# Connecticut's economy struggles to recover

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During the first quarter of 2017, Connecticut's economy, as measured by real output or gross state product (GSP), contracted below where it was in 2004. After seven years of contraction from 2008 to 2014, the economy managed a modest 2 percent gain in 2015, only to retreat to essentially zero growth in 2016 and a sharp decline in early 2017.

Growth came back in the second quarter of 2017 — a meager 1.4 percent on an annualized basis — but the sharp job losses in October and larger losses since June (Connecticut shed 12,200 jobs from June to October) indicate that for all of 2017, Connecticut's economy will once again lose ground.

The Connecticut Center for Economic Analysis' current projections do not see Connecticut reaching its previous high of economic growth (in 2007) until 2021 at the earliest; it may take even longer.

The numbers show that while many people consider the Great Recession to have lasted only two years, Connecticut's economic malaise lasted much longer. What was so deceptive was the persistent gain in jobs. Starting in Feb. 2010, Connecticut consistently added jobs; for 73 consecutive months, employment was higher year over year.

The private sector has recovered about 93 percent of jobs lost during the Great Recession, but the public sector (which includes Native American casino and hotel jobs) continues to contract, now down almost 25,000 jobs from its high of 255,600.

Public-sector employment will almost certainly continue to decline, driven by the continuing state fiscal crisis (fiscal year 2018 is already in deficit and forcing rescissions) and increasing out-of-state competition for the casinos.

The irony is that, inclusive of out-of-state employment, Connecticut residents now enjoy near record levels of employment (1,820,000 residents have jobs). This continues a long trend of Connecticut residents finding more jobs outside Connecticut; since 2004, the number of employed, whether in Connecticut or elsewhere, has grown 135,000. Moreover, out-of-state employment of Connecticut residents has been more resilient, suffering fewer job losses than in-state employment.

Income tax revenues confirm this pattern because employees pay income tax first to the state in which they work. The combination of low-quality jobs in Connecticut and increasing numbers of Connecticut residents working out of state means income tax collections in the state have been stagnant, even with increased rates. But because people typically do most of their spending near where they live, Connecticut sales tax revenue has grown strongly, abetted by a robust tourism industry.

The danger is that those working out of state will tire of the commute and choose to relocate their residence closer to where they work. Connecticut's population has been essentially stagnant; this dynamic could result in a shrinking population.

There are some rays of hope. The United Technologies Corp. and Sikorsky agreements, in which both companies are receiving millions of dollars in tax and other incentives from the state to grow jobs here, have anchored major employers and thus thousands of jobs in Connecticut for a generation.

The newly adopted state budget, thankfully, offers businesses with stranded tax credits the opportunity to use them to fund major capital projects that will potentially create new facilities supporting thousands of new jobs. The state has also made positive changes to its self-destructive hospital tax.

The Jackson Laboratory genomic research center in Farmington is years ahead of its promised growth; partnered with Yale New Haven, UConn's School of Medicine and, hopefully, a revitalized hospital sector, Jackson Lab has the potential to drive growth of a truly powerful biomedical cluster.

The newly launched InsurTech Hartford incubator may also deliver real benefits, though the weakness in and inattention to the state's IT infrastructure will likely be a major barrier to full success. And Yale University will likely continue to make a significant contribution with its broadly successful efforts with spinoffs (more than 40 companies and over $1 billion in investments).

Finally, the Department of Defense budget Congress adopted, if funded, would bring significant new orders and thus jobs to Connecticut's defense industry.

The greatest challenge for Connecticut is both to adopt policies and initiatives that will restore economic growth and to implement those policies and initiatives aggressively. To understand what those might be, Connecticut ought to draw consciously on best practices in other states and embrace approaches that have proven successful.