



The State of Working Connecticut, 2007: Executive Summary

September 2007

The economic party is winding down and most working Americans never even got near the punch bowl....

(New York Times Editorial, August 29, 2007).

These three principles seem to be broadly accepted in our society: that economic opportunity should be as widely distributed and as equal as possible; that economic outcomes need not be equal but should be linked to the contributions each person makes to the economy; and that people should receive some insurance against the most adverse economic outcomes, especially those arising from events largely outside the person's control.¹

(Federal Reserve Chairman Ben Bernake, February 2, 2007).

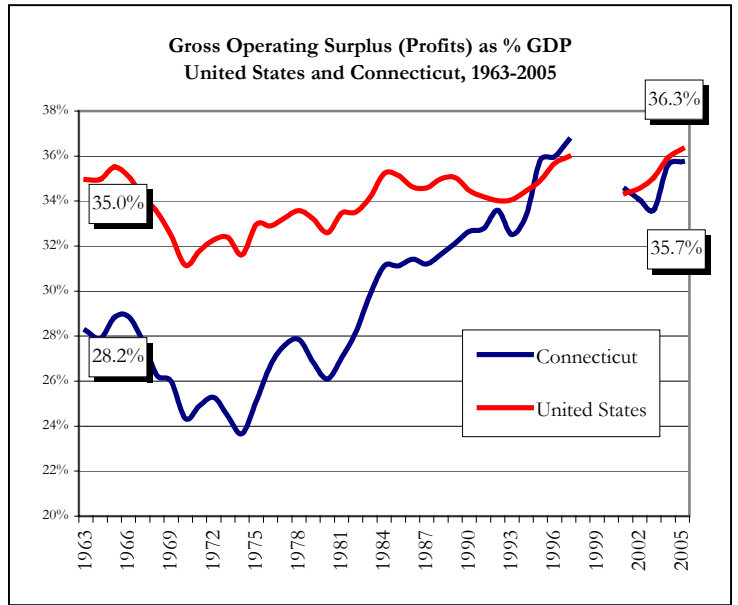
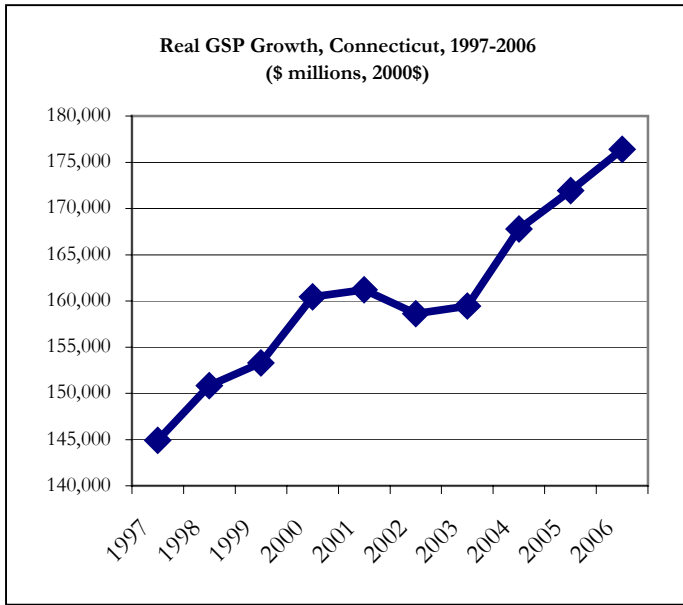
I. Introduction

The findings in this report, the seventh annual *State of Working Connecticut* report, highlight that none of these three principles, articulated by Federal Reserve Chairman Ben Bernake, are at work in Connecticut. Economic opportunity is not widely distributed and equal. Rather, low and very low wages have been in decline for several years - *despite* our economic recovery. Economic outcomes are not linked to the contributions each person makes to the economy. Rather, wages have remained stagnant or even declined while productivity and profits have continued to grow. People do not have adequate insurance against the most adverse economic outcomes. Rather, the safety nets necessary to ensure such insurance have been systematically (and sometimes deliberately) eroded by both the federal and state governments.

Continued disparities – by race and ethnicity, by educational attainment, and by income -- threaten Connecticut's economic vitality, and place Connecticut's families and communities under great, increasing, and unnecessary stress.

The disjuncture between increasing productivity (up from \$72,000 per worker in 1997 to \$79,000 per worker in 2005) and profits (now accounting for 35.6% of state GDP), and wages that are either stagnant or in decline across the board, is perhaps the most troubling trend identified in the *State of Working Connecticut, 2007*.

¹ Federal Reserve Bank Chairman Ben Bernake, "Transcript: Chairman Ben Bernake Delivers Remarks Before the Greater Omaha Chamber of Commerce," in *Washington Post.com*, February 2, 2007, available at: www.washingtonpost.com/wp-dyn/content/article/2007/02/06/AR2007020600882.html.



II. The Face of Working Connecticut

Connecticut's workforce is older, more educated, and slightly less diverse by race and gender than national and regional averages. We analyzed the current composition of the workforce by several demographics.

Gender. Connecticut's labor force² in 2006 was 53% male and 47% female. A higher proportion of men participate in the workforce (75%) than women (61%). Connecticut's difference in workforce participation between men and women continues to exceed all other states in New England even though the state's gender gap in labor force participation has declined by more than half since 1979. With a larger proportion of Connecticut women in the workforce, the importance of family-friendly policies that maximize the ability of parents to assure competent care of their children, while contributing to the economy, has also grown.

Race and Ethnicity. Connecticut's workforce is less racially and ethnically diverse than the workforce of the nation, as well as the workforce of the Northeast region. Connecticut's labor force is 76.8% White, 9.1% African American, 10.0% Hispanic, and 3.2% Asian/Pacific Islander, reflecting generally the racial/ethnic composition of the Connecticut population. A greater share of Connecticut's African-American and Hispanic residents are working than is the case nationally.

Educational Attainment. Connecticut's labor force is highly educated: 36.8% of our workers hold bachelor's degrees or higher, 25.8% have some college education (but no degree higher than an Associate's), and only 10.0% have less than a high school education. Connecticut ranks third

² The labor force includes all persons who are either employed or unemployed. Workers are classified as employed or unemployed based on their employment status during a "reference week," the week preceding the monthly sampling on which the Current Population Survey is based. As discussed further in section IV, there may be individuals without jobs who are not considered "unemployed" (e.g., because they have stopped looking for work). These people are thus not considered part of the labor force as defined here.

highest among states in the share of its workforce with a bachelor's degree or higher (behind only Massachusetts, with 42.3%, and New Jersey, with 38.0%). Time trends show that Connecticut's labor force has become significantly better educated since 1980. The percentage of our labor force with no college education dropped by 20 percentage points over the last 26 years, while the percentage of the labor force with at least some college increased by 20 percentage points.

Age. Connecticut has a smaller share of its workforce who are young (16-24 years) than the national average (12.6% vs. 14.8%),³ the same share of its workforce who are between 25 and 54 years old (68.4%), and a larger share of its workforce who are 55 years and older (18.9% vs. 16.8%). Since 1979 there has been a decline in the proportion of our 18-24 year olds in the workforce (reflecting, in part, increased college attendance), while there has been - since 1997 - a 12 percentage point increase in the share of Connecticut residents age 55 and older who are in the workforce. The diverging workforce trends of old and young presents a challenge for the future, as a comparatively large elderly population depend on a comparatively smaller younger population to support a variety of programs and services on which older populations rely more heavily. However, the growth of Connecticut's generally-younger immigrant population should help to mitigate this imbalance.⁴

III. Job and Employment Trends

Recovery of jobs since last recession. In July 2007, seven years after the state's previous employment peak in July 2000, Connecticut finally recovered the jobs it lost in the last recession. Connecticut continues to show signs of modest economic growth, including continued employment growth. However, compared with the job recovery in the United States—which has by now tripled the jobs it lost in the last recession—overall job growth in Connecticut since 2003 has been lackluster.

Since 2000 (the year in which Connecticut's employment peaked), Connecticut has lost 41,900 manufacturing jobs. Significant losses have also occurred in Professional and Business Services (-11,500), Information (-8,700), and Trade, Transportation and Utilities (-6,700). These losses have been somewhat offset by modest gains in Financial Activities (+1,300), Construction (+2,500), Other Services (+2,500), and Government (+3,700)⁵, as well as significant gains in Leisure and Hospitality (+11,200) and Education and Health Services (+34,600).

The recent loss of manufacturing jobs continues a longer-term trend; Connecticut shed 107,000 manufacturing jobs between 1990 and 2006. Fortunately, however, Connecticut appears to be experiencing some relative employment stability in this sector; although we are still shedding manufacturing jobs, job loss is not as rapid as it had been.

³ Connecticut has a greater proportion of young people going on to post-secondary educational institutions than the national average. This likely is one factor contributing to the relatively smaller share of our young population who is in the workforce.

⁴ See J. Fishkin, P. Canny and D. Hall, *Immigration in Connecticut* (Connecticut Voices for Children, 2005).

⁵ Government employment includes Native American tribal employment (e.g., persons employed at Connecticut's casinos).

Wages and wage growth by industry. Consistent with the patterns of recent years, Connecticut has replaced jobs lost in higher-paying industries with jobs in lower-paying industries. The average 2006 wage in the five employment sectors showing the largest employment losses was \$67,847. This compares with an average 2006 wage of just \$45,717 for jobs in the five sectors with the highest employment gains in 2006.

Growth in wages across all sectors slowed for the third straight year; from 5.5% growth in 2004, to 3.8% growth in 2005, to just 3.6% growth in past year. Wage growth across sectors was fairly uniform, although the highest paid sectors enjoyed the greatest wage gains. Only one sector – Utilities – had a double-digit gain in wages (10.8%) in the past year.

Union Coverage. In 2006, ten states had a greater share of their workforces covered by collective bargaining agreements than did Connecticut. Connecticut's union coverage, though surpassing the national rate of 13.1%, is less than the average rate in the Northeast (19.5%). Despite occasional increases, Connecticut's overall trend in union coverage – like that of the nation and region – has been downward. Because unions bargain collectively for wages and benefits, unions historically have been able to secure wages and benefits for their members that exceed those of workers in comparable jobs in non-unionized settings. The decline of union coverage is considered by some economists to be an important factor in the erosion of workers' wages and benefits, particularly among the low-wage workforce.

IV. Unemployment and Underemployment

Trends in Unemployment. In July 2007, Connecticut's unemployment rate was 4.8%, or about two percentage points higher than the 2.6% rate Connecticut enjoyed in June 2000, prior to the start of the recession. Unemployment is much higher in some of our cities (e.g., 9.1% in Hartford, 7.7% in New Haven, 7.6% in New Britain, and 7.4% in Waterbury).

Unemployment in Connecticut, the Northeast, and the United States has gradually declined since 1979 (although going through 10-year cycles of higher and lower unemployment). While Connecticut has historically had low unemployment compared with the nation and the Northeast region, in recent years our unemployment rate has converged to be roughly equal to the national average. In 2000, Connecticut's unemployment rate was 1.8 percentage points lower than the national average. By 2006, Connecticut's unemployment rate was only 0.3 percentage points lower.

Unemployment and Educational Attainment. There is a strong association between the level of educational attainment and rates of unemployment in Connecticut, the Northeast, and nationally. In 2006, the strength of this association was stronger in Connecticut than it was in any other state in the Northeast, and in some cases it was much stronger. In Connecticut, close to 12% of those lacking a high school degree were unemployed, compared to just 2% of those with a bachelor's degree or more – a six-fold difference. By comparison, in Massachusetts the difference was half this.

Connecticut unemployment rates for those who have not finished high school appear to have been climbing over the past quarter century, while unemployment rates for all other educational categories have remained relatively flat. Connecticut workers who have not finished high school also show pronounced volatility in unemployment rates, which over the years has ranged between 5% in 1988 to over 16% in 1996. These trends reinforce the education-unemployment association

and demonstrate the increasing challenges high school dropouts face in trying to find steady employment.

Unemployment and Race/Ethnicity. Unemployment rates for Connecticut African-Americans (8.3%) and Hispanics (8.2%) in Connecticut are two and a half times higher than they are for Whites (3.3%). The unemployment rate of Hispanic workers is markedly higher in Connecticut (at 8.3%), than it is in the Northeast and the nation (6.7% and 5.2%, respectively). Fortunately, longer-term trend data suggest the racial and ethnic disparity in Connecticut unemployment rates has been narrowing since 1979.

Long-Term Unemployment. More than a fifth (20.3%) of all Connecticut's unemployed have been out of work for more than 26 weeks. This is much greater than the national average (17.6%), and highest in the Northeast.

Under-Employment. In 2006, close to 8% of Connecticut workers were under-employed (i.e., unemployed as well as involuntarily part-time or no longer looking for work). Under-employment was greatest among workers who were younger (17.8%), African-American (13.9%), Hispanic (15.0%) or who had less than a high school education (19.6%). The under-employment rate of Connecticut workers with less than a high school education is more than five times greater than the rate of workers with a bachelor's degree or more (19.6% compared to 3.8%).

V. Wages and Wage Trends

Longer-Term Wage Trends. Figure 1, below, shows changes in real (inflation-adjusted) hourly wages between 1981 and 2006 for Connecticut's very low-wage workers (10th percentile),⁶ low-wage workers (20th percentile), median-wage workers (50th percentile), high wage-workers (80th percentile), and very high wage-workers (90th percentile). Real wages in 2006 for Connecticut's very low and low wage workers, although greater than they were in the 1980s and 1996, were *less* than in 1991 and 2001. Real wages for median wage workers in 2006 were less than in 2001, although greater than in preceding years. For high and very high wage workers, 2006 real wages were greater than in the 1980s, 1990s, and 2001.

⁶ The "very low" wage is the wage of the worker at the 10th percentile of wages. That is, the hourly wage for a "very low" wage earner is the wage at which 10% of wage earners earn less and 90% of wage earners earn more. Similarly, the "very high" wage is the wage at which 90% of wage earners earn less and 10% of wage earners earn more. "Wage" is defined as either the hourly straight-time wage rate or, for workers not paid on an hourly basis, straight-time earnings divided by the corresponding hours. Straight-time wage and salary rates are total earnings before payroll deductions, excluding premium pay for overtime and for work on weekends and holidays, shift differentials, and non-production bonuses such as lump-sum payments provided in lieu of wage increases.

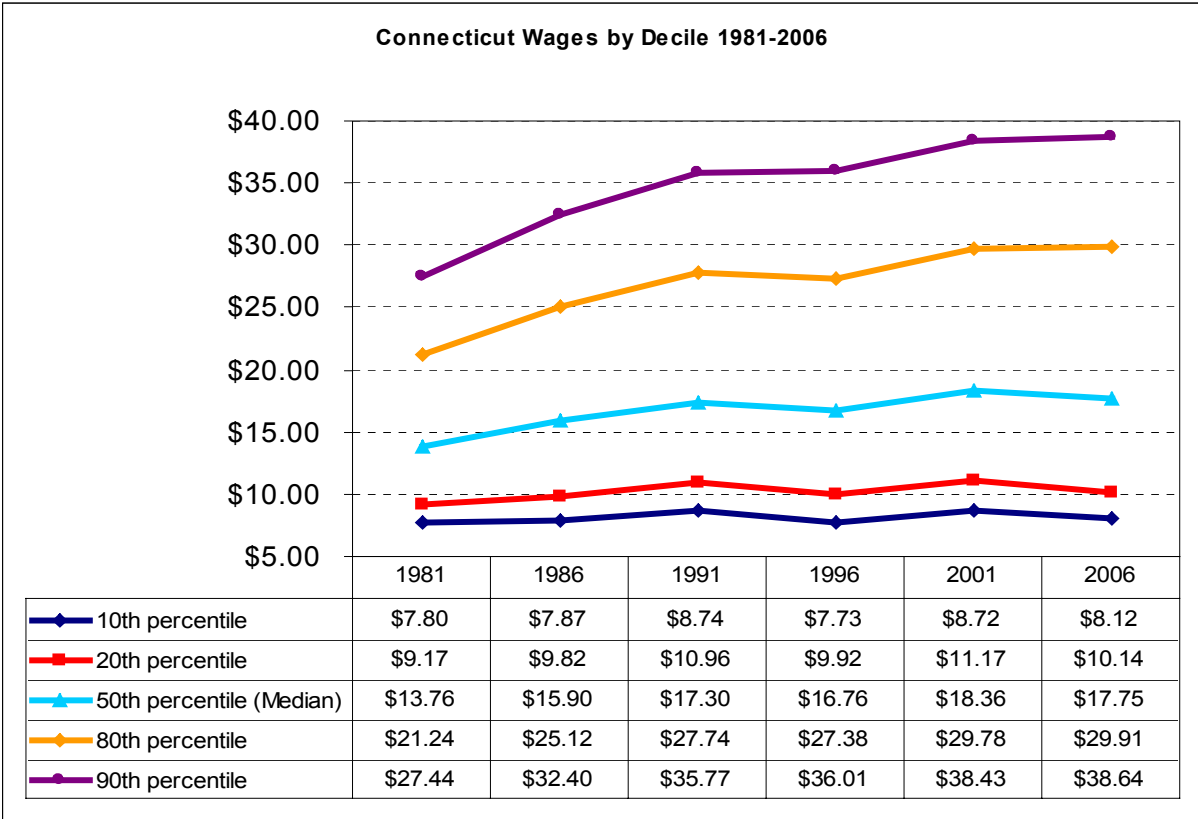


Figure 1

Shorter-Term Wage Trends. Table 1, below, shows changes in real wages over the last five years - from 2001 (the start of the national recession) to 2006. The highlighted years represent years in which wages were *higher* than they were in 2006. Significantly, Connecticut’s lowest wage earners in Connecticut suffered reductions in real wages over this period: 10th percentile earners had falling wages in all but one year, while 20th percentile earners experienced decreases every year since 2001 (Connecticut is the *only* state in the nation where this was the case). Median and higher wage earners experienced increasing wages until 2003, but they too have had declining wages every year since.

Notably, 2006 wages -- from the 10th percentile through the 90th -- are *less* than wages in 2002, 2003, 2004, and 2005 despite the state’s four-year economic recovery. Connecticut’s “rising tide” is lifting virtually *no* boats. This four-year trend differs significantly from hourly wage changes in the 1980s, when low, median, and high wage Connecticut workers all enjoyed real wage *growth* of 14.9% or more. It also contrasts with real wage changes in the 1990s, when Connecticut’s wage growth began to pull apart: low wages declined, median wages increased slightly, and high wages grew the most.

Percentile	2001	2002	2003	2004	2005	2006
10th percentile ("Very Low")	\$8.72	\$8.75	\$8.68	\$8.60	\$8.48	\$8.12
20th percentile ("Low")	\$11.17	\$11.01	\$10.84	\$10.62	\$10.43	\$10.14
50th percentile (Median)	\$18.36	\$18.25	\$18.68	\$18.50	\$17.82	\$17.75
80th percentile ("High")	\$29.78	\$30.23	\$31.92	\$30.93	\$30.84	\$29.91
90th percentile ("Very High")	\$38.43	\$38.87	\$41.22	\$39.97	\$39.70	\$38.64

Table 1

The wage loss for Connecticut's lowest wage earners (10th and 20th percentile) since 2001 has been especially great.

- With a 6.9% decline, Connecticut's "very low" wage earners lost more economic ground than in all but two other states in the country (Utah had a 7.5% decline and Minnesota a 7.6% decline).
- The 9.2% real wage loss for Connecticut's "low" wage earners is conspicuous as being the *worst* in the nation. The state with the next largest drop was Alaska, where low wages fell 6.2%—almost a three percentage point difference.

Connecticut's median wage workers, however, also lost economic ground to their peers in other states. Only six other states had a greater decline in median wage between 2001 and 2006. However, despite Connecticut's recent median wage decline, Connecticut's 2006 median wage (\$17.75/hour) ranks second highest in the nation (New Jersey ranks first) and is \$2.94/hour greater than the national average.

Wage Inequality. Growing inequality in wages contributes to the growing inequality of family income that threatens the fabric of Connecticut's communities and families.⁷ In the last 26 years, the gap between low and high wages in Connecticut grew considerably in both absolute and relative terms. The gap between 10th percentile wages and 90th percentile wages increased from \$19.48/hour in 1980 to \$31.49/hour in 2006. That is, between 1980 and 2006, 90th percentile wages grew from being 3.6 times larger than 10th percentile wages to being almost 4.8 times larger. Connecticut's 2006 gap between its very high and its very low wages is 8th greatest among states.

Wages and Gender. In 2006 Connecticut men made more than women at every wage decile. At the median, male wages were almost five dollars higher than female wages, with men earning \$20.04 to women's \$15.20 per hour. Compared with other states, Connecticut is in the bottom fifth when ranked by gender equity in wages and ranks far below other states with comparably educated workforces, like New York and Maryland. Taking an average across all deciles, Connecticut women earn wages that are 80.1% of what Connecticut men earn, as compared to 82.8% across the nation, and 83.1% in the Northeast.

Notably, Connecticut's gender gap in wages has not narrowed in 10 years. Indeed, Connecticut women's wages as a share of men's wages was less in 2006 than in 1995. This is the opposite of national wage trends. Nationally, the gender gap in wages continued to close over this time period. Were the gender gap in Connecticut wages closing at the state's average rate of progress since 1979, Connecticut would have equal wages by 2046. However, given that the gender gap has widened since 1995, even this distant target of wage equity appears optimistic.

Wages and Educational Attainment. Education is a strong predictor of wages in Connecticut. The 2006 median wage of workers with a bachelor's degree or higher (\$26.39 per hour) was more than double the wage paid to workers lacking a high school education (\$9.79 per hour). Data from 1979 show that the difference among the median wages of workers with varying levels of education has been enlarging. In real dollars, the median wage of the highest educated has grown from \$20 per hour to around \$27 per hour, but for the least educated, wages have fallen from \$12.50 to about

⁷ D. Hall and S. Geballe, *Pulling Apart in Connecticut: An Analysis of Trends in Family Income, 1981-2002*, (Connecticut Voices for Children, 2006).

\$10.00. It appears that the economic value of a college education in Connecticut has steadily risen since 1979, while the cost of *not* attaining a high school degree also has increased markedly.

Wages and Race/Ethnicity. The median hourly wage for white workers in 2006 was \$19.26 compared to \$12.99 for African-American workers and \$11.77 for Hispanic workers. Connecticut's white workers not only enjoy a marked wage advantage over their non-white counterparts in Connecticut, but also a significant wage advantage over white workers nationally and regionally. In contrast, Connecticut's African-American and Hispanic workers enjoy a very modest wage advantage compared to their national counterparts, but slightly lag their regional counterparts.

VI. Wage Inadequacy

Many Connecticut families who work in full-time, year-round jobs earn wages that leave them below the Federal Poverty Level (FPL) (\$20,615/year for a family of 4 in 2006). In 2006, 16.8% of Connecticut workers earned a "poverty" wage (or less).⁸ In 2006, the percentage of people earning a poverty wage (or less) in Connecticut rose 0.4 percentage points from the 2005 rate of 16.4% and is the highest it has been since 1999. The percentage of the Connecticut workforce earning less than a poverty wage has *risen* by 2.2 percentage points since its most recent low point in 2001. With 16.8% of workers earning poverty wages, Connecticut nonetheless compares favorably to workers in the Northeast (almost 19.8% with poverty-level wages) and nationally (23.3%). Unfortunately, for families struggling to make ends meet, earning a poverty level wage falls far short of meeting a family's basic needs, particularly in a high cost state like Connecticut.

Wage Inadequacy and Connecticut's Self-Sufficiency Standard. Connecticut's Self-Sufficiency Standard, originally released by the Office of Policy and Management in 1999, defines the hourly/monthly wage necessary for a family to be economically self-sufficient in Connecticut. The Standard presents self-sufficiency wages for multiple family types and for 12 regions in the state.⁹ An updated Self-Sufficiency Standard was released in 2005, this time through the Connecticut Office of Workforce Competitiveness (OWC).¹⁰ The Self-Sufficiency Standard includes costs for housing, childcare, food, transportation, health care, taxes, and miscellaneous expenses and more accurately reflects the costs of making ends meet in Connecticut than does the federal poverty level.

Measured by Connecticut's Self-Sufficiency Standard:

- The hourly wages of *at least 1 in 5* Connecticut workers are less than is needed for a family of four to be economically self-sufficient -- even if both parents work full-time, full-year.
- The hourly wages of *at least half* of Connecticut's workers are less than is needed for a family of three to be economically self-sufficient even if the single parent is working full-time for the full year.

⁸ The "poverty wage" is the wage needed, when working full time year round, to generate an income that meets the federal poverty threshold for a family of four.

⁹ Pearce and Brooks, *The Self-Sufficiency Standard for Connecticut* (1999). The Economic Policy Institute produces similar numbers using their *basic family budget calculator*. Updated basic family budget data were released September 1, 2005 for over 400 communities nationwide. See http://www.epi.org/content.cfm/datazone_fambud_budget.

¹⁰ Diana Pearce, *The Real Cost of Living in 2005: The Self-Sufficiency Standard for Connecticut* (2005).