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State projects could play key role in accelerating economic recovery in 2012

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Connecticut's economic recovery should continue this year, although a new study warns that a host of wild cards, from sovereign debt in Europe to the bioscience initiative in Farmington, could accelerate growth even more -- or leave the Nutmeg State's productivity lagging behind the nation's.

The Connecticut Center for Economic Analysis also found that a faster recovery hinges on interest rates' remaining low and an easing of partisan gridlock on Capitol Hill over unemployment benefits and Medicare.

"I'm moderately confident that we're on track to outperform what we did last year," economist Fred Carstensen, director of the University of Connecticut-based center, said. "But it's not a cloudless sky, and we've got a lot of moving parts this year."

Connecticut's real gross domestic product -- the market value of all goods and services produced adjusted for inflation and other price changes -- rose a modest 2.65 percent in 2011, the center reported. Though this was modest growth, it outpaced the national rate of 1.85 percent.

While many other states mitigated some of their private-sector economic growth last year with large-scale layoffs and other deep cutbacks in public-sector spending, officials here relied on a mix of tax increases and spending cuts to balance the state budget and increased municipal aid slightly. Connecticut was one of just seven states that elevated state spending above the levels budgeted before the last recession.

This state typically lags behind the nation in post-recession recoveries, and preliminary forecasts show that while Connecticut should outdo its 2011 performance, it likely will fall back behind the national pace, Carstensen said.

The bigger question, though, is whether new efforts by Gov. Dannel P. Malloy's administration to revitalize long-stagnant state economic development will bear enough fruit in 2012 to help Connecticut keep pace.

Malloy and the legislature agreed during the regular legislative session to invest \$864 million to revitalize the UConn Health Center's Farmington campus, and then committed another \$291 million in an October special session to help develop a new genetics research facility for The Jackson Laboratory on the campus.

Plans also are progressing for a \$567 million rapid transit bus line linking New Britain and Hartford, a project expected to relieve commuter congestion on Interstate 84 in Greater Hartford.

These initiatives alone will add another 7,000 direct and indirect jobs to the already expected job creation of 11,000 over the eight quarters from September 2011 to September 2013, particularly through the addition of construction jobs, the center estimates.

Most of the earliest jobs, those created in 2012, will be tied to engineering, architectural and construction work getting under way this spring and summer. "The faster they move, the more impact we have on our economy in the short term," Carstensen said. "These capital projects really have the potential to hype the economy."

These projects could be crucial this year, he added, because Connecticut's economic recovery hasn't produced huge numbers of new jobs to date.

The center reported that just 9,000 net new jobs were created in the state last year, and estimates that 11,000 will be added in 2012. Much of businesses' economic growth since the last recession has been generated by improved efficiency and productivity and not by expanding employment, Carstensen said.

"So far many companies have looked very, very closely at how they can get more output without adding any new jobs" or even after shedding some jobs, he added.

Connecticut also needs to move quickly with its capital projects, Carstensen said, because other forces threaten to push the economy in a negative direction.

While the Federal Reserve appears determined to keep interest rates low this year -- a policy that could help push Connecticut's 2012 growth over 3.3 percent and the nation's above 4 percent -- partisan gridlock in Washington easily could pull those numbers back down, the center warned.

Despite recent reports of a tentative bipartisan deal that would extend a federal payroll tax cut while

also protecting expanded unemployment benefits and reimbursements to doctors serving Medicare patients, any unraveling of this potential compromise would ripple across the economy.

"The Medicare situation is very important," Carstensen said. "Otherwise a lot of health care providers will just say 'no' and stop taking these patients." That translates, he added, into a sicker population ultimately being treated for more serious, more expensive ailments in emergency rooms. "It is very expensive, very wasteful and doesn't contribute anything to the economic well-being," he said.

Connecticut also faces a potential economic double-whammy from the sovereign debt crisis in Europe. The instability weakens the stock market, in turn limiting growth in the Wall Street-related income that comprises a significant portion of state income tax receipts.

But Carstensen also noted that Connecticut businesses rely heavily on European markets to purchase their exports, and the European response to the debt crisis to date has been to cut spending back dramatically. "We're a strongly export-dependent state, and we're going to have some financial insecurity in this area" in 2012, he said.

"Things could go to pieces," Carstensen added, but quickly noted that Connecticut is better prepared to respond than it was just a few years ago. "We're starting to do the things we need to do to provide the stimulus to support the short- and long-term economy. But there's a lot more work to do."

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