

THE

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# Connecticut Economy

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## How Bad Is It?

Struggling to Get Ahead

Income Inequality by Region

Taxing Highway Fuels and Real Property

# Nutmeg Haves and Have Nots: How Wide the Divide?

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*The large differences between mean and median family income indicate substantial inequality in living standards.*

**In case you hadn't heard, Connecticut won the state per capita income sweepstakes again this year. Indeed, Connecticut has led the nation in that measure for 22 years now. But per capita income is an average—just take total state income and divide it by total state population—and averages can hide important differences.**

The 2006 American Community Survey (ACS), conducted by the U.S. Census Bureau, allows us to take a closer look at how Connecticut families are doing, and in particular at whether family-income averages hide differences in living standards within and across Connecticut's regions.

With the ACS, we can compare living standards in six large regions in the state, each with at least 400,000 people. (All comparisons below are before income taxes. After-tax comparisons is a subject for further research.)

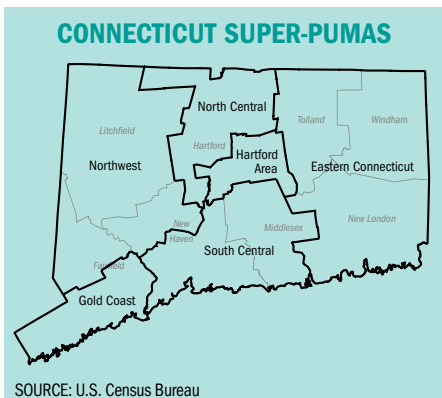
Each large region is a "super-PUMA" (Public Use Microdata Sample Area). Connecticut's six super-PUMAs are: (a) Gold Coast, (b) Northwest, (c) North Central, (d) South Central, (e) Hartford Area, and (f) Eastern Connecticut. Their boundaries are superimposed over Connecticut's coun-

ty boundaries in the map below. The State drew the boundaries between regions for the ACS, so that they define meaningful economic areas.

## MEAN OR MEDIAN?

Connecticut is the richest state in the nation by mean family income as well as by per-capita income. The table below shows that Connecticut is the only state with a six-digit mean family income. But it also shows that statewide averages can hide stark differences across regions: mean family income in the Gold Coast is twice as high as in the Hartford area. (Even so, Hartford's figure is higher than Washington state's, ranked 12th nationally).

Mean family income, of course, may not reflect how well most families live. Median family income, which splits the sample in half, is a better gauge of typical family living standards. Ordered by median income, Connecticut's regions keep the same ranking, but the dispersion is smaller. (Median family income in the Gold Coast is only 1.4 times that in the Hartford Area, compared with 2.0 for the mean measure). More important, the large difference between mean and median family income in every region indicates substantial inequality in fam-



State Rank: Mean Family Income	Mean Family Income (\$)	Connecticut Region Rank: Mean family Income	Mean Family Income (\$)	Median Family Income (\$)
1: Connecticut	103,135	1: Gold Coast	157,953	94,135
2: New Jersey	97,603	2: North Central	108,746	90,000
3: Maryland	94,944	3: Northwest	101,320	82,300
4: Massachusetts	91,422	4: South Central	90,723	76,153
5: Virginia	85,537	5: Eastern Connecticut	87,704	76,000
6: Hawaii	84,920	6: Hartford Area	78,626	65,100

SOURCE: *The Connecticut Economy*, based on the authors' analysis of Census Bureau data.

ily living standards in the Nutmeg State.

## LORENZ CURVES AND GINIS

Lorenz curves portray the extent of inequality by plotting the cumulative population share against the cumulative income share. If every family had the same income, the Lorenz curve would trace the central diagonal of a box formed by the two axes. The more a Lorenz curve departs from the central diagonal, the greater the inequality.

The figure below shows the Lorenz curves for the Gold Coast, and for the average of the other, closely clustered, five super-Pumas. All regions exhibit substantial inequality, but it is more marked in the Gold Coast than in the rest of the state.

Gini coefficients derived from the Lorenz curves provide another measure of inequality. A Gini coefficient is the ratio of the area bounded by the Lorenz curve and the central diagonal to the entire area under the central diagonal. If the Lorenz curve coincides with the central diagonal, then the value of the Gini coefficient is equal

to zero, and there is no inequality. If one person has all the income, then the Lorenz curve coincides with the south and east borders of the box, and the Gini equals 1.0.

The Gini coefficient of family income inequality for all of Connecticut is 0.43, close to that for the U.S. as a whole, 0.41, and moderately high by international standards. World Bank data put the Scandinavian countries in the range of 0.25 to 0.27, while the rest of Western Europe falls between 0.31 and 0.36. Canada's Gini is 0.33, while Mexico's is 0.46. Currently, Colombia holds the record for the highest Gini coefficient of any country, 0.59.

Connecticut's regional Gini coefficients lay out as follows. Eastern Connecticut and the North and South Central regions have Gini coefficients of 0.34, 0.37, and 0.37, respectively. The South Central and Hartford regions exhibit somewhat higher inequality at 0.40 and 0.41. But inequality in the Gold Coast is a whopping 0.51, greater even than Mexico's.

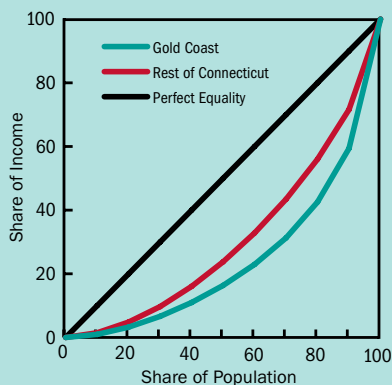
## DRILLING DOWN

To dig beneath the surface of inequality in Connecticut, we rank-ordered families from poorest to richest in each region and then summed the income up the distribution until the amount of income was equal to the income earned by the best-off 10% of families.

The results are startling. As the bar chart shows, you'd have to combine the incomes of the poorest 78.5% of Gold Coast families to amass the total income received by the region's richest 10% of families. Even in Eastern Connecticut, total income of the rich-

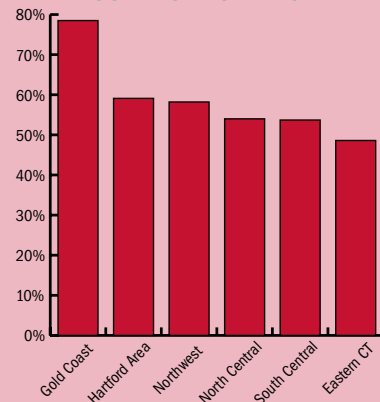
*You'd have to combine the incomes of the poorest 78.5% of Gold Coast families to equal the income of the richest 10%.*

### BOWED LORENZ CURVES CAPTURE THE EXTENT OF CONNECTICUT'S INCOME INEQUALITY



SOURCE: *The Connecticut Economy*, based on the authors' analysis of Census Bureau data.

### CUMULATIVE % OF LOWEST-RANKED FAMILY INCOME NEEDED TO MATCH INCOME OF TOP DECILE



SOURCE: *The Connecticut Economy*, based on the authors' analysis of Census Bureau data.

*Hartford's bottom-decile mean income is barely more than what a half-time minimum-wage job would bring in.*

est 10% of families matched that of the poorest 49% of families.

The last column of the table on page 6 shows the ratio between the mean income of the richest and poorest 10% of families. The mean income of the top decile of Gold Coast families is an eye-popping 42.2 times that of the poorest decile. The same ratio is only 12.5 in Eastern Connecticut.

Is inequality high in Connecticut because some very rich families choose to live here, or is it high because some families are extremely poor? It matters.

First imagine that your family had a comfortable lifestyle and then wealthy families moved into town. Next, suppose that your family had a comfortable lifestyle but then you lost your job. In the first case, except for possible pangs of envy, you would be no worse off, but in the second case you would be.

To see which of the two factors accounts for the difference in inequality between Connecticut's regions, we compared the average income of the poorest 10% of families in each region with the average income of the richest 10% of families. In the table below, it is clear that a major factor behind the higher inequality levels in the Gold Coast is that some families with very high incomes live there: the mean income of the top decile of families vastly exceeds the mean incomes of their counterparts in other regions. Similarly, the top 10% of families in Eastern Connecticut, the region with the lowest inequality, has lower mean income than in any other region, suggesting that inequality is lower there

because fewer high-income families live in the region.

A look at the other end of the distribution shows that both forces are at work. While the Hartford region has the second highest Gini coefficient, it is not because particularly rich families have chosen to locate there, but rather because some families have unusually low incomes. At \$8,307, the mean income of the poorest 10% of families in the Hartford region is substantially below the mean income of the bottom 10% of families in all of the other regions. At the current minimum wage of \$7.65, Hartford's bottom-decile mean income figure is barely more than what a half-time job would fetch.

Interestingly, the mean income of the poorest 10% of Eastern Connecticut families is the second highest, and the mean income of the poorest 10% of Gold Coast families is lower than in both the North Central and Eastern Connecticut regions. Thus, the extreme inequality in the Gold Coast reflects both hard times for the poorest families and good times for the richest.

### STILL TO COME

What accounts for the differences in family income within and across Connecticut's regions? In further work, we will take a closer look at that question. Demographics, numbers of family earners, labor market skills, education, and discrimination are among the possible factors to be considered.

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#### MEAN INCOME OF POOREST AND WEALTHIEST 10% BY REGION

Region	Mean Income (\$) Poorest 10%	Mean Income (\$), Richest 10%	Ratio: Richest 10% to Poorest 10%
Eastern Connecticut	17,507	218,627	12.5
Gold Coast	15,181	640,234	42.2
Hartford Area	8,307	229,697	27.2
North Central	19,804	310,197	15.7
Northwest	14,214	302,806	21.3
South Central	13,923	249,624	17.9
<b>Connecticut</b>	<b>14,046</b>	<b>361,583</b>	<b>25.7</b>

SOURCE: *The Connecticut Economy*, based on the authors' analysis of Census Bureau data.