the additional revenue to increase the Connecticut Earned Income Tax Credit for childless workers