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Pulling Apart in Connecticut: Trends in Family Income, 1981-2002

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I. Introduction and Summary

In our previous *Pulling Apart*¹ report, we noted that the prosperity of the 1990s had not been shared equally – indeed, while the wealthy enjoyed significant gains in their family incomes, those at the lower end of the income scale had seen their incomes erode. This report looks at more recent data and notes that during the periods examined, and particularly between 1991 and 2002², the income gap has continued to grow in Connecticut.

Between 1991 and 2002, the *increase* in the average annual income of Connecticut's wealthiest 20% of families (\$35,093, i.e., from \$109,867 to \$144,960) was *nearly double* the average *total* annual income of Connecticut's poorest 20% of families (\$21,003). Indeed, the growth in the gap in income between the top 20% of Connecticut families and the bottom 20% of families (as measured by the change in top-to-bottom ratio) was greater in Connecticut than in every state except Tennessee.

Even Connecticut's middle income families (those in the middle 20% of families) have experienced income growth that pales beside the growth experienced by the top quintile. Over the 1980s, middle-income families saw their incomes increase by 15%, compared to an increase of 44% for very high-income families. By comparison, between 1991 and 2002, middle-income families again saw their incomes increase by 15% while the incomes of very high income families increased by more than *twice* this amount (a 32% increase).

As data in this report show,³ Connecticut's recent trends in family income have differed significantly in magnitude from those in the majority of states and from national trends. Connecticut's trends over the 1990s also differ from its own trends during the 1980s, when families of *all* income levels shared in the state's economic growth, albeit to differing degrees.

For example, between 1991 and 2002:

¹ Douglas Hall and Shelley Geballe, *Pulling Apart in Connecticut: An Analysis of Trends in Family Income*, (Connecticut Voices for Children, 2002). Importantly, the data in this 2006 report cannot be directly compared to the data in the earlier report, as this year's report relies on data that includes the impact of taxes on family incomes (i.e., the decline in family income from paying taxes as well as the increase in family income from various tax credits – such as the federal refundable Earned Income Tax Credit).

² The data in this report are based on three-year, pooled data to ensure statistical validity for states, such as Connecticut, with small populations. The three periods (1980-1982, 1990-1992 and 2001-2003) are referred to here by the middle year, hence 1981, 1991, and 2002. Unless otherwise indicated, dollar amounts have been adjusted for inflation, and are expressed in 2002 dollars.

³ 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* (January 2006). 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.

- 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%.⁴ 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 48th among the states, just over 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 \$6,588.⁵

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, with a primary focus on Connecticut's increase in inequality between 1991 and 2002.

II. Some Context⁹

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

⁴ 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.

⁵ 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%.

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).

⁹ For a more extensive discussion of Connecticut's current economic context, see Douglas Hall and Shelley Geballe, *The State of Working Connecticut*. (Connecticut Voices for Children, 2005).

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.¹⁰ 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. Specifically, there are some important ways that state policies can make a huge difference. In our earlier report, *The State of Working Connecticut: 2005*, we wrote that:

The state can and must play a key role in ensuring excellence in education and training, a healthy and vibrant workforce that has access to quality and affordable health care and childcare, comprehensive assistance to ensure that periods of employment transition can be steps up the ladder to further economic success (rather than leading into...jobs that entrench the working poor), and an infrastructure that facilitates economic growth.¹¹

The pursuit of such policies will enable all of Connecticut's workers – not just those at the highest levels of the income spectrum – to prosper, thereby minimizing the extent to which the pulling apart of incomes continues.

Importantly, the view that Connecticut's persistent disparities are problematic has been gaining increasing favor. A recent report entitled *Benchmarking Connecticut's Economy: A Comparative Analysis of Innovation and Technology*, written by the Connecticut Economic Resource Center and underwritten by Webster Bank, Connecticut Innovations, and Connecticut Light & Power, notes that Connecticut's economic disparities (specifically between urban and suburban areas) “undermin[e] our prospects for a prosperous future.”¹²

Moreover, researchers emphasize that reducing *income* disparity is just a first step. Connecticut Voices for Children's *Connecticut Family Asset Scorecard, 2005*, notes that there are also huge disparities in family *assets* within Connecticut, disparities that are most stark when comparing families headed by a White householder with those headed by a Non-White householder. While the average net assets of families headed by White householders was \$153,900, net assets for Non-White households were less than 5% of that, at \$5,446. Asset inequality of that magnitude further threatens the economic security of many of Connecticut's families and communities, already weakened by the inequality of income.

¹⁰ 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/>.

¹¹ Douglas Hall and Shelley Geballe, *op. cit.*

¹² Connecticut Economic Resource Center, *Benchmarking Connecticut's Economy: A Comparative Analysis of Innovation and Technology, Executive Summary* (Connecticut Economic Resource Center, 2005).

III. Connecticut Family Income Trends

This report compares family incomes during three “economic trough” periods – 1980-1982, 1990-1992, and 2001-2003. These are the economic low points corresponding to recessions.¹³ The report also examines average family incomes for each of five income quintiles – from the poorest 20% of families to the wealthiest 20%. The average income of the top 5% of income earners is also included in the study.

Changes in “real” family income: 1981-2002.

As seen in Table 1 and Figure 1 below, Connecticut’s families have experienced two quite different decades with regard to changes in family income. The first, during the 1980s, was marked by very large income gains for the top income quintile (+44%, \$38,038), and also modest gains of 13% (\$2,456) and 15% (\$5,014) for the lowest and second lowest quintiles, respectively. In the 1990s, by comparison, the incomes of the poorest quintile stayed essentially the same (-0.1%, -\$22), while gains for the wealthiest quintile, though more moderate than the previous time period, were still quite large (+32%, \$35,093), and clearly the reverse of the income trend at the lowest end of the income continuum.

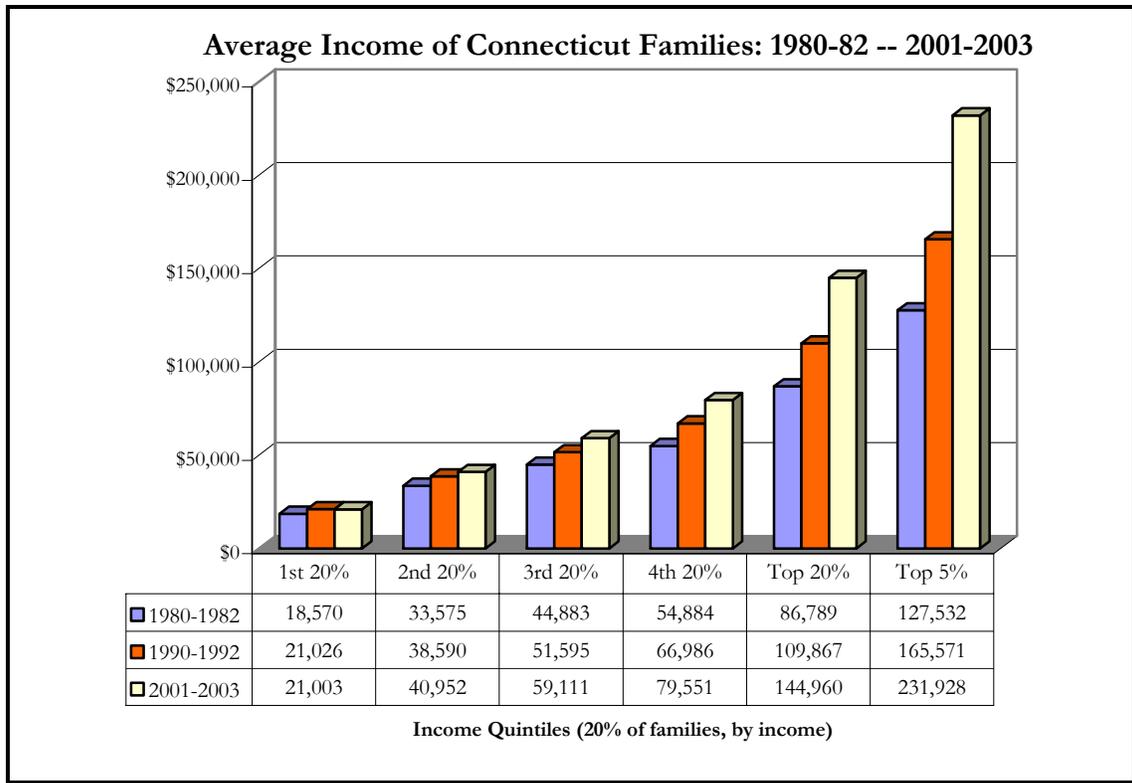


Figure 1

¹³ Comparing family incomes at comparable points in the economic cycle provides more reliable data about changes in family income. Since the most recent data available are from an economic “trough” period, these data are compared to prior trough periods.

Income Quintile	81-91		91-2002		81-02	
	\$ Change	% Change	\$ Change	% Change	\$ Change	% Change
Poorest Quintile	2,456	13.2%	(22)	-0.1%	2,433	13.1%
Next to Poorest Quintile	5,014	14.9%	2,362	6.1%	7,376	22.0%
Middle Quintile	6,712	15.0%	7,515	14.6%	14,228	31.7%
Next to Wealthiest Quintile	12,102	22.0%	12,565	18.8%	24,667	44.9%
Wealthiest Quintile	38,038	43.8%	35,093	31.9%	73,131	84.3%

Table 1

Overall, Connecticut family incomes over the two decade period saw changes that range from an increase of 13% for the poorest quintile, through gains of 32% for middle quintile families, to gains of 84% for families in the wealthiest 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 median 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 the average *incomes* of the 1st 20% of families and the 3rd 20% of families. The growth of *wages* for very high wage workers (90th percentile) is more moderate the growth in *incomes* for the top 20% of families; much of their income growth is through investments, rather than earnings.

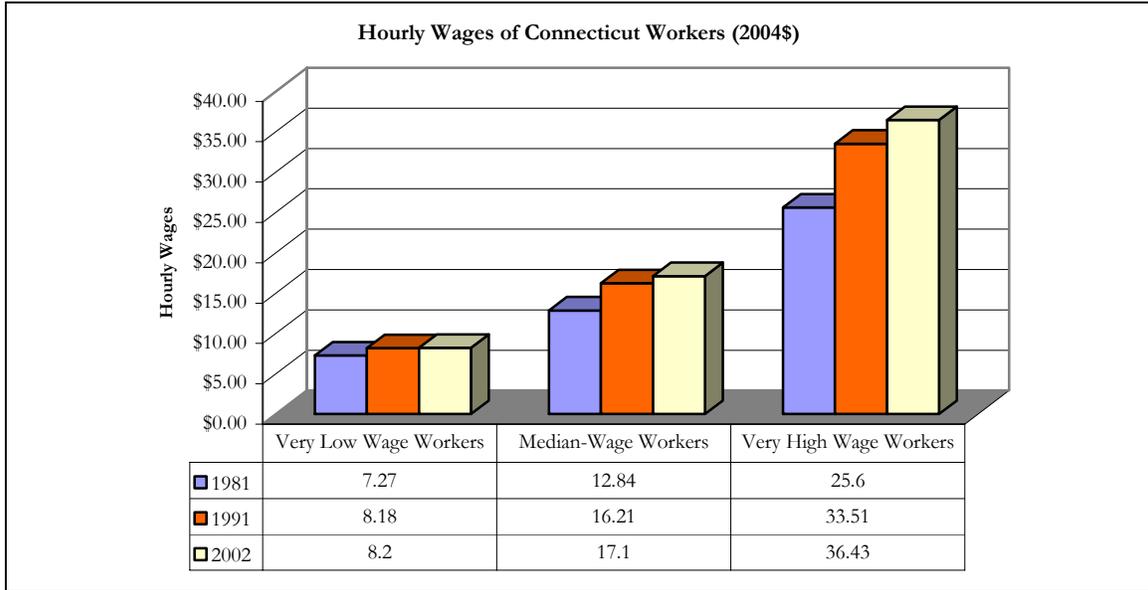


Figure 2

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.¹⁴ During the periods examined here, 1980-82 through 2001-2003, the differing rates of growth in family income have altered the distribution of income.

Specifically, the share of family income enjoyed by the highest quintile grew from 36% to 42%, while the income share for the bottom quintile declined from 8% in 80-82 to 7% in 90-92, and to 6% in 2001-2003. Similarly, the income shares of the “next to bottom” and “middle” quintiles also declined. The next to bottom quintile fell from a 14% share in 80-82 to 13% in 90-92, to 12% in 2001-2003. The middle quintile fell from a 19% share in 80-82 to 18% in 90-92 to 17% in 2001-03. Interestingly, only the “second highest” quintile remained the same throughout the period studied, with 23% of the total income. These distributions can be seen in Figures 3, 4, and 5 below.

¹⁴ Note that, by definition, each income quintile contains an equal share of Connecticut families.

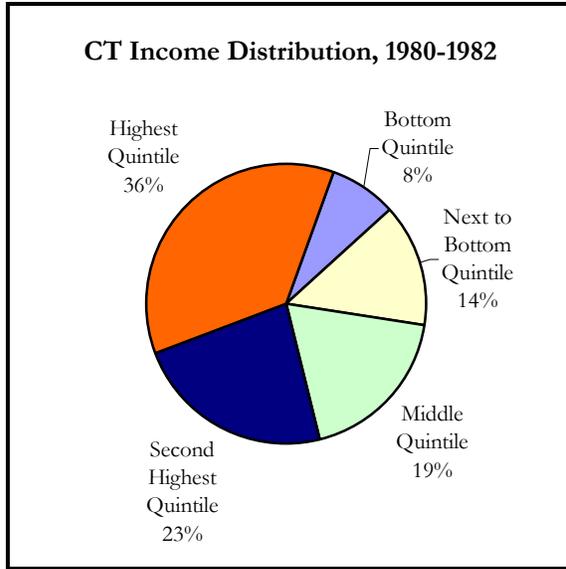


Figure 3

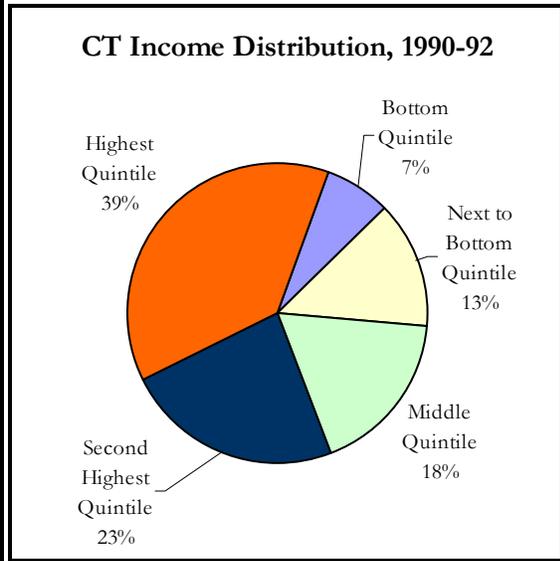


Figure 4

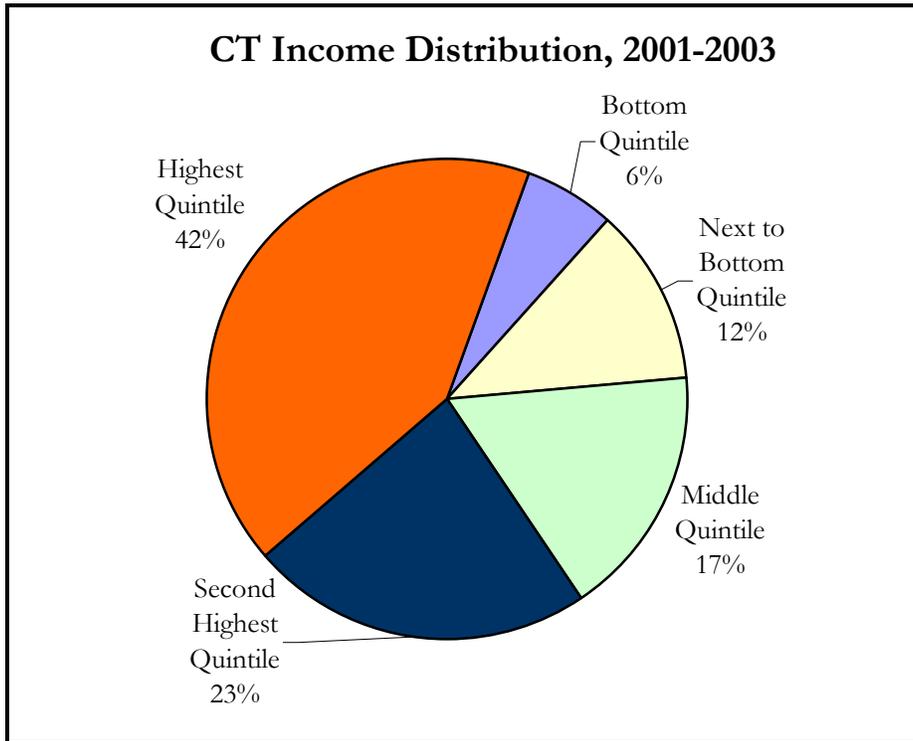


Figure 5

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 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 course of two decades – from 4.7 in 1981 to 6.9 in 2002, an increase of 47%. 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 1981 to 2.5 in 2002, an increase of 32%.

Notably, Connecticut's *growth* in both the top to bottom ratio and the top to middle ratio during this period occurred primarily in the 1990s. Fully 77% of the growth in the gap between rich and poor occurred between 1991 and 2002, while 67% of the growth in the gap between the top income quintile and the middle quintile occurred during this period.

Connecticut Income Ratios: 1981 – 2002		
Time Period	Top to Bottom Ratio	Top to Middle Ratio
1980-1982	4.7	1.9
1990-1992	5.2	2.1
2001-2003	6.9	2.5

IV. How Does Connecticut Compare?

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 period 2001-2003 (expressed in 2002\$), comparing average family income and income shares in Connecticut with those of other states. Among the states shown here, Connecticut's average family incomes are among the highest. Only Maryland boasts a higher average income for the lowest quintile, while both Maryland and New Jersey have higher average incomes in the middle quintiles, as well as higher top quintile average incomes.

As also shown here, income inequality is not unique to Connecticut. Despite the Connecticut's considerable growth in inequality through the past two decades, its distribution of income among quintiles (shown in the bottom portion of the table below) closely mirrors that of its neighboring states, as well as the national average.

Income Inequality in Connecticut, Select States, and the US (2002\$)									
Income Quintile	CT	MD	MA	NJ	NY	PA	RI	VT	U.S.
Q1	21,003	21,480	19,690	20,391	16,076	18,548	18,916	18,846	16,778
Q2	40,952	41,221	39,104	40,177	32,124	34,170	35,356	34,676	31,931
Q3	59,111	60,400	58,383	59,929	48,531	48,543	52,538	48,801	46,875
Q4	79,551	82,574	77,757	82,370	69,180	66,624	72,078	64,828	65,380
Q5	144,960	154,614	144,412	153,362	130,431	129,371	128,071	112,505	122,152
Proportion (%) of total income for each Population Quintile (20% grouping)									
Q1	6%	6%	6%	6%	5%	6%	6%	7%	6%
Q2	12%	11%	12%	11%	11%	11%	12%	12%	11%
Q3	17%	17%	17%	17%	16%	16%	17%	17%	17%
Q4	23%	23%	23%	23%	23%	22%	23%	23%	23%
Q5	42%	43%	43%	43%	44%	44%	42%	40%	43%

Comparing Changes in Family Income Across States

Appendices A1-A3 present changes in average family income for the lowest, middle, and highest quintiles for all states, the District of Columbia, and the United States.

- Figure A1 shows Connecticut's poorest 20% of families facing essentially stagnant income growth between 1991 and 2002. In fact, these families *lost*, on average, \$22 in income over this eleven-year span. Only Washington State saw worse income "growth" at the low end, with its poorest families losing \$102 on average during this period. These dismal results are strikingly different than the national average; nationally, the income of the poorest quintile families *grew* an average of \$2,326 over this period.
- Figure A2 shows Connecticut's middle quintile families enjoying gains slightly surpassing national average increases for the middle quintile for the period between 1991 and 2002. Connecticut's growth of \$7,515 (versus \$6,588 for the national average) ranks 20th highest among the 50 states.
- In Figure A3, we see that Connecticut's highest quintile families enjoyed average gains of \$35,093 between 1991 and 2002, ahead of all but five states (Maryland, New Hampshire, Indiana, Minnesota and Pennsylvania), and well ahead of the national average gain of \$25,746.
- Figure A4 presents the ratios of the highest income quintiles to the lowest income quintiles for each of the states in 2002. Connecticut's ratio of 6.9 indicates that the average family income of the top 20% of families was almost 7 times the average income of the bottom 20% of families. This ratio places Connecticut in the middle of the states, with 22 states having greater income inequality, and 27 states having less.
- Over the period 1991-2002, Connecticut's inequality *increased second most* among the states. Figure A5 shows the *change* in top to bottom ration between 1991 and 2002 for each of the 22 states for which this change was statistically significant.¹⁵ Connecticut's increase in top to bottom ratio of 1.7 is the second largest increase, behind only Tennessee's increase of 1.8.

Connecticut compared to the nation

Connecticut likes to think of itself not only as "better than average" but as "best" in the country. Indeed, Connecticut continues to enjoy the highest per capita income in the nation. However, several warning signals suggest that Connecticut cannot take that status for granted.

¹⁵ For these 22 states, we can say with 95% 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 below shows the average incomes of families for each quintile (and the top 5%) for 2002.

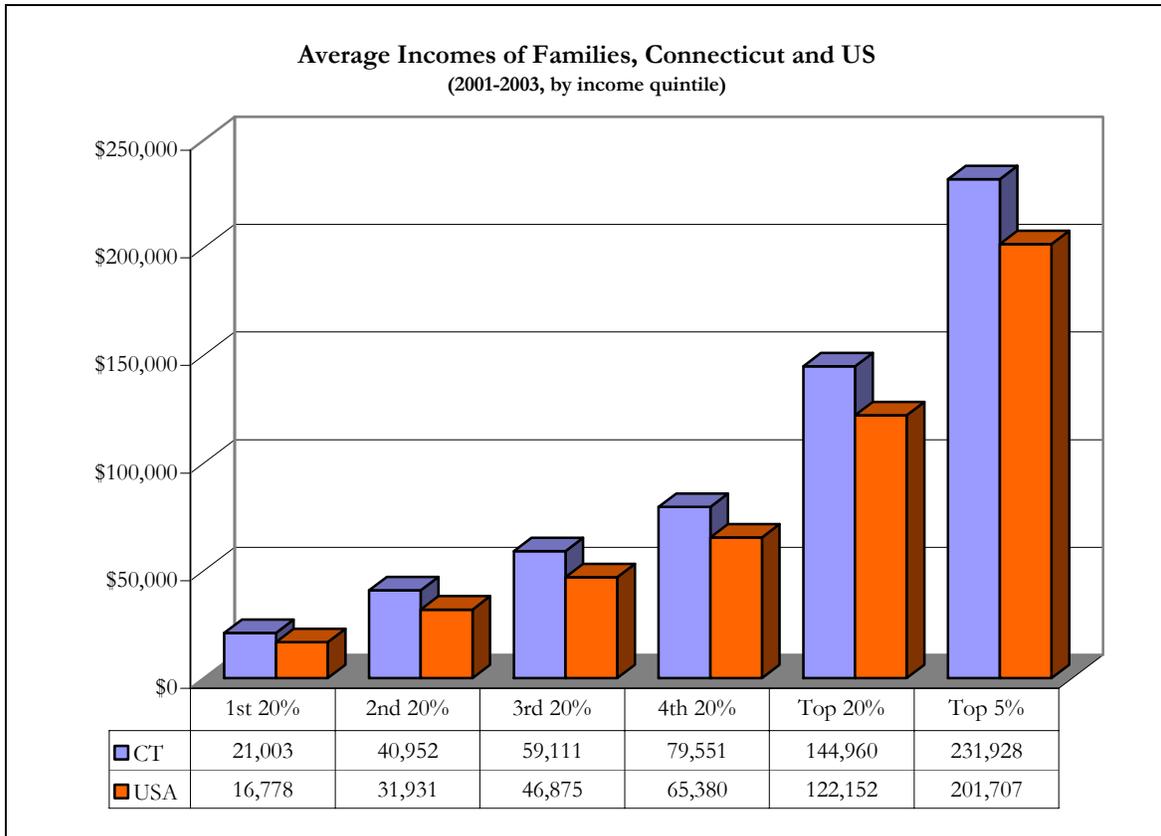


Figure 6

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

A closer look at these numbers, compared to a similar comparison in the earlier period studied – 1991 – suggests that Connecticut’s ‘income premium’ (the amount by which Connecticut’s average incomes surpass the national in each quintile grouping) has been significantly eroded.

Figure 7 below shows that in 2001, the income premium ranged from 19% in the top quintile¹⁶ to 28% in the ‘next to poorest’ quintile. This modest fluctuation reflects a relatively constant income premium in Connecticut compared to national averages.

In contrast, the 1991 income premiums were much larger at low income levels (+45% for lowest quintile, +39% for second lowest quintile), and considerably smaller at high income levels (+14% at highest quintile).

¹⁶ The 2001 ‘income premium’ enjoyed by Connecticut’s top 5% of families over their national counterparts was 15%.

This shift in Connecticut incomes compared to national incomes further reinforces 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.¹⁷

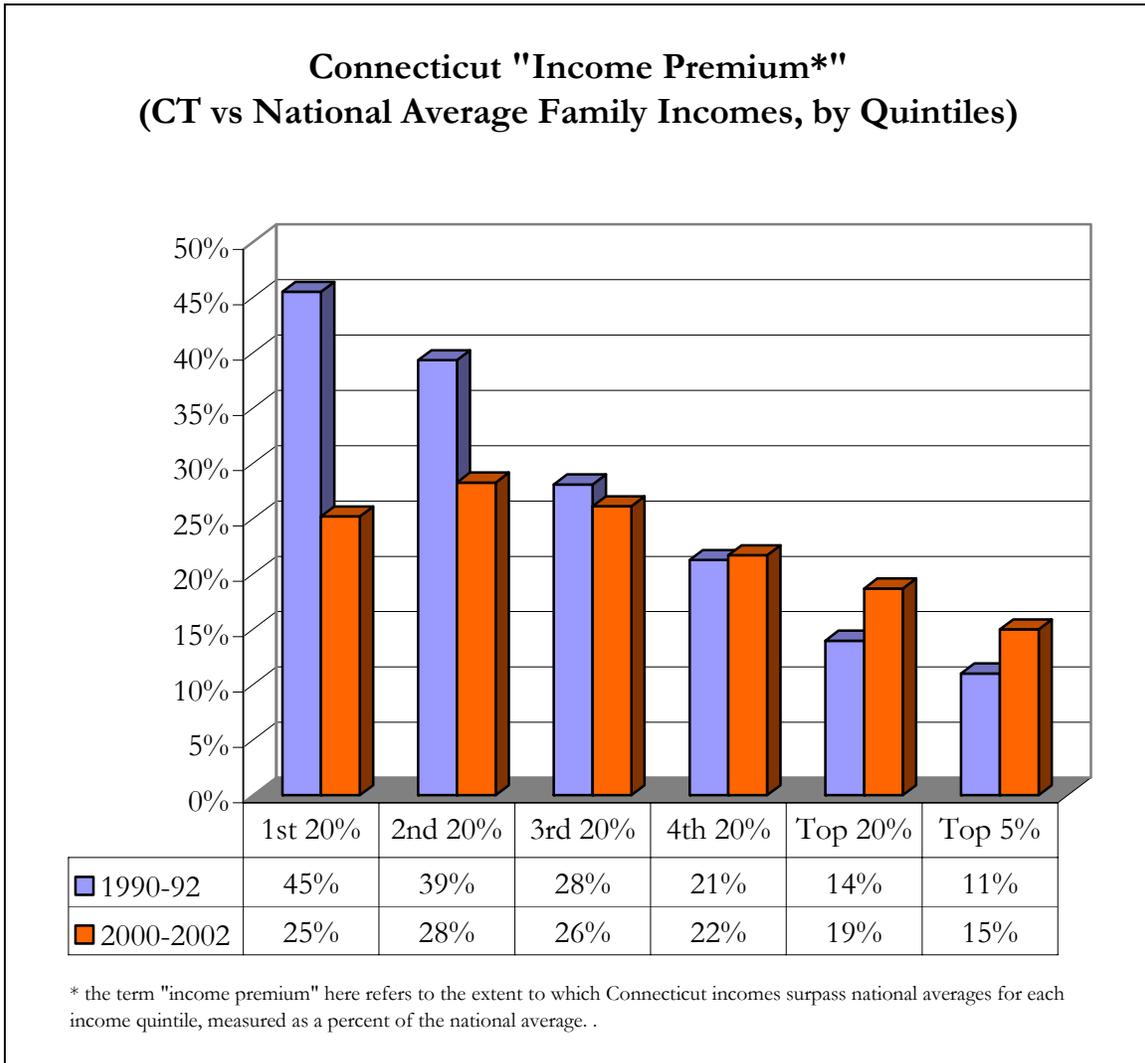


Figure 7

¹⁷ The Making Connections initiative of the Annie E. Casey Foundation has recently documented the high cost of being poor in both Hartford and New Haven, though the disparities faced by poor people are not confined to these 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).

V. 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.

New York Times reporter, David Cay Johnson, summarizes divergent perspectives on what the growth in inequality may mean for this nation:

While most economists recognize that the richest are pulling away, they disagree on what this means. Those who contend that the extraordinary accumulation of wealth is a good thing say that while the rich are indeed getting richer, so are most people who work hard and save. They say that the tax cuts encourage the investment and the innovation that will make everyone better off.... But some of the wealthiest Americans, including Warren E. Buffett, George Soros and Ted Turner, have warned that such a concentration of wealth can turn a meritocracy into an aristocracy and ultimately stifle economic growth by putting too much of the nation's capital in the hands of inheritors rather than strivers and innovators.¹⁸

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.¹⁹
- *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

¹⁸ David Cay Johnston, "Richest are Leaving Even the Rich Far Behind," *New York Times*, June 5, 2005.

¹⁹ 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].

not only with higher overall death rates, but also with higher rates of dying from heart disease, cancers, homicide, and infant mortality.²⁰

- *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.²¹ 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-

²⁰ 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)(showing that individuals living in high income-inequality states were at increased risk of mortality, compared with individuals living in low income-inequality states, and that near-poor whites had the greatest increase in mortality risk); 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 is less willing to attribute poor health outcomes to income inequality, yet his own research on the rich democracies participating in the Luxembourg Income Study (LIS), contradicts his reservations. Jencks found that life expectancy rose less rapidly in countries experiencing the most rapid inequality growth. He found, "Countries that restrained the growth of economic inequality...were dominated by political parties that felt either politically or morally obligated to protect the interest of their less affluent citizens. Such countries may have done all sorts of other things that made people live longer, like reducing the work week or ensuring that more people got the health care they needed." Christopher Jencks, "Does Income Inequality Matter." in *Daedalus, Journal of the American Academy of Arts and Sciences* (Winter 2002), p. 60.

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

Smith that found that, over the last five years, housing costs have spiked 49.7% while wages have risen just 12.6%.²²

VI. The Role of State Government in Addressing Connecticut's Income Divides

Connecticut's lowest income families are particularly vulnerable to the forces of the global economy -- typically the first to lose their jobs in periods of unemployment, and -- as we've seen -- prone to contend with wages that are stagnant at best, and eroding at worst.

Government policies *should* be helping to buffer families from such economic forces. Instead, we've seen in Connecticut that many recent government policy changes and budget decisions have actually added to the burdens faced by low-income families.

For example, a recent report from the Legal Assistance Resource Center of Connecticut (LARCC) notes the steep decline in the number of families receiving Temporary Family Assistance (TFA) benefits (formerly AFDC) -- from over 55,000 families receiving cash benefits in 1996 to about 21,000 families in August 2005. These families responded to Connecticut's 1995 welfare reform effort, which imposed strict work requirements and time limits on cash benefit receipt, by entering the workforce, and often into very low-wage jobs. However, while Connecticut successfully moved many families off welfare, it failed to do enough to help them achieve some measure of economic stability. Connecticut *could have* re-invested all the federal funds allocated for welfare (TANF) and the state funds previously spent on cash assistance benefits into job training, child care, and the other supports these 'at-risk' families needed to become more economically stable. But Connecticut did not do this. Rather, it diverted many of these funds for other, far less related purposes, such as funding case management and child protective service investigations at the Department of Children and Families. Indeed, Connecticut's spending on job training and support has increased only slightly since the mid-1990s, and constitutes less than 5% of total TANF and related state spending.²³

In fact, since SFY 1995, *total* General Fund spending on various income support programs for Connecticut's lowest income families raising children -- many of whom were formerly on welfare -- has markedly declined. Total state spending for the benefit of these families for cash assistance, child care, transportation assistance, job training, housing assistance, energy assistance, safety net services, and similar programs has been *cut by half*, not even adjusting for inflation.²⁴ That is, rather than buffering these economically at-risk families from the income declines shown in this report, Connecticut has chosen to *cut* funding for the programs best targeted to protect these families and help them achieve some level of economic security.

²² 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.

²³ Legal Assistance Resource Center, *The Betrayal of Welfare for Working Families* (LARCC, 2005).

²⁴ Analysis by S. Geballe.

VII. Conclusion

Connecticut's growing income divide not only makes it harder for lower income families to make ends meet, but also threatens to undermine the stability and social cohesion of our communities. Moreover, today's global economy forces families at *all* income categories to contend with economic forces that create employment volatility, causing a shift in the burden of risk to working families, away from both employers and governments. 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 chances of our children and youth, but also enhance the economic well-being of the state overall.

Appendices

Figure A1: Change in Average Real Income of Bottom Fifth of Families: 1991-2002

Figure A2: Change in Average Real Income of Middle Fifth of Families: 1991-2002

Figure A3: Change in Average Real Income of Top Fifth of Families: 1991-2002

Figure A4: Ratio of Incomes of Top and Bottom Fifths of Families: 2001-2003

Figure A5: Change in Ratio of Incomes of Top and Bottom Fifths of Families: 1991-2002

Change in Average Real Income of Bottom Fifth of Families: 1991-2002

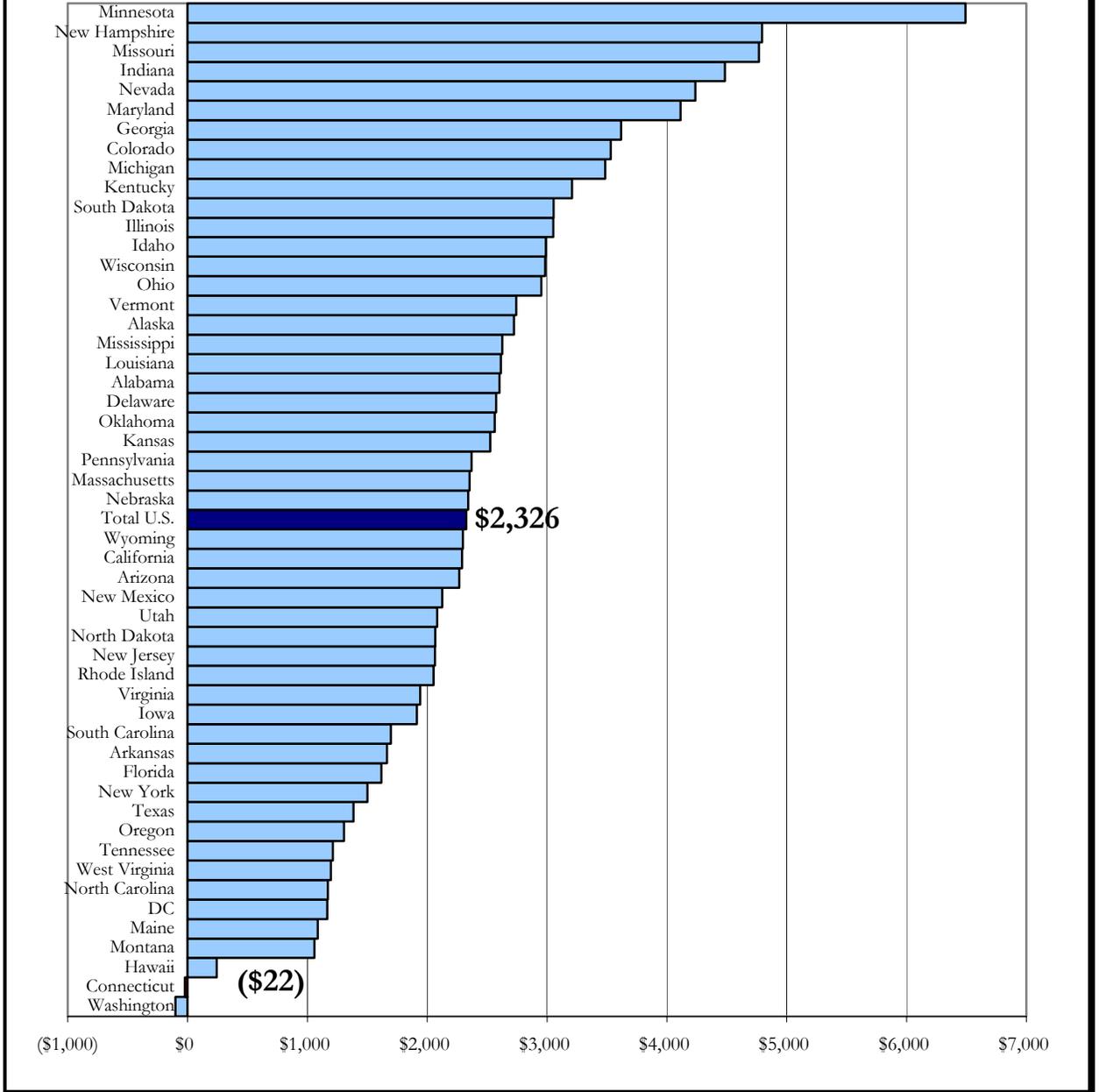


Figure A1

Change in Average Real Income of Middle Fifth of Families: 1991-2002

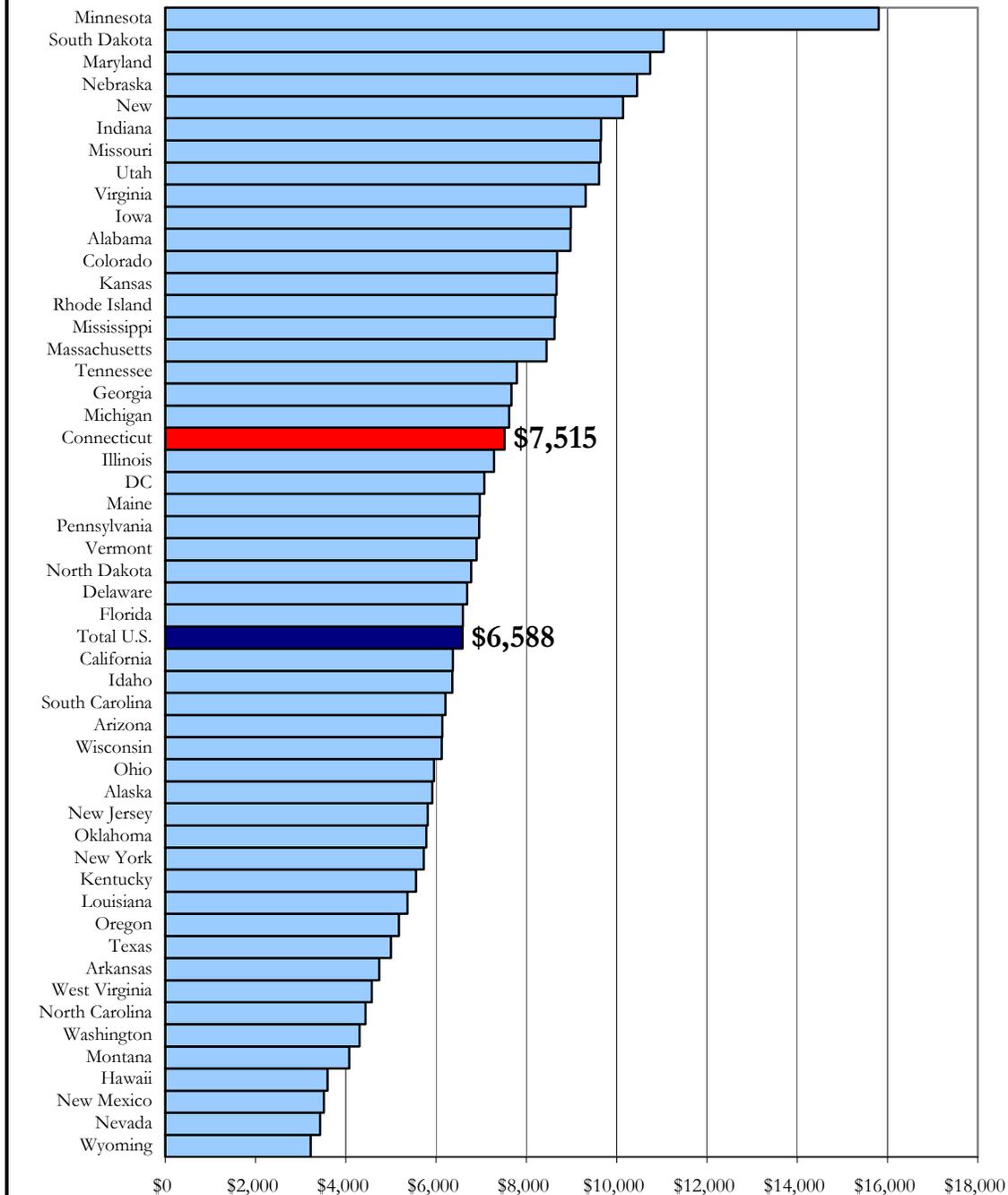


Figure A2

Change in Average Real Income of Top Fifth of Families: 1991-2002

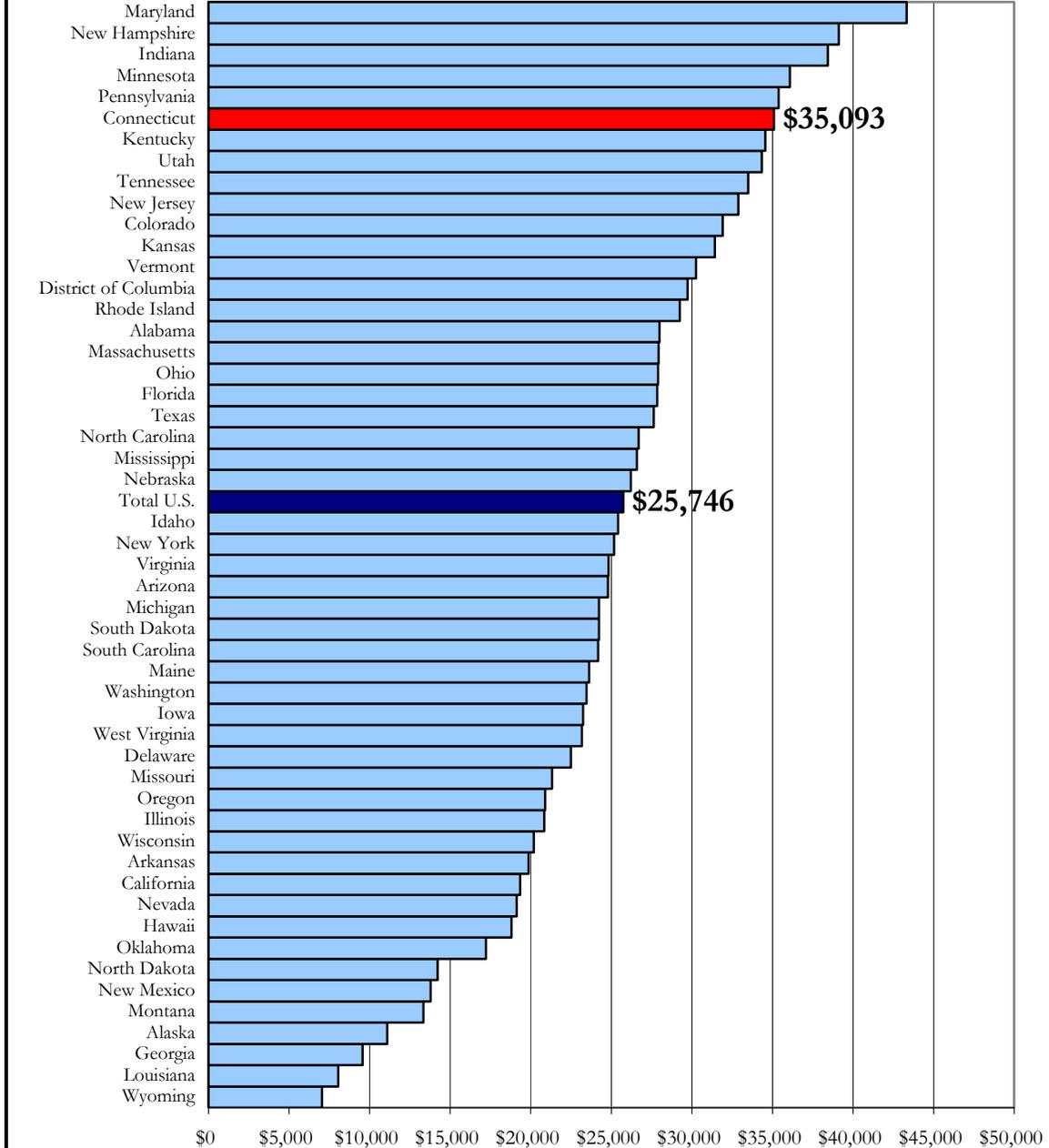


Figure A3

Ratio of Incomes of Top and Bottom Fifths of Families: 2001-2003

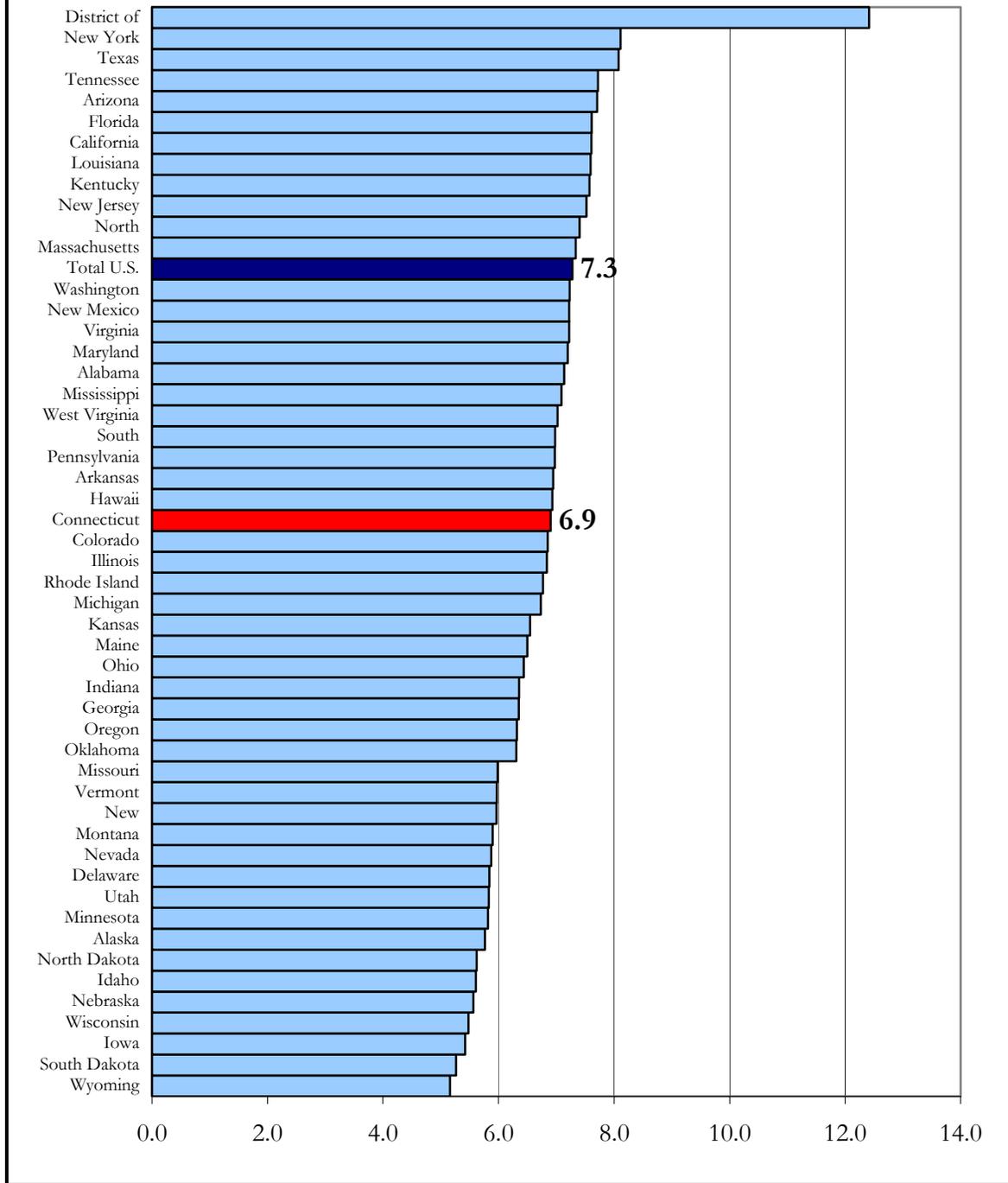
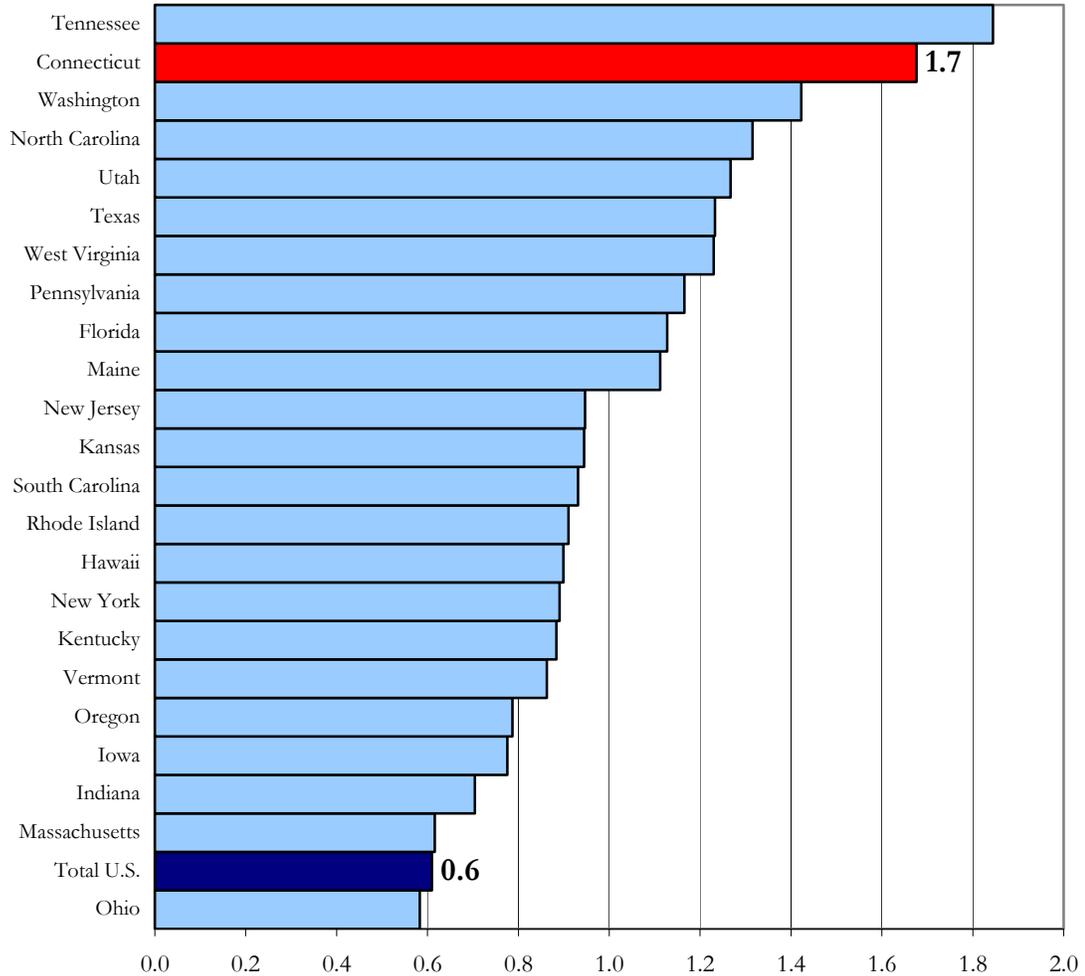


Figure A4

Pulling Apart: Change in Ratio of Incomes of Top and Bottom Fifths of Families, 1991-2002



Only the 22 states for which the change in top to bottom ratios were statistically significant are shown here. The comparatively low national change shown here (0.6) reflects the fact that excluded states are more likely to have had smaller changes in top-to-bottom ratios.

Figure A5