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THE STATE OF WORKING CONNECTICUT

Increasing the Labor Force and Job Growth by Making Wages Fairer

EXECUTIVE SUMMARY

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Connecticut's job growth has lagged the national recovery since the pandemic-induced recession, continuing a decades-long trend. A major reason is the state's slower labor force growth, which reflects changes in both the size of the working-age population and the labor force participation rate of that population. Among prime-age individuals (25 to 54 years old), the working-age population and the labor force participation rate both declined, reducing the size of the state's labor force from 2019 to 2024. Among women, the working-age population grew but a decline in the labor force participation rate more than offset the population growth, further reducing the size of the state's labor force. These trends have made it harder for employers to fill open jobs, weakening the state's overall economic recovery and limiting its ability to reduce long-term debt while also providing necessary support for families and children.

This year's *State of Working Connecticut* report focuses on increasing the state's labor force and job growth by making wages fairer—defined as increasing wage growth, reducing wage inequality, and narrowing gender, racial, and ethnic wage gaps. Fairer wages, combined with greater work flexibility, improve the financial return to work and make it easier to balance paid employment with caregiving responsibilities. This is especially important for prime-age individuals and women, who are more likely to manage caregiving and weigh the financial and time tradeoffs between paid work and unpaid care. The resulting increase in the labor force and job growth is also especially important for Connecticut because it would make it easier for the state to pay down its more than $70 billion in long-term debt while also expanding critical public investments in families and children.

To develop the case for increasing Connecticut's labor force and job growth by making wages fairer, the report proceeds in three sections.

The first section provides an overview of labor force and job growth in the U.S. and Connecticut and proceeds in two parts. The key findings include:

Total Labor Force and Job Growth

- From February 2020 through January 2025, Connecticut's total labor force grew by 1.2 percent compared to 3.8 percent in the U.S., a gap equivalent to nearly 50,000 fewer potential workers than if the state had kept pace with the nation, and a major contributor to its slower job growth.
- From February 2020 through January 2025, Connecticut's total job growth was 1.1 percent compared to 4.4 percent in the U.S., a gap equivalent to nearly 57,000 fewer jobs than if the state had kept pace with the nation.
- Connecticut's slower labor force and job growth in recovering from the pandemic-induced recession continue a decades-long trend of slower labor force and job growth compared to the nation.

Working-Age Population and Labor Force Growth by Key Demographics

- From 2019 to 2024, the number of prime-age individuals (25 to 54 years old) in Connecticut's labor force decreased by 1 percent compared to an increase of 3.2 percent in the U.S., a gap equivalent to 49,400 fewer potential workers than if the state had kept pace with the nation.
- From 2019 to 2024, the number of women in Connecticut's labor force decreased by 0.1 percent

compared to an increase of 3 percent in the U.S., a gap equivalent to 28,400 fewer potential workers than if the state had kept pace with the nation.

The second section provides an overview of wages in the U.S. and Connecticut and proceeds in three parts. The key findings include:

Wage Growth

- From 2019 to 2024—the full recovery from the pandemic-induced recession—most workers in Connecticut experienced real wage growth, though generally less than in the U.S., helping to improve their overall standard of living during this period, but not making the state more affordable compared to most other states.
- From 2021 to 2024—the more recent phase of the recovery from the pandemic-induced recession marked by historic inflation—most workers in the U.S. experienced real wage growth, while most workers in Connecticut experienced a decline in real wages, lowering their standard of living during this period and making it harder to afford living in the state compared to most other states.

Wage Inequality

- In 2024, Connecticut had greater levels of wage inequality compared to the U.S., contributing to higher local prices for essential services and making it harder for low- and middle-wage workers to afford living in the state compared to most other states.

Wage Premiums and Gaps

- Many workers in Connecticut benefit from substantial wage premiums based on education, experience, usual hours worked, union coverage, and job sector, industry, and occupation, making it easier for those workers to afford living in the state compared to other workers.
- Many workers in Connecticut experience substantial gender, racial, and ethnic wage gaps, reflecting disparities in key wage factors—such as education, usual hours worked, and occupation—as well as disparities that persist among similarly situated workers, making it harder for affected workers to afford living in the state compared to other workers.

The third section provides policy options to make wages fairer and increase the labor force and job growth in Connecticut, addressing the major problems reviewed in the previous two sections: slower labor force and job growth, slower wage growth, greater wage inequality, and substantial wage gaps. The policy options and key findings include:

Indexing the Connecticut Personal Income Tax to Inflation

- Federal and state taxes place a higher burden on wages compared to many other sources of income.
- Without inflation indexing, low- and middle-wage workers in particular pay a higher percentage of their income in the Connecticut personal income tax each year, adding to the already higher tax burden on wages and offsetting the benefits of new policies that provide support to workers.
- Indexing the Connecticut personal income tax to inflation would make wages fairer—by increasing wage growth, reducing wage inequality, and narrowing wage gaps—which would also help increase the labor force and job growth.

Hiring More Tax Auditors at the Connecticut Department of Revenue Services

- Hiring more tax auditors at the Connecticut Department of Revenue Services would reduce the underreporting of non-wage income and could pay for indexing the Connecticut personal income tax to inflation without requiring any increase in tax rates.

Limiting the Use of Noncompete Agreements

- Despite limited or no legitimate justification in many jobs, current federal and state laws allow many low- and middle-wage workers in Connecticut to be subject to noncompete agreements, restricting their ability to negotiate higher wages, change jobs, or start their own businesses.
- Limiting the use of noncompete agreements would improve work flexibility and make wages fairer—by increasing wage growth, reducing wage inequality, and narrowing wage gaps—which would also help increase the labor force and job growth.

Increasing the Salary Threshold for Overtime Pay Protections

- Current federal and state laws allow many salaried workers in Connecticut to be classified as exempt from overtime pay, even when they earn low or middle wages.
- Increasing the salary threshold for overtime pay protections would improve work flexibility and make wages fairer—by increasing wage growth, reducing wage inequality, and narrowing wage gaps—which would also help increase the labor force and job growth.

Establishing Predictable Scheduling Protections for Hourly Workers

- Current federal and state laws allow many hourly workers in Connecticut to be subject to unpredictable work schedules, limiting their ability to provide for their families and improve their financial situation.
- Establishing predictable scheduling protections would improve work flexibility and make wages fairer—by increasing wage growth, reducing wage inequality, and narrowing wage gaps—which would also help increase the labor force and job growth.