

Bloomberg View

Connecticut and New Jersey: Rich States, Poor Economies

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It's been a tough week for Connecticut, which just learned that it is losing its most prominent corporate citizen to Massachusetts. But that's nothing new. It has also been a tough decade for the Constitution State. A tough quarter-century, even.

It was Connecticut's long-running financial troubles that set the stage for General Electric's planned headquarters move to Boston. GE executives have named other reasons for leaving, but they started talking publicly about a possible departure only after the state Legislature voted for tax increases in June to plug a big budget hole. Connecticut's tax revenues have been coming in below expectations, and the state had the third worst-funded state-employee pension system in the nation as of 2013, according to the Pew Charitable Trusts, behind only Illinois and Kentucky.

But here's the thing. Connecticut is the richest state in the U.S., as measured by per capita income. That figure is of course skewed on the high side by a few hedge-fund managers in Greenwich, but even if you go by median household income, Connecticut ranks fourth, behind only Maryland, Alaska and New Jersey.

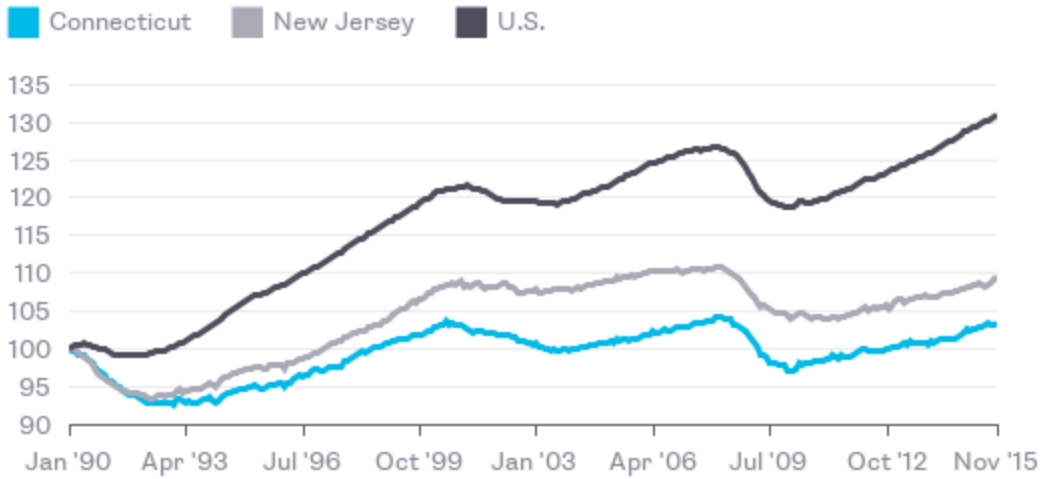
This contrast between great wealth and financial distress has inevitably led people to offer explanations. Cato Institute senior fellow Jim Powell, writing at Forbes.com, blamed it mostly on big government and high taxes. New York magazine economics columnist Annie Lowrey proposed that income inequality might be the problem.

As for me, I've been writing a lot lately about the diverging economic prospects of big cities and suburbs, so the possible explanation that immediately struck me is that Connecticut is all suburbs. (Which isn't strictly true. But the state's largest city, Bridgeport, has only 147,612 people, so it's not far off.) That got me thinking about the suburb-filled state on the other side of New York City, New Jersey, which isn't as fiscally bad off as Connecticut but is also a very affluent place that has had its share of economic woes lately.

Here's what employment growth in Connecticut and New Jersey looks like compared with the U.S. as a whole. (I use employment growth instead of gross domestic product because there are longer data series available; the GDP trajectories from 2005 look similar.)

Slow-Growth States

Nonfarm employment, indexed to January 1990 = 100



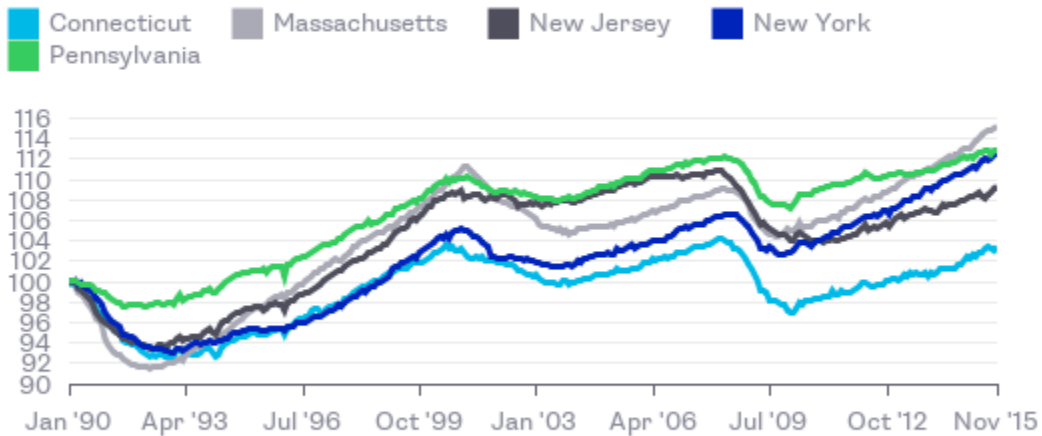
Source: Bureau of Labor Statistics

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Connecticut and New Jersey have been growing much more slowly than the country as a whole. Of course, they're densely populated states with mature economies, so you wouldn't expect them to grow as fast as Texas or Florida. What matters is how they compare to their neighbors.

Even Slower Than the Neighbors

Nonfarm employment, indexed to January 1990 = 100



Source: Bureau of Labor Statistics

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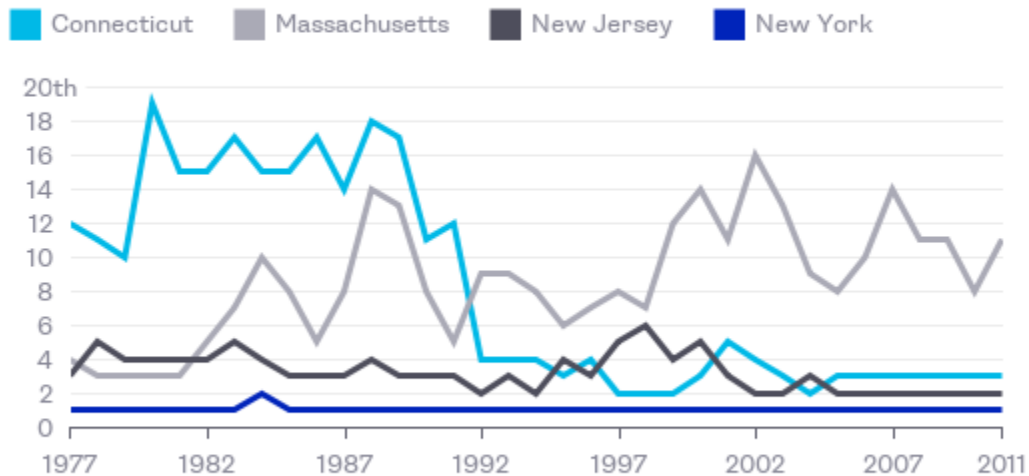
Connecticut has definitely been the growth laggard. New Jersey was doing fine until the last recession, but has been a basket case since. Meanwhile, Massachusetts is having another

economic miracle, Pennsylvania is doing pretty well and New York, after decades of anemic growth, has made a big comeback since the recession.

Let's first consider the possible role of taxes. Here are the states' tax-burden rankings, as calculated by the Tax Foundation, from 1977 to 2011; I left off Pennsylvania, whose rankings were mostly in the high teens in the 1980s and 1990s and was at No. 10 in 2011, because it made the chart really hard to read.

Trading Places

State-local tax burden ranking (1st = highest taxes)



Source: Tax Foundation

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Connecticut's taxes went from moderate to high, while Massachusetts' went from high to moderate (it scores even better on the Tax Foundation's Business Tax Climate Index). So that Cato guy may be onto something. But New York has been No. 1 in tax burden almost every year, yet it's growing faster than Connecticut and New Jersey. Clearly, taxes don't explain everything.

Same goes for inequality: Connecticut is the most unequal state as measured by the Economic Policy Institute's top-to-bottom ratio, which divides the average income of the top 1 percent of taxpayers by the average income of the other 99 percent, but New York is almost tied with it, and Massachusetts comes in fourth place. One product of this inequality is high real estate prices relative to median household incomes, which could be holding back job growth. Bloomberg estimates that New Jersey has the least affordable real estate in the country, while Connecticut is tied for fifth-least-affordable with Vermont. But Massachusetts is tied for second (with California).

Then there's my cities-versus-suburbs thesis. New York, Massachusetts and Pennsylvania are home to the central cities of giant metropolitan areas -- the New York, Boston and Philadelphia combined statistical areas are the nation's first, sixth and eighth largest. Connecticut and New Jersey don't have anything like that. The Hartford CSA comes the closest, ranking 36th

nationally with a population of 1.5 million. But its central city has only 124,705 people; it's basically all suburbs.

That doesn't prove anything, of course. But I have the feeling that in an age of cities, Connecticut and New Jersey have lost some of their attractive force. Key industries -- finance and insurance in Connecticut, pharmaceuticals in New Jersey -- have suffered big job losses, and there isn't much in the wings to replace them. Neither state is a major magnet for new college graduates, or for venture capital investment. Connecticut ranked 11th among the states in incoming VC investment in 2014, and that was an unusually good year; New Jersey ranked 17th. Massachusetts and New York, meanwhile, were Nos. 2 and 3 behind California.

Connecticut and New Jersey were early manufacturing powerhouses that weathered the decline of industrial employment in part by riding the great 20th century wave of suburbanization. That wave may be receding, at least in the Northeast. Which probably means more tough times ahead for both.

- 1. I left off far-less-populous neighbors Delaware, New Hampshire, Rhode Island and Vermont because they're less comparable and there are only so many lines I can fit on a chart. In case you're wondering, though, employment has grown even faster in Delaware and New Hampshire since 1990 than in Massachusetts, and almost as fast in Vermont. Rhode Island's employment growth has been faster than Connecticut's, but slower than New Jersey's.*
- 2. The Census Bureau's broadest measure of metropolitan population.*