

FALL 2010

THE Connecticut Economy

A UNIVERSITY OF CONNECTICUT QUARTERLY REVIEW



Decision 2010 and the Economy

State Deficits and Liabilities

Competitiveness:
Manufacturing & Commuting Costs

A Better Job Count

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Published by:
UConn Department of Economics
341 Mansfield Road, Unit 1063
Storrs, CT 06269-1063

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Thanks for the Help

The editors thank those who provided information for this issue, including Ming Wu of the Office of Policy and Management; Robert Damroth and Kolie Sun of the Department of Economic and Community Development; Michael Gallilher of the Department of Revenue Services; John Quinn and Stacey Doan of the Department of Transportation; John Haggerty of Northeast Utilities; and especially Sal DiPillo, Dan Kennedy, Charles Joo and their colleagues at the Department of Labor, who have been most helpful with labor data. We also thank Scott Condren, who interned with us this summer.

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TAKING STOCK

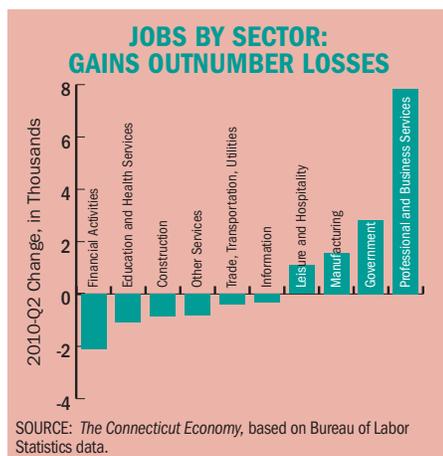
The Storm Before the Calm?

Amid signs that the U.S. economy had entered an unwelcome lull (or worse), Connecticut was showered with employment gains in 2010-Q2. But mounting evidence that the U.S. recovery is nodding off means it may only be a matter of time before Connecticut's economy starts counting sheep rather than new jobs.

Connecticut nonfarm jobs surged by almost 8,000 during 2010-Q2, or at an annual growth rate of 2%. And despite a big drop in Census government jobs, June showed the strongest private-sector job growth of the quarter.

The state's two largest labor markets, Bridgeport-Stamford and Hartford, added jobs in 2010-Q2. Bridgeport-Stamford gained 1,200, while Hartford grew by 1,600. Unfortunately, the other two major areas, New Haven and New London, lost 1,400 and 300 jobs respectively.

Professional-and-business services logged its first increase since the onset of the recession, adding nearly 8,000 posts in the quarter for a stunning 18.7% gain at an annual rate (graph). Manufacturing grew for the first time since mid-2006, thanks to a whopping 2,000-job upswing in durable goods.



The recession's severity and flagging support from federal stimulus funds are forcing budget cuts in schools and hospitals statewide. The education-and-health care sector jettisoned 1,100 jobs in 2010-Q2, cuts of a magnitude not seen since 2000-Q4, at the start of the previous recession.

Retailers expanded payrolls by 2,000 in the quarter. So did the state's hotels, restaurants and bars, as consumers kept their wallets open. That spending was bankrolled not only by more jobs but also by higher earnings. Compared with 2009-Q2, average weekly earnings for private-sector employees climbed 3.5%. In most sectors, however, the gains owed more to longer hours than to higher pay.

Our regional forecast (pages 18-19) foresees continued job growth in three of the four major labor markets in coming quarters, with Bridgeport-Stamford leading the way. And our statewide forecast (page 22) anticipates a total addition of 20,000 jobs for the four quarters ending 2010-Q4. But as the federal stimulus winds down and the inventory rebuilding cycle plays out, jobs could struggle to grow even half as quickly next year. Normally, the recovery's reins would pass to businesses and consumers, but thus far they have proven either reluctant or unable to seize them.

With election season upon us, this issue tackles economic topics of particular relevance to Connecticut voters, including job growth, transportation, competitiveness, and the state's continuing budget challenges. Our centerfold examines who voted and why in the last midterm election, and on our back cover, the state's two major-party candidates for governor square off.

CONNECTICUT ECONOMIC INDICATORS

(Percent change: 2009-Q2 to 2010-Q2)

Indicators of Current Economic Activity

Total Nonfarm Jobs	-0.5%
Number Unemployed	+7.0%
Labor Force	-0.4%
Manufacturing	
Jobs	-2.5%
Avg. Weekly Hours	+2.9%
CT Mfg. Prod. Index	-0.1%
Avg. Hourly Earnings	+1.3%
New Auto Registrations	+5.0%
Travel and Tourism Index	+0.9%
Bradley Airport	
Passengers	-4.1%
Freight	+2.4%
State Tax Receipts	
Income	+14.7%
Sales	+0.2%
Real Estate Conveyance	+55.0%
Normalized Electricity Use	+0.7%
State Exports	+30.1%
Personal Income (est.)	+0.8%
Coincident GDI	-0.8%

Indicators of Future Economic Activity

Initial Unemp. Claims	-20.2%
Housing Permits	-15.8%
Net New Business Starts	+15.6%
Leading GDI	+5.3%



GOOD NEWS

+30.1%

State Exports



ALSO GOOD

-20.2%

Initial Unemployment Claims



BAD NEWS

-15.8%

Housing Permits

Job One for All State Candidates:

FIX STRUCTURAL BUDGET DEFICITS AND GET SERIOUS ABOUT UNFUNDED RETIREE LIABILITIES

BY ARTHUR W. WRIGHT

Feeding time at the zoo: The 2010 political campaign is in full roar, but most candidates for State offices (high and low) are giving a wide berth to the elephant in the room, the endemic structural deficits in State of Connecticut budgets. And they are all but ignoring the 400-pound gorilla, the huge unfunded pension and retiree health insurance benefits promised to past and present State employees. Job One in Connecticut must be to get its fiscal house in order. End the structural State deficits, and at the same time significantly improve the funding of commitments to State pensions and especially retiree health insurance benefits. Voters need to ask both parties' candidates for Governor, and all candidates for the General Assembly, how they would approach Job One.

The accompanying exhibits are crib sheets that voters may take along to any political rallies they attend over the next two months.

If much of what follows has a familiar ring, it is because I've devoted separate articles to the budget and unfunded retiree liabilities in the previous two issues, Spring 2010 and Summer 2010.

STARK FACTS ABOUT THE BUDGET

The State of Connecticut is pursuing spending programs for government services that cost more money in total than it takes in as revenues. Barring changes in its behavior—or a sudden, sustained, and (if you ask me) unlikely shift in our economic fortunes—it will continue to do so. The State's fisc is in a chronic or “structural” deficit.

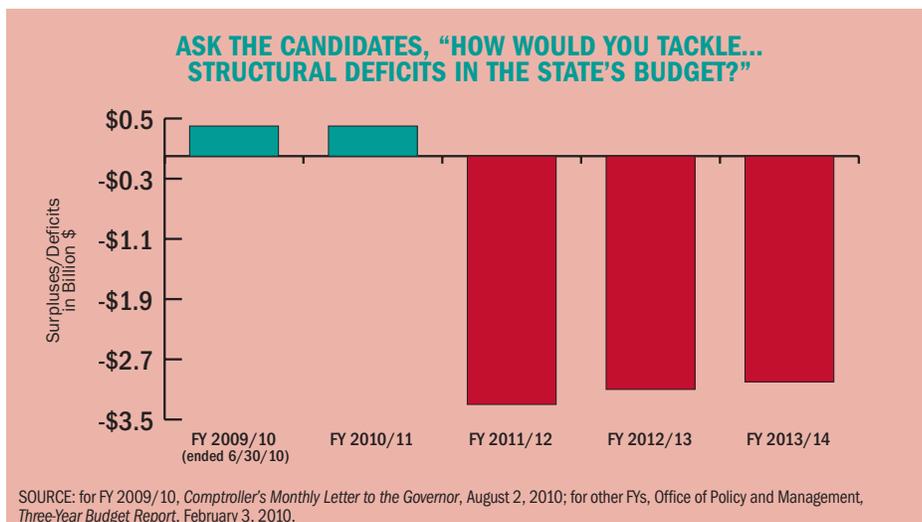
So how has the State managed to meet the constitutionally required “balanced budgets” for the current biennium of fiscal years (FY) 2009/10 and 2010/11? The main reasons are (1) Federal “stimulus” grants; (2) the “securitization” of proceeds from lawsuits (e.g., on tobacco); (3) one-time odds and ends (including the dregs of the “Rainy Day” Funds set aside before the Great Recession struck); and (4) borrowing to pay for current services.

Items (1)-(3) will no longer be available starting in FY 2011/12. Thus, even if recent painful spending cuts (on the order of half a billion dollars in each of FY 2009/10 and FY 2010/11) are not restored, Connecticut still faces persistent deficits of about \$3 billion for each of the next three fiscal years—i.e., through June 30, 2014 (see the first crib sheet). Such deficits are 16-17% of total General Fund revenues (mainly income and sales taxes). Do voters want the State to resort, again, to item (4) and borrow more to “balance” those budgets?

Before answering, be reminded that we would be borrowing to pay

for *current* services, not capital projects that would yield benefits well into the future. Connecticut already leads the nation in bonded indebtedness per capita. Against that backdrop, and with the prospect of continued structural budget deficits, capital markets will want higher interest rates and shorter terms to maturity, pushing up our already swollen debt-service spending. And when (not if) the State needs to bond new capital projects, it will cost us taxpayers more than if we had not borrowed all that money to pay for current services.

It is true that the State of Connecticut ran a “surplus” in FY 2009/10, on the strength of surprisingly strong revenue growth, especially in personal income and sales taxes, coupled with some spending cuts, between the bleak midwinter of 2009/10 and the spring of 2010. (That left a “surplus”, given all the one-time revenue sources in items (1)-(3) above.) But even if our luck holds—that is, both income and sales taxes in fact grow as now forecasted—the State still faces



structural deficits of \$3 billion a year through FY 2013/14.

Between you, me and the hard place, our luck probably will not hold. The rosier expectations of this past spring are more likely to fade than to pan out. The Federal Reserve Board and other policy agencies are now seriously worried about the D-word, deflation. Even if their worst fears fail to materialize, the seeming economic recovery of last spring has pretty clearly stalled, and what's bad for the national economy is also bad for the major engines of Connecticut State revenue growth.

Bottom line? ASK THE CANDIDATES: “What mix of spending cuts and tax increases would you try to get passed if you were Governor or a state legislator?”

EVEN STARKER FACTS ABOUT UNFUNDED LIABILITIES

Feeling taxed yet? Sorry, but it turns out that, besides the \$3 billion per year in spending cuts or new taxes to end the structural State budget deficits, Connecticut also needs to find another \$3 billion per year to invest in assets that will support the mounting liabilities for retiree pensions and health insurance owed to state workers, past and present (see the second crib

sheet). If we don't fund State pension and retiree health insurance obligations now, future taxpayers will have to cough up the money to pay for State-government services we're consuming today.

The \$42 billion worth of pension and retiree health-insurance obligations are the result of actions taken in good faith by both parties. Governors and legislators defined jobs to be done on behalf of the citizens of the state, and State employees agreed to do those jobs in return for salaries and deferred compensation in the form of pensions and post-retirement health insurance.

Barring changes in policy, if Connecticut does not pay the \$3 billion in annual contributions now required to amortize the \$42 billion, the unfunded liabilities will keep growing—and taxpayers will have to pay more every year to amortize the yet larger liability.

This is not a problem we can simply wish away. During the pre-primary campaign, one ostensibly serious, now-former candidate stated that, if elected governor, he would simply suspend contributions to funding retiree liabilities, to help balance the budget. Imagine the reaction of credit markets, or of current State employees, or

of State retirees. Trial lawyers would think they'd died and gone to heaven.

Just slowing the growth of unfunded liabilities, never mind cutting existing obligations, will mean changes in pension and benefit programs. Virtually all such changes will require difficult, protracted negotiations with the unions representing State workers. Trimming pension formulas, raising employee contributions, switching from defined-benefit to defined-contribution retirement plans, increasing co-pays and reducing the scope of health insurance coverage—all are painful even to talk about, much less begin negotiating on. But other states have begun the process, and Connecticut does not have a choice.

There may be some “creative” ways to structure deals that union leaders can sell to their members. For instance, the State could offer one-time, up-front infusions of cash into defined-contribution retirement savings accounts of employees who agree to switch out of the State pension system. But “creativity” will itself cost money, and it has its limits. Most of the changes in store will cause considerable pain, in the form of smaller benefits or cost-shifting, such as increased out-of-pocket payments for doctor visits and prescriptions.

Bottom line? ASK THE CANDIDATES: “How exactly do you propose to cover the costs to responsibly fund State employee pension and health insurance obligations? And how could the State bring the growth of such obligations under control?”

ASK THE CANDIDATES, “HOW WOULD YOU TACKLE... UNFUNDED STATE EMPLOYEE RETIREMENT BENEFITS?”

	Unfunded Liabilities, 2008	Funded Ratio	“Annual Required Contribution”	Actual 2008 Contribution
<i>Public Pensions</i>	\$15.86 billion	61.6%	\$1.25 billion	\$3.25 billion
<i>Health Insurance and Other Retiree Benefits</i>	\$26.02 billion	0.0%	\$1.72 billion	\$0.48 billion
<i>Sum</i>	\$41.88 billion		\$2.97 billion	\$3.73 billion

SOURCE: *The Connecticut Economy*, Summer 2010, page 11.

To Attract and Keep New Jobs:

MAKE THE JOURNEY TO WORK MORE COST-EFFICIENT

BY EDWARD J. DEAK

More than half of Connecticut's 1.6 million jobs are concentrated in two of its nine Labor Market Areas—Hartford (0.5 million) and Bridgeport-Stamford (0.4 million). Given the state's distributions of people and housing, commutes to work are often difficult, costly in time and money, and unreliable (e.g., making one late for work or an appointment). But such journey-to-work characteristics are just the opposite of what would lure companies to Connecticut and keep the new jobs here. What to do? A key part of any solution would be smarter traffic management, broadly considered.

In a recent CNBC survey of “competitiveness” among the 50 states, Connecticut ranked fairly high—8th or 9th—on quality of life, education, and access to capital. But we managed only the bottom quintile on the cost of living (45th), driven by high housing prices, and on transportation (40th). The low rankings on the jobs-housing-commuting triad was a major reason the Nutmeg State came in a shabby 35th from the top, overall, in the CNBC competitiveness derby.

How could Connecticut improve the journey to work? One option would be to increase the supply of worker housing near the main employment centers. That would require zoning changes and perhaps rental or homeowner subsidies in a number of low-density communities proximate to our major job locales. I am not optimistic about seeing local zoning changes, let alone State subsidies in the current budget environment.

A second option would be to move jobs closer to where workers live, prob-

ably requiring subsidies to employers. But choosing which firms to subsidize, to move where, would be a daunting challenge, one with a considerable political downside. For one thing, moving a company closer to some of its workers would likely create longer commutes for others.

So if inducing or enabling workers to move closer to their jobs, or moving jobs closer to workers, would both be non-starters, the sole remaining option would be to improve the efficiency of commutation itself. We have long since learned that simply expanding infrastructure—more pavement, or even greater public-transit capacity—by itself would be not only costly but also ineffective, merely engendering worse congestion. A better way to make commuting more efficient would be to use that magic bullet beloved of economists, price.

Queueing, our current system of rush-hour traffic gridlock, is an inefficient and usually frustrating way to ration goods or services in short supply where the money price cannot rise.

Price-like measures such as building more park-and-ride lots, high-occupancy-vehicle (HOV) or bus-only lanes, and electronic highway signage may help somewhat. But the most effective way to make use of price tools is by actually charging a price for any good that is (at least some of the time) subject to excess demand at a prevailing money price of zero.

Enter time-of-day flexible tolls and entry ramp metering, which are already in use in a few U.S. cities, several in Europe, and the city-state of Singapore in southeast Asia. (California's sacred freeways use signal-controlled entry

ramps, but they merely redistribute the congestion.)

But wait: Didn't Connecticut end its highway tolls because they caused fatal rear-end collisions at toll barriers? The fact is, it was the barriers, not the tolls themselves, that caused the fatal accidents. With the latest E-Z Pass technology, long in use elsewhere and now even in live-free-or-die New Hampshire, drivers who've bought simple transponders need not even pass through a tollgate to pay the tolls.

Toll revenues could be used to help pay for more park-and-ride lots and better-integrated bus, light-rail and commuter-rail connections. Connecticut already has an expandable coastal commuter rail system, which employs simple peak/off-peak pricing. Revenues from a system of flexible highway tolls and ramp signals, along with some scheduling changes, could easily raise the journey-to-work cost effectiveness choice for thousands of commuters.

Edward J. Deak is professor of economics at Fairfield University.



High Wages, Low Costs: A Connecticut Paradox?

BY SUBHASH RAY, LEI CHEN, AND
DENNIS HEFFLEY

The November election will bring a new round of claims about Connecticut's high wages, exorbitant rents, burdensome taxes, overall lack of competitiveness, and resulting job losses. Such claims have become so common, even during non-election years, that many voters accept the mantra of Connecticut's "unfriendly" business environment as fact. Yet, data from the 2007 Economic Census paint quite a different picture of the state's economic competitiveness in manufacturing.

Last March, Connecticut's business environment made the national press when United Technologies' CFO Gregory Hayes told Wall Street analysts that "Any place outside of Connecticut is low-cost." The immediate response of our elected officials ranged from outrage to full agreement, but even many of those who rose to defend the state's economic virtue—highlighting its skilled workforce, high quality of life, low corporate taxes and various business subsidies—may privately harbor the popular view expressed by Hayes and many other state residents.

HIGH-COST REPUTATION

Connecticut's high-cost reputation is bolstered by several studies that rank states by the "cost of doing business" (CODB). A 2007 report by the Milken Institute, based on 2006 data, ranked Connecticut as the 5th most expensive state for business. Only two other states in the continental U.S.—New York and Massachusetts—were more costly.

Business news channel CNBC also gave Connecticut a lackluster overall rat-

ing of 35th in its 2009 list of "America's Top States for Business" (<http://www.cnbc.com/id/31765930/>). CNBC's overall rating is based on 10 sub-indices, including a "cost of business" index that rated Connecticut the 4th most costly state, after New York, California and Hawaii. Iowa, South Dakota, Arkansas, Missouri, and South Carolina were judged to be the cheapest states for business.

There's no denying the popular perception, based on such reports, that Connecticut is an unattractive business location. But are these oft-cited rankings supported by sound analyses of available economic data? And if they are correct, why don't even more firms flee Connecticut for lower-wage states? We believe there are good answers to these questions—ones that may surprise and even encourage Connecticut businesses, residents, and public officials.

PROBLEMS IN MEASURING COMPETITIVENESS

A problem with the Milken Institute study and many others, including the CNBC report, is that they confuse *input prices* (wages, rents, energy prices, etc.) with *production costs*. Wages, for example, certainly influence costs, but they are not the whole story. Firms facing higher wages have an economic incentive to use labor more efficiently. Often this entails greater use of relatively less expensive inputs or of inputs that enhance labor productivity. Whether high wages necessarily imply high unit costs of production also depends on the prices of non-labor inputs, as well as the degree to which various inputs substitute for or com-

plement one another in the production process.

In short, the unit cost of producing a good depends on management skills and the technology of production as well as on input prices. High input prices foster the creative use of existing technologies and the development of new, more efficient ones. Focusing only on input prices, and especially the price of just one input such as labor, ignores basic economic principles and says little about the overall cost per unit of output. In fact, strange as it may sound, we'll later see that a state's average manufacturing wage tells us virtually nothing about its production costs per dollar of output.

Another problem with CODB indices is that the weights used to construct such measures are often rather arbitrary and altogether miss an important point. The Milken 2007 CODB table considers four input price sub-indices for wages, electricity, industrial rents, and office rents, each based on just one variable, with respective weights of 50%, 15%, 10%, and 5%. The remaining 20% weight is assigned to "tax burden." The source of the weights is unclear, but the fact that all are neatly divisible by 5 suggests that they may reflect someone's best guess rather than a systematic analysis.

More important, it's unclear why a common set of weights should apply to every state. For example, if producers in a high-wage state find it efficient to substitute other inputs for labor, the share of labor in total costs will be affected by both the higher wage and more conservative use of the expensive labor. The net effect on labor's share of total cost is ambiguous, but it likely will differ from the cost share of labor

in a low-wage state. Ultimately, market competitiveness depends on the overall cost per unit of output, not an index based on a common set of weights that, at best, may simply reflect the average mix of input expenditures across very different states.

THE DATA

Data for this analysis come from the U.S. Census Bureau's 2007 Economic Census of the manufacturing sector. Manufacturing jobs and the sector's competitiveness receive special attention from politicians, journalists and the public, especially in Connecticut and other states with a rich history of manufacturing. This attention may be misplaced, given the long-term trend in the relative importance of manufacturing, but more about that later.

The data show that some perceptions about Connecticut manufacturing are quite accurate. We are indeed a high-wage state. Using 2007 Economic Census data to calculate the average hourly wage of manufacturing production workers, Connecticut ranks 4th (\$21.28), after Michigan (\$22.39), Louisiana (\$21.89) and Wyoming (\$21.79). South Dakota (\$15.83), Mississippi (\$15.64), Arkansas (\$15.62) and Alaska (\$14.15) report the lowest average wages for manufacturing production workers.

Connecticut fares only slightly better in the average cost of hiring a non-production manufacturing employee. New Jersey tops the high-pay list, with an average annual salary of \$76,268, Connecticut ranks 6th at \$71,733 and Hawaii trails the 50-state list with a figure of \$46,787. So, in manufacturing, it's not just hourly production workers that cost more to hire in Connecticut; non-production workers also earn more here than in most other states. In fact, the "Connecticut premium" (percentage above the 50-state average) is the same 15.1% for salaried non-production workers and hourly production workers. Perhaps complaints about "overpaid" blue-collar workers and technicians ought to

be expanded to include white-collar employees, but there are other, more fundamental problems with using the pay of any one group to judge a state's competitiveness.

CALCULATING UNIT COSTS

As noted earlier, production costs are not solely determined by wages, or even wages plus the costs of providing fringe benefits such as health insurance. Costs also depend on the prices of other inputs, as well as the ability of firms to find the most efficient input mix, given local input prices and available technologies. The Economic Census data for 2007 can be used to calculate the overall unit cost of producing a dollar's worth of manufactured goods in each state.

In Connecticut, for example, the total value of shipments (\$58.405 billion) plus net inventory changes (\$0.325 billion) gives the total value of gross output (\$58.730 billion) in manufacturing. On the cost side, total labor costs (\$13.377 billion) include the annual payroll (\$10.345 billion) and employers' payments for fringe benefits (\$3.032 billion) such as health insurance, pension plans, and other fringes. Other outlays include: the total cost of materials used in production (\$23.672 billion); a catchall category labeled "total other expenses" (\$6.874 billion) that includes a variety of services as well as taxes and license fees; and annual capital costs (\$2.642 billion). The latter figure is the sum of depreciation (\$1.207 billion), rental payments (\$0.398 billion), and imputed interest costs (\$1.037 billion). [Note: we calculate the imputed interest costs, essentially the opportunity cost of holding physical assets, by applying a 5% rate of interest to the average book value of depreciable assets.] Summing these costs and dividing the result (\$46.565 billion) by the value of gross output gives the average unit cost (\$0.793 or 79.3¢) of producing a dollar's worth of manufacturing output in the state.

Using the same definitions and data from the same source, we calculated the cost of producing a dollar of manufacturing output for each state. The bar graph on the next page shows results for the 50 states, as well as the 50-state average (83.3¢). By this more comprehensive measure of cost, Vermont has the dubious distinction of being the most costly manufacturing state in the nation: a dollar of manufactured goods costs 95.9¢ to produce in the land of good dairy and small profits. Other New England states with high manufacturing costs include New Hampshire and Rhode Island, 2nd and 3rd highest, at 93.5¢ and 93.0¢, respectively.

At the other end of the spectrum, North Carolina lives up to its reputation as a low-cost state for manufacturers: each dollar of output costs just 71.8¢ to produce, almost 14% below the 50-state average. But, according to the federal data, Oregon fares even better as a site for manufacturers: 70.6¢ produces a dollar's worth of output in the Beaver State. Other low-cost states include Virginia (76.8¢), Arizona (76.8¢), New York (78.1¢), Wyoming (78.9¢), New Mexico (78.9¢) and, yes, Connecticut (79.3¢). As a manufacturing site, we fare better than either Massachusetts (83.0¢) or New Jersey (84.1¢), often seen as two of our key competitors for Northeast manufacturing.

HIGH WAGES ≠ HIGH COSTS

The analysis makes it quite clear that a high average wage does not necessarily imply high production costs. In fact, the calculated unit cost of manufacturing output is essentially uncorrelated with the average hourly wage of production workers. The scatter plot on page 10 bears this out: there is no positive relationship between wages and unit costs, as indicated by the virtually flat regression line and the near-zero R-squared value (0.0036). Also note that even states with rather low unit costs, in the lower portion of the scatter plot—North Carolina, Oregon and

Connecticut, for example—have very different wages. Again, this illustrates the point that overall unit cost, not the price of a single input, determines a state’s manufacturing competitiveness. It also might explain why, despite frequent complaints about workers’ high wages, we haven’t seen a mass exodus of Connecticut manufacturers to other

states. Apart from New York, the nearest state with a lower unit cost of manufacturing is Virginia, which has been a prime competitor in shipbuilding, one of our traditional defense manufacturing strongholds. Yet, even though production worker wages in Virginia (\$17.36) are 18.4% lower than in Connecticut (\$21.28), its unit-

cost advantage is just 2.5¢ per dollar of gross output.

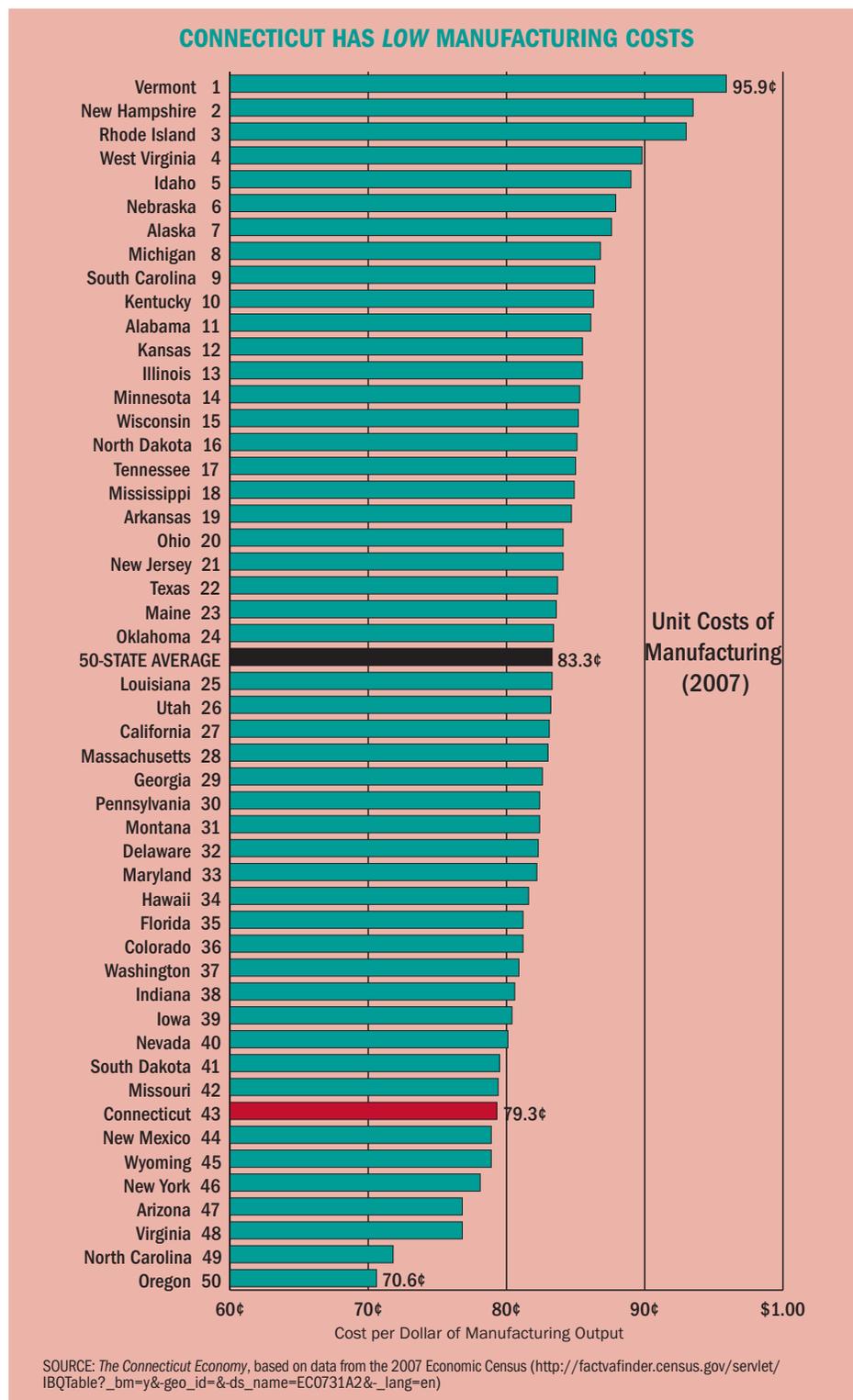
SWIMMING UPSTREAM

Another problem with the claim that Connecticut’s loss of manufacturing employment has been driven by high wages is that it fails to explain why the decline is so pervasive across nearly all states, and even across most mature economies. For years, Connecticut has been losing manufacturing employment, both in absolute terms and as a share of total employment, but this is hardly unique to our state. The final graph on page 10 shows the share of manufacturing in total employment for Connecticut and the U.S., from 1939 through 2009. Connecticut once had a much higher concentration of manufacturing than did the U.S., but over time the state has converged toward the declining national norm. Peaking during World War II, the U.S. share of nonfarm employment in manufacturing has declined from 37.9% in 1943 to 9.1% in 2009, while Connecticut’s manufacturing share has fallen from 56.5% to 10.6%—still 1.5 points above the national figure.

These are powerful trends that will not be easily reversed. Growth sectors in Connecticut and the U.S. have been in areas that require high-skill services, such as health care, financial services, software development, and education, and it’s unlikely this secular pattern will suddenly reverse. A healthy economy requires a balance of activities, and manufacturing is certainly part of that mix. But our ability as a state to establish and maintain an appropriate mix of industries is better served by a critical analysis of where we stand, rather than unexamined claims about high costs that repel, rather than attract, employers and much-needed jobs.

FINAL THOUGHTS AND CAUTIONS

Why does Connecticut fare well in this more complete assessment of unit manufacturing costs? First, much to their credit, Connecticut firms have



likely made sensible adjustments to the prevailing structure of input prices by economizing on more expensive inputs, making fuller use of relatively cheaper inputs, and developing more efficient production methods.

In addition, Connecticut enjoys a prime location. Sandwiched between two major metropolitan areas, one of which also serves as a world financial center, this favorable site inevitably brings higher rents. But those rents buy ready access to markets for materials, various types of skilled labor, and the highly specialized inputs that modern manufacturing requires. Unfortunately, site advantages can be eroded by deterioration in transportation infrastructure, and there is growing evidence that the state may need to invest more heavily in road, rail and airport facilities, or better manage its current transportation system to remain a favorable place for manufacturing (see Edward Deak's article on page 6).

While this more complete analysis of manufacturing costs, based on Economic Census data rather than a handful of questionable indices, casts a different light on the state's busi-

ness environment, some cautions are needed. First, we think it's reasonable to compare the cost of producing a dollar's worth of manufactured goods across states, but it would be useful to control for different types of manufacturing, perhaps by regressing the calculated unit costs on measures of product mix. This would require some care, since any measure of product mix is inherently endogenous: the mix influences unit costs and vice versa.

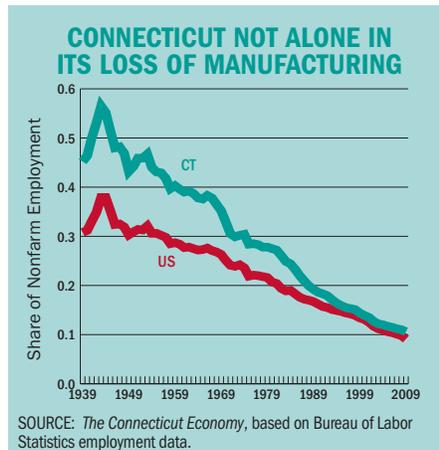
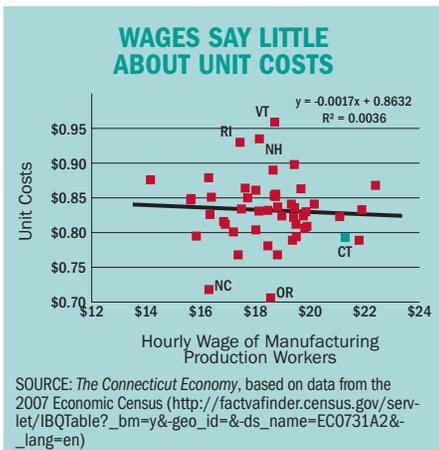
Second, although the Economic Census offers a fairly complete tally of costs, including "taxes and license fees," this category excludes corporate income taxes. Direct comparisons of corporate income tax rates are not simple (see: http://www.taxadmin.org/fta/rate/corp_inc.pdf), but it appears that Connecticut's flat 7.5% rate is in the middle of the pack, and below that of neighboring Massachusetts (8.75%) and Rhode Island (9.0%). New York's rate is 7.1%, and low-cost North Carolina's rate is 6.9%, just 0.6 percentage points below our own.

A third caution involves the input-substitution described earlier in the article. While we suspect that Connecticut manufacturers have been

able to achieve relatively low unit costs by substituting other inputs (e.g., automated machinery, and contract labor) for regular employees, this will be seen as skillful management by some parties and a source of job losses by other groups.

Fourth, our analysis was purposely restricted to manufacturing because this sector garners so much public attention. But, given the long-term shift away from manufacturing, it would be useful to undertake a comparable analysis for other major sectors—something we plan to do.

Finally, while industry leaders and public officials should be careful about misrepresenting Connecticut as a high-cost manufacturing state, we also cannot afford to ignore the importance of maintaining a favorable business environment. This includes efforts to keep costs and taxes down, streamlining state and local regulations and requirements, and providing the public services and infrastructure needed to support businesses and their workers—no small task.



Subhash Ray is a professor of economics and Lei Chen is an assistant professor in residence at the University of Connecticut.

Who Voted, and Why, in Connecticut's 2006 Election

BY SCOTT CONDREN

With the 2010 midterm election upon us, it is interesting to take a look at who voted the last time Connecticut elected both a governor and a U.S. senator, and to consider why participation might be different this year. So I regressed town level data for turnout of eligible voters in the 2006 election on a variety of independent variables commonly thought to influence voter turnout.

One key factor is age. Conventional wisdom suggests older voters tend to vote more often than younger ones. Thus, we would expect towns with a higher median age to have a higher percentage turnout among eligible voters.

Other common demographic determinants of voter turnout include educational attainment (percent of the population with a B.A. or higher), median household income, population density, percent registered Republican and Democratic, the crime rate, and marital status (percent of 15+ married). Jointly, these demographic factors explain about three quarters of the variation in voter turnout across towns. I excluded several factors that have received attention in other studies, including closeness of the race (unable to predict for the upcoming elections at this point); inequality (inadequate town level data for 2006); and campaign spending levels (few data available by town).

As expected, median age had a significant positive effect. A one-year increment in the median age of a town raised voter turnout by 0.66 points (see scatter plot p.13). This seems consistent with the conventional assumption that older registered voters tend

to vote more than younger ones. The coefficients on marital status, percent registered Democrat, and educational attainment were also significant and positive, with a one-percentage point increase leading to respective increases of 0.30, 0.18 and 0.25 points in voter turnout. The most important positive influence was age, as shown by its elasticity of 0.43. This was significantly higher than the next highest elasticity, 0.31 for marriage.

Crime rate, population density, and median income had negative coefficients. A one-point increase in the crime rate decreased voter turnout by 1.7 points; an additional 100 people per square mile lowered voter turnout by 0.11 points; and a \$1,000 increment in median income was associated with a 0.13-point drop in voter turnout. Median income being associated with lower voter turnout is somewhat surprising. Perhaps the opportunity cost of voting is higher for wealthier individuals; that is, the time it takes to vote would better be spent working, or they simply value their leisure time more than voting.

There is reason to think that the relative importance of at least some of

the variables will change in 2010. The significance of percent Democratic and the lack of significance of percent Republican may have been a quirk of the 2006 election. In the U.S. Senate race that year Democratic incumbent Joseph Lieberman lost his party's primary to Ned Lamont, but ran as an independent. That may have energized Democrats to vote. Republicans, on the other hand, had more reason to stay home, with their senate candidate Alan Schlesinger having little chance of winning (he received less than 10% of the vote). Governor Rell also looked in little danger of being defeated, damping any urgency for Republicans to "get out the vote" for her. Furthermore, there was national dissatisfaction with the Republican-controlled Congress, which mobilized Democratic voters. With the wide-open senate and gubernatorial races this time around, and Democrats controlling Congress, lessons from the 2006 results may not apply for 2010.

Scott Condren received a BA in Economics from the University of Connecticut in 2010 and interned this summer with *The Connecticut Economy*. He will attend Boston University this fall to study Global Development Economics.

HOW DIFFERENT VARIABLES AFFECTED 2006 VOTER TURNOUT

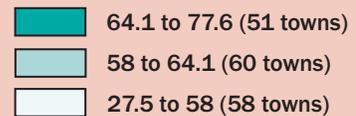
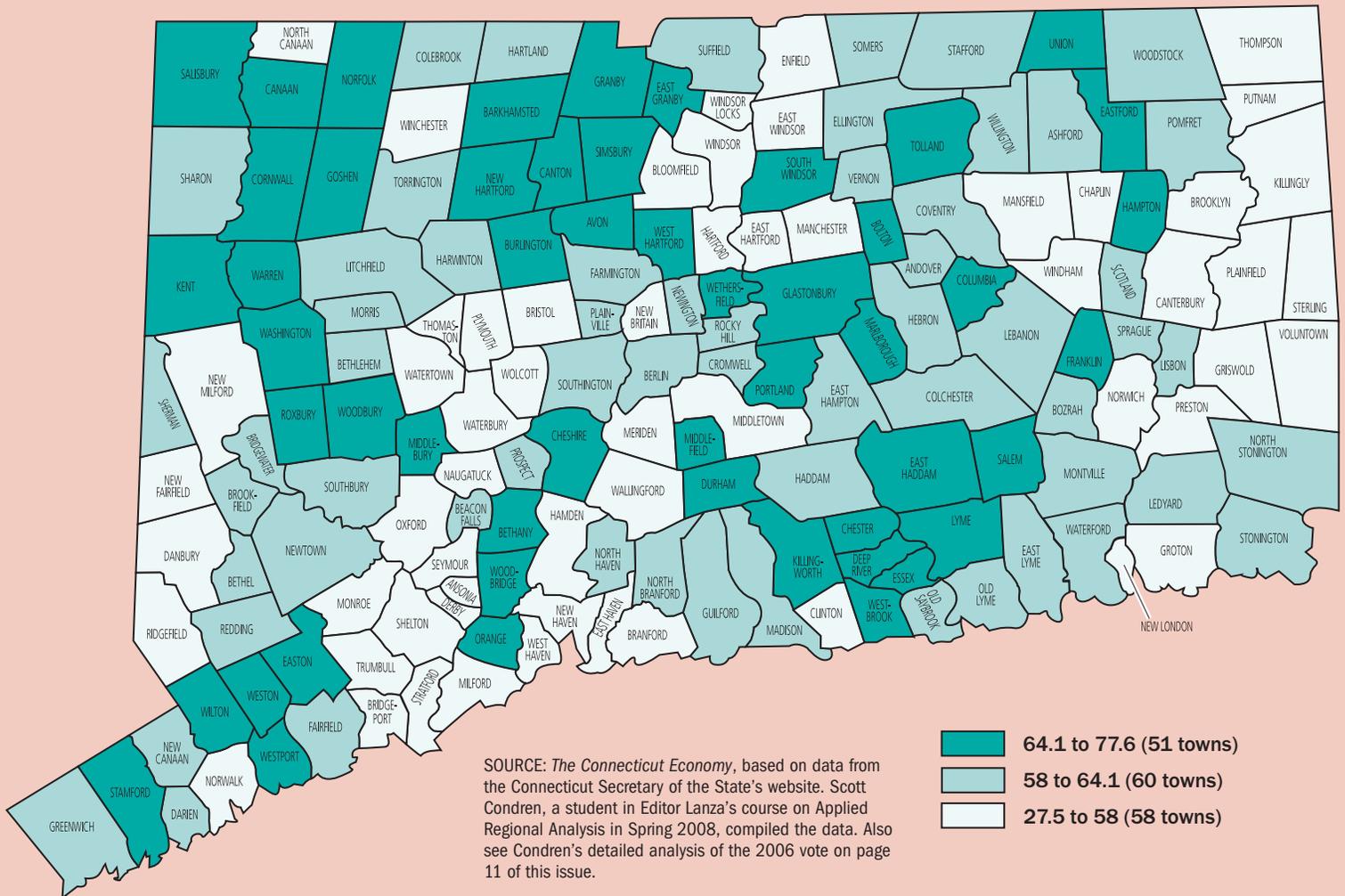
	Coefficients	P-value	Elasticity
<i>Intercept</i>	14.63	0.02	
<i>Percent B.A. +</i>	0.25	0.00	0.14
<i>Percent Republican</i>	0.05	0.47	0.02
<i>Percent Democrat</i>	0.18	0.01	0.09
<i>Crime Rate</i>	-1.70	0.00	-0.05
<i>Median Household Income</i>	-0.13	0.00	-0.14
<i>Percent Married</i>	0.30	0.00	0.31
<i>Population Density</i>	-0.11	0.01	-0.02
<i>Median Age</i>	0.66	0.00	0.43

Note: Each coefficient measures the change in voter turnout associated with a unit change in the independent variable listed. The p-values are estimates of the likelihood that the coefficient values occurred by chance. The smaller the p-value, the more statistically significant the result. Elasticities measure the percentage change in turnout given a one percent change in an independent variable.

Source: *The Connecticut Economy* based on data from the U.S. Census and Connecticut's Office of the Secretary of the State.

THE CENTERFOLD

Voter Turnout in the 2006 Election



Bridgeport - Stamford LMA

	% VOTER TURNOUT	% REG. REPUBLICAN	% REG. DEMOCRATIC
Ansonia	51.8	13.2	38.0
Bridgeport	33.6	6.7	63.3
Darien	63.1	48.6	19.3
Derby	54.9	13.8	41.6
Easton	64.1	32.9	22.5
Fairfield	59.6	29.1	28.6
Greenwich	60.9	37.6	25.5
Milford	57.5	21.4	28.1
Monroe	55.4	25.3	20.1
New Canaan	63.0	48.7	21.2
Newtown	62.1	30.2	26.5
Norwalk	49.6	19.7	34.4

Oxford

	% VOTER TURNOUT	% REG. REPUBLICAN	% REG. DEMOCRATIC
Oxford	56.6	29.7	17.9
Redding	62.6	32.1	29.2
Ridgefield	57.4	36.2	28.0
Seymour	56.4	20.8	22.8
Shelton	56.4	24.0	21.8
Southbury	60.1	32.1	21.7
Stamford	68.7	21.9	41.6
Stratford	54.1	18.7	32.3
Trumbull	58.0	24.4	26.2
Weston	64.1	29.8	34.1
Westport	69.0	27.9	36.0
Wilton	66.0	36.4	26.7
Woodbridge	67.7	21.0	34.6

Danbury LMA

	% VOTER TURNOUT	% REG. REPUBLICAN	% REG. DEMOCRATIC
Bethel	59.2	25.1	26.1
Bridgewater	64.0	31.0	31.7
Brookfield	59.0	34.8	21.4
Danbury	48.7	19.3	32.0
New Fairfield	55.4	30.8	20.8
New Milford	50.7	26.3	23.6
Sherman	62.4	31.8	23.0

Enfield LMA

	% VOTER TURNOUT	% REG. REPUBLICAN	% REG. DEMOCRATIC
East Windsor	54.0	18.6	32.6
Enfield	53.3	18.0	36.3
Somers	61.7	25.3	23.7
Suffield	62.3	28.2	26.3
Windsor Locks	57.2	17.3	34.5

CORRECTION: Our summer 2010 centerfold incorrectly identified libraries' "total print collection" as "library sq. foot-age." Thanks to Mary Hogan of the Belden Library in Rocky Hill for pointing out our mistake.

	% VOTER TURNOUT	% REG. REPUBLICAN	% REG. DEMOCRATIC
Hartford LMA			
Andover	64.0	22.2	31.8
Ashford	64.0	17.4	35.3
Avon	70.0	32.1	28.4
Barkhamsted	77.3	27.1	26.6
Berlin	63.2	22.4	39.7
Bloomfield	55.6	10.8	58.3
Bolton	67.5	26.6	30.2
Bristol	54.8	16.2	41.1
Burlington	64.5	25.7	28.5
Canton	68.2	28.5	31.1
Colchester	59.3	20.7	30.7
Columbia	67.4	21.9	35.0
Coventry	60.3	19.0	29.7
Cromwell	59.9	20.2	35.3
East Granby	64.6	27.9	28.4
East Haddam	64.4	21.0	32.1
East Hampton	60.9	20.0	30.1
East Hartford	45.8	10.4	49.1
Ellington	58.7	22.1	25.1
Farmington	64.0	25.5	32.0
Glastonbury	66.7	25.8	32.9
Granby	64.7	30.6	26.5
Haddam	64.0	21.8	30.8
Hartford	28.1	4.2	70.8
Hartland	60.9	38.3	23.8
Harwinton	60.7	26.7	25.8
Hebron	63.2	24.4	28.0
Lebanon	63.2	24.8	26.8
Manchester	55.0	17.8	38.9
Mansfield	54.1	12.0	40.1
Marlborough	68.7	24.0	31.6
Middlefield	65.0	18.7	31.9
Middletown	53.1	14.0	48.0
New Britain	41.9	10.7	53.0
New Hartford	65.9	27.7	27.5
Newington	60.4	17.1	43.5
Plainville	60.3	19.6	37.6
Plymouth	50.5	18.6	25.7
Portland	64.8	19.6	35.8
Rocky Hill	61.4	19.7	40.2
Simsbury	64.6	32.5	29.2

	% VOTER TURNOUT	% REG. REPUBLICAN	% REG. DEMOCRATIC
South Windsor	64.2	21.3	37.3
Southington	62.2	21.1	30.9
Stafford	58.0	16.2	38.4
Thomaston	54.6	23.0	26.4
Tolland	64.9	21.4	27.0
Union	75.1	37.2	25.3
Vernon	61.0	17.2	31.3
West Hartford	71.9	18.0	46.3
Wethersfield	64.5	19.8	40.5
Willington	63.0	21.3	29.4
Windsor	56.1	14.5	46.4

	% VOTER TURNOUT	% REG. REPUBLICAN	% REG. DEMOCRATIC
New Haven LMA			
Bethany	67.1	26.6	25.8
Branford	57.1	15.0	33.3
Cheshire	65.8	23.7	25.7
Chester	64.9	20.0	36.2
Clinton	55.0	25.2	28.1
Deep River	64.2	18.8	33.6
Durham	65.9	28.0	20.6
East Haven	52.3	15.3	36.5
Essex	70.7	28.0	31.5
Guilford	62.9	22.7	32.5
Hamden	55.6	12.4	46.2
Killingworth	64.6	27.0	24.5
Madison	60.9	31.3	26.3
Meriden	46.2	12.9	34.7
New Haven	38.6	4.1	68.6
North Branford	61.9	19.5	24.1
North Haven	62.8	23.9	24.7
Old Saybrook	63.2	32.1	27.8
Orange	65.3	24.2	24.7
Wallingford	57.7	17.2	28.9
West Haven	48.4	9.9	57.2
Westbrook	66.3	26.0	24.4

	% VOTER TURNOUT	% REG. REPUBLICAN	% REG. DEMOCRATIC
Norwich - New London LMA			
Bozrah	61.3	19.1	36.5
Canterbury	56.2	28.2	23.7
East Lyme	64.1	22.6	30.2
Franklin	68.2	24.5	27.9
Griswold	52.7	18.1	37.6

	% VOTER TURNOUT	% REG. REPUBLICAN	% REG. DEMOCRATIC
Groton	52.5	18.9	29.7
Ledyard	58.1	26.5	25.8
Lisbon	59.3	18.0	33.1
Lyme	74.6	31.3	28.3
Montville	60.4	16.3	29.9
New London	44.3	9.8	44.5
North Stonington	60.4	26.4	25.6
Norwich	46.6	13.3	38.2
Old Lyme	62.4	29.4	28.5
Preston	53.9	24.8	24.2
Salem	64.4	22.2	32.0
Sprague	60.8	18.3	39.3
Stonington	62.4	20.5	32.0
Voluntown	57.4	19.8	31.3
Waterford	62.0	19.3	30.4

	% VOTER TURNOUT	% REG. REPUBLICAN	% REG. DEMOCRATIC
Torrington LMA			
Bethlehem	64.1	28.9	24.5
Canaan	64.3	27.2	34.2
Colebrook	62.4	24.1	29.8
Cornwall	73.9	20.6	39.1
Goshen	68.4	34.8	25.2
Kent	65.9	24.8	37.1
Litchfield	61.0	31.6	27.3
Morris	63.8	39.4	22.1
Norfolk	71.4	18.4	35.8
North Canaan	57.4	24.7	23.7
Roxbury	66.7	29.8	28.3
Salisbury	64.9	22.8	38.8
Sharon	63.7	30.5	32.8
Torrington	58.0	22.9	33.2
Warren	67.8	34.0	21.8
Washington	68.1	29.5	31.6
Winchester	49.2	20.1	27.6
Woodbury	64.7	35.4	23.7

	% VOTER TURNOUT	% REG. REPUBLICAN	% REG. DEMOCRATIC
Waterbury LMA			
Beacon Falls	58.0	21.7	27.7
Middlebury	66.6	47.1	21.0
Naugatuck	48.9	18.6	34.0
Prospect	61.2	29.2	21.4
Waterbury	39.2	13.3	43.8
Watertown	56.3	24.7	25.1
Wolcott	57.7	23.8	25.5

	% VOTER TURNOUT	% REG. REPUBLICAN	% REG. DEMOCRATIC
Willimantic - Danielson LMA			
Brooklyn	54.8	19.0	29.4
Chaplin	54.3	28.3	29.9
Eastford	66.5	34.8	25.0
Hampton	66.5	25.2	36.9
Killingly	47.6	16.4	27.4
Plainfield	46.8	16.7	36.2
Pomfret	61.9	25.5	28.6
Putnam	47.6	17.1	35.7
Scotland	62.3	23.6	29.3
Sterling	48.6	18.8	20.1
Thompson	54.6	17.8	34.0
Windham	40.7	12.4	41.6
Woodstock	60.6	31.5	27.7

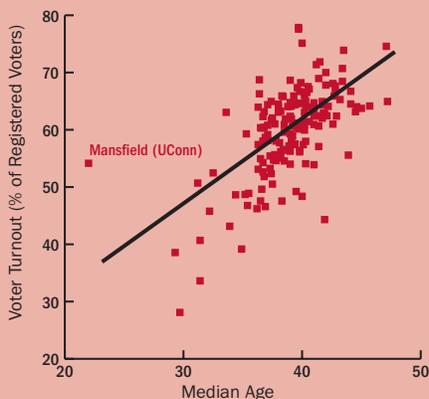
Town Average	59.8	23.4	31.7
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ABOUT THE CENTERFOLD

The centerfold maps voter turnout among registered voters for the 2006 election, estimated using the higher of total votes cast for senator or governor. Typically, more votes were cast for senator, with only a handful of towns voting more for governor.

The unmapped data show the percent of voters registered Republican and Democratic for each town in 2009. The percent registered Democratic tends to be higher, with a mean of 31.7% and range of 15.7% to 66.6%. Republican registration averages 23.4% and ranges from 4.4% to 51.7%.

The adjacent scatter plot clearly shows the positive relation between voter turnout and one of its primary drivers, median age.



Shining a Light on Connecticut's Shadow Jobs

BY STEVEN P. LANZA

Count the self-employed that the nonfarm job survey misses and Connecticut employment proves far more dynamic.

We've heard it from the media, and from economic analysts and political candidates alike: Connecticut hasn't posted any significant nonfarm job gains in two decades. By that reckoning, the state looks like an economic backwater, isolated from the main currents of economic growth. Yet over the same period, Connecticut has repeatedly ranked tops in income and worker productivity. What gives? One answer: Count the self-employed—consultants, entrepreneurs, independent contractors—that the nonfarm tally misses, and Connecticut employment proves nearly as dynamic as other indicators of economic performance.

The no-job-growth story is told by the green line in the graph below. In 1988, the high water mark for the 1980s expansion, Connecticut nonfarm jobs reached a peak of 1,753,000, according to data from the U.S. Bureau of Economic Analysis. The next 11 years was a period of brutal recession and slow recovery, during which the state lost, then eventually regained, approximately 10% of its jobs. The state briefly topped its 1988 employment count in 2000, only to slip into another, albeit milder, recession. Not until 2007 and again in 2008 did the

state's job total exceed its 1988 crest, in the latter year by only 15,000 jobs. That small differential translates into an annual gain of fewer than 1000 jobs between 1988 and 2008, the latest year of comparable data, putting us dead last among states in the rate of job creation during the period.

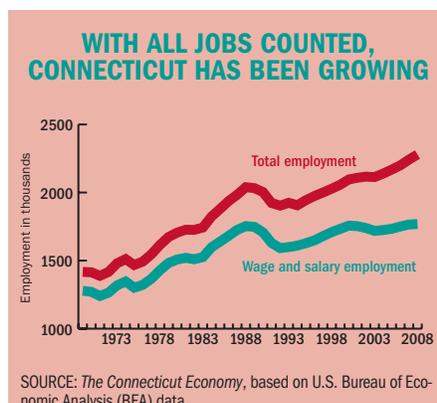
THE REST OF THE STORY

Now, as the late radio personality Paul Harvey used to say, "for the rest of the story."

The reason Connecticut suffered such severe job losses in the early 1990s is no secret. The S&L crisis, the collapse of the Soviet Union and the Gulf-War oil-price shock merged to produce perfect-storm conditions in the Nutmeg State that exacted a particularly heavy toll on its financial and defense-related manufacturing sectors. But since 1992, when wage and salary jobs bottomed, their numbers have grown at an average rate of 0.7%, about half the U.S. pace. So simply using 1992 instead of 1988 as the base year nudges Connecticut up a few spots, to 46th of 50 states.

There is yet another twist to the narrative. Total employment in the state consists of those who work for others—wage and salary employees—plus those who are self-employed—sole proprietors or business partners. Add the second group of workers to the first, and the job graph takes on another slant (red line).

The notable differences? First, as far back as 1969, total jobs exceeded wage and salary positions by at least 10%, so compared to the green line, the red line shows a significant shift upward. Second, that gap has been growing steadily larger, surpassing 500,000 jobs



in 2008. Since the mid-1990s, the slope of the red line has become much steeper than that of the green, climbing by 27,000 jobs annually between 1994 (its trough) and 2008, despite hitting a plateau during the recession in the early 2000s.

And unlike wage and salary jobs alone, which have struggled to surpass their 1988 peak, total employment topped that number in 1999, and kept growing. In percentage terms, that translates into a total job growth rate of 1.3% per year—only slightly below the comparable U.S. average of 1.7%. By this measure Connecticut ranks 35th of 50 states, closer to the middle than to the bottom of the pack.

Consider one additional wrinkle. Like many states in the Northeast, Connecticut has also struggled against a strong population headwind, a long secular trend of Americans moving south and west. Under these conditions, the state's job performance almost looks impressive. Connecticut's growth in total employment relative to population between 1994 and 2008 landed the state near the top of the heap, 10th among the 50.

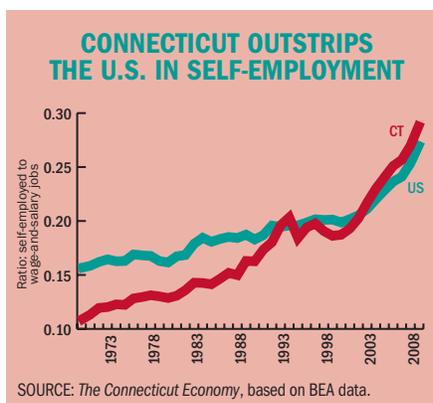
As the distinction between wage-and-salary and sole-proprietor jobs makes clear, Connecticut's recent growth in total jobs is due almost entirely to a swelling in the ranks of the self-employed. In the mid-to-late 1990s, self employment kept pace with wage and salary positions in the state, shown in the second graph by the fairly steady ratio of self-employed to wage and salary jobs. Then self-employment really shot up, climbing 4.7% annually, versus 3.8% for the U.S., between 1999 and 2008. In 2002, Connecticut surpassed the

U.S. in the relative importance of self-employment to its economy. And in 2008, the state ranked 10th in the share of self-employment jobs, making Connecticut practically a hotbed of entrepreneurial activity.

WHO ARE THE SELF-EMPLOYED?

Data on self-employment originate from U.S. tax records, as the IRS requires the self-employed to file a Schedule C along with Form 1040. The self-employment number counts jobs rather than people working, just as with wage and salary positions. That means one worker can account for two jobs by (for example) holding a full time job during the week and running a part time business at home on weekends. Of course, a worker with both a full and a part-time wage and salary job would also be double-counted this way. Unlike wage and salary jobs, however, which are tallied by place of work, self-employment is measured by place of residence. Another difference: wage and salary numbers are annual averages, while self-employment measures the number of proprietorships or partnerships active at any time during the year. So someone who took a consulting assignment for just a few

Connecticut's recent growth in employment is due almost entirely to a swelling in the ranks of the self-employed.



Self-employment is both a way out of unemployment and a chance to exploit new market opportunities.

days would count as having been self-employed the whole year.

Research points to two broad motivations for self-employment (see “The Growth in Self Employment” by Dan Kennedy in the November 2007 *Connecticut Economic Digest*). It offers both a way out of unemployment, and a chance to exploit new market opportunities. The first you’d expect to predominate in periods of economic retrenchment, and the graph on page 15 nominally seems to offer evidence of that motivation. Self-employment relative to wage and salary employment climbed steadily between 1969 and 1988 in Connecticut, but then arched upward significantly just as the 1990s recession hit.

Closer inspection reveals, however, that this jump was due to wage and salary jobs taking a harder hit than self-employment jobs during that recession, rather than an actual shift from working for others to working for oneself. As the recession dragged on, this ratio didn’t change, implying that the downturn later took a proportional toll on self-employed and wage and salary positions alike.

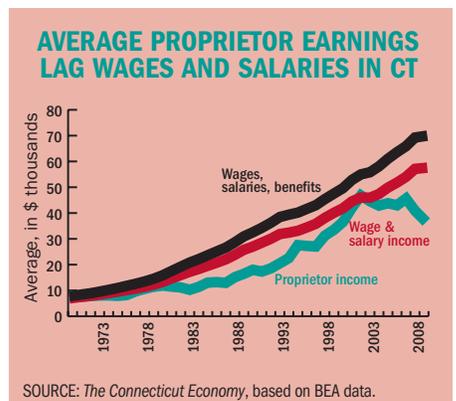
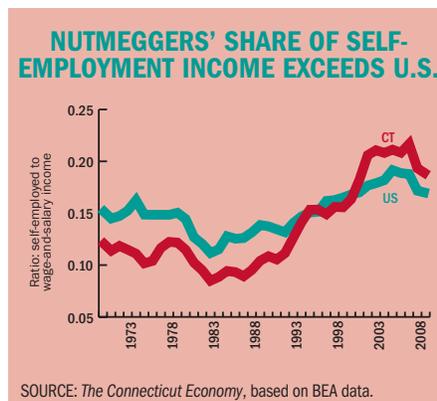
After reaching a plateau of about 20% in the 1990s, the self-employment ratio resumed its growth in the 2000s, this time at a much more rapid pace and via a true shift away from wage and salary employment. This jump in self-employment relative to wage and salary employment may have coincided with the early 2000s recession, but it did not end with the return of economic growth. Instead, it continued throughout the decade’s expan-

sion. Thus, the motivation behind the most recent surge in self-employment seems as much an effort to exploit the unique market opportunities of the new century as to avoid joblessness during the last recession.

SHOW ME THE MONEY

Self-employment has, over time, become a more important feature of Connecticut’s economy, not only in terms of the number working for themselves but also for the incomes they generate. In 2008, income from self-employment represented 18.8% of wage and salary income (left graph below). That is below the 2006 record of 21.7%, but still high by historical standards. And it remains higher for Connecticut than for the U.S. as a whole, as it has been since 2000 when the Connecticut figure last overtook the U.S.

As the right graph below makes clear, that high income share has more to do with the large numbers of those opting for self-employment than with high average earnings, at least in more recent years. In the early 1970s, when self-employment represented a thin slice of total employment, average annual self-employed earnings were on a par with average wages and salaries. Then in the 1980s, as the share of those self-employed grew, their average earnings lagged behind. That pattern—more jobs, lower average earnings—is consistent with new and part-time workers entering the ranks of the self-employed, as both of those groups would tend to command lower earnings. Then, in the 1990s, a period of



consolidation took place. The share of the self-employed held steady but the earnings gap disappeared, indicating perhaps that experience and longer hours were translating into bigger proprietor incomes. Growth in the share of the self-employed accelerated in the 2000s and, predictably, the earnings gap re-emerged, but even with so many entrepreneurs, self-employment income remains near its all-time percentage high.

REGIONAL DIFFERENCES

BEA does not report self-employment data in sufficient detail to allow for an exhaustive statistical analysis of regional differences, but some simple graphical and correlation analysis reveals several interesting patterns. Self-employment is generally more common “west of the river” than east (see first bar graph below). Litchfield County has the biggest share of self-employed, followed by Tolland and then Fairfield Counties. Proprietor income, not surprisingly, commands a larger share of total income in those areas with the greatest concentration of self-employed workers; the simple correlation between these two measures is +0.95.

Regions with the largest share of self-employed workers also saw the fastest rate of job growth among the self-employed between 1994 and 2008, though the association was not as close as that between jobs and income shares. The correlation coefficient for proprietor jobs and proprietor job growth measured +0.35. Job growth had a closer connection with income growth

(see the second bar graph): the two moved in tandem during this period, with a correlation of +0.57.

So, in both levels and differences, self-employment jobs and incomes vary positively across Connecticut counties.

POLICY IMPLICATIONS

Connecticut appears to have harvested a healthy crop of entrepreneurs even without adopting deliberate public policies to nurture that growth. Instead, like many states, Connecticut’s economic development focus has been on snagging and retaining businesses through tax credits and other incentives. This is as much by necessity as by choice, since all states have felt pressure to compete in offering preferential treatment to specific firms, especially large employers. Economists, however, generally agree that such incentives amount to a zero-sum game that does not, in the aggregate, expand employment for competing states but only reshuffles the location of jobs. These tax expenditures distort incentives, often benefitting large businesses at the expense of small ones, and reduce states’ ability to provide needed public services.

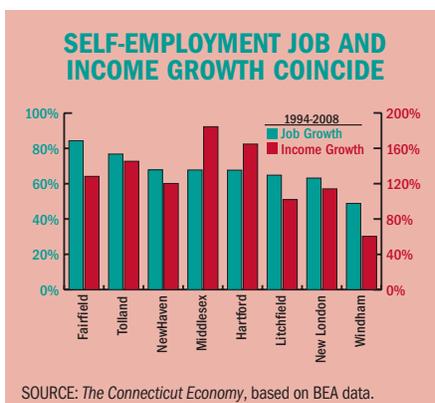
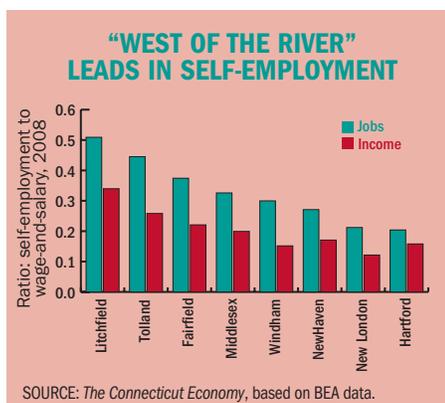
As an alternative to its current top-down development strategy, Connecticut might consider a bottom-up approach. Despite the state’s high rate of self-employment, it has been much less successful at parlaying Schedule C filings into the creation of going concerns, as evidenced by the state’s notoriously low business formation rate: we ranked 41 out of 50 states in 2005 by this measure, according to

the U.S. Census Bureau. We also, perhaps not coincidentally, ranked last in loans (per worker) to small businesses two years earlier, according to CFED, a nonpartisan think-tank which used Small Business Administration data.

What might a bottom-up approach include? CFED identifies a laundry-list of potentially constructive measures to support small business, none of which Connecticut currently offers. First, codify government support for microenterprise, signaling that it is a priority for economic development, and laying the groundwork for possible future funding. Next, provide a stream of loan and grant money large enough to make a difference to small businesses and steady enough to allow them to make rational plans for the future. Financial support is apt to be especially important in today’s post-housing boom era, since the run-up in self-employment during the 2000s was undoubtedly underwritten in large part by home equity loans that are now nearly extinct.

Finally, explore other creative support options, from training and technical assistance to tax incentives. The state’s public institutions of higher education are a potentially rich resource to tap for training and technical support. Tax incentives could be provided by simply adopting an earned-income tax credit, as have 23 other states, which would boost the incentive for low income residents to earn self-employment income.

In their willingness to strike out on their own in business, Nutmeggers have shown a perhaps underappreciated enterprising streak. Public policy could do far worse than to encourage such efforts. And that strategy might boost both the proprietor and wage-and-salary tallies alike.



LABOR MARKET OUTLOOK

A 2010-Q2 Update and Forecasts to 2011-Q2 for Key Labor Market Areas

BY STEVEN P. LANZA

BRIDGEPORT-STAMFORD

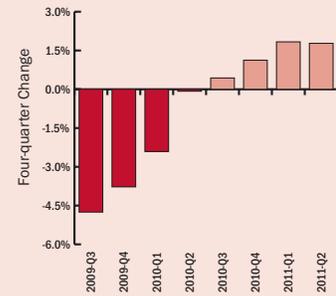
Jobs – Shrinking job totals are all but a thing of the past in Bridgeport-Stamford. Smaller losses in finance and business services, along with bigger gains in education, health, and leisure mean more net new jobs starting in 2010-Q3.

Unemployment – The jobless rate will remain high by historical standards but ratchet down from its 2010-Q1 peak throughout the forecast period.

Prices – Area home price gains couldn't match the other major regions in 2010-Q2, but home values will firm up substantially within a quarter or two.

Permits – Nearing rock bottom, Bridgeport-Stamford housing permits may start to come back by the end of the forecast period.

JOBS



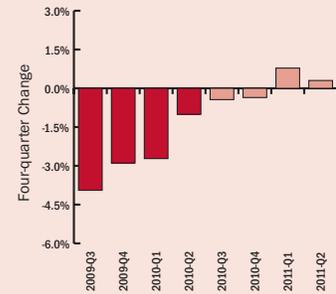
HARTFORD

Jobs – Last among the major labor markets in 2010-Q2 four-quarter job performance, Hartford should get back into the game with faster future gains.

Unemployment – The area ended its flirtation with 10% unemployment in 2010-Q2, and aims to pull it below 8% by 2011-Q2.

Prices – Home prices rose at twice the previous quarter's pace in 2010-Q2. Hartford should be able to maintain that tempo in coming quarters as well.

Permits – Homebuilders have kept comparatively busy in this region; even so, don't count on new homes sprouting quite so fast in the future.



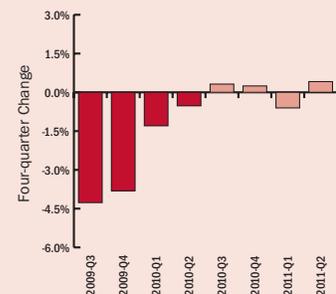
NEW HAVEN

Jobs – New Haven has nearly stanchied the job-letting and is poised to start hiring again, but any gains will come in fits and starts.

Unemployment – Though the jobless rate has passed its peak, unemployment remains quite elevated and will only drift back to earth gradually.

Prices – Area home prices are finally back in the black, and with any luck they'll stay there.

Permits – Permits shot up, again. Is it a building frenzy? Nope. But is the worst over? Let's hope.



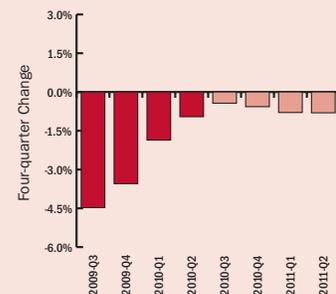
NORWICH-NEW LONDON

Jobs – The region again halved its job losses, and it is eyeing a repeat. But actual job gains appear nowhere on the horizon.

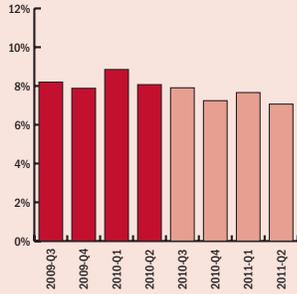
Unemployment – With jobs few and far between, Norwich-New London will struggle to lower its unemployment rate below 8%.

Prices – Home prices jumped more than 6% in 2010-Q2, faster than in any other major region. However, Norwich-New London could surrender some of those gains in future quarters.

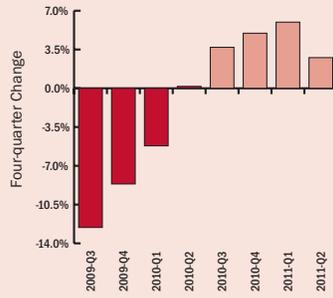
Permits – Don't mistake an expected surge in permits for a housing boom. New building will remain below previous lows for the region.



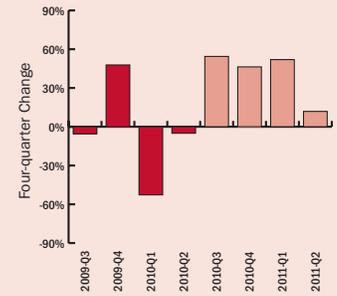
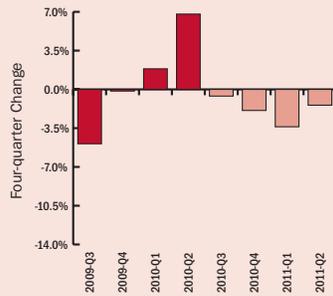
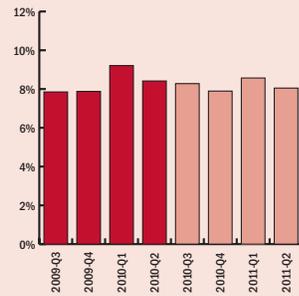
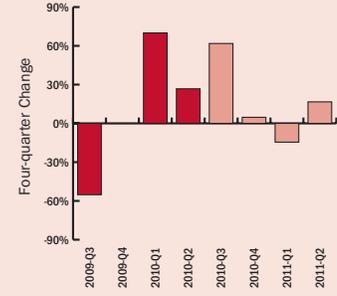
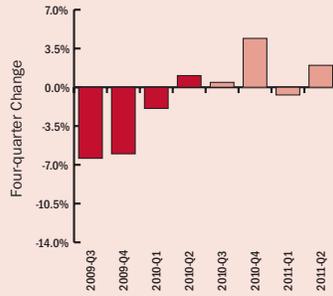
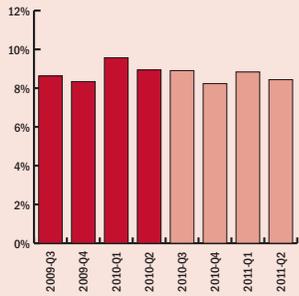
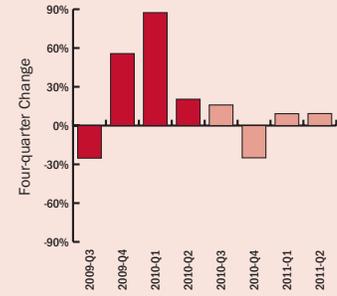
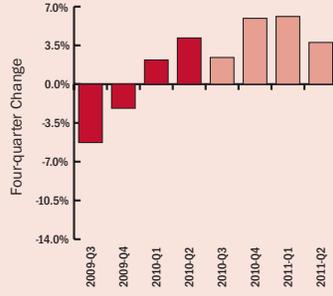
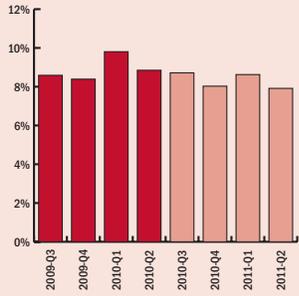
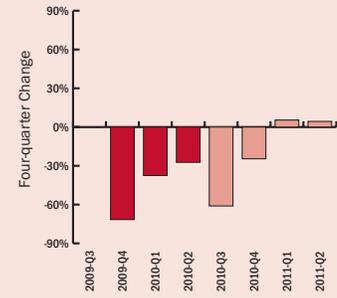
UNEMPLOYMENT RATE



HOUSING PRICES



HOUSING PERMITS



LABOR MARKET DATA

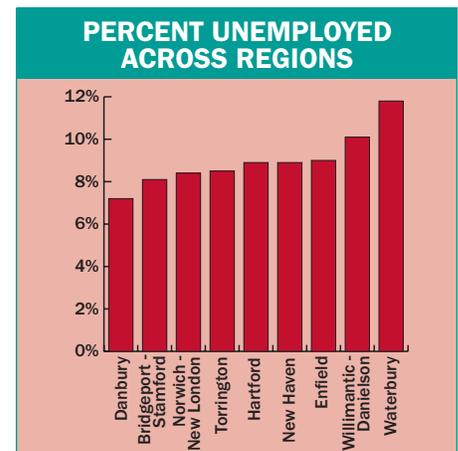
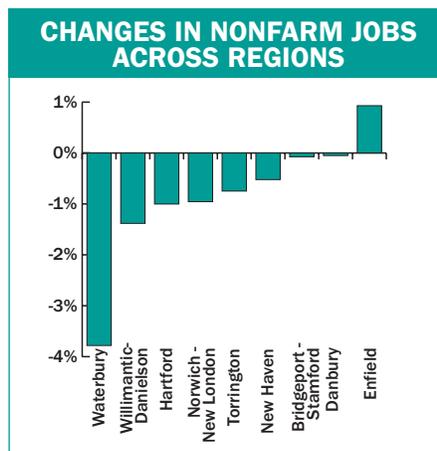
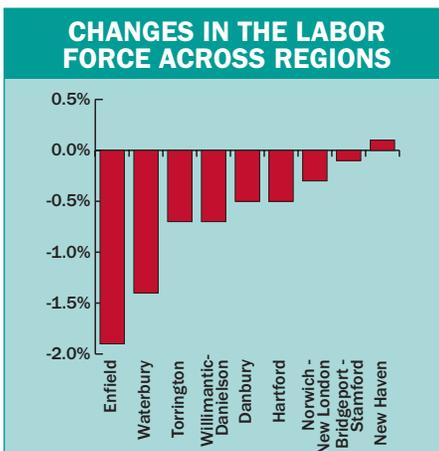
The unemployment rate climbed half a point from 2009-Q2 as jobs disappeared faster than willing workers.

Manufacturing and business service jobs rose from 2010-Q1, but they're still down from a year ago.

Labor Market Area	LABOR FORCE		NONFARM JOBS		UNEMPLOYMENT RATE	
	2010-Q2 (000)	% Change year ago	2010-Q2 (000)	% Change year ago	2010-Q2 (%)	2009-Q2 (%)
Bridgeport - Stamford	479.1	-0.1	400.0	-0.1	8.1	7.8
Danbury	91.8	-0.5	65.8	-0.1	7.2	7.3
Enfield	49.7	-1.9	47.0	0.9	9.0	8.0
Hartford	597.7	-0.5	536.7	-1.0	8.9	8.1
New Haven	315.8	0.1	266.5	-0.5	8.9	8.1
Norwich - New London	154.1	-0.3	131.2	-1.0	8.4	7.8
Torrington	55.1	-0.7	35.4	-0.7	8.5	8.0
Waterbury	101.0	-1.4	61.1	-3.8	11.8	10.8
Willimantic-Danielson	59.1	-0.7	35.7	-1.4	10.1	9.1
Statewide	1889.7	-0.4	1627.9	-0.5	8.7	8.1

Labor Market Area	MANUFACTURING JOBS		CONSTRUCTION JOBS		BUSINESS SERVICE* JOBS	
	2010-Q2 (000)	% Change year ago	2010-Q2 (000)	% Change year ago	2010-Q2 (000)	% Change year ago
Bridgeport - Stamford	35.6	-4.3	11.3	-9.6	62.0	-1.8
Danbury	-	-	-	-	7.0	-5.0
Enfield	-	-	-	-	-	-
Hartford	56.8	-3.6	17.0	-8.6	58.6	0.1
New Haven	26.8	-4.7	9.4	-3.4	24.0	1.4
Norwich - New London	14.8	-1.8	3.3	-5.7	9.4	-1.4
Torrington	-	-	-	-	-	-
Waterbury	7.4	-7.9	2.3	0.0	4.3	-12.2
Willimantic-Danielson	-	-	-	-	-	-
Statewide	168.2	-2.5	52.3	-6.6	187.9	-1.0

*Includes Professional Jobs



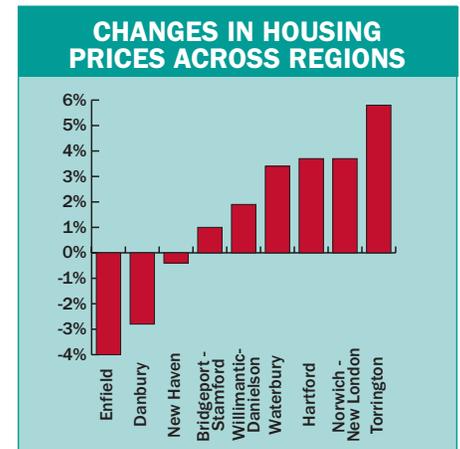
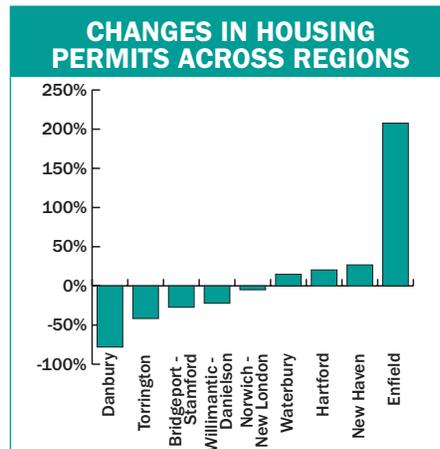
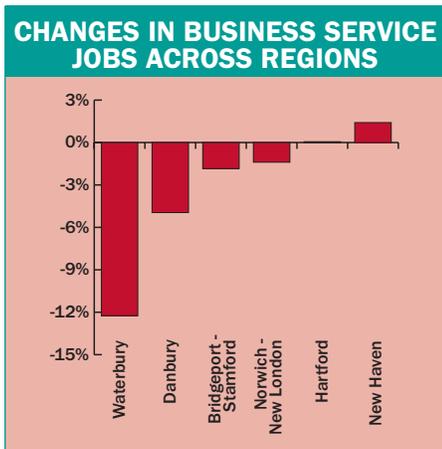
Labor Market Area	EDUCATION & HEALTH JOBS		TTU* JOBS		FINANCIAL JOBS	
	2010-Q2 (000)	% Change year ago	2010-Q2 (000)	% Change year ago	2010-Q2 (000)	% Change year ago
Bridgeport - Stamford	67.3	4.8	70.2	-0.9	42.2	-2.1
Danbury	-	-	14.4	-1.4	-	-
Enfield	-	-	-	-	-	-
Hartford	98.0	3.5	85.1	-0.8	60.0	-6.1
New Haven	72.3	1.6	48.3	0.4	12.1	-2.9
Norwich - New London	20.3	1.5	22.6	1.6	3.1	1.1
Torrington	-	-	-	-	-	-
Waterbury	15.4	1.1	12.2	-0.8	1.9	-7.9
Willimantic-Danielson	-	-	-	-	-	-
Statewide	307.7	2.1	288.5	-1.3	133.6	-3.1

Education & health added jobs from the 2009-Q2 level but, since 2010-Q1, has slumped along with the other two sectors.

Labor Market Area	GOVERNMENT JOBS		HOUSING PERMITS		HOUSING PRICES	
	2010-Q2 (000)	% Change year ago	2010-Q2 (000)	% Change year ago	2010-Q2 (000)	% Change year ago
Bridgeport - Stamford	48.8	2.0	141	-27.3	288.2	1.0
Danbury	10.0	18.1	47	-78.1	219.3	-2.8
Enfield	-	-	40	207.7	158.3	-4.0
Hartford	87.4	-1.0	301	20.4	158.5	3.7
New Haven	34.7	-1.1	71	26.8	153.3	-0.4
Norwich - New London	37.8	-3.0	113	-5.0	163.6	3.7
Torrington	-	-	14	-41.7	208.4	5.8
Waterbury	9.4	-7.6	31	14.8	136.4	3.4
Willimantic-Danielson	-	-	28	-22.2	146.3	1.9
Statewide	251.8	-0.3	786	-15.8	267.0	1.8

Home values perked up in 2010-Q2, and Danbury's government jobs continued to swell.

*Trade, Transportation and Utilities



THE QUARTERLY FORECAST

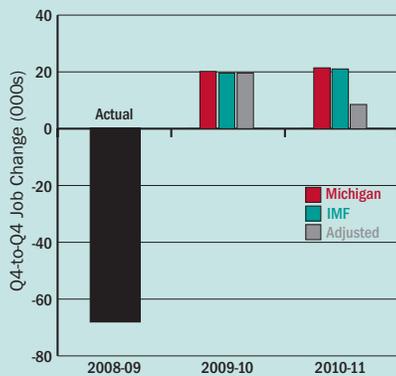
What a Drag!

BY DANIEL W. KENNEDY

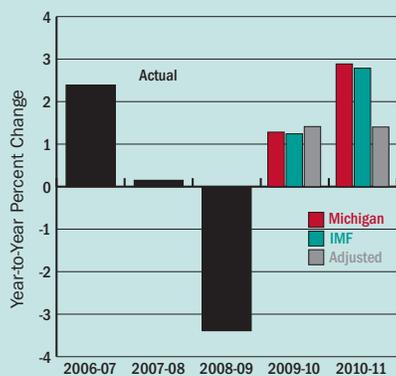
CONNECTICUT AND U.S. JOB GROWTH BOTH STUMBLE



FORECASTED FOUR-QUARTER CONNECTICUT JOB CHANGES



CT REAL GDP ANNUAL GROWTH: HISTORY AND FORECAST



The U.S. economy has fallen and it can't get up. The drag forces on the economy have been legion and enduring: the hit to households' balance sheets when housing prices collapsed; unsustainable levels of consumer debt; falling incomes due to unemployment; declining U.S. exports in June; the imminent wind-down of the federal stimulus package; Europe's sovereign debt crisis; and option-ARM mortgages set to reset late this year and into next. The lone bright spot: the Education Jobs and Medicaid Assistance Act signed by the president on August 10.

Both U.S. and Connecticut nonfarm job growth stumbled in June, as shown in the first chart. In July Connecticut's nonfarm jobs shrank for the first time in seven months and U.S. nonfarm jobs fell further, driven by declines in government jobs that exceeded private-sector growth.

With the pronounced slowing of momentum going into the second half of 2010, the International Monetary Fund (IMF) and the University of Michigan have both scaled back their economic forecasts for the U.S. economy in 2011 to less than 3% growth. (At the time of writing, Ray C. Fair had not yet updated his April 2010 forecast). Interestingly, the scaled-back forecasts did not translate into a downgrade of the 2011 forecast of Connecticut employment.

The second chart shows predicted fourth-quarter to fourth-quarter changes in Connecticut employment, based on the IMF and Michigan forecasts, and on my own adjusted forecast, for the two forecast periods, 2009-2010 and 2010-2011. As noted, the

current forecasts for nonfarm jobs in 2010 are virtually identical to those in the Summer 2010 issue. However, the forecast for 2011 has dropped somewhat, as reflected in my adjusted forecast—the most likely outcome, in my opinion.

In the four quarters ending 2010-Q4, all three macroeconomic paths—IMF, Michigan, and my own—lead to the same finish: Connecticut stands to gain a total of approximately 20,000 jobs. For the period 2010-Q4 to 2011-Q4, however, the paths diverge. IMF and Michigan anticipate a gain of another 20,000 jobs. But given the weight of the macroeconomic drag forces mentioned above, my sense is that the Connecticut economy will add fewer than half that number.

The third chart shows the IMF, Michigan, and my own forecasts of real GDP growth for Connecticut. For 2010, our expectations again cluster fairly closely together. The three anticipate Connecticut GDP growth of 1.2% (IMF), 1.3% (Michigan) and 1.4% (my own)—up substantially from current U.S. Bureau of Economic Analysis estimates of -3.4% for Connecticut in 2009. For 2011 IMF and Michigan are again in close agreement, with anticipated growth of 2.8% and 2.9% respectively. Factoring in the slowdown now underway, however, my forecast is not quite so optimistic. I expect state GDP growth in 2011 to be little changed from 2010—just +1.4%. What a drag, indeed.

Dr. Kennedy, senior economist with the Connecticut Department of Labor, Office of Research, manages *The Connecticut Economy's* economic forecast. His views are not necessarily those of the Department of Labor.

FOLEY (continued from page 24)

The second step in my plan is to reduce the size and cost of state government. I will order a comprehensive analysis of how your money is being spent and determine the best way to reduce spending. My initial goal is to cut spending by \$2 billion.

Third, we must reduce the tax burden on working families. To do this, I will order a top-to-bottom review of state tax policy to ensure that the way we tax our citizens and our businesses is fair and reflects the economy of the present day.

None of this will work if we don't change the way business is done in

Hartford. Our state government has developed an insider culture where career politicians and special interests spend all their time talking to each other, rather than listening to the needs of Connecticut families. I will act immediately to increase transparency in Hartford and eliminate deceptive practices that have become common at our Capitol. Finally, I will end Hartford's practice of imposing unfunded mandates on towns and otherwise restricting their ability to conduct business.

This plan represents a clear change in direction. It emphasizes the need for

more effort and engagement by your state government to fix the problems in our economy and restore jobs. It sets forth the urgent need to reduce state spending and how we can achieve that goal. It recognizes the need to lower the very high tax burden on Connecticut families. It recognizes voters' frustration with Hartford and outlines how we can make state government more transparent and more responsive to the needs and will of our citizens and towns. As soon as I am elected, I will get to work on this plan and get Connecticut working again.

MALLOY (continued from page 24)

costs by 10% or more, we'll immediately make Connecticut significantly more business friendly, and a favored destination for the entrepreneurs and small business owners that are the greatest job creators in America.

I will actively and aggressively recruit new businesses. As the mayor of Stamford, I spent 14 years recruiting businesses to bring their jobs to the city. We actively engaged with businesses we thought might move and we hosted forums to promote the advantages of working in Stamford. Company leaders recognized our commitment to them as a host and as a responsive, engaged community.

Excelling in the innovation economy requires Connecticut resources to be targeted more efficiently, and that means making ourselves more accountable. Many thriving states have instituted benchmark systems that help leaders identify critical economic needs, like the need for more engineers or to attract needed capital. As governor, I will identify strategic economic benchmarks to ensure that state resources are allocated as efficiently as possible.

Finally, Connecticut must focus on workforce development and education. Ensuring that "life-long learning" strategies are in place for Connecticut students and workers is critical to our

prosperity and economic security. I will improve links between workforce training and key industries, retool career ladders to keep pace with our changing economy, and ensure access to affordable worker training.

Government can't fix the economy by itself, nor should it try. But what government can do is help put in place an economic development strategy that makes sense for the 21st century economy, instead of holding onto strategies that were designed for the last century.

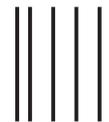
THE CONNECTICUT TRAVEL AND TOURISM INDEX



The overall index increased 0.9% in 2010-Q2 compared with the same quarter the year before. The index consists of room occupancy, slot machine revenues, attendance at six major tourist attractions, and traffic on five tourist roads.

Room Occupancy	▲ +12.5%
Slot Machine Revenue	▼ -6.8%
Attendance	▼ -5.8%
Traffic	▲ +3.5%
Overall	▲ +0.9%

FRS # 430032



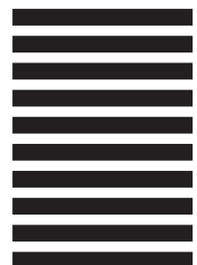
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A FORWARD LOOK

A To-Do List for the Next Administration



TOM FOLEY
REPUBLICAN NOMI-
NEE FOR GOVERNOR

Connecticut is suffering from lost jobs and a weak economy.

Our taxes on working families are far too high, and our state government has imposed too many mandates on our people, our businesses and our towns. Meanwhile, our legislature is not responding. I can fix this mess and get Connecticut working again.



DAN MALLOY
DEMOCRATIC NOMI-
NEE FOR GOVERNOR

As mayor of Stamford, I worked every day not only to create jobs

in the city, but also to provide economic security by promoting a thriving economy. As a result, over 14 years we created close to 5,000 private sector jobs at small, medium and large businesses and Stamford became an international banking and financial services

My plan to get Connecticut headed back in the right direction focuses on the four things that Connecticut families tell me they care about most: bringing back jobs and the economy, reducing the cost and size of state government, lowering the tax burden on Connecticut working families, and changing the way business is done in Hartford.

In order to restore the state's economy, our government must do more to convince out-of-state employers to

center. As governor, I will apply my experience and know-how every day to protect jobs and promote Connecticut as the place to grow businesses.

My plan for revitalizing our economy will be based on the lessons I learned as mayor. Here are some of the fundamental tenets my administration will follow (my full, detailed plan can be read at www.danmalloy.com):

First, we must be bold if we hope to grow jobs. As just one example, I would create a new fund using close

locate here. As Governor, I will focus on attracting new businesses with highly-skilled, high-paying jobs by focusing on the seven industries already identified as having high potential for Connecticut. I will make Connecticut more 'employer friendly'. I will provide a package of incentives to lenders to extend more credit to small and start-up businesses, and I will work to develop and market the 'Knowledge Corridor' from Enfield to New Haven as a unique national asset.

(continued on page 23)

to a billion dollars in unused R&D tax credits to leverage new research and advanced manufacturing space, and encourage the participation of state and municipal pension funds to augment the initial investment. This plan, done correctly, could result in a \$2 billion investment and as many as 30,000 direct jobs and 75,000 spin-off jobs.

I will improve Connecticut's business climate. Two areas need our immediate focus: energy and health care costs. If we can lower those

(continued on page 23)

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