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Pulling Apart in Connecticut: Trends in Family Income, Late 1980s to Mid 2000s

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Pulling Apart in Connecticut: Trends in Family Income, Late 1980s to Mid 2000s^{1,2}

“Before the recent downturn bit, our economy was generating solid economic gains. The problem was that high levels of inequality meant these gains failed to reach middle- and low-income families, whose living standards stagnated or even declined....As we head into an economic downturn, those families are ill-prepared to weather the storm.”

(Jared Bernstein, Economic Policy Institute)

I. Introduction and Summary

In our first *Pulling Apart*³ report six years ago, we noted that the prosperity of the 1990s had not been shared equally – that lower income families had seen their incomes erode while the wealthy enjoyed significant gains in their family incomes. Our second report⁴, released in 2006, highlighted the continued growth of the income gap between Connecticut’s low and high income families. This third report looks at more recent data and notes not only the continued pulling apart of incomes, but also the dramatic erosion of incomes at the lower end of the income scale since the late 1980s. The growing income gaps between Connecticut’s wealthiest families and both its middle-income *and* lower-income families threaten the well-being of Connecticut families while contributing to a weakened economic and social fabric. As Connecticut heads into a recession, the failure of low and medium income families to share in the gains of the preceding two decades leaves those families – and in turn, the entire state – particularly vulnerable to impending economic storms.

Since the late 1980s, the \$52,439 *increase* in the average annual income of Connecticut’s wealthiest 20% of families (from \$116,939 to \$169,378) was *more than double* the average *total* annual income of Connecticut’s poorest 20% of families in 2005 (\$21,133). Moreover, the growth in the gap in income between the top 20% and the bottom 20% of Connecticut families (as measured by the change in top-to-bottom ratio) was greater (by a significant margin) in Connecticut than in every other state.

¹ This report is produced in partnership with the Economic Policy Institute (EPI) and the Center on Budget and Policy Priorities (CBPP) and is released concurrently with their national report, *Pulling Apart: A State-by-State Analysis of Income Trends* (April 2008). Unless otherwise indicated, data presented in this Connecticut report, including in its tables, charts and figures, are taken from the EPI/CBPP report or from other related data provided by EPI/CBPP. CT Voices is a state partner in EPI’s Economic Analysis and Research Network (EARN), and a member of the State Fiscal Analysis Initiative coordinated by CBPP. We gratefully acknowledge their assistance.

² To ensure statistical reliability across fifty states, three years of United States Census Bureau data are pooled to create three time periods for comparison here: 1987-1989, 1998-2000 and 2004-2006. These three year periods are referred to here as late 80s, late 90s, and mid 2000s. Dollar amounts are adjusted for inflation, and expressed in 2005 dollars.

³ Douglas Hall and Shelley Geballe, *Pulling Apart in Connecticut: An Analysis of Trends in Family Income* (Connecticut Voices for Children, 2002).

⁴ Douglas Hall and Shelley Geballe, *Pulling Apart in Connecticut: An Analysis of Trends in Family Income, 1981-2002* (Connecticut Voices for Children, 2006).

Even Connecticut's middle-income families (those in the middle 20% of families) have experienced income growth that pales beside the growth experienced by high income families (those in the top 20% of families). From the late 80s to the late 90s, middle-income families saw their incomes increase by 3%, compared to an increase of 27% for high-income families. By comparison, between the late 1990s and mid 2000s, middle-income families saw their incomes increase by 2%, while the incomes of high income families increased by 14%.

As data in this report show, Connecticut's trends in family income since the late 1980s have differed significantly in magnitude from those in the majority of states and from national trends. Connecticut's trends since the late 1980s also differ from its own trends during the early 1980s, when families of *all* income levels shared in the state's economic growth, albeit to differing degrees.

For example:

- Connecticut was the only state in which the real incomes of the poorest 20% of families actually declined significantly since the late 1980s.⁵ Connecticut families in its poorest income quintile *lost*, on average, \$4,437 of income during this period, compared to a *gain* of \$1,814 nationally for the poorest fifth of families.
- Connecticut's middle-income families (the middle 20%) fared better than the bottom quintile since the late 1990s, enjoying real income gains of \$3,103. However, this gain was just barely half of the national average gains of \$5,784.
- Since the late 1980s Connecticut's *top to bottom* inequality, AND *top to middle* inequality *increased the most* among all states.

Income inequality has merited considerable attention not only in the United States, but also throughout the world.⁶ Christopher Jencks writes, "The economic gap between rich and poor has grown dramatically in the United States over the past generation and is now considerably wider than in any other affluent nation."⁷ With income inequality on the rise, more study is needed to determine the causes of increasing income inequality and to fully understand its consequences.⁸ This report contributes to this discussion by describing trends in family income over the last two decades in Connecticut.

II. Some Context

Because Connecticut's low and middle income families have not fully benefited from Connecticut's growing wealth since the late 1980s, those families today are far more

⁵ One other state – Rhode Island – also experienced income decline for the bottom quintile over this time period, though unlike Connecticut, Rhode Island's decline was not statistically significant at the 90% level.

⁶ A number of NGOs and research centers have examined inequality, including the United Nation's World Income Inequality Database, http://www.undp.org/poverty/initiatives/wider/wiid_download.htm#download, the World Bank (<http://www.worldbank.org/poverty/inequal/>), and the University of Texas Inequality Project (<http://utip.gov.utexas.edu/>).

⁷ C. Jencks, Does Inequality Matter? *Daedalus* (Winter, 2002), p. 49.

⁸ See, for example, J. Lardner and D. Smith (eds.), *Inequality Matters: The Growing Economic Divide in America and Its Poisonous Consequences* (New York, NY: The New Press, 2005).

vulnerable to economic turbulence, whether due to individual circumstances (perhaps through a period of unemployment or an unexpected interruption in income due to family sickness) or due to statewide economic trends. As both the state and national economies slip into what is almost certainly the beginning of a recession, a number of factors place the economic well being of Connecticut's low and moderate-income families in particular jeopardy:

- Very low (10th percentile), low (20th percentile), and median (50th percentile) wages were lower in 2006 than in 2001. Very low wages declined each year between 2002 and 2006, while low wages declined each year between 2001 and 2006.⁹
- Connecticut's February 2008 unemployment rate stood at 5.0%, almost as high as the peak unemployment rate during Connecticut's last recession (5.7%). During 2000, before heading into the last recession, Connecticut's unemployment rate fluctuated between 2.1% and 2.5%.
- Turbulence in the housing market threatens to erode the value of the primary asset for most Connecticut families, their homes.
- Connecticut families facing rising costs of health insurance, food, and energy are having increasing difficulties making ends meet.
- The combined impact of state and local taxes falls disproportionately on low and middle income families, who pay over 10% of their family income in state and local taxes, while Connecticut's top 1% of families pays less than half that – just 4.7% – after taking into account the effect of deducting state income and local property taxes paid when calculating federal income tax liability.
- Since 2002, Connecticut has significantly disinvested in its low-income families, cutting spending on programs to assist low-income families 22%, from \$361 million in FY 02 (inflation adjusted to 2008\$) to \$280 million in FY08.

III. Connecticut Family Income Trends

This report compares family incomes during three periods of relative prosperity – 1987-1989 ('late 1980s'), 1998-2000 ('late 1990s'), and 2004-2006 ('mid 2000s'). The report also examines average family incomes for all five income quintiles – the poorest 20%, the next-to-poorest 20%, the middle 20%, the next to wealthiest 20%, and the wealthiest 20% of families.¹⁰ The average income of the top 5% of income earners also is included in the study.

Changes in “real” family income: Late 1980s-Mid 2000s.

As seen in Table 1 and Figure 1 below, the incomes of Connecticut's families have been on a fairly consistent course since the late 1980s, with low-income families steadily losing ground,

⁹ J. Hero, Doug Hall, and Shelley Geballe, *The State of Working Connecticut, 2007* (Connecticut Voices for Children, 2007).

¹⁰ Connecticut's total population is evenly divided between the five income quintiles. Due to variation in family size at each income level, the actual number of families varies slightly by quintile. For example, for the mid 2000s period, the proportion of all families per quintile ranges from 19.3% of families in the middle quintile to 20.8% of families in the bottom quintile.

middle income families at a virtual standstill, and high income families enjoying steady and significant income gains.

Late 1980s to Late 1990s. The period from the late 1980s to the late 1990s featured large average income gains for families in the top quintile (+27%, \$31,786), minimal average gains for middle income families (+3%, \$1,895), and an average loss of 12% of income (-\$3,064) for families in the lowest income quintile.

Late 1990s to mid 2000s. The period since the 1990s saw average incomes of the lowest quintile declining (-6.1%, -\$1,373), middle-income average incomes virtually stagnant (1.9%, +\$1,208), and top quintile incomes growing considerably (13.9%, \$20,653). The *growth* in income for the top quintile (\$20,653) was almost equal to the *total average income* for the bottom quintile in the mid 2000s (\$21,133).

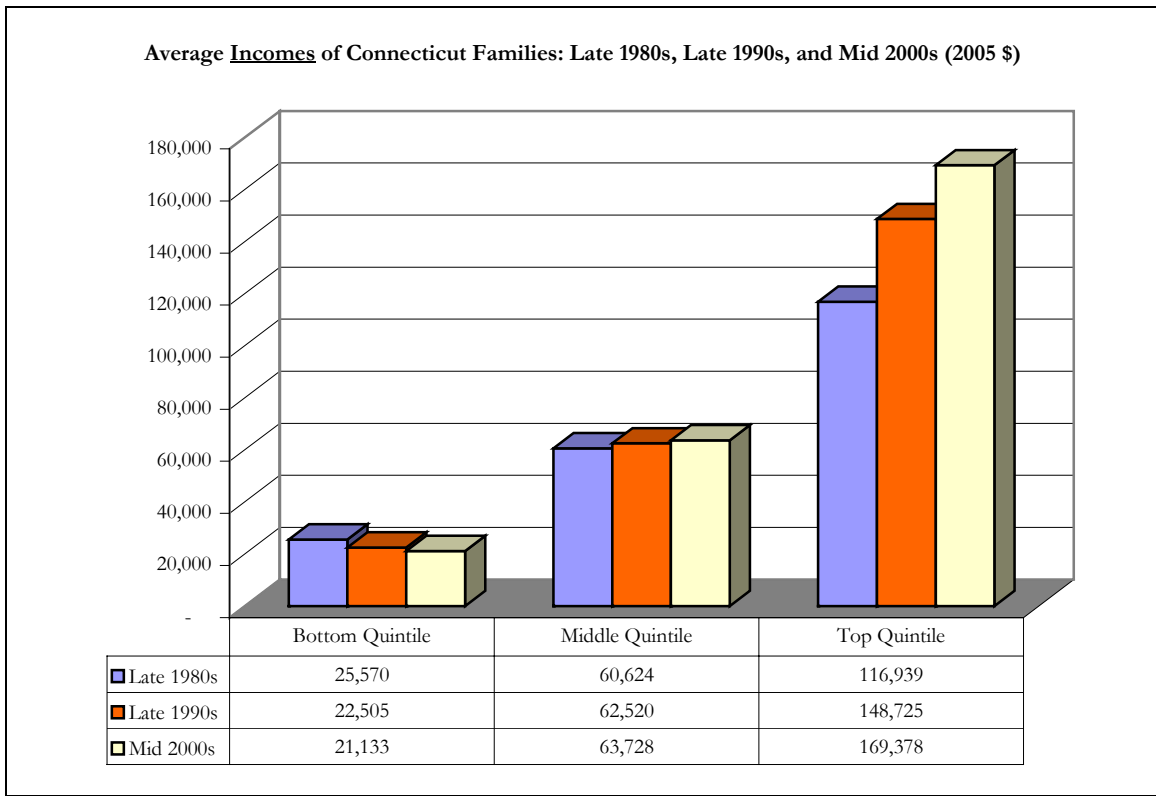


Figure 1

Income Quintile	Late 80s to Late 90s	Late 80s to Late 90s	Late 90s to Mid 2000s	Late 90s to Mid 2000s	Late 80s to Mid 2000s	Late 80s to Mid 2000s
	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Poorest Quintile	-3,064	-12.0%	-1,373	-6.1%	-4,437	-17.4%
Second Quintile	-2,538	-5.6%	922	2.2%	-1,617	-3.6%
Middle Quintile	1,895	3.1%	1,208	1.9%	3,103	5.1%
Fourth Quintile	8,389	11.1%	1,998	2.4%	10,386	13.7%
Wealthiest Quintile	31,786	27.2%	20,653	13.9%	52,439	44.8%

Table 1 [bolded changes are statistically significant at the 90% level].

Longer-term trend: Late 1980s to mid 2000s. Overall, Connecticut family incomes from the late 80s to the mid 2000s saw *cumulative decreases for the bottom quintile* (-17.4%, -\$4,437), cumulative increases for the top quintile (44.8%, \$52,439), and very modest growth for the middle quintile (5.1%, \$3,103). The *increase* in average income for those in the top quintile was *more than double* total average income for families in the bottom quintile.

Predictably, these income trends mirror trends in wages paid to Connecticut workers during these time periods. Figure 2 below shows wages paid to very low wage workers (the wage paid at the 10th percentile), to median workers (the wage paid to the 50th percentile worker), and the wage paid to very high wage workers (the wage paid to the 90th percentile worker). The pattern of *wage* growth for both very low and median workers mirrors average *income* change of bottom quintile families and median income families (although wage erosion at the 10th percentile is less dramatic than average income decline for the bottom quintile). The growth of *wages* for very high wage workers (90th percentile) is more moderate than growth in *incomes* for the top 20% of families; much of their income growth is through investments, rather than hourly wages.

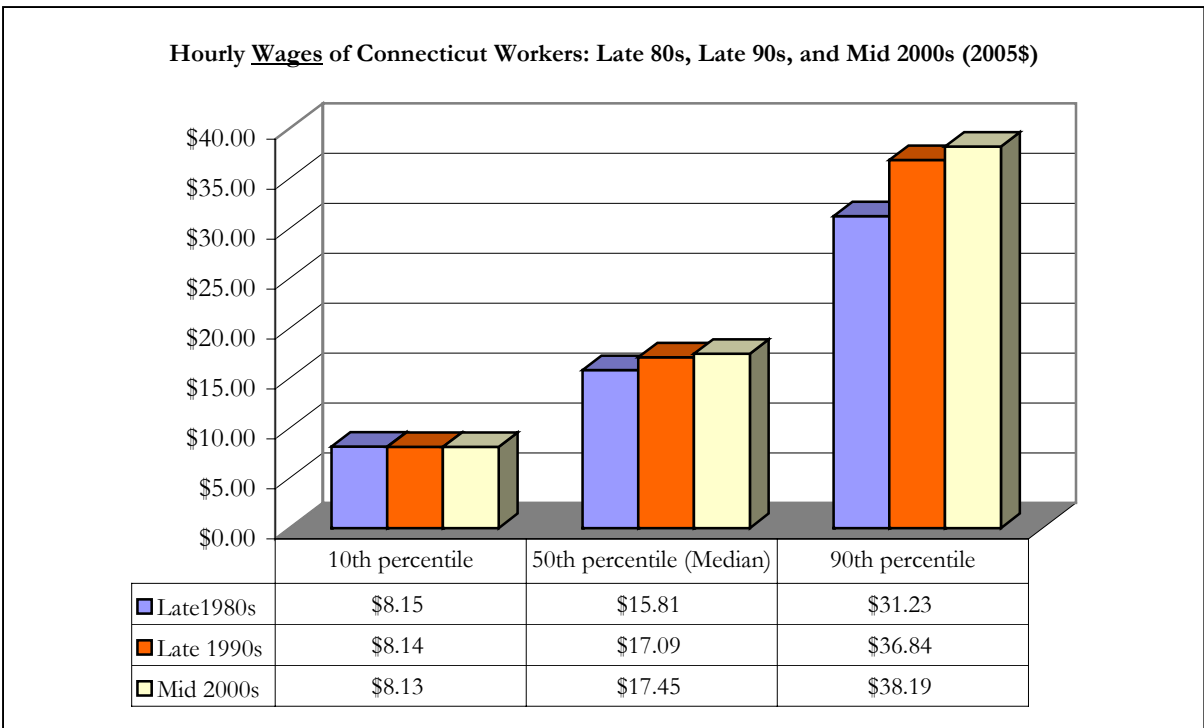


Figure 2

Changes in Share of Total Family Income

Another way to look at income inequality is to compare the *share* of total family income enjoyed by each of the five income groups. Between the late 80s and the mid 2000s, the differing rates of growth in family income have altered the distribution of total income.

Specifically, the share of family income held by the highest quintile grew from 38% in the late 80s to 45% in the mid 2000s. The second highest quintile remained unchanged at 22%, and the middle-income share declined from 17% to 16%. The share of income held by Connecticut's poorer families also declined, with the next to bottom quintile of families falling from a 14% share of income to 11%, and the bottom quintile shrinking from 8% to 6% (a 30% reduction in the share of total income held by bottom quintile families). These trends can be seen in Figures 3 and 4 below.

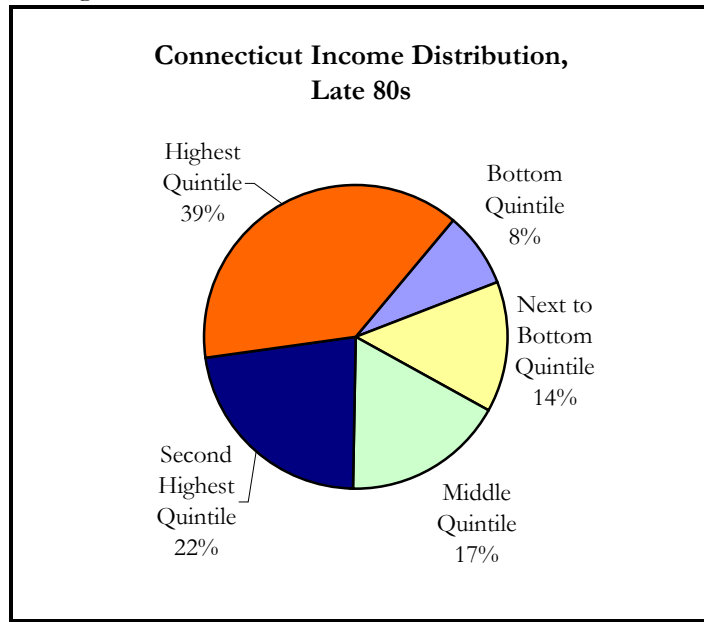


Figure 3

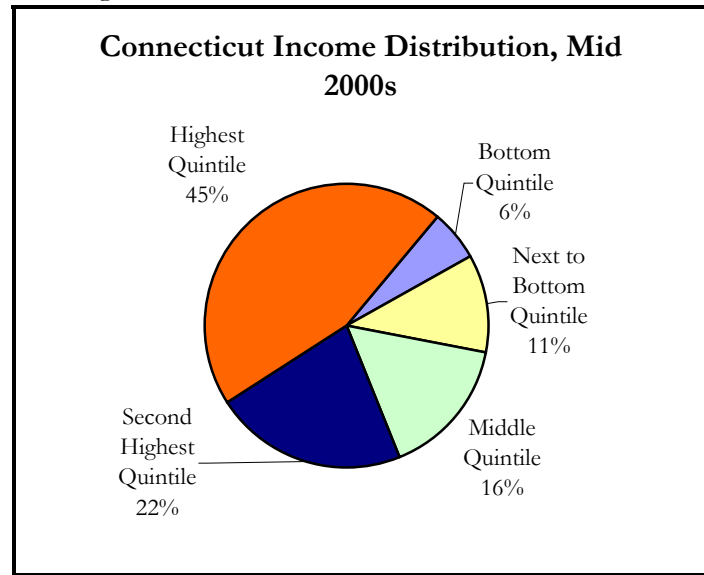


Figure 4

Changes in Income Ratios

Income ratios routinely are used to demonstrate degrees of income inequality. The “top to bottom ratio” (calculated by dividing the average income of the richest 20% of Connecticut families by the average income of the poorest 20% of families) has grown significantly over the period studied here – from 4.6 in the late 1980s to 8.0 in the mid 2000s, an increase of 74%. The wealthy are pulling away from middle income earners also, albeit at a less dramatic pace. Top to middle ratios increased from 1.9 in the late 1980s to 2.7 in the mid 2000s, an increase of 42%. Notably, the growth in both of these ratios has been fairly steady since the late 1980s.

Connecticut Income Ratios: Late 1980s to Mid 2000s		
Time Period	Top to Bottom Ratio	Top to Middle Ratio
		Late 80s
Late 90s	6.6	2.4
Mid 2000s	8.0	2.7

IV. How Does Connecticut Compare?¹¹

Comparing Income and Income Distribution Across States

To fully understand income inequality in Connecticut, it is instructive to compare Connecticut to other states and to the national average. The table below shows data for the mid 2000s (expressed in 2005\$), comparing average family income in Connecticut with those of other states. Among the states shown here, Connecticut’s average family incomes are among the highest. While in our last report, only Maryland boasted a higher average income for the lowest quintile, by the mid 2000s, Connecticut’s lowest quintile incomes had fallen behind Maryland, New Jersey, and Vermont. Connecticut’s middle-income families have slightly higher incomes than most of our comparison states (only Massachusetts and New Jersey have higher incomes). Only New Jersey has a higher top quintile income (driven in part by a higher top 5% average income).

Comparing top to bottom, top to middle, and top 5% to bottom ratios is also instructive. Of the seven states with which we compare Connecticut,¹² Connecticut’s top to bottom ratio (the ratio of the average income of the top quintile to the average income of the bottom quintile) is third highest, behind both Massachusetts and New Jersey, but higher by 10% than the national ratio of 7.3. Connecticut’s top to middle ratio falls behind only New York of these comparison states, slightly surpassing the national ratio of 2.6. Of these comparison states, only Massachusetts (15.1) and New York (15.4) have higher top 5% to bottom ratios than does Connecticut (14.8).

¹¹ Because of the limitations of the dataset on which these results are based, these comparisons may not differ significantly at the 90% level.

¹² The seven states chosen for comparison include four New England states (Massachusetts, Rhode Island, Vermont), three Northeastern states (Pennsylvania, New York, and New Jersey), and Maryland, another generally wealthy state against which Connecticut is commonly compared.

Income Inequality in Connecticut, Select States, and the US in Mid 2000s (2005\$)									
Income Quintile	CT	MD	MA	NJ	NY	PA	RI	VT	U.S.
Q1	21,133	21,952	20,609	23,260	17,107	18,960	18,974	21,168	18,116
Q3	63,728	62,860	65,783	67,308	52,080	51,764	56,457	55,054	50,434
Q5	169,378	159,456	168,991	175,011	148,192	130,968	143,211	126,504	132,131
Top 5%	312,954	269,609	310,440	327,628	262,679	216,216	246,008	207,541	220,700
Top to Bottom Ratio	8.0	7.3	8.2	7.5	8.7	6.9	7.5	6.0	7.3
Top to Middle Ratio	2.7	2.5	2.6	2.6	2.8	2.5	2.5	2.3	2.6
Top 5% to Bottom	14.8	12.3	15.1	14.1	15.4	11.4	13.0	9.8	12.2

Comparing Changes in Family Income Across States

Appendices A1-A3 present changes in average family income for the bottom, middle, and top quintiles for all 50 states, and show the Total United States data.

- Figure A1 shows Connecticut’s poorest 20% of families dramatically losing ground over time, with *average incomes declining by \$4,437* since the late 1980s; the *greatest decline* of any state in the nation (a rank of 50th). Connecticut’s results differ markedly from the national trend, which saw the average income of the poorest quintile of families *growing \$1,814* since the late 1980s. Interestingly, the average bottom quintile income of Connecticut’s neighbors, Massachusetts and Rhode Island, fared poorly also, ranking 47th and 49th respectively among all states.
- Figure A2 shows Connecticut’s middle quintile families experiencing very weak income growth since the late 1980s compared to other states, ranking 49th, ahead of only Arizona in middle quintile income growth. Connecticut’s growth of \$3,103 compares with a national average gain of \$5,784.
- In stark contrast to Connecticut’s bottom and middle income quintiles, Figure A3 shows that Connecticut’s highest quintile families enjoyed average gains of \$52,439 since the late 80s, ahead of every state except for New Jersey, and well ahead of the national average gain of \$35,027. Neighboring Massachusetts rounds out the top three with gains of \$51,962.
- Figure A4 presents the ratios of the highest income quintiles to the lowest income quintiles for each state during the mid 2000s. Connecticut’s ratio of 8.0 indicates that the average family income of the top 20% of families was 8 times the average income of the bottom 20% of families. This ratio places Connecticut 7th highest

among all states, with 6 states having greater income inequality, and 43 states having less.

- Figure A5 presents the ratios of the incomes of the highest income families to the incomes of middle income families for each state during the mid 2000s. Connecticut's ratio of 2.7 indicates that the average family income of the top 20% of families was almost 3 times the average income of the middle 20% of families. This ratio places Connecticut 12th highest among all states, with 11 states having greater income inequality between the top and the middle, and 38 states having less.
- Between the late 80s and the mid 2000s, Connecticut's top to bottom inequality *increased the most* among all states. Figure A6 shows the *change* in top to bottom ratio between the late 80s and the mid 2000s for each of the 37 states for which this change was statistically significant.¹³ Connecticut's increase in its "top to bottom" ratio – 3.4 – is the largest increase among all states, followed by neighboring states Rhode Island (+2.6) and Massachusetts (+2.4). Over this time period, Connecticut's top to bottom ratio increased by 75%, with Rhode Island, the next closest state, seeing an increase of 51%.
- Between the late 80s and the mid 2000s, Connecticut's top to middle inequality *also increased the most* among all states. Figure A7 shows the *change* in top to middle income ratio between the late 80s and the mid 2000s for each of the 36 states for which this change was statistically significant. Connecticut's increase in its top to middle ratio of 0.7 is the largest increase, followed by Oregon and Oklahoma.

Connecticut compared to the nation

Amid recent reports that Connecticut continues to have the highest per capita income in the country, there are some warning signs that should not be ignored.

Figure 6 below shows the average incomes of families for each quintile (and the top 5%) for the mid 2000s, for both Connecticut and the United States.

¹³ For these 37 states, we can say with 90% certainty that the increases in income inequality reflect true increases. Because we cannot say that with such certainty for the remaining states, they are not included in this chart.

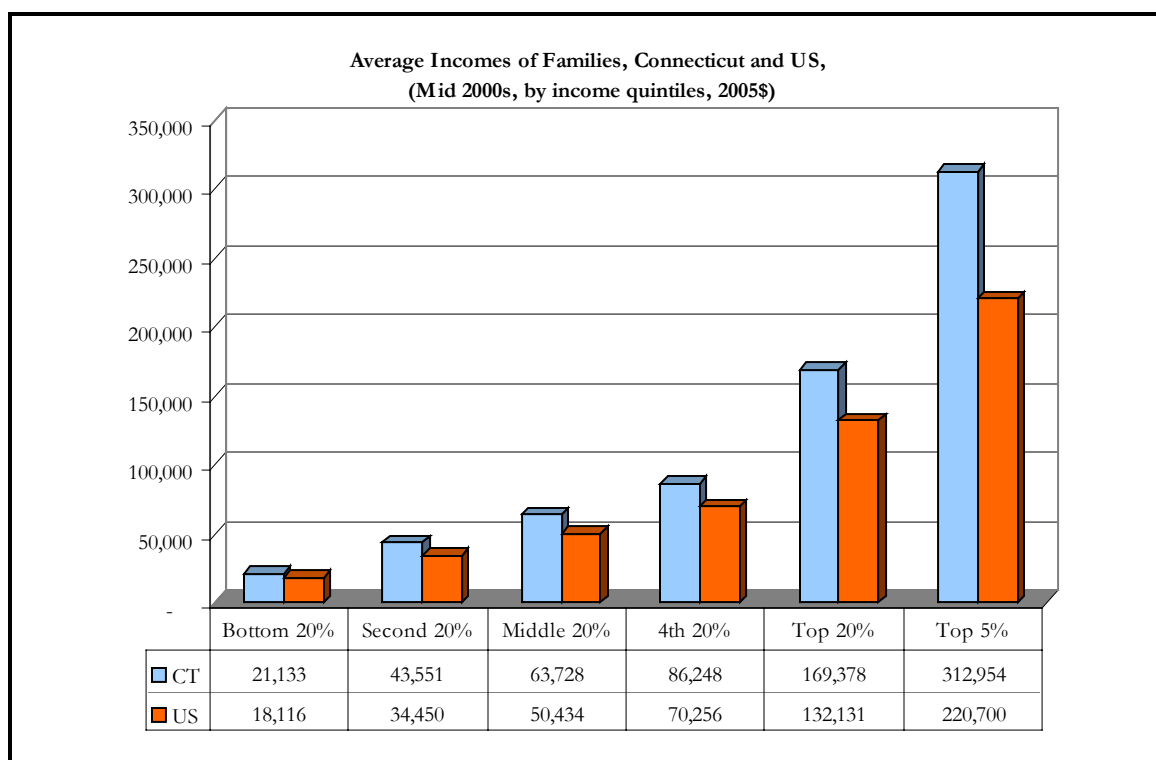


Figure 6

Connecticut’s average incomes in each of these categories surpass the national averages, reinforcing the “don’t worry, be happy” mindset.

A closer look at these numbers, alongside comparable numbers for the late 1980s, suggests that Connecticut’s ‘income premium’ (the amount by which Connecticut’s average incomes surpass the national in each quintile grouping) has significantly eroded at the lower end of the income spectrum, while significantly increasing at the top end of the income spectrum.

Figure 7 below shows that in the mid 2000s, the income premium ranged from 42% for the top 5% of Connecticut families to just 17% for the bottom 20%. The income premium through the top four income quintiles (covering 80% of Connecticut families) fluctuated through a relatively small range (from 23% to 28%).

In contrast, Connecticut’s income premiums during the late 1980s were much larger than in the mid 2000s at medium to low income levels (+57% for lowest quintile, +45% for second lowest quintile, +36% for the middle quintile), slightly larger for the 4th quintile (+26%), and considerably smaller at high income levels (+20% at highest quintile).

This shift in Connecticut incomes compared to national incomes further illustrates the fact that lower income Connecticut families have experienced a marked erosion in their economic well-being, exacerbated by the rising cost of living in Connecticut, and the fact that poorer families face a ‘poverty premium’ that further erodes their buying power.¹⁴

¹⁴ The Making Connections initiative of the Annie E. Casey Foundation has documented the high cost of being poor in both Hartford and New Haven, although the disparities faced by poor people are not confined to these

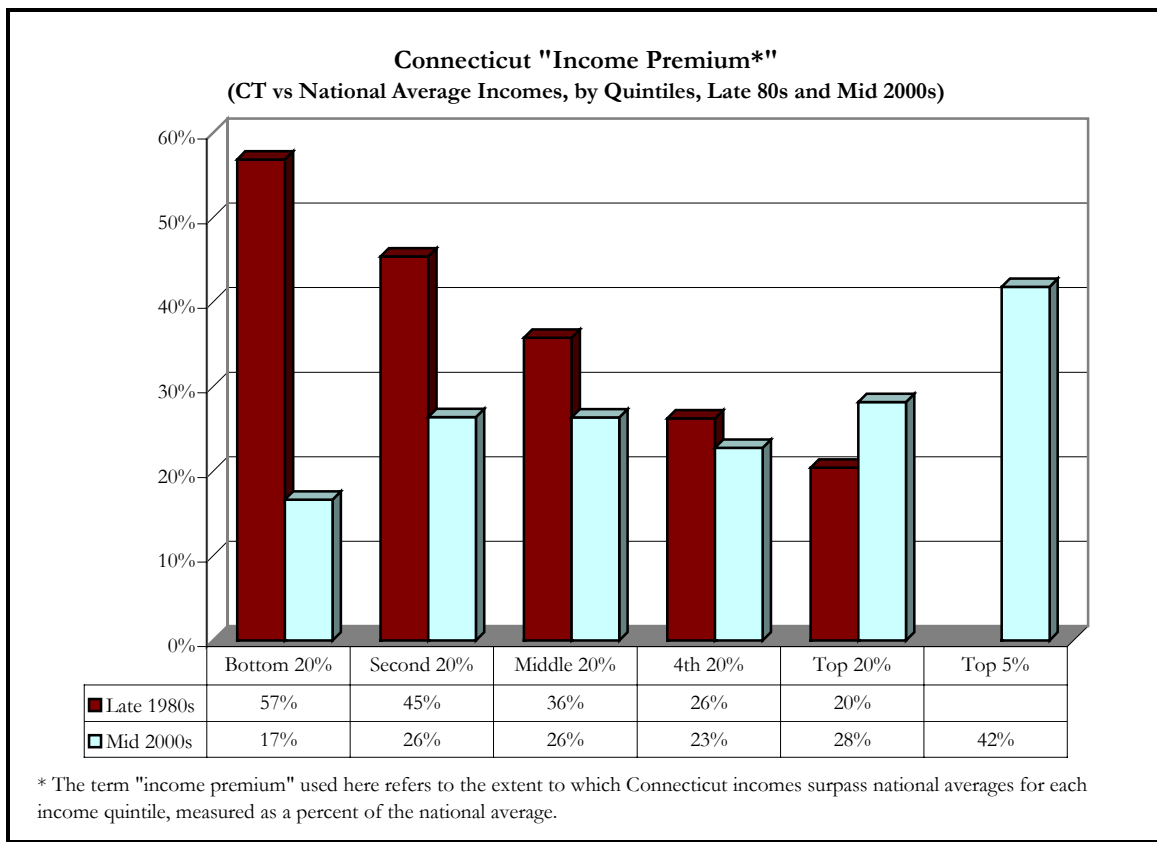


Figure 7

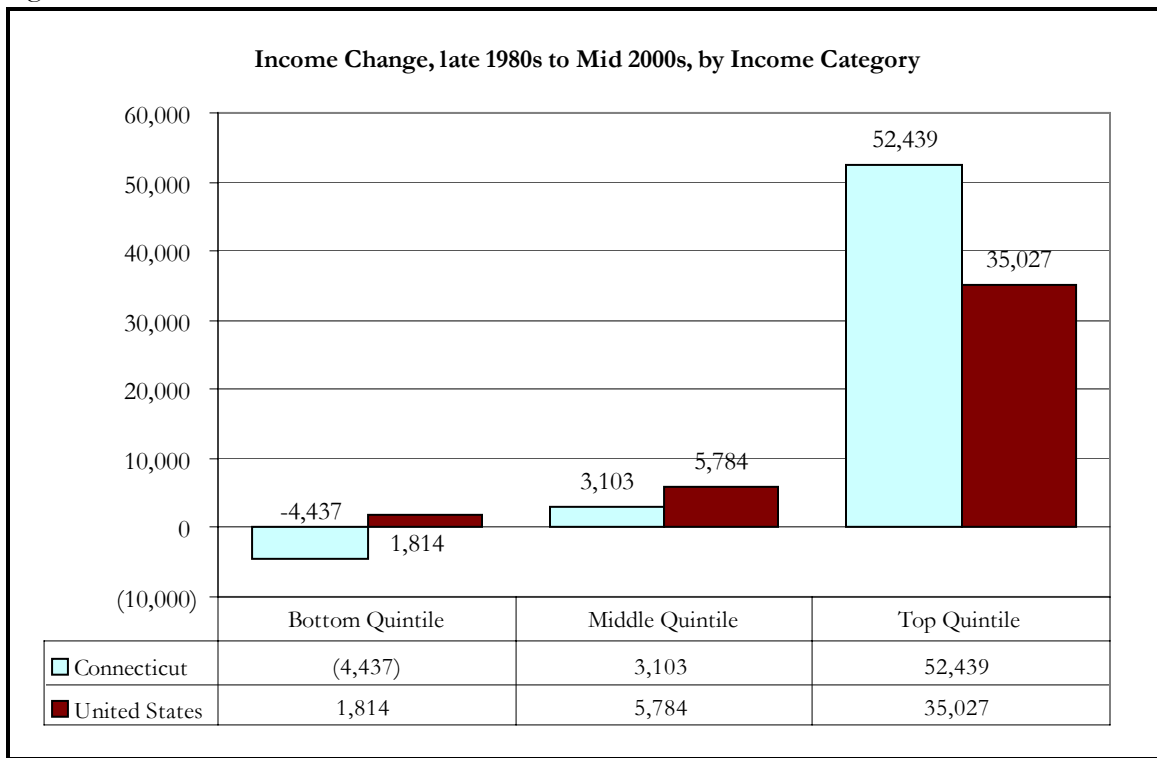


Figure 8

two cities. See, for example, Irene Jay Liu and Ana-Maria Garcia. *The High Cost of Being Poor in Hartford, Out of Reach in Hartford* (Annie E. Casey Foundation, 2004).

Finally, Figure 8 above drives home the point that during the period studied here, the economic well-being of those at the top and bottom of the income ladder has been very different in Connecticut. Connecticut's bottom quintile families not only lost ground compared with their national counterparts, but in fact had a decline in their incomes, while Connecticut families in the top quintile enjoyed gains that considerably surpassed their national counterparts.

V. Why Income Inequality Matters

There is significant evidence showing that income inequality, in and of itself, has profound adverse impacts that start at the individual and family levels, and extend up to the levels of community, state, and nation.

- *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.
- *The increasing divides result in more children living in poverty.* 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.¹⁵
- *Income divides contribute to disparities in educational achievement and attainment.* There is a strong association between family poverty and diminished student achievement, as evidenced by persistent family income-related disparities in achievement on the Connecticut Mastery Tests.
- *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.¹⁶ Moreover, declining family incomes, coupled with rising housing prices, make it more difficult for less wealthy families currently working in Connecticut to also live in Connecticut, placing Connecticut's economy at risk of a damaging labor shortage.

VI. Conclusion

As the Connecticut economy heads almost certainly into recession, Connecticut's low and middle income families face a number of economic challenges. The growing income gap between Connecticut's top income families and its low and middle income families not only makes it harder for less wealthy families to make ends meet, but also threatens to undermine the stability and social cohesion of our communities. With growing community awareness that we *all* pay a price for income inequality, sound public policies can help ensure that all Connecticut families have the opportunity to share more fairly in Connecticut's considerable wealth.

¹⁵ 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].

¹⁶ R. Kalra, "Feeling Stifled by Stagnant Wages, Executives Turn Attention to Plight of Working Poor," *Hartford Courant* (January 21, 2006).

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 chances of our children and youth, but also enhance the overall economic well-being of the state.

Appendices

Figure A1: Change in Average Real Income¹ of Bottom Fifth of Families: Late 1980s to Mid 2000s

Figure A2: Change in Average Real Income of Middle Fifth of Families: Late 1980s to Mid 2000s

Figure A3: Change in Average Real Income of Top Fifth of Families: Late 1980s to Mid 2000s

Figure A4: Ratio of Incomes of Top and Bottom Fifths of Families: Mid 2000s

Figure A5: Ratio of Incomes of Top and Middle Fifths of Families: Mid 2000s

Figure A6: Change in Ratio of Incomes of Top and Bottom Fifths of Families: Late 1980s to Mid 2000s

Figure A7: Change in Ratio of Incomes of Top and Middle Fifths of Families: Late 1980s to Mid 2000s

¹ “Real Income”, in contrast to “Nominal Income” is inflation adjusted to permit accurate comparisons over time. All dollar figures are expressed in 2005 dollars.

**Change in Average Real Income of Bottom Fifth of Families,
Late 80s to Mid 2000s**

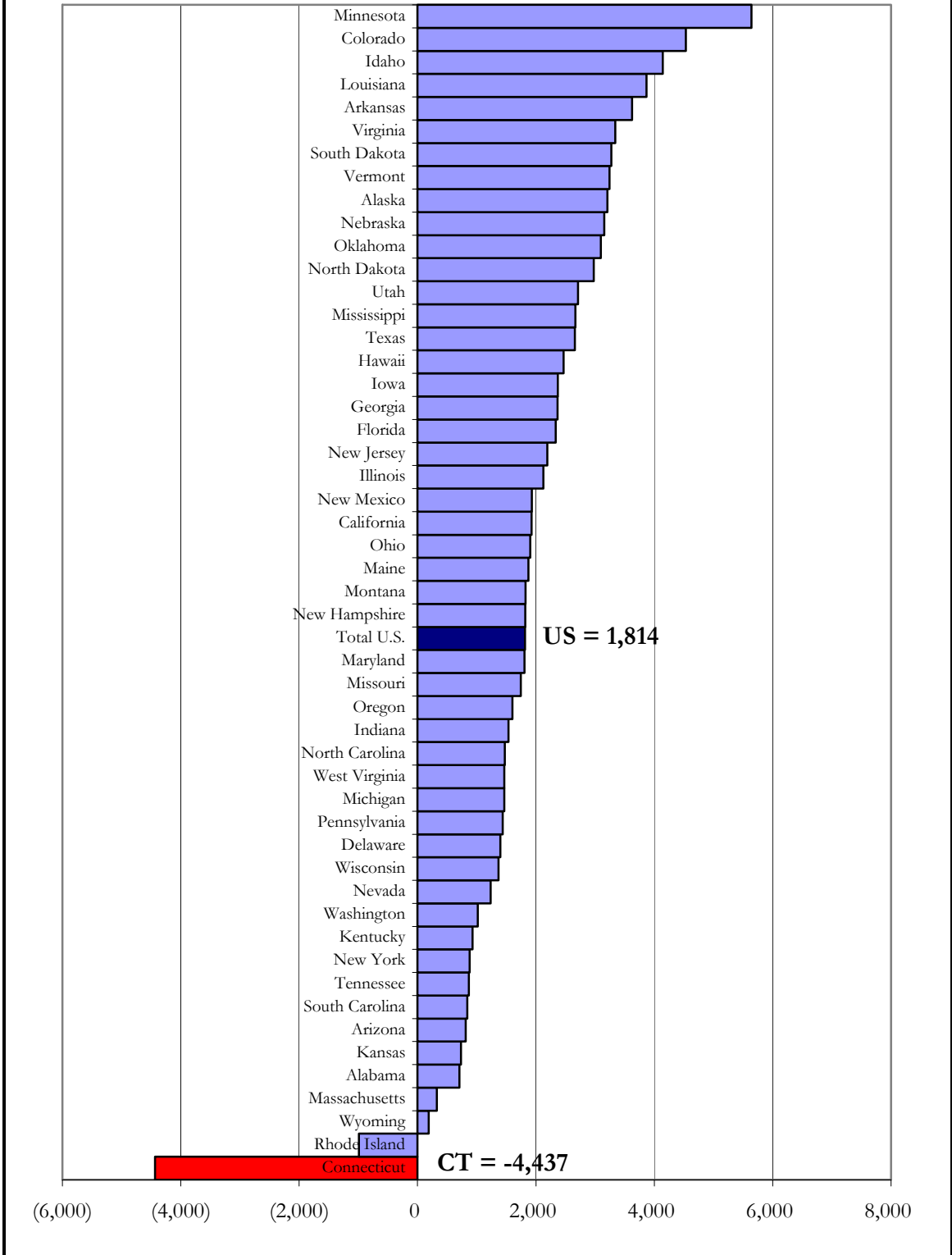


Figure A1

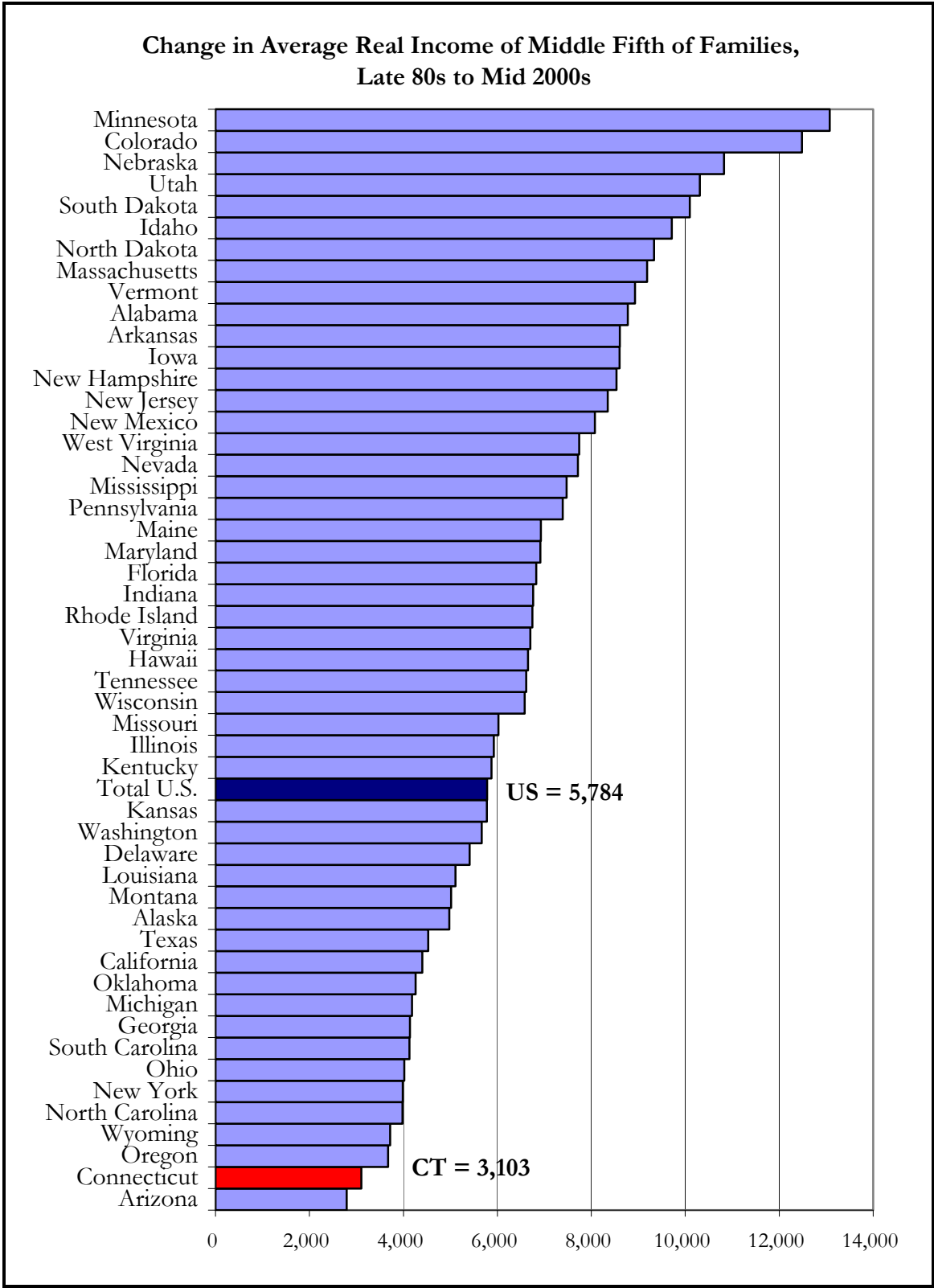


Figure A2

Change in Average Real Income of Top Fifth of Families, Late 80s to Mid 2000s

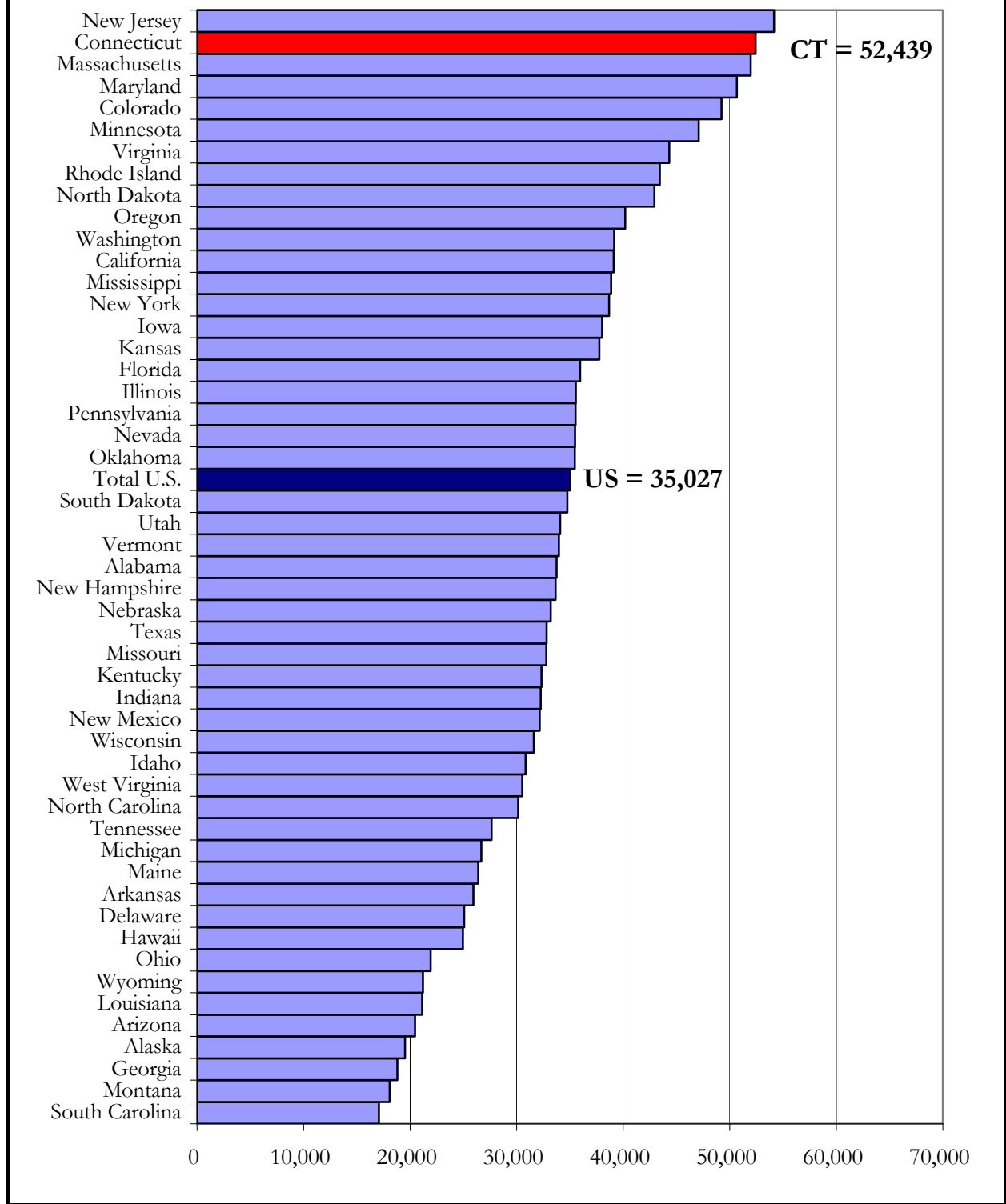


Figure A3

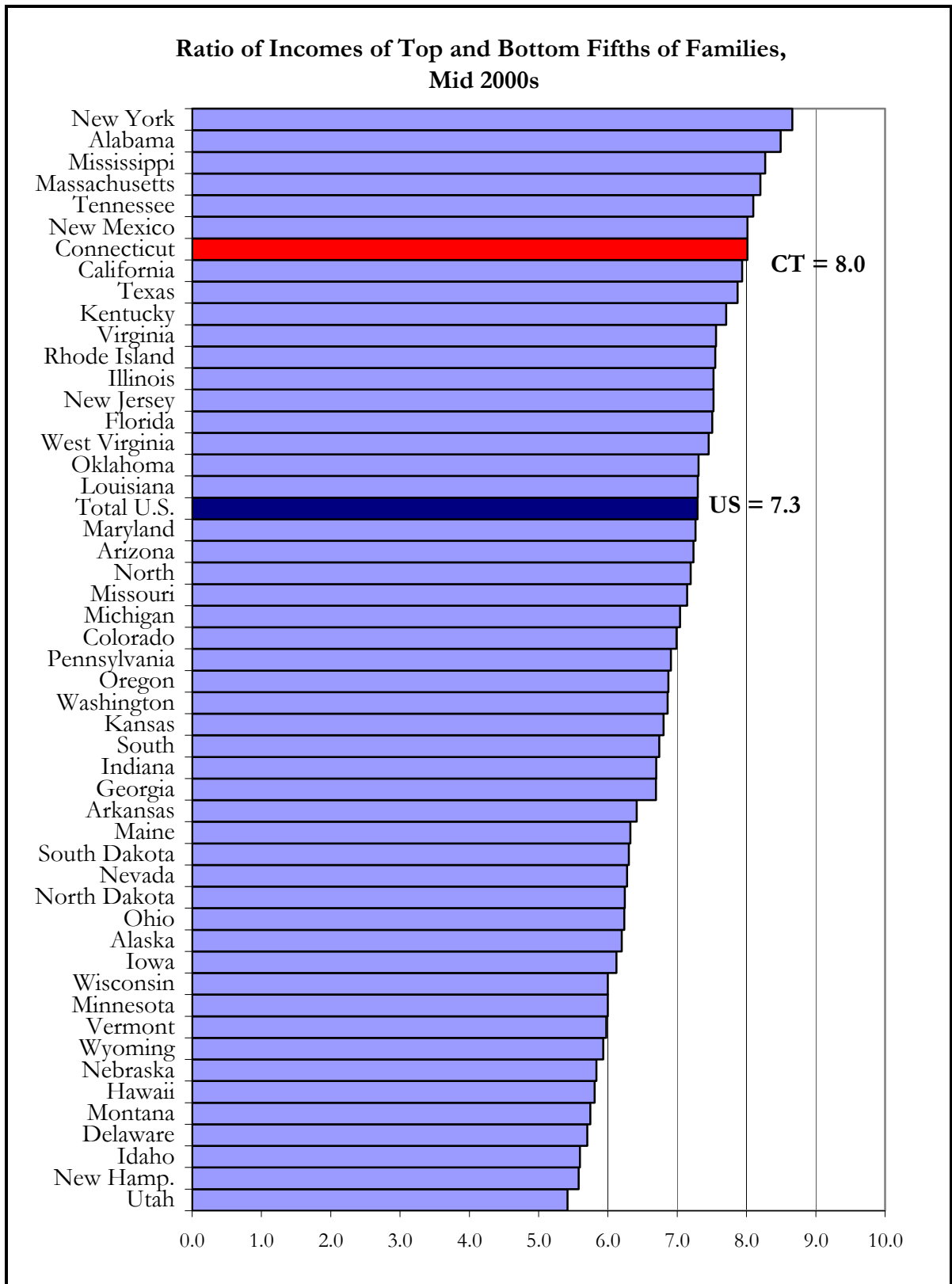


Figure A4

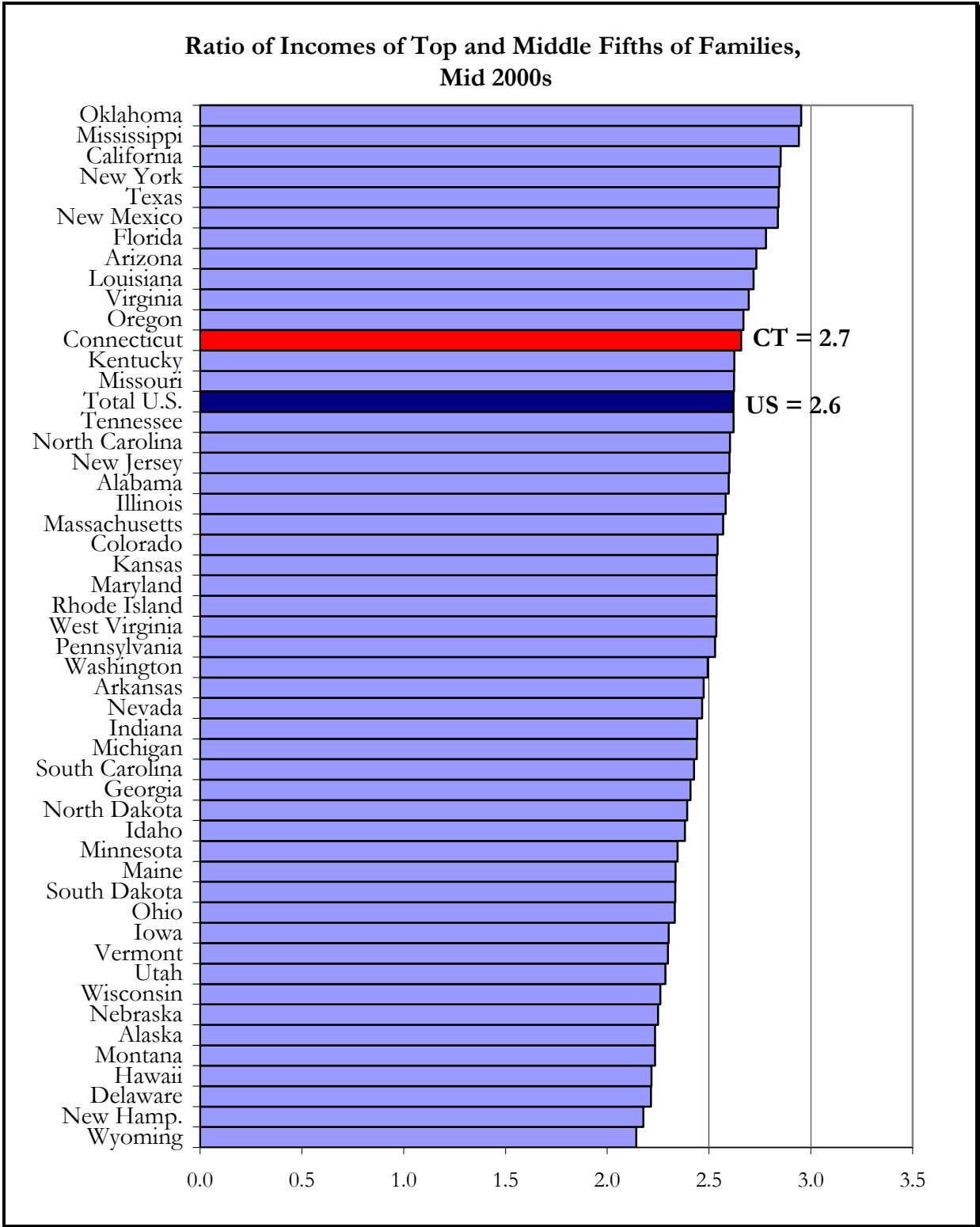


Figure A5

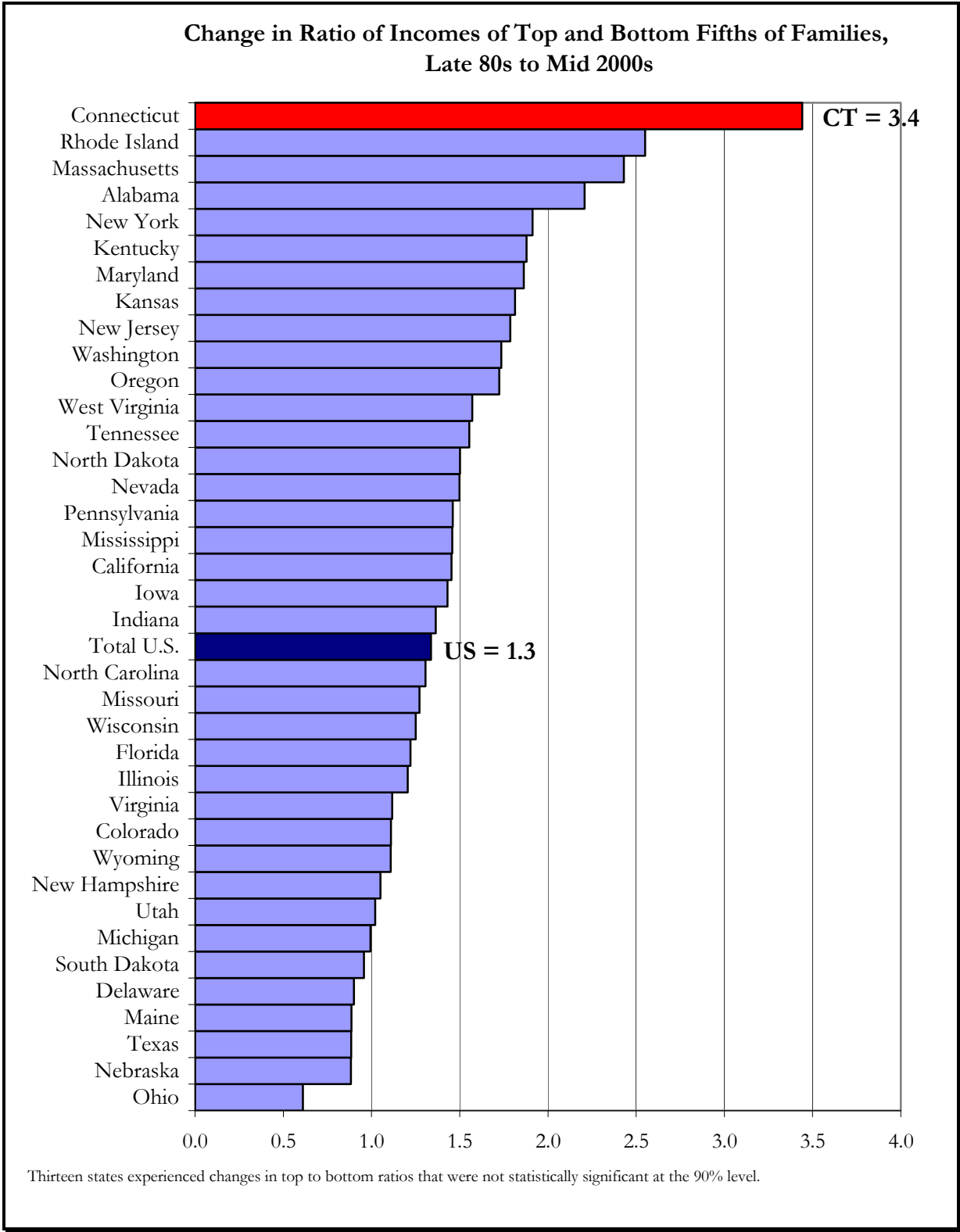


Figure A6

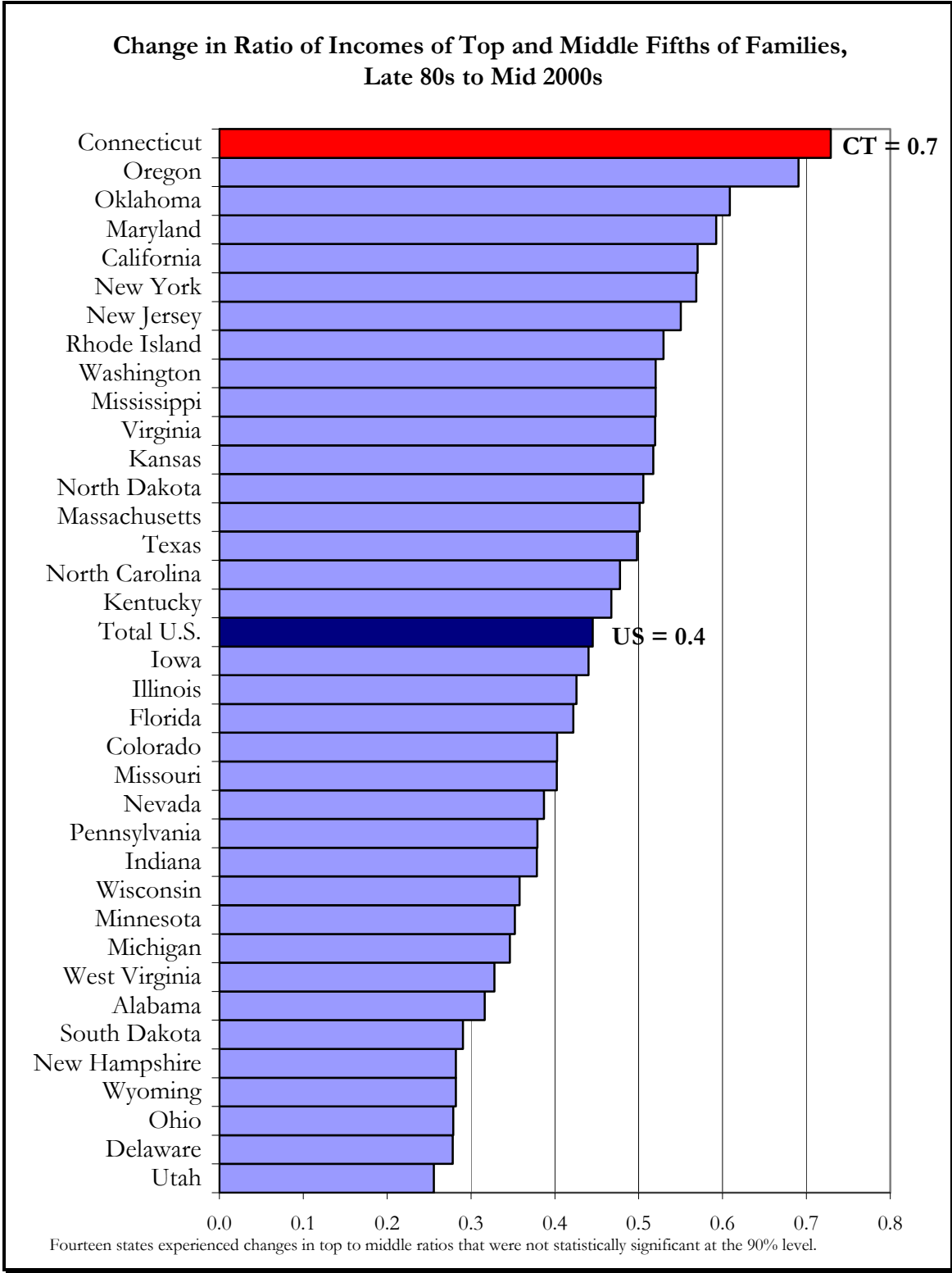


Figure A7