

CT's recession lasted much longer than you think



While many people consider the Great Recession to have lasted only two years, Connecticut's economic malaise lasted much longer. In fact, measured by real output or gross state product, Connecticut's economy actually shrank for seven years, even as the state regained jobs lost during the Great Recession.

After losing 119,000 jobs during the downturn, the state began to add jobs back in Oct. 2010 and has added jobs every month (measured year over year) since — 69 consecutive months of job gains. That looks impressive, but it is deceptive.

Total payroll employment in Connecticut remains below 2008 levels. More important, the state hasn't been adding well-paying jobs; critically, Connecticut's economy, measured in terms of real output, contracted for seven years, through the first quarter of 2015.

In Jan. 2007, the economy generated, on an annualized basis, more than \$247 billion in output; by April 2015, output had shrunk to \$223 billion, a loss of nearly 10 percent. And it has not yet recovered: Connecticut's economy, measured in real output, is still more than \$10 billion below its previous peak. Lower real output means lower wages and weak growth in income tax revenue.

While Connecticut has not fully recovered the jobs it lost, more Connecticut residents now report being employed than ever — an all-time record of 1,836,000. Both Massachusetts and New York have enjoyed strong recoveries; Rhode Island has now replaced all the jobs it lost in the recession; presumptively a lot of Connecticut residents are now commuting out-of-state for work.

Because we pay income tax first where we work, not where we live, Connecticut's high employment numbers don't translate into improved income tax revenue for the state. Moreover, many of those households are likely to follow those out-of-state jobs to new homes closer to where they work; that is the dynamic that is in some measure driving Connecticut's static or shrinking population.

The primary revenue sources for the state are the income tax and the sales tax. Because real output was contracting, the quality of jobs being added was relatively low, adding little to the tax base. Despite increased tax rates, income tax revenues from fiscal year 2008 to fiscal year 2015 grew only \$1.4 billion, modestly ahead of inflation.

Connecticut was raising income taxes on a shrinking base. Sales tax revenue, in contrast, surged nearly 30 percent, up a full \$1 billion from fiscal 2008's \$3.2 billion. The poor quality of job growth did little to improve income tax revenues, but the growth in employment, especially those out-of-state jobs, translated into more purchases subject to sales tax.

Connecticut's weak growth in real output is the 800-pound gorilla few have seemed to notice. The challenges of unfunded commitments are daunting, but it is vital that we acknowledge Connecticut's seven-year recession — which ended only two years ago — work to understand

the anomalous factors specific to Connecticut that underlay that contraction, and adopt policies and make public-sector investments that will help drive growth, not mere job creation. If we don't — and we haven't to date — the fiscal crisis will likely become a permanent feature of our state budget. The fiscal crisis is a symptom; the disease is a crippled economy.