

The Economic and Fiscal Impact of Low-Wage Work in Connecticut

Daniel Kennedy, Ph.D., Economist

*Stan McMillen, Ph.D., Economist, Visiting Assistant Professor,
University of Connecticut, Trinity College, Connecticut College*

*Louise Simmons, Ph.D., Professor of Social Work,
University of Connecticut*

Introduction

The growth of low-wage work in Connecticut has implications for both those whose earnings are insufficient to meet their families' needs and for the economic and fiscal problems facing the state. The state's taxpayer-supported social programs have attempted to accommodate the growth in low-wage work so that such workers can make ends meet. Employers whose strategies impose costs on society must recognize the squeeze this puts on government spending that could otherwise support programs favoring broad economic development. This report presents an overview of these inter-related issues, noting key facts and trends:

- Twenty percent of Connecticut's families are considered working poor;
- Two-thirds of the state's low-income families work;
- More than half of the jobs that Connecticut has added to its economy between 2010 and 2014 were in occupations with a median wage at or below the 25th percentile wage for all occupations;
- The state's self-sufficiency wage for a family of one worker with an infant is \$31.86 per hour (without employer-provided benefits);
- Since 2010, hourly earnings in Connecticut have grown weakly compared to neighboring states and the U.S. average; and
- Working families accessing Medicaid/CHIP and TANF programs cost the state \$486 million annually, or 54% of the total costs of those programs.

Incentivizing companies to raise their wages to close to a living or self-sufficiency wage would reduce workers' dependency on public services and help mitigate actual or pending public deficits.

Connecticut's Families Remain in Financial Crisis

Connecticut's population in 2013 was 3.58 million people, of whom 903,577 individuals lived in families with an average family size of 3.14. Twenty percent of these families are among the working poor, defined as having a family income of less than 200% of the federal poverty level (FPL), which in 2013 was \$47,100 for a family of four.¹ Many of our working poor families have no high school diploma or GED; in Connecticut in 2012, 22.4% of such families had no high school or GED compared with 29.4% in the nation (note 1). Among Connecticut's low-income families (those with incomes less than 200% of the FPL), 48.6% had no post-secondary education compared with the national average of 50.3% (note 1). Over three quarters of the state's low-income families are housing cost-burdened, in which housing costs amount to one-third or more of a family's income (note 1). Almost two-thirds of low-income families work (66.1%) compared to the nation's 71.7% of such families that work (note 1). Finally, 13.6% of Connecticut's working families have jobs in occupations paying less than the federal poverty threshold (note 1).

In 2010, there were 720,000 Connecticut citizens (21%) living at or near the poverty level.² Over the 20-year period examined in the report "Meeting the Challenge, The Dynamics of Poverty in Connecticut," 131 of Connecticut's 169 towns witnessed an increase in poverty. Clearly, these facts have economic and fiscal consequences we describe below in detail. Despite working, families can still slip into poverty from a combination of insufficient hourly wages, hours worked per week and weeks worked per year. Such conditions may result from business strategies in which there is an abundance of low-skill labor, as well as from barriers to greater participation in full-time work.

Why Has Low-Wage Work Grown in Connecticut?

There are several factors that have contributed to the growing ranks of families that work and are living in poverty. The Great Recession exacerbated a trend underway for the past 30 years.³ Unions have been weakened. Executive compensation has rewarded shareholder value rather

than worker productivity or loyalty. Corporate managers are quicker to reduce employment and/or hours and hire contract worker replacements more than they have been in the middle decades of the 20th century.⁴ Job growth in Connecticut over the past decade or so has been primarily in low-wage occupations such as those found in the leisure and hospitality, food and drink, and retail sectors of the economy (see note 5 for a historical account and the section below on Connecticut's low-wage growth).⁵ In addition, as the minimum wage has increased in several states, various strategies for holding costs down have emerged. One is to replace human labor with machines and computers;⁶ another is to replace low-skill workers earning poverty-level wages with higher-skill workers earning higher wages and producing more output per unit time consistent with their increased productivity.⁷

Another trend is to outsource and offshore jobs to lower-cost regions and countries to reduce costs and improve flexibility in the provision of such services. Companies have outsourced information technology services, security services, building maintenance services, accounting services, cafeteria services, and customer service, among others. This trend is one reason manufacturing employment has declined. In Connecticut, for example, Pratt & Whitney had hundreds of workers in the aforementioned occupations in the 1960s and 1970s, and over time shed these jobs and outsourced the services they required. Further, as companies face uncertain business cycles, they have found they can reduce their payroll employment and hire labor services as above but also utilize individual contractors in engineering, drafting, graphical design, technical writing among other professional services. Such occupations are not necessarily low wage. However, total earnings for independent contractors may be less than the earnings of similar workers on payroll because contractor employment terms may be short term and do not provide fringe benefits.

While it is difficult for many low-wage workers to afford adequate housing, energy (heating and cooling), food, health insurance, and other forms of subsistence, some companies have used the existence of social programs supported by taxpayers to supplement their workers' incomes, while others have provided close to 'living wages' and affordable health insurance so the public costs of their workers is reduced.⁸ The economic and fiscal consequences of workers in low-wage occupations drawing support from publicly-provided health insurance, housing and energy assistance, food assistance and cash assistance diverts taxpayer funds from other uses such as public education, public transportation and transportation infrastructure, public safety, and subsidies to the arts and research. These are public goods and services that enhance

productivity, create the environment for economic growth and enhance the quality of life in a region. To the extent these goods and services are underfunded, society is worse off. If we imagine that states and countries compete for resources and talent, those areas that invest relatively more in the public goods mentioned would likely be more competitive in attracting and retaining workers and other productive resources and have a relatively higher quality of life.

On the other hand, we need a set of social protections that catches individuals and families who for many reasons cannot work, or cannot work full time and require services they cannot otherwise afford. People who cannot find work utilize social programs when their savings and other resources are depleted. **In 2013, the number of people in the nation looking for work was almost three times the number of jobs available.⁹ In Connecticut in 2014, there were 4.17 job seekers for every job opening.¹⁰** This suggests that publicly-funded support for unemployed workers and their families has increased since the Great Recession and may persist for some time, as long-term unemployment has perhaps become the new norm.¹¹ Governments at all levels face declining tax revenues on the one hand and increasing social programs expenses on the other. Policymakers face options of raising taxes and/or cutting spending, neither of which may be a desirable response. Revising the tax system by closing loopholes, reducing subsidies and tax breaks to firms that do not need them and making the system more progressive to account for the immense wage disparity in Connecticut would help close the gap between revenues and expenditures. **Incentivizing companies to raise their wages to close to a living or self-sufficiency wage would reduce workers' dependency on public services and help mitigate actual or pending public deficits.** To address Connecticut's precarious fiscal position, Governor Malloy convened a tax study panel in 2012 to recommend changes to state tax laws and the legislature more recently formed a state tax panel to review the state tax code and recommend changes.¹² Such changes could include enhancing the Earned Income Tax Credit, reducing the sales tax, increasing the highest marginal rates on household income and providing tax relief to companies that raise their wages to self-sufficiency levels.¹³

What is Economic Self-Sufficiency in Connecticut?

A self-sufficiency wage is the (annualized) wage an individual or family would need to earn in order to avoid reliance on public programs. In 1999, Connecticut created its Self-Sufficiency Standard pursuant to Public Act 98-169, "An Act Establishing a Self-Sufficiency Measurement and Expand-

ing Job Training Opportunities.” In 2002, the Connecticut General Assembly enacted a statute (Public Act 02-54) requiring the Self-Sufficiency Standard to be updated by the state every three years. The 2005 study tabulated the income requirements for families of various sizes in the state’s eight counties and noted the reductions in reliance on public programs as the hourly wage increased.¹⁴ There was a brief 2008 update to the 2005 study and none following that report as required by the legislation. In 2012, Wider Opportunities for Women in cooperation with Connecticut’s Permanent Commission on the Status of Women issued the Basic Economic Security Tables™ (BEST) index for the state and its five relatively distinct demographic regions.¹⁵

Much has changed since 2005, and the 2012 BEST report updates the findings of earlier research and accounts for differences by Connecticut’s five demographic regions, its urban towns, and for the impact of employer-provided benefits. If one assumes the income required for basic economic security is the same as the self-sufficiency income, it is possible to determine the costs to the public sector for each family type in each region, and for those with and without employer benefits. For example, in Appendix D on page 30, the BEST report shows an individual worker with employer benefits needs \$37,188 annually (\$17.88 per hour at 2,080 hours per year) to satisfy basic economic security (the statewide average), while one without employer benefits requires \$43,920 (\$21.12 per hour at 2,080 hours per year). The difference ostensibly would be made up by public programs. For a family of one worker with employer benefits and an infant, the requirement for basic economic security rises to \$57,420 (\$27.61 per hour), while for this family working without employer benefits, the BEST requirement is \$66,276 (\$31.86 per hour). In the latter cases and for larger families with pre-school and school age children, child care costs become a significant expense relative to childless families.

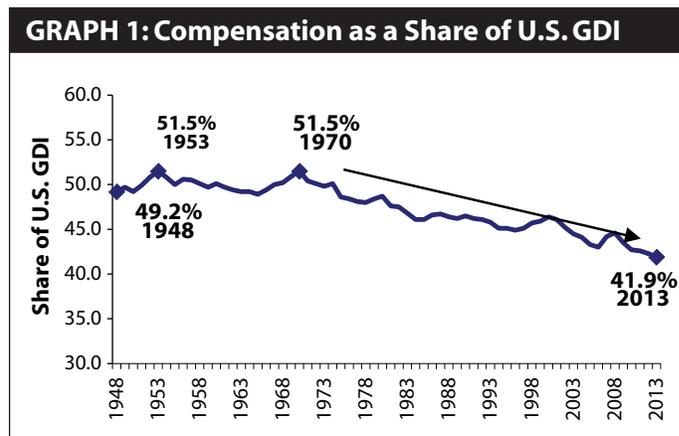
The assumptions for satisfying basic economic security incomes cited above include full-time employment and the ability and competency to perform the job. As noted above, many low-wage workers do not have either the education, skills, or the ability to work full time due to health, child care responsibilities or other issues. In addition, companies may avoid paying benefits for part-time work or reduce such costs by paying wages low enough that workers seek assistance from public programs.

Connecticut Has Seen Wages Lag and Low-Wage Employment Grow

The following describes Connecticut’s historical employ-

ment record and how it compares to New York, Massachusetts and the nation. The important result developed below is that Connecticut is unique in its status of relatively low job creation, low-compensation growth specifically for hourly-wage earners, and the jobs created have been disproportionately in low-wage sectors. Thus, the potential for working families to utilize public programs is greater in Connecticut than in New York, Massachusetts and the nation. To the extent this conclusion is actually realized, Connecticut’s budget woes will worsen.

Graph 1 shows a decline in the share of national income that goes towards workers’ compensation from 1970 to the present. After peaking twice, at 51.5% in 1953 and 1970, labor compensation (wage and salary accruals paid to Persons), as a share of Gross Domestic Income (GDI) began a secular decline and fell to 41.9% by 2013.



Source: Federal Reserve Economic Data (FRED)-Federal Reserve Bank St. Louis

There have been several explanations that attempt to account for labor’s declining share of national income. Market-driven explanations center on skill-biased technological change; institution-driven explanations focus on de-regulation of markets and financialization, as well as policies toward unions. Outsourcing as an explanation focuses on corporations’ splitting off their earlier-stage production processes and purchasing these inputs, including labor services from outside firms.¹⁶ In addition, the lackluster job growth recoveries, known as “jobless-recoveries,” have not only been attributed to the decline of the defense-spending after the Cold War, which was a significant driver of Connecticut’s 1980’s boom, but also to the growth in managerial power and income inequality, in what Robert Gordon (2010) has called the *Disposable Worker Hypothesis*.¹⁷

The result of these and other trends in the U.S. economy over the last 30 years, has been a growth in the working poor. The term “working poor” flies in the face of the notion that a job is necessarily the route out of poverty. As Schiller

(2008) notes in his textbook, *The Economics of Poverty and Discrimination*:

We know, for example, that many poor people whom we do think of as unemployed do work a great deal. A salient characteristic of the subemployed poor is that they are repeatedly engaged in part-time or part-year work. Hence, we can reject the naive assumption that employment automatically lifts a person out of poverty.¹⁸

The next section reviews the extent and nature of job growth in Connecticut since 2000 and compares that growth to neighboring states New York and Massachusetts and the United States, and then reviews the first four years of the current recovery.

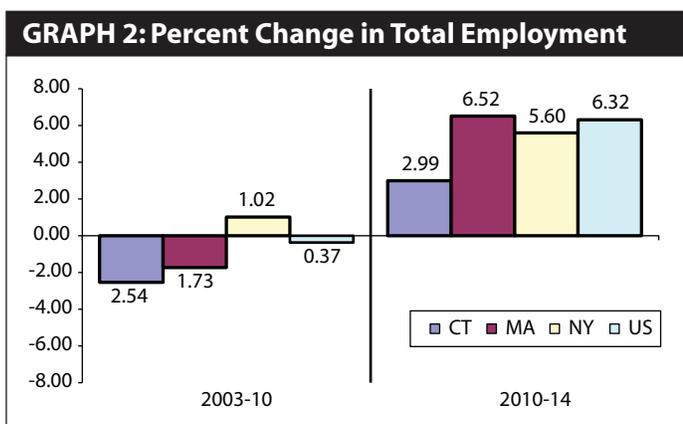
Graph 2 shows the percent change in occupational employment for Connecticut, the United States, Massachusetts and New York over the first complete employment cycle since 2000. Measured trough-to-trough, the cycle begins with the turnaround in jobs after the end of the 2001 Recession occurring in 2003. In 2003, employment began growing again for Connecticut, Massachusetts, New York, and the nation. The end-point trough would be when employment turned around after the end of the 2007-2009 Great Recession. For the United States and Connecticut that turnaround was 2010, for Massachusetts and New York, it was 2009.¹⁹ Because Connecticut and U.S. employment turned around in 2010, it will be used as the terminal point of the 2003-2010 employment cycle. Graph 2 shows the percent change in jobs over the first four years of the current recovery.

New York fared best over the 21st century's first complete employment cycle. By 2010, New York's employment was at 101.02% of its 2003 level. Graph 2 shows Connecticut fared the worst. In 2010, Connecticut's employment level was

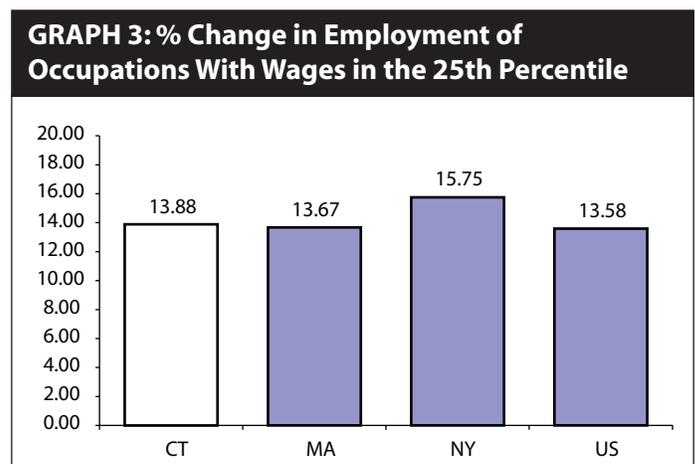
97.46% of its 2003 level, down 2.54% and lower than the Massachusetts' 2010 employment level, which was 1.73% lower than its 2003 level. The U.S. 2010 employment level was down slightly, but essentially flat compared to its 2003 level.

When looking at job growth over the current recovery, depicted in Graph 2, Connecticut lags behind New York, Massachusetts and the United States. Between 2010 and 2014, Connecticut's job growth was less than 3%. Massachusetts and U.S. job growth exceeded 6%, while New York payroll employment grew 5.60%. Clearly, Connecticut's job growth, compared to two neighboring states and the United States, has been weak between 2000 and 2014. However, though Connecticut is creating fewer jobs, are they higher paying than those created in Massachusetts, New York, and the United States as a whole?

Connecticut's job growth has been largely concentrated in the bottom quartile (the first 25th percentile). Graph 3 presents the growth rate of the major Standard Occupational Codes for occupations in which the median wage was equal to, or less than, the 25th percentile wage for all occupations over the current recovery. At first glance, it appears that Connecticut's growth rate in occupations with a median wage in the lowest quartile, at 13.88%, is only slightly higher than that for Massachusetts and the U.S., and certainly below New York's 15.75% growth rate. However, recall that, as depicted in Graph 2, Connecticut's job growth over the current recovery lagged behind that of Massachusetts, New York, and the United States. Thus, the 13.88% growth in Connecticut's jobs in the bottom quartile (the lowest-wage quartile) translates into a much larger share of total employment growth. And, as illustrated in Graph 4, more than half of the jobs that Connecticut has added to its economy between 2010 and 2014 were in occupations with a median wage at or

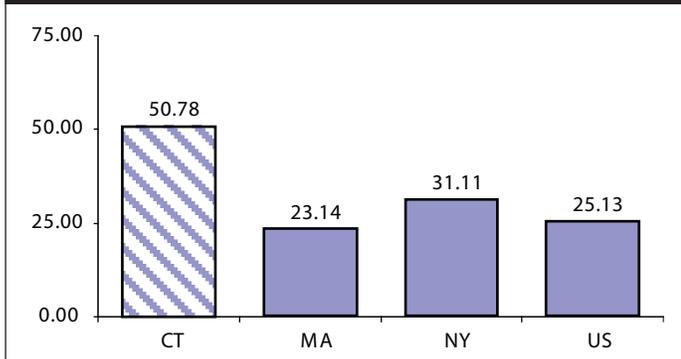


SOURCE: U.S. BLS and authors' calculations



SOURCE: U.S. BLS-OES and authors' calculations

GRAPH 4: Share of Job Growth for Occupations With Wages in the 25th Percentile



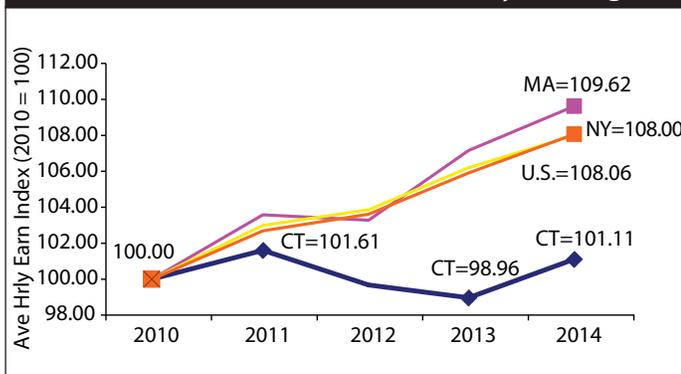
SOURCE: U.S. BLS-OES and authors' calculations

below the 25th percentile wage for all occupations. This, in turn, has led to the result depicted in Graph 5.

Graph 5 tracks an index of total private average hourly earnings for Connecticut, Massachusetts, New York, and the United States. The first year of the current recovery in employment, 2010, is the base year and equal to 100. Graph 5 shows the growth in Connecticut's total private average hourly earnings (not adjusted for inflation), has significantly lagged that of the United States, which itself has had weak growth relative to past recoveries, as well as lagging behind Massachusetts and New York.

After growing weakly in 2011, Connecticut's hourly earnings then declined, and were 1.04% below their 2010 level by 2013. Hourly earnings recovered somewhat in 2014, but were still slightly below their 2011 level. While in 2014 total private hourly earnings for Massachusetts were 9.62% above their 2010 level, and for New York and the U.S. over 8% above their 2010 levels, Connecticut's hourly earnings were just 1.11% above their 2010 level.

GRAPH 5: Index of Total Private Hourly Earnings



SOURCE: U.S. BLS-CES and authors' calculations

The Impact of the State's Low-Wage Employment on Public Assistance

The weak growth of Connecticut's hourly earnings, shown in Graph 5, is clearly driven by the fact that one-half of the jobs added to Connecticut's economy, over the current recovery are in occupations in which the median wage is at or below the 25th percentile for all occupations, as illustrated in Graph 4. Thus, the potential for working families to need to rely on public programs is greater in Connecticut than in New York, Massachusetts and the nation. To the extent this conclusion is actually realized, Connecticut's budget woes will worsen.

The forthcoming report, "The High Public Cost of Low Wages: Poverty-Level Wages Cost U.S. Taxpayers \$152.8 Billion Each Year in Public Support for Working Families," shows that more than half of state and federal spending on safety net programs now goes to working families (families with a member who at least 27 weeks per year and at least 10 hours per week).²⁰ The report estimates that the cost to the State of Connecticut for the reliance of working families on Medicaid/CHIP and TANF is \$486 million, representing 54% of the total costs of those programs to the state.

Higher wages and increases in employer-provided health insurance would result in significant Medicaid savings that states and the federal government could apply to other programs and priorities. Higher wages would also significantly reduce federal expenditures on the EITC and SNAP. Overall, higher wages and employer-provided health care would lower both state and federal safety net costs, and allow all levels of government to better target how their tax dollars are used as we describe above.

Conclusion

In conclusion, the State of Connecticut is challenged to devise strategies to raise the wages of low-income workers to reduce their reliance on public programs and thereby to reduce tax costs, as well as to increase their participation in the economy. Such strategies would both contribute to a more robust economy and increase tax revenues as a result of increased consumption and participation by lower-wage workers. Policymakers have several options to consider that can help achieve these goals.

About the Authors

Daniel Kennedy, Ph.D., was Senior Economist in the Office of Research, Connecticut Department of Labor, from 1993 to 2015. In addition, he was Contributing Editor and Forecast Manager for *The Connecticut Economy* from 2006 to 2013. He currently serves as a consulting economist and contributor to the *Hartford Business Journal's* Annual Economic Outlook.

Stan McMillen, Ph.D., retired in 2012 from the Connecticut Department of Economic and Community Development where he was Managing Economist for six years. He previously worked in the aerospace, CAD/CAM and medical device industries before obtaining his doctorate in economics at UCONN in 2005. He is now a Visiting Professor of Economics at UCONN, Trinity College and Connecticut College.

Louise Simmons, Ph.D., serves as a Professor of Social Work at the University of Connecticut. She teaches and does research on social policy, economic justice issues, urban issues and community organization. She lives and is involved with many issues in the City of Hartford.

This issue brief was funded by Jobs With Justice Education Fund.

Endnotes

¹ See <http://www.workingpoorfamilies.org>.

² "Meeting the Challenge, The Dynamics of Poverty in Connecticut," [http://www.cafca.org/files/CT Poverty Report.pdf](http://www.cafca.org/files/CT%20Poverty%20Report.pdf).

³ See <http://aspe.hhs.gov/hsp/lwlm99/overview.htm>.

⁴ Gordon, Robert J. (2011), "The case of the US jobless recovery: Assertive management meets the double hangover," <http://www.voxeu.org/article/case-us-jobless-recovery-assertive-management-meets-double-hangover>.

⁵ For an excellent historical overview, see "Good Jobs Strong Communities, Creating a High-Wage Future for Connecticut," December 2001, <http://www.ctneweconomy.org/wp-content/uploads/goodjobs.pdf>.

⁶ See "As Fast Food Workers Go on Strike in 100 Cities, Applebees Introduces the 'Waiter Terminator'," <http://investingchannel.com/article/276476/As-Fast-Food-Workers-Go-On-Strike-In-100-Cities-Applebees-Unveils-The-Waiter-Terminator#.VRmfFcm1RLY>.

⁷ For example, see <http://www.bloomberg.com/bw/articles/2014-02-13/making-the-economic-case-for-more-than-the-minimum-wage#p2>.

⁸ As one example, Starbucks pays many of its workers significantly more than the local minimum wage and offers company stock as an additional form of compensation. See <http://www.forbes.com/sites/samanthasharf/2015/03/18/why-starbucks-pays-its-baristas-with-stock-a-beginners-guide-to-company-stock>.

⁹ See <http://www.epi.org/publication/ratio-job-seekers-job-openings-holds-steady>.

¹⁰ See "Low Wage Nation, The Job Gap, Connecticut," Alliance for a Just Society, www.thejobgap.org.

¹¹ "The U.S. economy to 2022: settling into a new normal," The Monthly Labor Review, December 2013, <http://www.bls.gov/opub/mlr/2013/article/the-u-s-economy-to-2022-settling-into-a-new-normal.htm>.

¹² See http://www.cga.ct.gov/fin/taskforce.asp?TF=20140929_State%20Tax%20Panel and http://www.ctnewsjunkie.com/archives/entry/tax_review_panel_convenes_monday/ for specifics and a summary.

¹³ Phelps, Edmund S. (1994). "Low-wage Employment Subsidies versus the Welfare State," American Economic Association Papers and Proceedings, vol. 2, no. 84, Raising the Employment and Pay of the Working Poor, May 1994.

¹⁴ See <http://selfsufficiencystandard.org/docs/Connecticut%202005.pdf>. This was the third report in the series. The first two were published in 1999 and 2002.

¹⁵ See <https://ctpcsw.files.wordpress.com/2012/04/basic-economic-security-tables-index-for-connecticut-2012-2.pdf>. It is not clear that the 2012 report satisfies the requirement of P.A. 02-54.

¹⁶ See Kennedy, Daniel W., *Income, Inequality, Poverty, and Labor Markets* (February 2015) THE CONNECTICUT ECONOMIC DIGEST, Connecticut Department of Labor and Connecticut Department of Economic and Community Development, p. 3.

¹⁷ Gordon, Robert. "The Demise of Okun's Law and of Procyclical Fluctuations in Conventional and Unconventional Measures of Productivity," (July 21, 2010) National Bureau of Economic Research: Cambridge.

¹⁸ Schiller, Bradley C., *The Economics Of Poverty And Discrimination* (10th Ed.), (2008) Pearson Prentice-Hall: Upper Saddle River, NJ Chapter 6-*The Working Poor*, p. 103,

¹⁹ Employment series turning points are based on seasonally adjusted, Non-Farm Employment data for Connecticut, Massachusetts, New York, and the U.S. from the U.S. Bureau of Labor Statistics (BLS).

²⁰ Ken Jacobs, Ian Perry and Jenifer MacGilvary. 2015. "Low Wages Cost the Federal Government \$127.9 Billion and States \$25 Billion a Year in Public Safety Net Programs for Working Families," forthcoming report from the UC Berkeley Center for Labor Research and Education.