



Pulling Apart in Connecticut: Trends in Family Income 1981-2002 Executive Summary

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Introduction

Connecticut is one of only two states where income for the poorest families declined between 1991 and 2002. While incomes for the poorest Connecticut families have stagnated in recent years, wealthier families have seen their incomes increase by nearly one-third, the sixth largest increase among all states.

The persistent and growing income inequality in Connecticut occurs, and is best understood in the context of Connecticut's broader economy. Connecticut's economy must be also be placed in the context of the national economy, and increasingly of the global economy as well. Economic forces that exist in Hartford, Stamford and Groton impact the incomes of Connecticut families, but so too do economic forces emanating from Mexico City, Mexico; Bangalore, India; and Toronto, Canada.

In this global economy, Connecticut families at all income levels are being asked to bear greater economic risk -- by their employers and by their governments.¹ Since the shifting of economic risk by employers to employees (e.g., through reductions in health and pension benefits) is unlikely to change, the role of government becomes ever more essential in helping families cope with the job churn and economic uncertainty of this global economy, and in ensuring that their children are educated to compete in a global marketplace.

Report Findings

Between 1991 and 2002:

- Connecticut was one of 21 states where the real (i.e. inflation-adjusted) incomes of the poorest 20% grew at a slower rate than the incomes of the wealthiest 20%.² In 28 states, the incomes of the bottom fifth and the top fifth increased at about the same rate.
- Connecticut was one of only two states in

which the real incomes of the poorest 20% actually declined. Connecticut families in its poorest income quintile *lost*, on average, \$22 of income during this period, compared to a decline of \$102 in Washington, but a *gain* of \$2,326 nationally for the poorest fifth of families.

- Income growth for Connecticut's second to poorest quintile was also anemic. Connecticut was one of only 7 states in which the real income of the second-to-poorest 20% grew by less than 10%. Connecticut's growth of 6.1% ranked 3rd lowest among the states, and about 1/3 the national average growth of 15.3%.
- Connecticut's middle 20% fared moderately better than its lower quintiles between 1991 and 2002, enjoying real income gains of \$7,515, compared to national average gains of \$6,588.³

Why Income Inequality Matters

There is significant evidence showing that inequality, in and of itself, has profound impacts that start at the individual and family levels, and extend up to the levels of community, state, and nation. Here in Connecticut, growing income disparities have the following negative consequences:

- *The divides undermine Connecticut's ideals.* Economic growth skewed in favor of the wealthiest Connecticut residents undermines the ideal that *all* families who contribute to the state's economic growth should benefit from it. Connecticut's poorest 20% of families have played an essential role in Connecticut's labor force, but have not shared in the state's significant income growth over the past decade.
- *The divides result in more children living in poverty.* Many families in the bottom quintile are living in poverty. Stagnant incomes have prevented them from moving up the economic ladder to self sufficiency. Poverty has significant short- and long-term harmful effects on children's development.

Children who grow up in poverty have poorer health, higher rates of learning disabilities and developmental delays, and poorer school achievement. They also are far more likely to be unemployed as adults than children who were not poor.⁴

- *The divides result in poorer health outcomes.* Income inequality is linked to poor health outcomes, *across* the income spectrum. Recent epidemiologic research suggests that income inequality causes a *shift* in the income/life expectancy curve, so that almost *everyone* in a community pays the costs of inequality. Income inequality is associated not only with higher overall death rates, but also with higher rates of dying from heart disease, cancers, homicide, and infant mortality.⁵

- *The divides cause greater difficulty finding affordable housing.* Economic growth can lead to more demand for housing and, consequently, to higher housing prices. When the incomes of Connecticut's poorer families are stagnant as the economy grows, these families are less likely to be able to afford adequate housing, resulting in reduced capacity to meet other essential family needs and, in the extreme, increased use of shelters and homelessness.

- *Income divides contribute to disparities in educational achievement and attainment.* There is a strong association between family poverty and diminished student achievement. The fact that Connecticut's poorest families are losing economic ground will exacerbate the persistent disparities in achievement evident in Connecticut Mastery Tests scores and threaten Connecticut's capacity to maintain a highly educated workforce.

- *The divides result in increased geographic disparities and reduced social cohesion.* As Connecticut's income divides have grown, so too has the geographic stratification of the state. When wealthier families leave Connecticut cities, there is less contact and familiarity with the problems faced by families who are poorer. Social cohesion diminishes, as does public support for government investments in programs and services serving the needs of others.

- *There is a growing realization that income inequality is harmful for Connecticut businesses.* The stagnation or decline in the real incomes of many Connecticut families reduces consumer demand and is a growing concern of Connecticut businesses.⁶ Moreover, declining family incomes, coupled with rising housing prices, makes it more difficult for lower-income families currently working in Connecticut to also live in Connecticut, placing Connecticut's economy at risk of a damaging labor shortage. This was highlighted in a recent report by New Haven economist Don

Klepper-Smith that found that, over the last five years, housing costs have spiked 49.7% while wages have risen just 12.6%.⁷

Sound policies that help Connecticut families cope with these economic realities will allow families at all income levels to work productively, and also share more fairly in the growth of Connecticut's economy.

Connecticut's great wealth in human capital is unquestionably one of its most significant assets. But it is also a *vulnerable* asset. Policies that protect and enhance financial stability for *all* Connecticut families not only will help to close the gap between Connecticut's wealthy and poor and enhance the life changes of our children and youth, but also enhance the economic well-being of the state overall.

¹ See Jacob Hacker, *The Privatization of Risk and the Growing Economic Insecurity of Americans*, available at the Privatization of Risk website, (Social Science Research Council, 2005).<http://privatizationofrisk.ssrc.org/Hacker/>.

² In these states, the incomes of the top fifth grew by a greater percentage than the incomes of the bottom fifth, and the difference was statistically significant.

³ Though Connecticut's middle quintile enjoyed income growth that exceeded the national average in real dollar growth, as a percent of 1991 income, the growth seen in Connecticut was less than the national average: 14.6% compared to 16.4%.

⁴ See, for example, Federal Reserve Bank of New York, "Unequal Incomes, Unequal Outcomes? Economic Inequality and Measures of Well-Being," *Economic Policy Review* 5(3) (September, 1999); G. Duncan, J. Brooks-Gunn (eds.), *The Consequences of Growing Up Poor* (New York: Russell Sage Foundation, 1997); The Future of Children, *Children in Poverty* (Stanford, CA: Center for the Future of Children at the David and Lucile Packard Foundation, 1997)[available at www.futureofchildren.org].

⁵ See generally I. Kawachi, B. Kennedy & R. Wilkinson, *Income Inequality and Health* (New York: The Free Press, 1999); K. Lochner et al, "State-Level Income Inequality and Individual Mortality Risk: A Prospective, Multilevel Study," *American Journal of Public Health* 91(3):385-391 (2001); I. Kawachi, "Letting the Gini out of the Bottle: Making Sense of the Evidence on Income Inequality, Social Cohesion, and Health," (March 11, 2002). www.ksg.harvard.edu/inequality/Seminar/Papers/Kawachi.ppt; Christopher Jencks, "Does Income Inequality Matter?" in *Daedalus, Journal of the American Academy of Arts and Sciences* (Winter 2002), p. 60.

⁶ R. Kalra, "Feeling Stifled by Stagnant Wages, Executives Turn Attention to Plight of Working Poor," *Hartford Courant* (January 21, 2006).

⁷ Donald Klepper Smith, *New Perspectives on the Need for Affordable Housing Within Connecticut* (DataCore Partners, LLC, 2005). See also Partnership for Stronger Communities' web pages on the report, http://www.ctpartnershiphousing.com/index.php?option=com_content&task=view&id=350&Itemid=40.