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Left Behind: Connecticut's Lost Decade

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CT

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Executive Summary

Connecticut is recovering from an economic downturn. But which one?

The state, like the rest of the nation, fell into recession in 2020 as the novel coronavirus—and the governmental response—upended the economy. Two years into the recovery, Connecticut's growth – in terms of both economic activity and private-sector employment—has trailed the rest of the nation.

This unfortunately was predictable: the return to normalcy meant a return to pre-pandemic trends, which for Connecticut was weak and, more recently, non-existent growth.

For one thing, Connecticut's annual economic output, as measured in gross domestic product (GDP), still had not recovered from the Great Recession before being jolted by the pandemic. What's worse, job creation had essentially stalled, with the state adding no private-sector jobs between 2017 and 2020.

Other metrics show the same problem: the state's worst-in-the-nation growth in per-capita personal income meant Connecticut lost its title as the country's wealthiest state. Resident income, measured by the Internal Revenue Service, rose at the nation's third-slowest rate, and Connecticut also ranked near the bottom for adding income millionaires.

All told, Connecticut experienced what amounted to a lost decade, missing out on the bulk of a ten-year national economic expansion. It is crucial that policymakers recognize this failure and the causes behind it because so many of the same factors that stifled growth remain unchanged.

The time periods examined reflect an effort to look specifically at times when Connecticut should have been growing—that is to say, after the state was at or near bottom in the Great Recession and before the effects of the SARS-CoV-2 pandemic.

This report does not implicate any individual policy, but it bears remarking that Connecticut has repeatedly ranked poorly among other states on key growth-related indicators, including taxes and energy.

With the US economy again facing major uncertainty and the prospect of another downturn, acknowledging and understanding the pre-existing conditions behind Connecticut's weak economic performance is crucial. Only by addressing them will Connecticut be able to fully participate in the next economic expansion—and to avoid another lost decade.

Introduction: Still Recovering

Discussion about Connecticut's economy since mid-2020 has centered on the extent to which the state has recovered from the historic drop in employment and economic activity that took place as the SARS-CoV-2 virus gripped the state and the nation.

Between February and April 2020, the state experienced an 18.2 percent drop in private-sector employment, a net loss of 265,800 jobs in a matter of weeks.[1]

Of that loss, Connecticut has recovered 86 percent as of May 2022, leaving it about 36,000 jobs below pre-pandemic levels.[2]

Given the state's slow rate of recovery, it does not appear likely to return to pre-COVID levels before the end of the year.

As this study went to print, there was every likelihood the U.S. would recover its job losses by the end of June 2022. This is partially due to the country having lost a slightly smaller share of private jobs in the early months of the pandemic (16.2 percent compared to Connecticut's 18.2 percent), but also because the national recovery has proceeded faster.[3] Since December 2020—the last period in which both the U.S. and Connecticut saw significant private-sector job losses—the number of private jobs has risen 6.9 percent nationally but just 4.8 percent in Connecticut.[4]

Likewise, Connecticut's GDP[5] fell 6.2 percent between 2019 and 2020, compared to 3.4 percent for the nation.[6] And the state's 2021 GDP was about 2 percent below 2019 levels, while US GDP last year had already passed pre-COVID levels.[7]

Put simply, Connecticut certainly fell harder, but policymakers should be especially concerned with understanding why the state has been—and will continue to be—slower to get back up.

To be sure, the pandemic introduced permanent changes to how employment and business work. The trend toward remote work plus changes in travel, hospitality, and dining are all informing how Connecticut's economy recovers.

But Connecticut in most respects is returning to its pre-pandemic normal, meaning residents can expect the return of the pre-pandemic growth and employment trends.

That normal, however, is something the state should be desperately trying to avoid.

What's worse, with the risk of another national recession looming, Connecticut faces the loss of more jobs and businesses and a slow, incomplete recovery.

As explained in the sections that follow, the extent to which Connecticut missed out on the decade-long economic expansion is visible across several types of econometric data. To be clear, this is not the story of Connecticut experiencing a particularly rough downturn. It is instead the far more worrisome accounting of Connecticut repeatedly struggling to recover—and missing out on an entire decade of economic growth.

Gross Domestic Product (GDP)

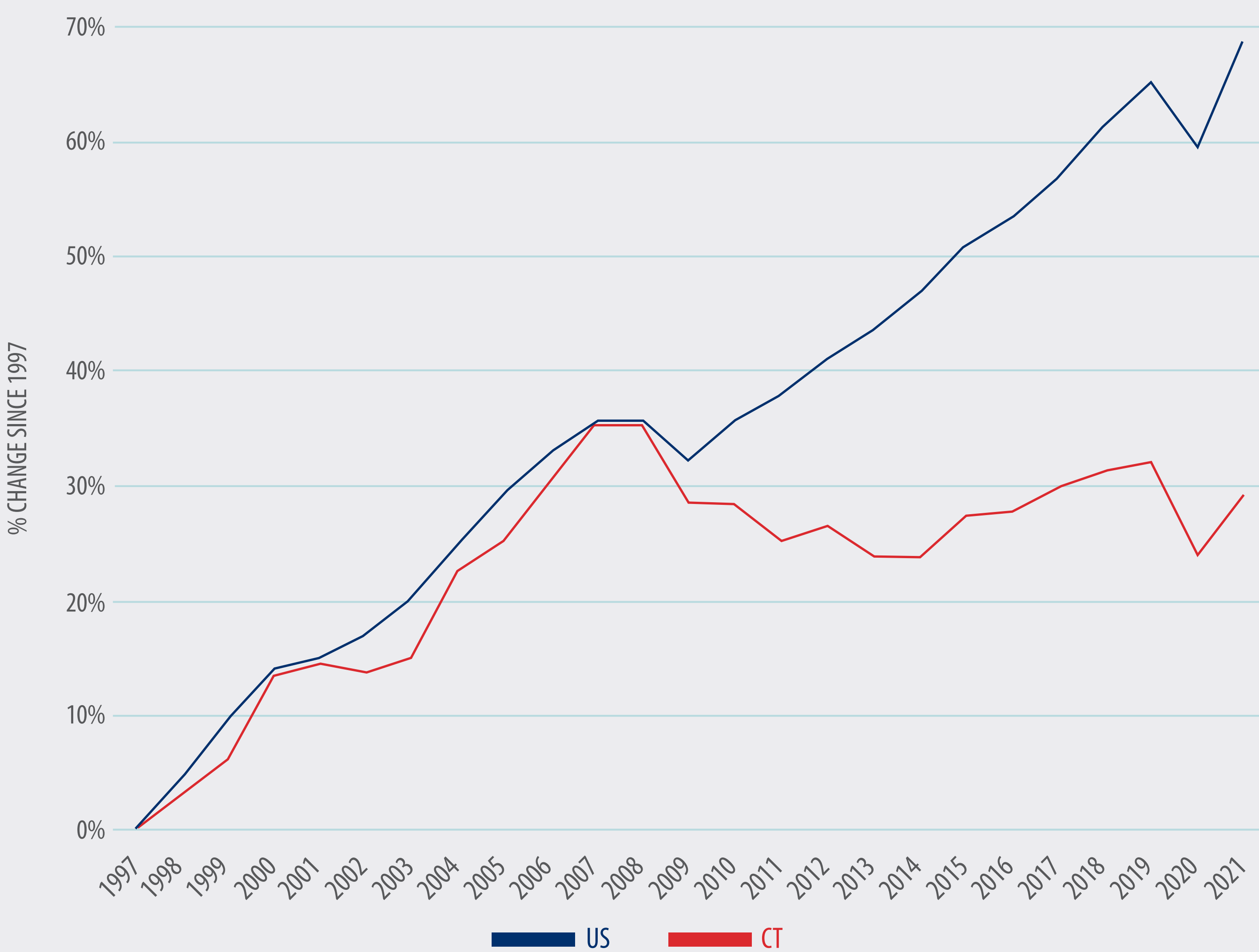
The most comprehensive measurement of Connecticut's economy is the gross domestic product (GDP), conducted by the federal Bureau of Economic Analysis (BEA) on a quarterly and annual basis.

Between 1997 and 2007, Connecticut's GDP grew at almost the same pace as the national GDP, with Connecticut's dipping more during the 2001-03 recession but rebounding faster.[8] The onset of the 2007-09 recession saw GDP growth flatten in 2008 both the state and the nation.[9] **(Figure 1)**

This was the last extended period in which Connecticut's economy, measured in terms of GDP, kept pace with the nation.

Figure 1

CT and US - Change Since 1997



Source: U.S. Bureau of Economic Analysis, Yankee Institute calculations

In 2009, Connecticut's GDP contracted almost twice as much (5.0 percent) as the nation (2.6 percent).[10] American states experience recessions with differing severity, but as the U.S. economy in 2010 kicked off a decade of steady growth, Connecticut's GDP kept dropping. The state hit bottom in 2014 after its GDP had fallen more than 8 percent from 2007 levels.[11]

There exists a tendency to dismiss or at least qualify Connecticut's economic travails as a regional feature and to implicate the state's demographics, location, winter climate, or other factors. But looking at state GDPs since 2007, all three of Connecticut's neighbors had recovered above 2007 GDP levels by 2013—when Connecticut's economy still hadn't yet hit bottom. **(Figure 2)**

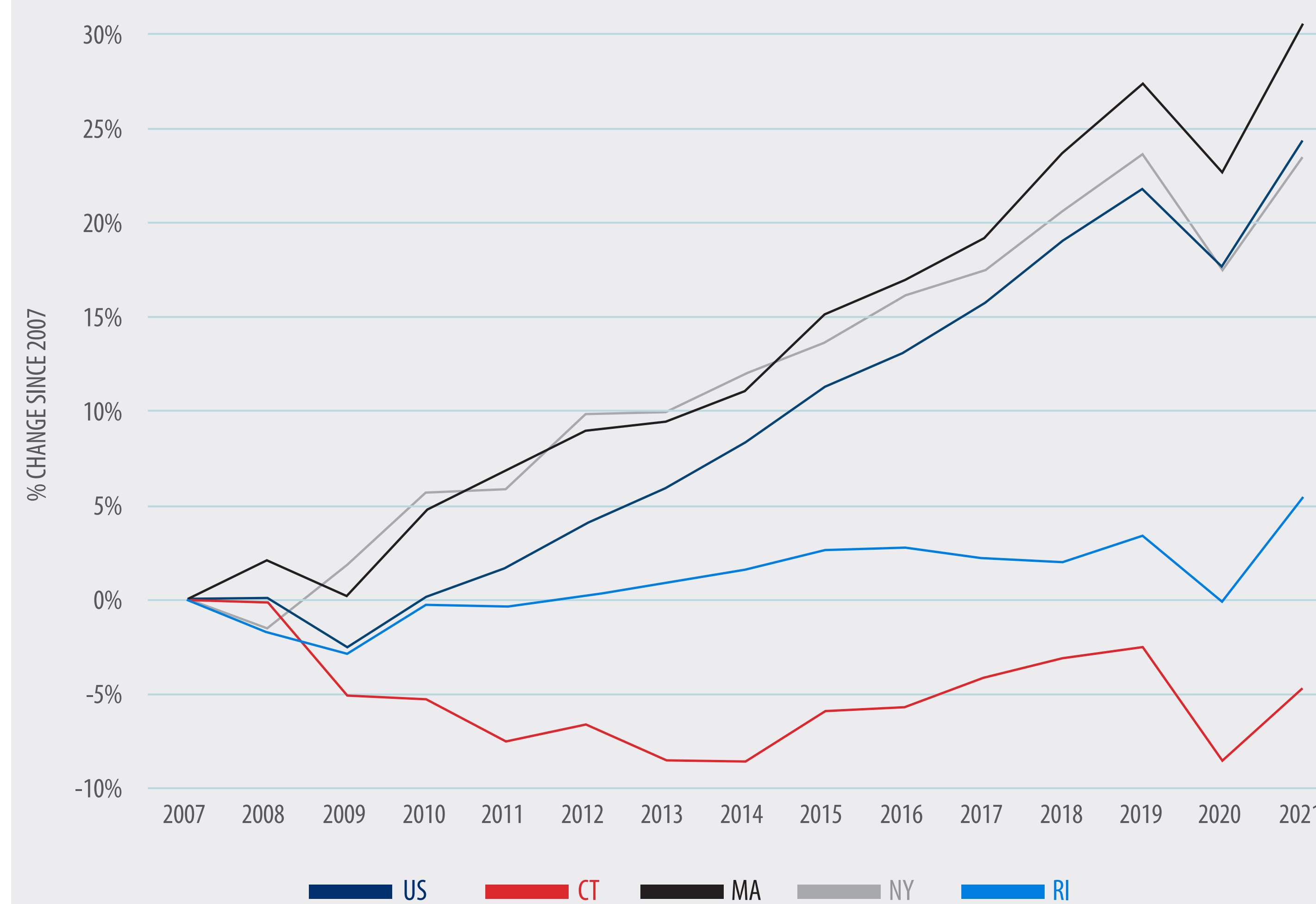
Even Rhode Island, which also had anemic growth since the Great Recession, managed to recover long before Connecticut.

On closer inspection, Connecticut's economy had shown signs of instability long before the global financial crisis plunged the world into recession.

Between 2005 and 2007, BEA estimated Connecticut's GDP had decreased during four of 12 quarters (compared to zero for the US GDP).[12]

Figure 2

GDP – US, CT and its Neighbors – Change Since 2007



Source: U.S. Bureau of Economic Analysis, Yankee Institute calculations

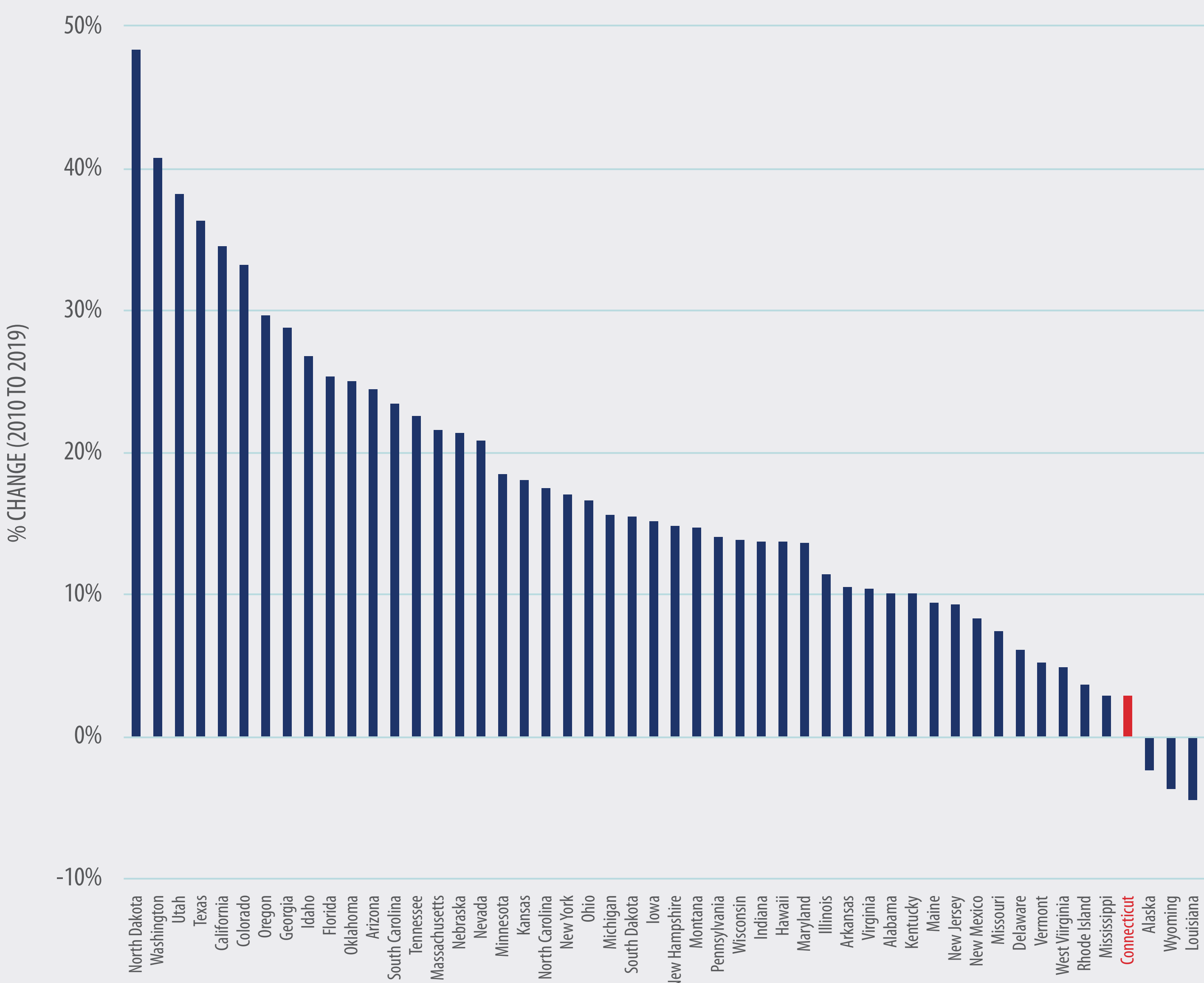
That weakness persisted after the Great Recession, with Connecticut's economy showing negative growth in at least one quarter every year except 2017, including four consecutive quarters between July 2012 and June 2013.[13]

Between 2012 and 2019, the Connecticut economy shrank during 13 of 32 quarters. The US economy shrank in only one (2014 Q1).[14]

Compared to other states, Connecticut posted the fourth-worst GDP growth between 2010 and 2019, and the worst among states where GDP didn't decline. **(Figure 3)**

Figure 3

GDP (2010 to 2019 Change)



Source: U.S. Bureau of Economic Analysis, Yankee Institute calculations

Per-Capita Personal Income

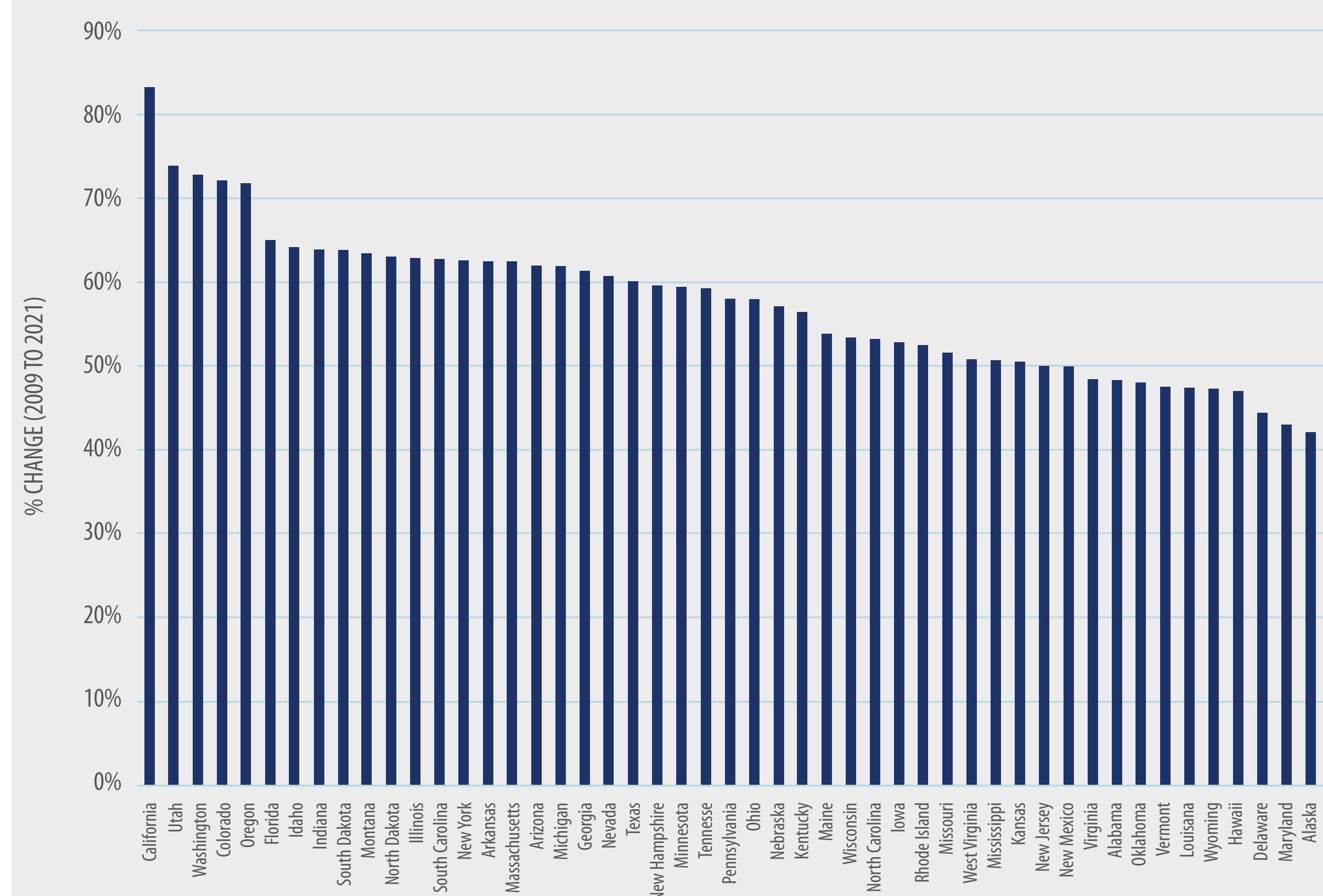
Besides gross domestic product, the U.S. Bureau of Economic Analysis also measures personal income on a per capita basis. Connecticut in 1986 clinched the top spot in these rankings, overtaking Alaska, and remained there each year for decades with the unofficial designation of the country's wealthiest state.

Connecticut's personal income per capita in 2021 stood at \$82,082. But Massachusetts (\$82,475)[15] last year displaced Connecticut at the top. **(Figure 4)**

This event could be casually attributed to seemingly explosive growth in Massachusetts' biotech sector and the commonwealth's success in wooing businesses, such as General Electric, to greater Boston. But looking at the post-recession period (2009 to 2021), Massachusetts' 62 percent increase was unremarkable, and essentially matched the nation's growth of 61 percent.

Figure 4

Per-Capita Personal Income (2009 to 2021 Change)



Source: U.S. Bureau of Economic Analysis, Yankee Institute calculations

Connecticut didn't lose its top spot because Massachusetts was particularly strong. It fell because its performance was the nation's worst in the leadup to the 2021 rankings, growing just under 38 percent since 2009. States that typically stand between Connecticut and the bottom of other econometric rankings experienced significantly better growth: Illinois (63 percent), Mississippi (51 percent), and West Virginia (51 percent).

> *"[Connecticut's] performance was the nation's worst in the leadup to the 2021 rankings, growing just under 38 percent since 2009."*

Income & Millionaire Creation

Internal Revenue Service (IRS) data allow comparisons in the adjusted gross income (AGI) of state residents. Between 2011[16] and 2019, the AGI for all U.S. taxpayers increased by 43 percent, but Connecticut's rose just 23 percent—the third-lowest growth rate.[17/18] **(Figure 5)**

The only two states that fared worse than Connecticut, Alaska and West Virginia, have commodity-linked economies that were affected by decreased crude oil prices and reduced demand for coal, respectively.

Another measurement for wealth creation is the change in the number of income millionaires living in each state.

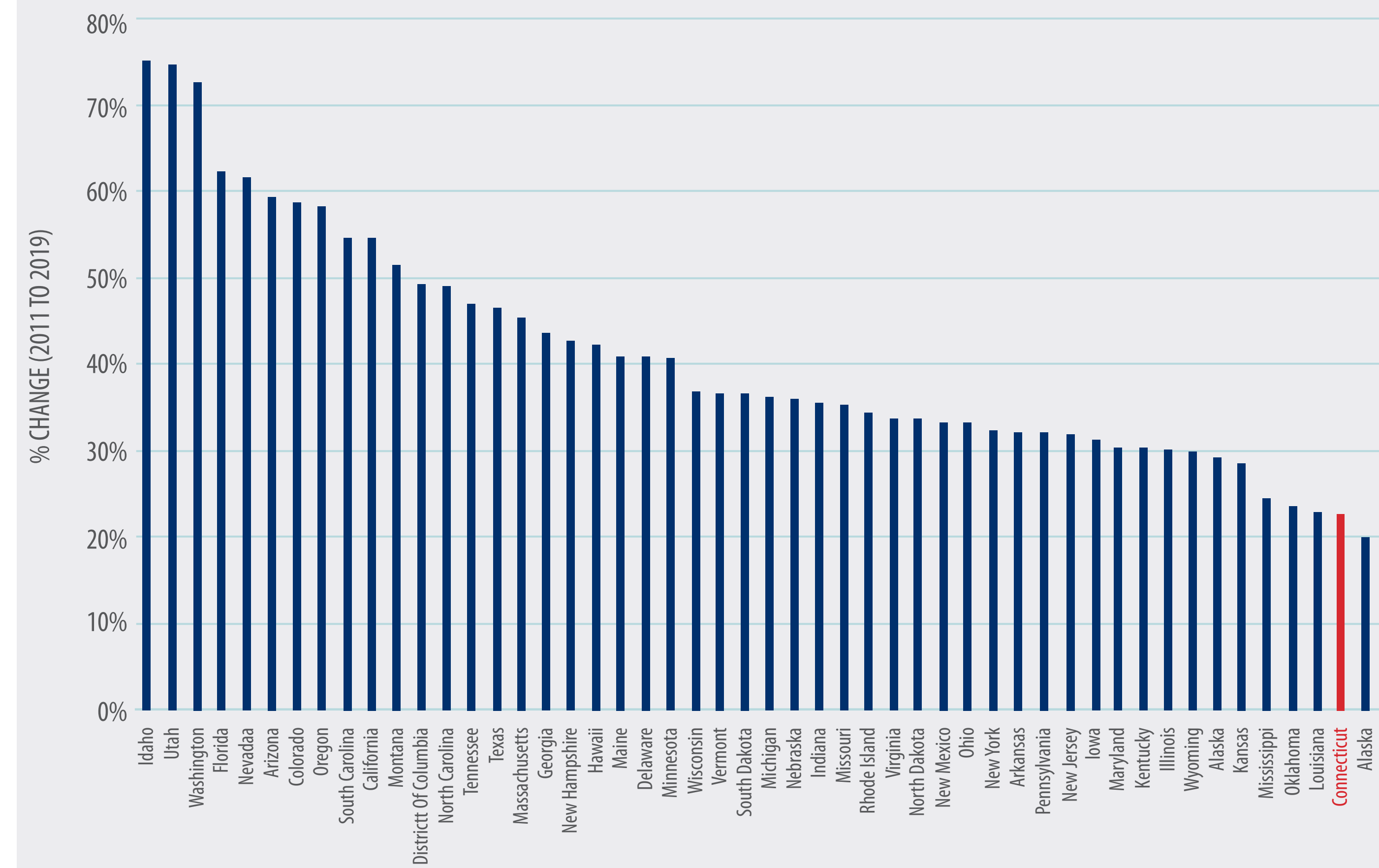
Connecticut in 2019 had 12,190 individuals and households (tax filers) with adjusted gross incomes of $1 million or more, a 28 percent increase from 2011 when it had 9,493.[19] This was the third-lowest rate of increase, with only Oklahoma and West Virginia adding income millionaires at a slower pace. **(Figure 6)**

Nationally, the U.S. added about 250,000 income millionaires, an 82 percent increase. In 2011, 3.1 percent of the nation's income millionaires resided in Connecticut; in 2019, that had fallen to 2.2 percent.[21]

Massachusetts added 9,575 income millionaires, an 84 percent increase three times the pace of Connecticut, during the period.[22] Sixteen states more than doubled their number of income millionaires. One of the fastest increases occurred in the state of Washington, which in 2011 had fewer millionaires than Connecticut (5,873) but in 2019 had more (15,890).[23]

Figure 5

State AGI (2011 to 2019 Change)

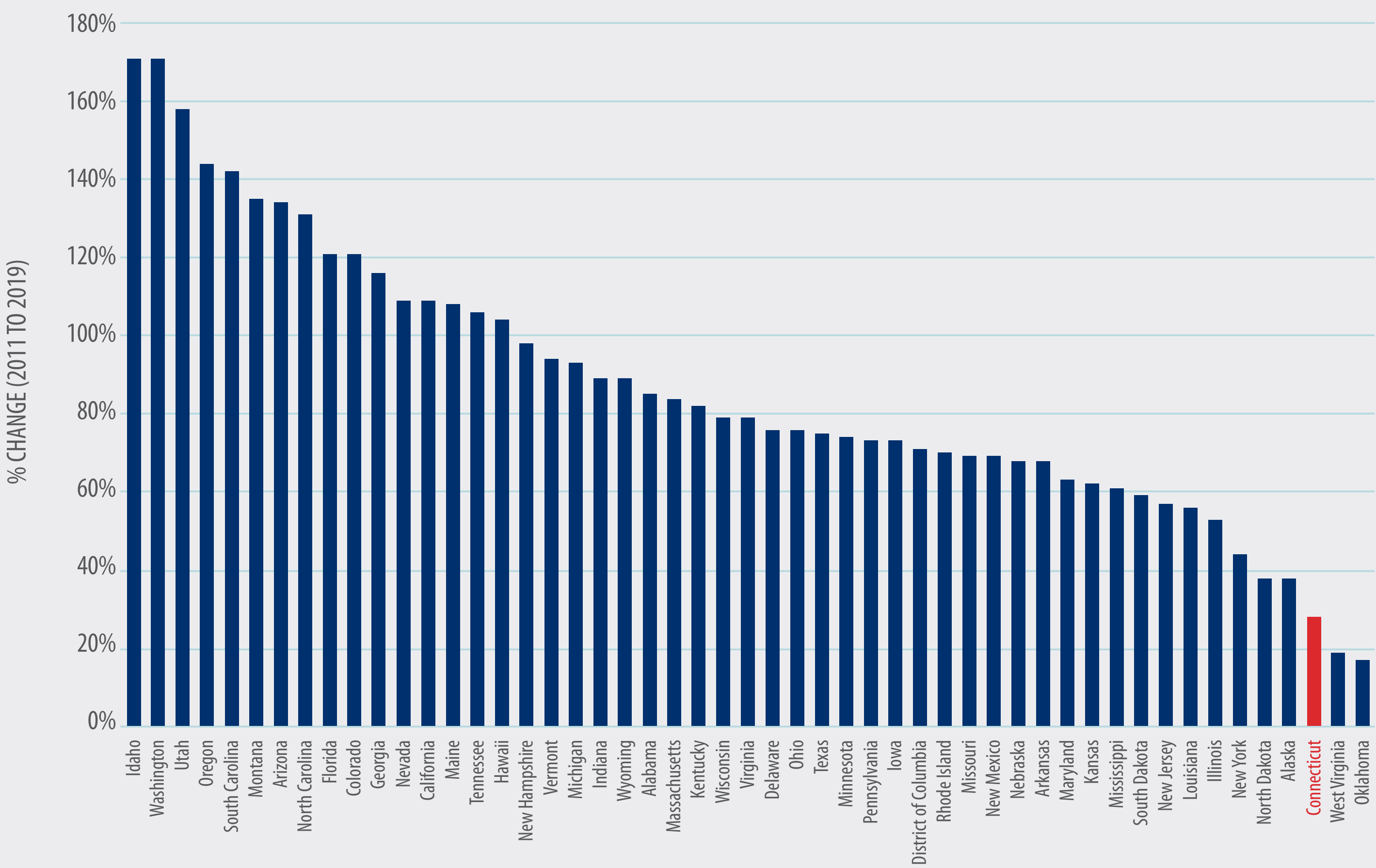


Source: IRS, Yankee Institute calculations

> ***Connecticut added income millionaires at the third-slowest rate when compared to all U.S. states.***

Figure 6

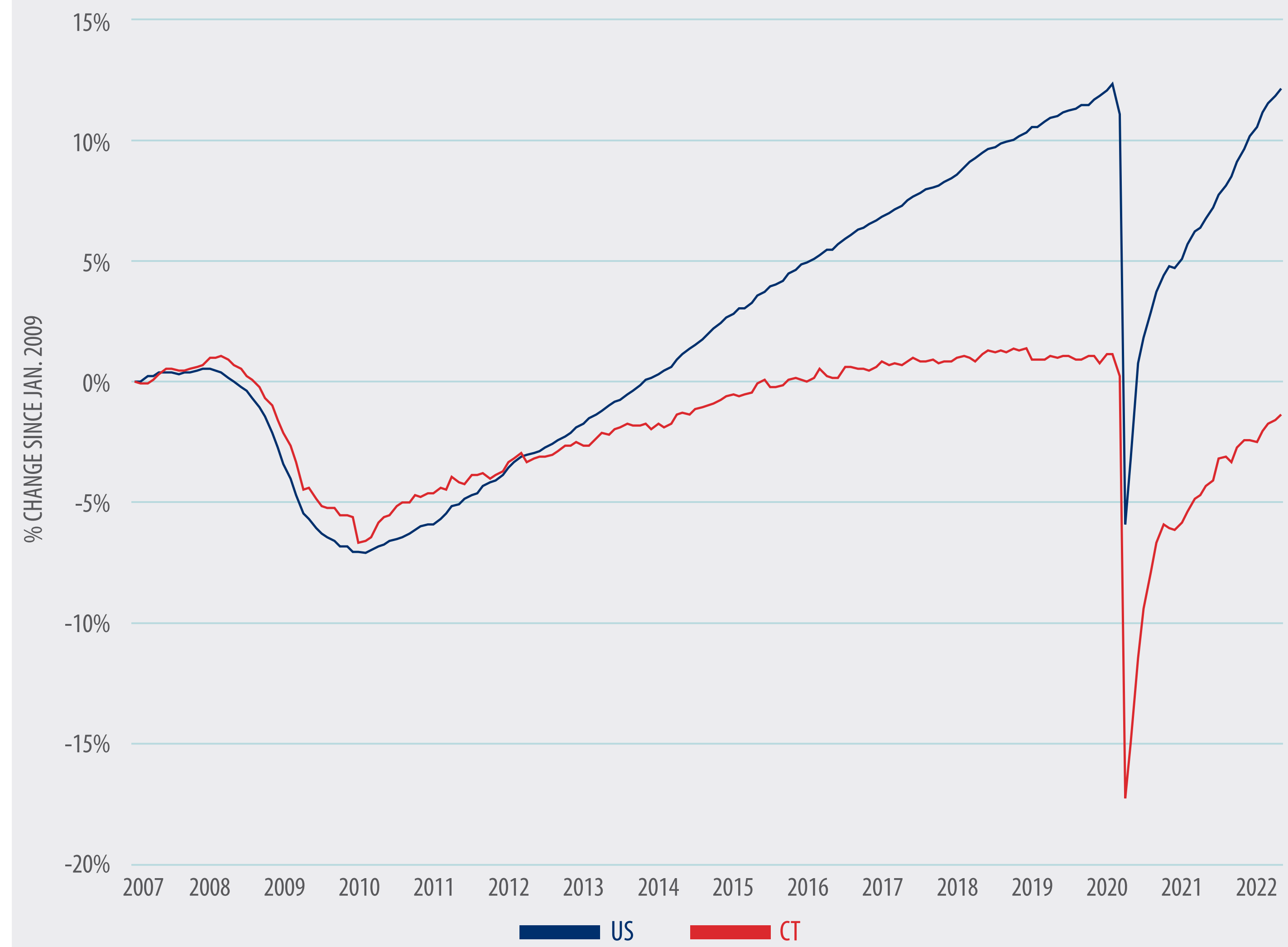
Income Millionaires (2011 to 2019 Change)



Source: IRS, Yankee Institute calculations

Figure 7

Private-Sector Jobs – Change Since Jan. 2007 – US & CT



Source: BLS, CTDOL

Employment

The human cost of Connecticut's lost decade was arguably most visible in private-sector employment.

Connecticut's job losses at the onset of the Great Recession mirrored the nation as a whole, though they began slightly later. **(Figure 7)**

Private employment bottomed out in Connecticut and the nation in January and February 2010, respectively. Connecticut lost 112,000 jobs between March 2008 and January 2010, a 7.7 percent drop.[24]

But as the country began what would be 120 consecutive months—exactly 10 years—of adding private-sector jobs, Connecticut immediately showed signs of weakness. After more than keeping pace with the country in 2010, Connecticut each year created jobs at a slower rate than the nation. From January 2011 to December 2016, Connecticut increased private-sector employment by just 5.6 percent, less than half of the 13.4 percent gain that had occurred nationally.[25]

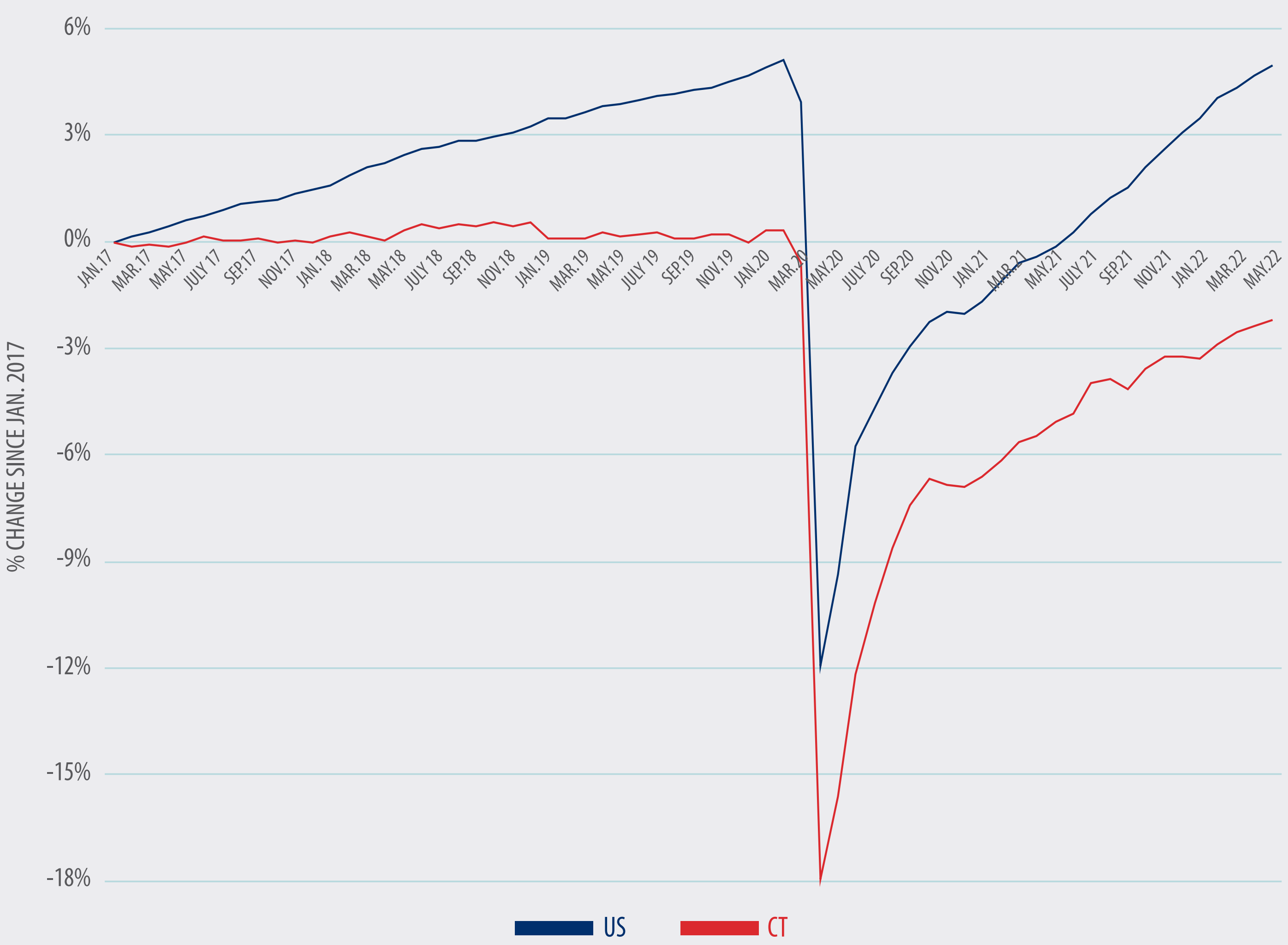
Connecticut's employment picture grew dimmer in 2017, as the national economy continued adding jobs and officials estimated Connecticut had lost jobs during five of the year's twelve months. The state that year added just 2,500 jobs—a growth rate equal to one-tenth of the national increase. Monthly losses and otherwise slow growth continued in 2018 and 2019, so much so that Connecticut ended December 2019 with 1.457 million private-sector jobs—slightly fewer than it had in January 2017. **(Figure 8)**

To put the magnitude of Connecticut's stagnation in perspective, if the state had added private jobs at the same rate as the national economy beginning in February 2010, it would have added 170,000 more jobs than it had by February 2020—that it to say, Connecticut would have had 12 percent more private-sector jobs.

A similar pattern of essentially stalled job creation is seen in the federal Quarterly Census of Employment & Wages (QCEW), a more detailed measurement of employment.

Figure 8

Private-Sector Jobs - Change Since Jan. 2017 - US & CT



Source: IRS, Yankee Institute calculations

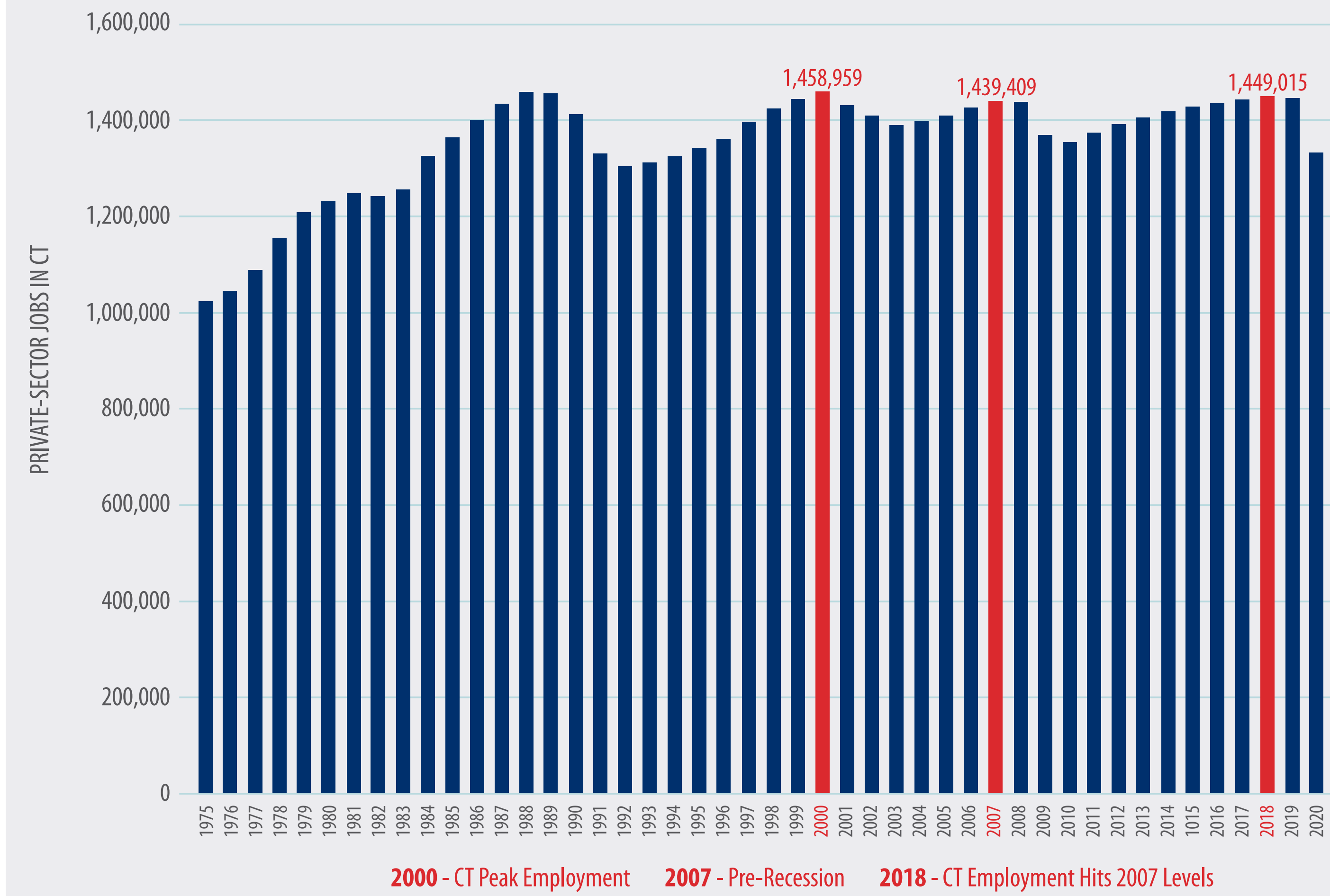
The QCEW shows Connecticut still has not recovered to 2000 private-sector employment levels, and that between 2018 and 2019—before the pandemic—the number of private jobs had dropped.

It shows slow—and incomplete—recoveries, so much so that the state economy hadn't finished recovering from the 2001-03 downturn before the Great Recession arrived, and that the state in 2020 had barely recovered from the Great Recession—and still hadn't recovered to 2000 employment levels. **(Figure 9)**

As Connecticut's economy recovers from the pandemic, a real danger exists that—even if the national economy avoids another recession—Connecticut is already reverting to its no-growth normal when it still hasn't recovered the jobs lost in 2020.

Figure 9

Private-Sector Jobs in CT (1975 to 2021)



Source: QCEW – Bureau of Labor Statistics

Migration

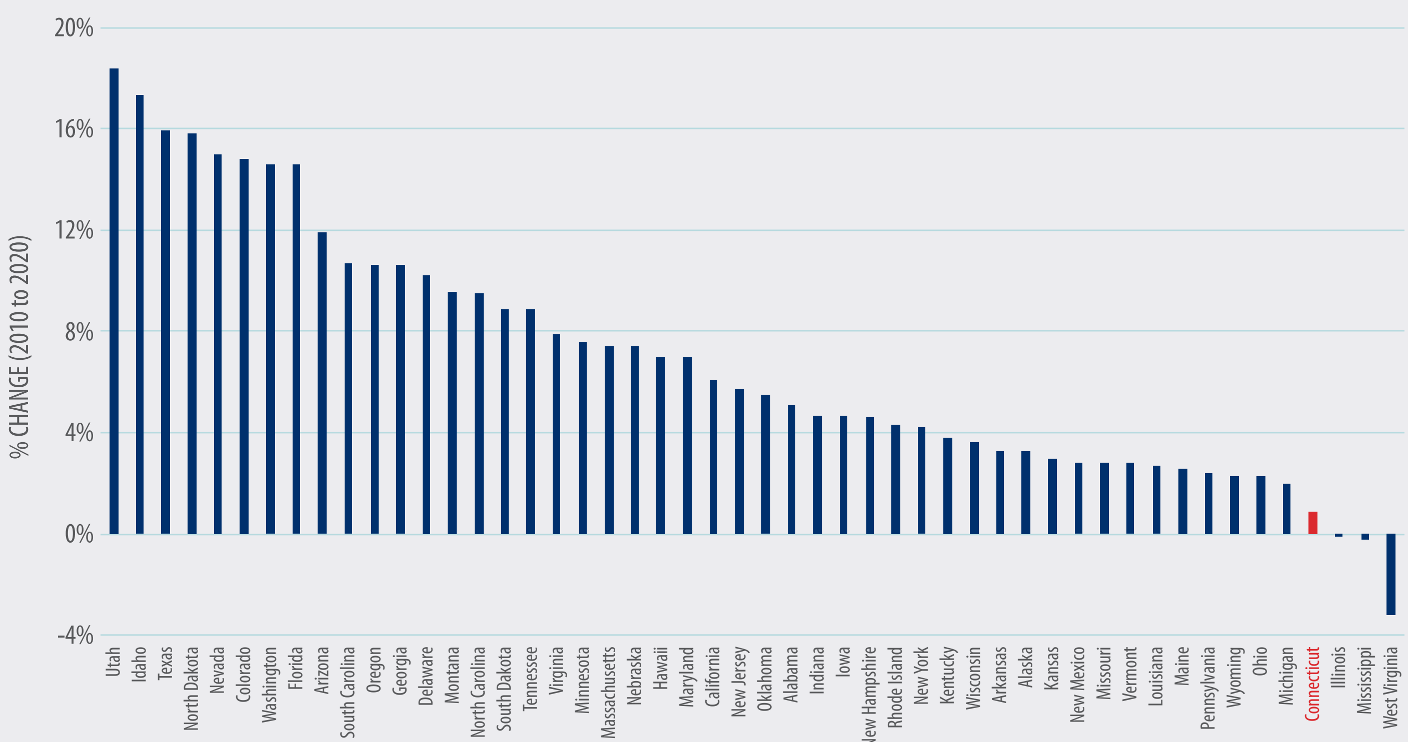
Ultimately the best indicator of a region's economic health is whether people are choosing to live there.

Connecticut's population growth between the 2010 and 2020 federal censuses was almost non-existent, with the state adding just 31,847 residents. Among the 47 states that grew, Connecticut was the slowest, and the seven counties outside Fairfield County together lost population. **(Figure 10)**

A portion of this sluggish growth came from a decline in the number of births compared to deaths, with deaths now outpacing births in Litchfield, Middlesex, New London, and Windham Counties.

Figure 10

State Population (2010 to 2020 Change)



Source: U.S. Census Bureau

But one specific component of Connecticut's population struggle speaks directly to the state's economic health. Connecticut lost more residents to other states than it attracted every year from 2003 to 2020.[26]

While previously characterized as an outmigration problem, Connecticut's major demographic challenge is its failure to attract residents from other states. Connecticut's outbound migration is not atypically high, but it draws new residents at a low rate.[27]

Between 2011 and 2019, Connecticut drew about 14 residents from New York for every 10 it lost to the Empire State, and more or less broke even with New Jersey and Rhode Island.[28] But in competing with every other state, Connecticut lost. For example, for every ten Nutmeggers who left for them, the state attracted only about 8 new residents from Illinois, 5 from Washington, and fewer than 3 from Colorado. The most lopsided migration from Connecticut was to South Carolina, which drew about five new residents for each it gave up.

Avoiding Another Lost Decade

Most of the same economic headwinds that hampered growth during its lost decade remain today. And to a great extent they flow from policy choices made by Connecticut's state government that artificially elevate the cost of doing business.

Two areas—taxes and energy—warrant particular concern, since both have become worse since the start of the lost decade.

Connecticut enacted three rounds of major tax hikes on business and personal income between 2009 and 2015, to such an extent that by 2022, state revenues were well ahead of expenditures.

The nonpartisan Tax Foundation in late 2022 ranked Connecticut 49th out of 50 for state business tax climate.[29] Connecticut fell dead-last in the category of businesses property taxes, chiefly because the state's practice of taxing tangible personal property discourages companies from making major equipment investments.

Industrial and commercial customers pay electricity costs that are much higher than the national average, a premium that has climbed significantly in the past two decades owing to state intervention in what should be a competitive electricity marketplace.

Meanwhile, Hartford has sent mixed signals to industrial customers looking to use natural gas, waffling on the state's prior strategy to use gas as a bridge fuel to reduce oil and coal use in the Northeast.

Policymakers in Hartford have also underestimated the signaling effect of public policy debate in the General Assembly, as lawmakers routinely consider proposals that would worsen the state's business climate. In 2022, for instance, lawmakers considered a bill that would give unemployment insurance benefits to striking union members and would essentially force employers to subsidize labor actions targeted against them.[30]

The recent upheaval in the national economy – supply chain challenges, the movement toward remote work, and inflation – present both a threat and an opportunity for Connecticut.

Businesses are questioning logistic decisions and re-evaluating the need for office space, among other things. In these calculations, Connecticut has the potential to be a winner or a loser. But the state's tax and regulatory environment make it difficult for existing businesses to adapt and discourage new businesses from coming here.

If Connecticut instead makes a serious effort to welcome private enterprise, existing businesses will be more likely to remain and expand. What's more, the recent quality-of-life decline in New York City has particular potential to bring Connecticut a fresh wave of capital, talent, and residents.

But policymakers in Hartford must first acknowledge that the state's approach in recent years has failed. They must recognize that Connecticut experienced a lost decade—and take resolute action to avoid another one.

> *"[Policymakers] must recognize that Connecticut experienced a lost decade—and take resolute action to avoid another one."*

Endnotes

1 Current Employment Statistics, U.S. Bureau of Labor Statistics & CT Dept. of Labor

2 Current Employment Statistics, U.S. Bureau of Labor Statistics & CT Dept. of Labor

3 Current Employment Statistics, U.S. Bureau of Labor Statistics & CT Dept. of Labor

4 Current Employment Statistics, U.S. Bureau of Labor Statistics & CT Dept. of Labor

5 All GDP measurements in this report are in real (inflation-adjusted) dollars.

6 SAGDP9, U.S. Bureau of Economic Analysis

7 SAGDP9, U.S. Bureau of Economic Analysis

8 SAGDP9, U.S. Bureau of Economic Analysis

9 SAGDP9, U.S. Bureau of Economic Analysis

10 SAGDP9, U.S. Bureau of Economic Analysis

11 SAGDP9, U.S. Bureau of Economic Analysis

12 SQGDP9, U.S Bureau of Economic Analysis

13 SQGDP9, U.S Bureau of Economic Analysis

14 SQGDP9, U.S Bureau of Economic Analysis

15 SAINC1, U.S. Bureau of Economic Analysis

16 2011 was the first year in which the IRS isolated households and individuals with AGI over $1 million.

17 IRS Statistics of Income

18 A small portion of some state's AGI—including Connecticut's—was cannibalized beginning in tax year 2018 by the state's so-called SALT workaround, which reduced individual AGI for certain pass-through entity owners to reduce federal tax exposure. In 2019, CT AGI was reduced by about $1 billion for federal purposes.

19 IRS Statistics of Income

20 IRS Statistics of Income

21 IRS Statistics of Income

22 IRS Statistics of Income

23 IRS Statistics of Income

24 Current Employment Statistics, U.S. Bureau of Labor Statistics & CT Dept. of Labor

25 Current Employment Statistics, U.S. Bureau of Labor Statistics & CT Dept. of Labor

26 The 12 months ending June 30, 2021 was the first period in which Connecticut drew more population from other states than it had lost to them, owing chiefly to the pandemic driving an exodus from New York City.

27 For more detailed information and methodological notes, see YI's 2022 report, *CT's Growing Problem.*

28 IRS Migration Data

29 Fritts, Janelle and Jared Walczak, "2022 State Business Tax Climate Index," Tax Foundation, 16 Dec 21. taxfoundation.org/2022-state-business-tax-climate-index
30 Portfolio, Meghan, "CT Businesses to Bankroll Union Strikes?" Yankee Institute, 11 Mar 22. yankeeinstitute.org/2022/03/11/ct-businesses-to-bankroll-union-strikes

30 Portfolio, Meghan, "CT Businesses to Bankroll Union Strikes?" Yankee Institute, 11 Mar 22. yankeeinstitute.org/2022/03/11/ct-businesses-to-bankroll-union-strikes

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