



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

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While real (inflation-adjusted) income for the poorest families in Connecticut has declined by 17% since the late 1980s, the *largest drop of any state*, while wealthier families have seen their real income increase by 45%. Middle-income families have seen little change in their real incomes, which increased by only 5.1%; this percentage growth was the *lowest among all states*. These troubling trends in income growth have resulted in Connecticut's gap in income between its wealthiest families and its middle-income and poorest families growing *faster* than in any other state in the nation.

Connecticut's persistent and growing income inequality is best understood in a state, national, and global economic context. In this global economy, Connecticut families at all income levels are being asked to bear greater economic risks 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. Government action is necessary to provide the safety nets needed to help families cope with the job churn and economic uncertainty of this global economy, and to ensure that their children are educated to compete in a global marketplace.

Report Findings

This report compares family incomes in Connecticut during three periods of relative prosperity – 1987-1989 ('late 1980s'), 1998-2000 ('late 1990s'), and 2004-2006 (mid 2000s). Since the late 1980s:

- Connecticut was the only state in the nation in which the real incomes of the poorest 20% *significantly* declined.² (See table below.) 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.
- At the same time, the wealthiest fifth of Connecticut enjoyed an increase of 45% (\$52,439) in their average real income (7th greatest in percentage increase, and 2nd highest in dollar increase), while middle-income families had little significant growth (5.1%, \$3,103). Connecticut's middle quintile growth was very weak growth compared to other states, ranking *last in percentage growth* and second to last in dollar income growth among all states. For the wealthiest quintile, the dollar *increase* in average income was more than *double* the *total* average income for families in the bottom quintile. Only New Jersey experienced higher income growth at the top quintile.
- The "top-to-bottom ratio" of inequality (calculated by dividing the average family income of the richest 20% of Connecticut families by the average family 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%. Based on the change in these ratios, Connecticut experienced the country's *fastest widening* income gaps, both between its wealthiest and poorest families and between its wealthiest and middle-income families.

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 A decline in income for low-income families in Rhode Island was not statistically significant.

Income Quintile	Late 80s to Mid 2000s	Late 80s to Mid 2000s	Late 90s to Mid 2000s	Late 90s to Mid 2000s	Late 80s to Mid 2000s State Rank	Late 80s to Mid 2000s State Rank
	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Poorest Quintile	-4,437	-17.4%	-1,373	-6.1%	Worst	Worst
Middle Quintile	3,103	5.1%	1,208	1.9%	2 nd Worst	Worst
Wealthiest Quintile	52,439	44.8%	20,653	13.9%	2 nd Best	7 th Best

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.

- *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 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.³
- *Income divides contribute to disparities in educational achievement and attainment.* There is a strong association between family poverty and diminished student achievement, as evidenced in Connecticut by persistent family income-related disparities in achievement that are evident in Connecticut Mastery Tests scores.
- *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.⁴ 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.

Sound public 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.

³ 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].

⁴ R. Kalra, "Feeling Stifled by Stagnant Wages, Executives Turn Attention to Plight of Working Poor," *Hartford Courant* (January 21, 2006).