

**Income Inequality in Connecticut:
How an Uneven Tax Burden Reinforces Disparities and Fails to Provide Opportunities to
Low-Income Residents**

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Abstract

Income inequality has been on the rise in the United States for nearly half a century. Connecticut, like other northeastern states, has seen an especially dramatic increase in inequality, rapidly shifting from the 27th most unequal state to the 3rd in just 15 years. This paper analyzes the state government's imperative to act by reviewing the factors leading to inequality (including geographic location and modernizing industries), the current state of inequality, and the current tax system in Connecticut and comparing this tax system to the recommendations for decreasing inequality made by economists and policy analysts. This analysis shows that the current regressive tax system and the policy decisions which have led to it may be in defiance of economists' recommendations and are contributing to the rising inequality in the state. Additionally, the unique location of Connecticut next to the urban agglomeration economy of New York City and the concentration of wealth in neighboring Fairfield County, as well as recent research on the migration patterns of wealthy residents in response to taxes, suggests that a dramatically more progressive tax system may be successful in decreasing income inequality in the state. Implementation of the recommendations made by economists and policy analysts summarized in this paper is likely to lead to a more equitable distribution of income in the state and slow the dramatic rise of inequality seen in recent decades.

Introduction

Since the 1970s, the share of income captured by the top 1% of Americans has skyrocketed (Sommeiller & Price, 2019). Income inequality has become a pervasive issue in American politics, and politicians have increasingly made appeals to the working class and come out openly against the massive hoarding of wealth undertaken by the nation's wealthiest. Representatives on both sides of the aisle have claimed to recognize those left behind by our economic and political systems. Despite recognition of the problem, however, strides toward a more equitable distribution of income have yet to be made. This issue of income inequality exists globally, nationally, and even at the state and local levels. While the federal government continues to fail to act, the states have an imperative to approach the issue. The State of Connecticut is an example of a state which is in dire need of action. Connecticut is the third-most unequal state in the nation based on the income ratio of the top 1% to the bottom 99% of residents. The wealthiest 1% of Connecticut residents make 37.2 times more than the bottom 99%, far higher than the national ratio of 26.3 times more—suggesting that the need for action is critical (Sommeiller & Price, 2019).

In order to act properly against this crisis, it is important to understand the state of Connecticut and how it reached this point, as well as how the state could act to begin to reverse this trend of wealth concentration. This paper will delve into the question of income inequality in Connecticut by reviewing a brief history of the state's economic makeup and inequality in the state, reviewing the factors leading to inequality in Connecticut and how the state is similar and different from others, describing the current state of taxes in Connecticut, and finally, describing how progressive tax changes could affect income inequality in Connecticut. I conclude that the current tax system in the state of Connecticut places a heavier burden on the poor and that a more even burden of taxes would both increase incomes directly for low-income residents as well as raise revenue which could be used to fund social programs that would reduce income inequality by providing services or directly redistributed funds.

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The State of Connecticut

Connecticut is in a unique position geographically and economically. Like most northeastern states, it is wealthier on average than the rest of the nation, with a median household income of \$78,444 as compared to the national median of \$62,843 from 2015-2019, in 2019 dollars (U.S. Census Bureau, 2019). It is positioned in between the major metropolitan centers of Boston and New York City but has no true metropolitan center itself. However, its proximity to New York City allows portions of the state to benefit from the economic activity centered in the city. Important to understanding the income distribution in Connecticut is the lack of major cities across the state and the concentration of wealth in cities and towns near New York. Large portions of the northern part of the state are classified as rural by the Connecticut Office of Rural Health, as seen by the map in Figure 1. These rural towns are less likely to benefit from the economic activities of urban centers. Additionally, the urban centers further north such as Waterbury, Middletown, and New Britain tend to have overall lower incomes and much higher poverty rates than those in Fairfield County as seen in Figures 2 and 3 (Bennett, 2019). Figure 4, displaying the Gini coefficient¹ of individual towns, shows how there are great disparities within some cities and towns in Fairfield County, but also in some cities such as New Haven and Hartford (Moran, 2013). These dichotomies suggest that income inequality exists in multiple, complex forms throughout the state. Not only are there major disparities between the urban centers and rural areas, but there is also income inequality between cities and within cities. Much of these disparities appear centered around the proximity of towns and cities in Fairfield County to New York City, showing that this region needs particular attention in order to address the income disparities in Connecticut.

Important to the conversation of economic inequality is the topic of race. Connecticut's racial demographic breakdown is not unsimilar to the nation's, however, it is slightly whiter overall. According to the U.S. Census, 79.7% of Connecticut's population is white, as compared to the nation at 76.3%. People identifying as Black or African American make up 12.2% of the Connecticut population, and Hispanic or Latino at 16.9%; this is both somewhat lower than the nation at 13.4% and 18.5%, respectively (U.S. Census Bureau, 2019). However, looking at the map in Figure 5 from DataHaven as well as the focused views of the Hartford-Waterbury and New Haven-Bridgeport areas in Figures 6 and 7, respectively, it is clear that much of Connecticut's nonwhite population is clustered in urban areas. Additionally, Figures 5, 6, and 7 note that some of the least white areas in Connecticut contain "racially-concentrated areas of poverty" (RCAPs) or near-RCAPs, defined as areas with a minority population over 50% and a poverty rate of over 40% or between 20-40%, respectively (Buchanan & Abraham, 2015). Alarmingly, these racially concentrated areas of poverty appear to match the areas with the highest poverty levels in Figure 3. Figure 8, from a July 2019 analysis from the Governor's Commission on Women and Girls, shows wide disparities between full-time white employees and full-time minority employees, providing more evidence that the issue of income inequality in the state is not just a question of economic opportunity, but also a question of racial justice. The disparities across income and race provide an imperative for the state to take action to reverse these trends, particularly as the federal government continues to fail to take action.

Causes of Inequality in Connecticut

While the nation's economy has shifted rapidly, Connecticut's changes have been comparatively more severe. Over the past few decades, the state's economy has radically changed across a number of factors including overall inequality, geographic economic disparities, and industry. According to a 2007 study by Gittell and Rudokas using data from the U.S. Census and the American Community Survey (ACS), in 1989, Connecticut's Gini coefficient on household incomes, measuring how far an economy is from a perfectly equal distribution of income on a scale of 0 to 1, was 0.414. The United States as a whole had a Gini coefficient of 0.433, and Connecticut ranked 27th in the nation by its Gini coefficient (Gittell

¹ The Gini coefficient (or index) is a measure of inequality in a population which describes how far that population deviates from a perfectly equal distribution of income. A coefficient of 0 would indicate a perfectly equal distribution of income, whereas a coefficient of 1 would indicate a perfectly unequal distribution of income.

& Rudokas 2007). Another study from the University of Texas Inequality Project (Galbraith & Hale, 2006) using a model to estimate Gini coefficients across the late 20th century found that Connecticut had a coefficient of 0.337 in 1970—however, it is notable that this estimate deviated from the previously mentioned study, measuring a Gini coefficient in Connecticut of 0.381 in 1969. Nevertheless, it is important to note that every measure of income inequality in Connecticut has shown a massive change since the second half of the 20th century (Galbraith & Hale, 2006; Gittell & Rudokas 2007). The data from Gittell and Rudokas (2007) found that Connecticut's Gini coefficient rose by 0.064 from 1989 to 2004, up to 0.477. This made Connecticut the third most unequal state in the nation, and over this time period, it had the highest growth in inequality of any state in the nation. By 2004, the state was more unequal than the nation as a whole (measuring at a Gini coefficient of 0.464), completely reversing its prior standing. This radical shift in Connecticut's economy has brought the state to this current crisis point, with a Gini coefficient of 0.502 in 2019 according to a U.S. Census report (Guzman, 2020).

In attempting to explain this shift in the Connecticut economy, it is helpful to analyze the situation in other states and regions that are similar to Connecticut. Gittell and Rudokas' 2007 study, titled "Changes in Income Distribution in New England" (2007) addresses the region as a whole. They note that in 2004, states in this region were generally doing better economically than the rest of the nation and that Connecticut, Vermont, and Massachusetts in particular had some of the lowest poverty rates in the nation. While Connecticut is unique in having the highest Gini coefficient change from 1989 to 2004, Gittell and Rudokas (2007) find a similar trend of high Gini coefficient growth across New England. On average, there was higher income growth at the top of the income distribution and greater decline in real household incomes at the bottom of the income distribution in New England from 1989 to 2004 (Gittell & Rudokas, 2007). In essence, wealth is being concentrated among the wealthy and the poorest are growing poorer across the region at a greater rate than the rest of the nation.

Gittell and Rudokas (2007) find that the cause for these opposing trends is rooted in globalization, technological advancements, and a decline in unionization. Demand for low and moderately skilled workers has dramatically decreased while demand for highly skilled workers with extensive education and training has dramatically increased. This increased demand for high-skilled workers is seen not only in New England but also in California, which also saw a large increase in income inequality. States like Mississippi, Louisiana, and Oklahoma, which had the lowest increase in income inequality from 1989 to 2004, had the lowest percentage of jobs in high-skilled industries (Gittell and Rudokas, 2007). While these high-skilled industries grew, manufacturing sharply declined in New England. The region led the nation in the loss of manufacturing jobs in the 1990s and 2000s. Connecticut in particular saw a 34% decrease in manufacturing employment from 1990 to 2004 as jobs went to lower-cost areas or technology eliminated the need for physical labor (Gittell & Rudokas, 2007). Gittell and Rudokas (2007) predicted that these trends will continue and that opportunities continuously disappear for low and moderately skilled workers. The authors, writing just prior to the financial crisis, likely did not expect the effects the Great Recession would have on the economy. One study found that wealth was lost disproportionately among lower-income, less-educated, and minority households (Pfeffer et al., 2018). Looking at the maps in Figures 2, 3, and 5, Gittell and Rudokas' (2007) findings are especially troubling. Rural areas and former factory cities with high minority populations like Waterbury and Danbury are seemingly on track to become more unequal should the trends seen over recent decades not be reversed or at least halted.

The loss of jobs and opportunities in rural areas and poverty-stricken cities is not the full story of inequality in Connecticut. As was mentioned earlier, the proximity of Connecticut to New York City has major implications for the state and income inequality. Fairfield County is where many in the area have access to the high-skilled jobs that Gittell and Rudokas (2007) point to as exacerbating inequality in New England. Jaison R. Abel and Richard Deitz (2019) pose the question of why some places, like Connecticut, are so much more unequal than others in their 2019 study. Abel and Deitz (2019), like Gittell and Rudokas (2007), point to skill as the major cause of inequality in the United States, explaining that technology and globalization have decreased demand for low-skilled workers and quickly increased demand for high-skilled workers. However, Abel and Deitz (2019) focus on metropolitan areas, particularly New York City and the areas surrounding it. Rather than using the Gini coefficient, they use

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the 90/10 ratio, which they explain “represents the wages earned by a worker at the 90th percentile of the wage distribution divided by the wages earned by a worker at the 10th percentile in each place,” (Abel & Deitz, 2019, pp. 61). They note that Fairfield County, Connecticut has the highest ratio, at 8.7, and that the Boston-Washington corridor holds a number of the areas with the highest 90/10 areas. Abel and Deitz paint a clear picture that something is different about these metropolitan areas which creates these disparities.

In order to explain the extreme inequality in these metropolitan areas, Abel and Deitz (2019) point to three main factors: relative demand for skilled and unskilled workers, urban agglomeration economies, and the migration of skilled workers. These urban agglomeration economies, created when many people and firms locate near one another in cities, have led to higher productivity wages for skilled workers. These benefits, Abel and Deitz (2019) explain, are largely not passed on to low-skilled workers in these areas. This is partly due to shared knowledge and networking among those in these higher-skilled jobs that allow for more learning and better job-matching in these urban agglomeration economies. Additionally, high-skilled workers have continued to move toward cities and areas where they can reap the benefits of these urban agglomeration economies (Abel & Deitz, 2019). This migration, coupled with the uneven benefits of the urban agglomeration economies, has led to a massive separation between the low-skilled and high-skilled workers in these areas, driving the unique trends of income inequality seen in places like the New York City metropolitan area. In examining the New Jersey-Northern New York metropolitan areas, they find that upstate New York has had slow wage growth, in part due to losses in manufacturing and a low demand for skilled jobs because of the lack of urban agglomeration economies in the area. This trend in upstate New York is likely very similar to the trends in neighboring northern Connecticut, where low-skilled jobs have left, and urban areas do not have the level of concentration seen in southern Connecticut as part of the urban agglomeration economy of New York City.

Gittell and Rudokas (2007) as well as Abel and Deitz (2019) point to major shifts in inequality unique to New England and especially the New York City metropolitan area. The general national trends of decreasing demand for low-skilled jobs and increasing demand for high-skilled jobs as a result of globalization and technological improvements have led to inequality across the United States, especially near the urban agglomeration economies. However, the wealth of New England and the benefits of urban agglomeration economies in the New York City area have both exacerbated the issue of inequality in places like Connecticut. The combination of having wealth to gain skills for high-paying jobs and having access to the urban agglomeration economies allows the wealthier residents of Fairfield County to continue making huge gains in income while rural areas and poorer cities in other parts of the state lose their industries and opportunities, creating the disparities seen today. Recent economic literature on the functions of development and inequality suggests that without action by the government, Connecticut may continue to see these disparities increase, which may in turn create even more dire and complex problems the government cannot ignore in the future (Banerjee, et al 2006).

Unequal Burdens in Connecticut’s Tax Structure

Connecticut’s tax structure can play a role in changing the trends of inequality in the state. The state as a whole is generally regarded as fairly progressive as compared to the rest of the nation. Its tax system is rated as the eighth most progressive in the nation by the Tax Foundation, and the system does have some progressive features not found in other state tax systems (Stone, 2017). In 1991, the state imposed a personal income tax for the first time at a flat 4.5% rate. Since then, the tax has been revised numerous times, now including seven different brackets ranging from 3% for those filing jointly making under \$20,000 to 6.99% for those filing jointly making over \$1,000,000. According to the Tax Foundation, nine states have a flat income tax rate, while seven don’t have a state income tax at all (Loughead, 2020), placing Connecticut ahead of a number of other states in terms of having a progressively structured income tax system.

While the existence of the income tax system in Connecticut is encouraging, it is not the whole picture. The state levies a number of other taxes including property taxes, excise taxes, and sales taxes. Recently, the state government proposed imposing tolls across the state’s roads, which was met with

backlash from some residents of the state who feel they are taxed too heavily. While some of these roads are often used by non-residents, it is true that residents' tax burdens are already heavy and that further taxes of this nature, being less progressive, could have negative effects on their economic standing. In 2013, the Connecticut General Assembly charged the state's Department of Revenue Services (DRS) to create an extensive study on tax incidence in the state with the goal of providing more clarity on the state of taxes and their effects to policymakers. In 2014, the Connecticut DRS released its report which included an extensive review of the effective tax rates and the tax burden faced by different residents of the state. Overall, the report found that lower-income households bear a massive amount of the tax burden. In a breakdown by income deciles, with each decile making an equal share of Connecticut's total 2011 Adjusted Gross Income (AGI), the DRS found that households in the bottom decile (those making up to \$47,948) had an effective tax rate of 23.62% and held 20.4% of the tax burden. In comparison, the top decile (those making \$13,194,829 and up) had an effective tax rate of 5.4% and held 6.28% of the tax burden. In another breakdown, this time by population deciles (with each decile including 10% of the population, from lowest to highest income), the DRS found an overall effective tax rate of 26.62% on the second decile (those making \$5,533-\$16,245), the lowest with an accurate measure, and an effective tax rate of 8.18% on the highest decile (those making above \$165,394). Figure 9 shows the effective tax rates by decile for each of these analyses, showing high effective tax rates for the bottom deciles and much lower effective tax rates for the highest deciles. These findings support the notion that the poorest in the state are facing high effective tax rates and a heavy tax burden while the wealthiest feel only minor effects from state taxes.

Looking deeper into the tax system, the problems become more apparent. Overall, the DRS found that the Connecticut tax system is slightly regressive, with a Suits Index² measure of -0.22. Contributing most heavily to this based on the Suits Index are three taxes: property taxes (-0.39), sales and use taxes (-0.39), and excise taxes (-0.67). Of note is the fact that these three regressive taxes, combined, bring in just over 60% of Connecticut's revenue. Only two taxes found in the DRS report are progressive according to the Suits Index: the personal income tax (0.11) and the gift and estate tax (0.67). Policy group Connecticut Voices for Children released a report in 2020 authored by Patrick O'Brien examined the DRS tax report which further analyzed these three regressive taxes. The property tax is set individually by each of Connecticut's towns. O'Brien found that towns with higher median incomes had a lower average property tax rate than towns with lower median incomes. Specifically, the top ten towns by household income had an average rate of 2.6%, while the bottom ten towns had an average rate of 4.9%. Even more alarming is that these bottom ten towns include five of the state's largest towns by population (Bridgeport, New Haven, Hartford, Waterbury, and New Britain) as compared to only one (Greenwich) in the top ten of household incomes (O'Brien, 2020). This imbalance shows that localities are placing higher tax rates on poorer residents rather than collecting more taxes from wealthier residents, for whom houses generally make up less of their total wealth. The sales and excise taxes are more plainly visible as regressive in that items (or the quantity of an item, for the excise tax) are taxed flatly at the same rate. The excise tax is especially regressive; O'Brien uses the example of the excise tax on beer to illustrate this. He points to the fact due to the excise tax on alcohol, a working-class family would pay the same amount for a cheap case of beer as a wealthier family would pay for an expensive case of beer, even though tax places a smaller burden on the wealthier family, the beer of a higher quality, and both are receiving the same amount of the product. This makes the excise tax the most regressive, as noted by the DRS report.

The lack of progressive taxes in Connecticut is alarming. That most of the state's tax revenue is derived from regressive taxes and that only two of the taxes imposed are progressive poses a major issue for the state. O'Brien cites the Institute on Taxation and Economic Policy in noting that when incomes are more unequal after state and local taxes are collected than they are before, that tax system is not

² The Suits Index is a measure of tax progressivity which describes how equally taxes are applied across income levels in a population. A Suits Index measure of 0 would indicate that each person pays an equal share of their income in taxes. A positive measure would indicate that wealthier people are paying a larger share of their income in taxes as compared to those with less wealth, whereas a negative measure would indicate the opposite.

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progressive. In essence, the Connecticut tax system is creating more income inequality while the government fails to adequately act to prevent the economy from doing so naturally, as evidenced by the continuing trend of increasing inequality in the state.

Reforming Taxes and Spending

The case for more progressive taxes in Connecticut is strong. A number of economists and scholars have pointed to benefits arising from progressive taxation both directly and as a result of revenues raised by more progressive taxation. In a 2011 study, Peter Diamond and Emmanuel Saez examined recent tax studies, critiquing and analyzing a number of empirical models. Using their own critiques and models, Saez and Diamond came away with three general recommendations: very high earners should be subject to high and rising taxes on earnings, low-income families should receive earnings subsidies (such as negative income tax credits) which are phased out at high levels, and capital income should be taxed at a significant level. Connecticut partially meets the first two of these at the basic level and fails to meet the third recommendation. The current seven-bracket personal income tax does levy higher taxes on higher earnings, however, in comparison to other states in the New York metropolitan area, its top tax rate is low. According to the Tax Foundation, New York has a top rate of 8.82% and New Jersey has a top rate of 8.97% as compared to Connecticut's top rate of 6.99% (Lougehead 2020). This suggests that Connecticut's top rate is low relative to similar, nearby states also facing the effects of the New York City economy. The state also has an earned-income tax credit (EITC) tied to the federal EITC. Introduced in 2011, it originally matched 30% of filers' eligible federal EITC amount. Since then, it has been cut three times and has been left at a rate of 23% since 2017 (O'Brien 2020). Saez and Diamond's study suggest that these cuts might not have been optimal policy for reducing inequality, as the EITC not only provides cash transfers to families with lower incomes, but also encourages work by having a both phase-in and a phase-out of the credit, essentially subsidizing wages. Finally, Saez and Diamond's third recommendation is largely unmet by the state of Connecticut. Prior to the 1991 bill introducing a personal income tax at a flat rate of 4.5%, the state had taxed capital gains and dividends at rates of 7% and 14% respectively (Phaneuf, 2019). The introduction of the income tax folded these forms of income into the personal income tax, reducing taxes on capital income which are today still at or below the tax rates prior to 1991.

What seems clear from the comparison of Connecticut's tax system to the general recommendations from Saez and Diamond (2011) is that Connecticut could work toward a more optimal tax policy to create fairer taxes and potentially more labor participation. However, there are other general benefits identified of progressive tax systems. Christian E. Weller and Manita Rao analyze the possible economic stability benefits of progressive taxation in a 2010 paper. They find that progressive taxation is connected with greater tax revenues and decreased income inequality generally. These, in turn, are tied to greater economic stability, particularly as governments can use higher tax revenues to create more counter-cyclical spending policies (Weller & Rao, 2010). They also find no evidence of negative effects on economic stability as a result of progressive taxes, primarily because there are no systematic connections between progressive taxes and volatility, growth, or investment (Weller & Rao, 2010). Overall, progressive taxes appear to have the ability to provide a number of benefits to the Connecticut economy.

The Connecticut Voices for Children report (2020) includes suggestions for specific tax policy changes which the state could undertake. O'Brien's first proposal is to create two new tax brackets, the first set at \$2,000,000 for couples filing jointly with a tax rate of 7.99% and another at \$10,000,000 for couples filing jointly with a tax rate of 8.49%. Additionally, capital income would be taxed at a rate 2% higher than the income tax rate for capital income within these top two brackets. The Institute on Taxation and Economic Policy estimates these combined proposals would raise an additional \$502,000,000 in tax revenues, a 2.9% increase in the state's general fund tax revenue (O'Brien, 2020). Not only would this proposal raise a great amount of revenue, but it would also still keep Connecticut's top rates below that of the other states in the New York metropolitan area.

O'Brien's (2020) next proposal is to keep the exemption for the gift and estate tax at \$3,600,000 and to repeal the \$15,000,000 collection cap on the tax. This would raise another \$100,000,000 according to The Institute on Taxation and Economic Policy. Important to note is that the DRS report reported this to be the most progressive tax out of all of the forms of taxation in Connecticut. This tax could also completely pay all but one of the options in O'Brien's next proposal: to increase the state EITC amount to either 30%, 40%, or 50% of the federal EITC amount, costing an additional \$34.7 million, \$84.1 million, or \$133.7 million annually, respectively (O'Brien 2020). Any of these increases, O'Brien notes, would mostly benefit low-income families by decreasing their tax burden.

O'Brien's final recommendations are to create a state Child Tax Credit (CTC), which would be a percentage of the federal CTC, and to continue to require the DRS to put out tax incidence reports every two years. The state CTC, which O'Brien proposes could match 30% to 50% of the federal CTC, would cost between \$376 million and \$627 million depending on the matching rate; this would appear to use up most or all of the new revenue generated from the aforementioned tax proposals. O'Brien's recommendation to require the DRS to create tax incidence reports like the 2014 report biennially is in line with the original legislative action requesting the report. Lawmakers have since stopped the report from being made, and the next is not due until 2022 (O'Brien 2020). This report would help improve tax transparency in the state and would allow lawmakers to see how their actions are making the tax system more or less fair.

O'Brien's (2020) recommendations are solidly defended and would have great impacts on the Connecticut tax system and on the inequality faced by the state. Of his recommendations, the income tax increase (including the capital income tax increase) and the EITC increase appear to closely follow Diamond and Saez's (2011) recommendations. Furthermore, the progressivity of the gift and estate tax suggests that the changes in this tax could lead to some of the benefits identified by Weller and Rao's (2010) study. While the Child Tax Credit would provide residents in need with a great amount of income, it is possible that the additional income not used on the EITC increase could be used on policies to better target some of the sources of inequality in Connecticut. The inaccessibility of areas with greater economic opportunities to the more rural areas and poorer urban areas of the state could begin to be addressed with transit policy. The more general issue of a lack of skills among many workers could be addressed with more targeted programs to increase skills, such as subsidized college tuition or training programs; however, it is important to note that the CTC would also be expected to have positive impacts on educational opportunities for children in the state. The funds raised from the aforementioned tax increases could pay for these alternative programs which could be more targeted to the issues leading to long-term income inequality.

An alternative idea would be to raise taxes beyond those proposed by the Connecticut Voices for Children report (2020). While this report appeals to the idea of competitiveness among states and is concerned with keeping taxes below those of neighboring states, targeting the root causes of inequality in Connecticut may require substantial revenues raised by taxes that are higher than those in areas that might compete with the state. Bordering Westchester County, New York, is likely to be the main area of competition for the wealthiest Connecticut residents who would face higher taxes under a more progressive tax system. Both Westchester and Fairfield counties are served by the Metro-North Railroad, providing access for residents of each county to nearby New York City. The counties are similar geographically, but Westchester is physically closer to New York City. Importantly, both are attracting new residents at a similar rate (Lyton 2018).

Policymakers may fear tax competition with this bordering county may lead to an exodus of the wealthiest Connecticut residents whom progressive tax proposals would target. Some studies refute this notion, suggesting that the wealthy are not nearly as mobile as policymakers and economists have previously considered them to be. One study, from Young, Varner, Lurie, and Prisinzano (2016), analyzed whether millionaires will seek to migrate to lower-tax states from higher-tax states. The authors find that while millionaires do move with taxes in mind, they are only one factor in the decision-making process. Consequently, the amount of migration as a direct result of higher taxes is statistically minimal, even on state borders. In fact, they note that millionaires change states less often, on average, than the rest

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of the population. Young and colleagues (2016) estimate a population elasticity of about 0.1, meaning a 10% increase in top tax rates would lead to 1% of millionaires in a state to migrate elsewhere. This finding suggests that Connecticut could potentially impose larger tax increases than suggested in the Connecticut Voices for Children report (2020). The findings in this study are contrary to popular ideas in state and local policy scholarship, and the authors note this (Young, et al., 2016). However, a 2018 study by Whitney Alfonso on Connecticut partially backs up the findings in the prior study. Alfonso (2018) analyzes the effects of the 1991 income tax on migration in and out of the state, but only looks at general movement and not only that of the wealthiest. She finds that the general consensus challenged by Young and colleagues (2016) may be overstated and that tax flight may not be the barrier many state policymakers fear it is. Alfonso's (2018) results suggest that while tax increases may somewhat decrease movement into the state, such increases have no significant effect on movement out of the state.

To explain the apparent lack of movement of residents based on tax increases, Young, Varner, Lurie, and Prisinzano (2016) present the “embedded elites” theory, suggesting that there are costs associated with moving, including social and network costs. Also contributing to this embedding of elites are their family responsibilities and higher rates of business ownership, which could prevent them from leaving the areas where they’re situated. The current economic activity in Fairfield County and New York City could provide business incentives for millionaires to stay in Connecticut, as could the network advantages created by the urban agglomeration economies in these areas. Additionally, Westchester County employs a complex system of taxes with a variety of layers not found in Connecticut, and in a number of instances, Fairfield County currently is competitive on tax rates (Bosack 2018). Progressive tax proposals might diminish this competition, and while the aforementioned apparent rigidity of the wealthy might anchor them in Connecticut, the state could also choose to use new tax revenues to compete on services and further embed its elites. Improving and extending transit services to and from New York as well as strong public-school systems which can compete with expensive private schools could provide incentives for the wealthy to continue migrating to Connecticut and staying in the state, but both also have the benefit of being able to serve residents regardless of income. An additional benefit in favor of embeddedness of elites in Fairfield County is the shortage in housing supply which Westchester County is facing which has been worsened as a result of migration during the COVID-19 pandemic (Lyton 2018, Carmiel 2021). Each of these factors provides evidence that the migration patterns in and out of Connecticut could follow the embedded elite model, reducing migration out of the state and keeping the current tax base available for taxation. These results are promising for proposals that would include larger tax increases, which could potentially allow for both the aforementioned targeted policy changes and the spending policies suggested by O’Brien (2020) in the Connecticut Voices for Children report.

Conclusion

The nation faces a growing crisis in the form of income inequality. While inequality is increasing across the country, certain areas (particularly those in close proximity to metropolitan areas) are seeing inequality grow at increasingly alarming rates. Connecticut in particular faces the issue of a portion of the state benefiting from proximity to the New York City metropolitan area, while the rest of the state’s economy stagnates and loses opportunities to technology and globalization. A skills gap prevents many in rural areas and poorer urban areas from gaining the income growth enjoyed by wealthier, skilled workers with access to the urban agglomeration economy of the city. While Connecticut’s tax system could help reduce income inequality and government spending could target the disparities in skills and access to economic opportunities, the state currently does not act to do so. Instead, the state relies on regressive taxes and fails to provide fiscal policy that could help the state’s poorest residents.

Changes to the government’s current tax system to increase its progressivity could help change the economic trends seen in the state. More progressive taxes, particularly through higher tax rates on the richest residents of Connecticut and an emboldened state EITC, could have impactful changes. However, some studies suggest that state income taxes could be dramatically increased without losing the wealthy tax base progressive taxes would hope to target. If this is the case, in order to create a more progressive tax system, reduce disparities, and begin targeting the roots of inequality in Connecticut, the state should

radically increase income taxes on the wealthy, reduce the tax burden of the poorest residents through large changes to the EITC, and spend on programs which would target poorer residents' skill disparities and inability to access economic opportunities. The dire state of income inequality and the rapid rate at which it is increasing in Connecticut provides an imperative for the state to act and evidence that not only is bold action possible but could lead to a number of benefits for the state and its residents.

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**Appendix
Figure 1**

Retrieved from <https://www.ruralhealthct.org/towns.htm>

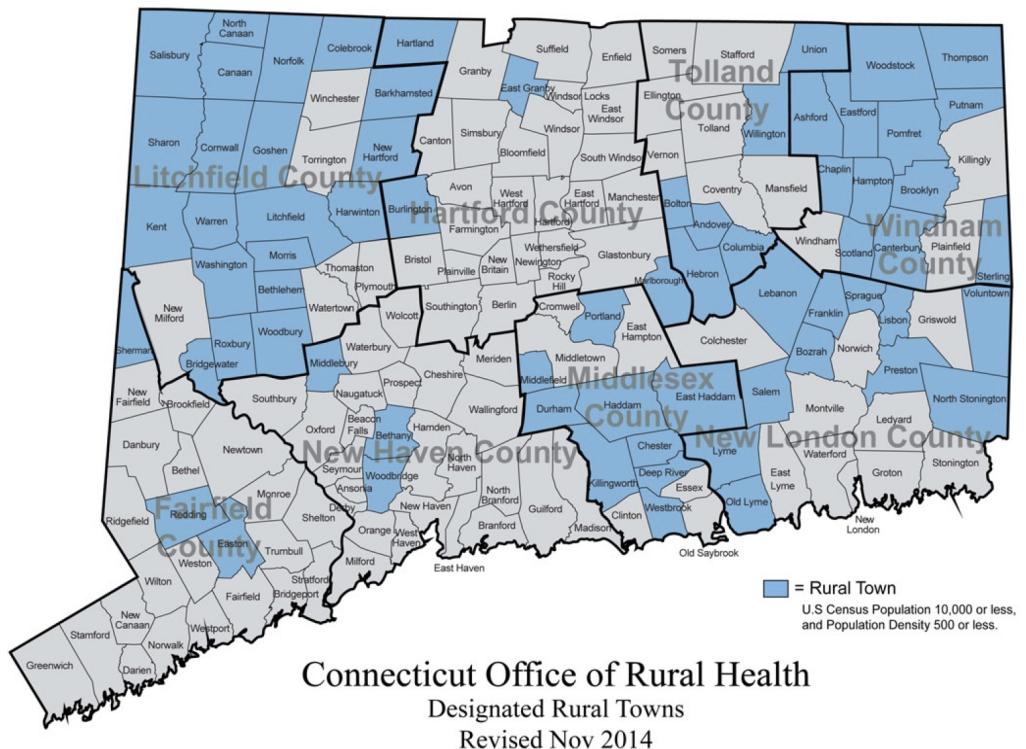
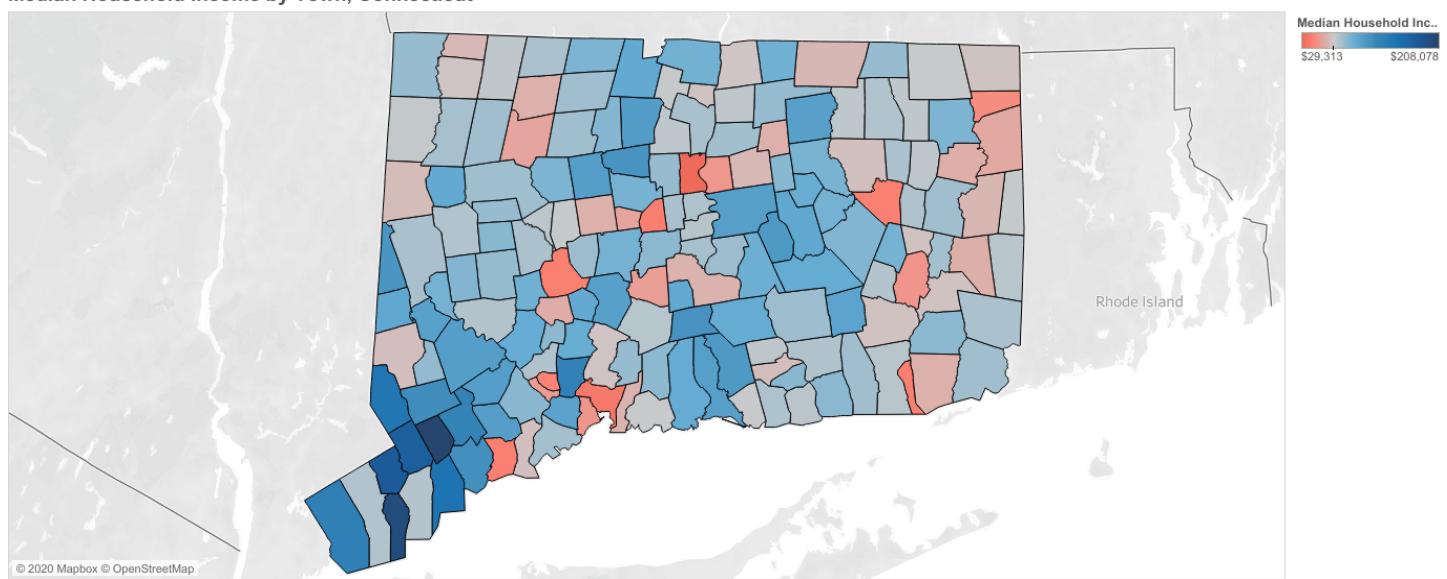


Figure 2

Retrieved from

<https://public.tableau.com/profile/connecticut.voices.for.children#/vizhome/DisparitiesByRaceandPlaceWorking/MedianHouseholdIncome>

Median Household Income by Town, Connecticut



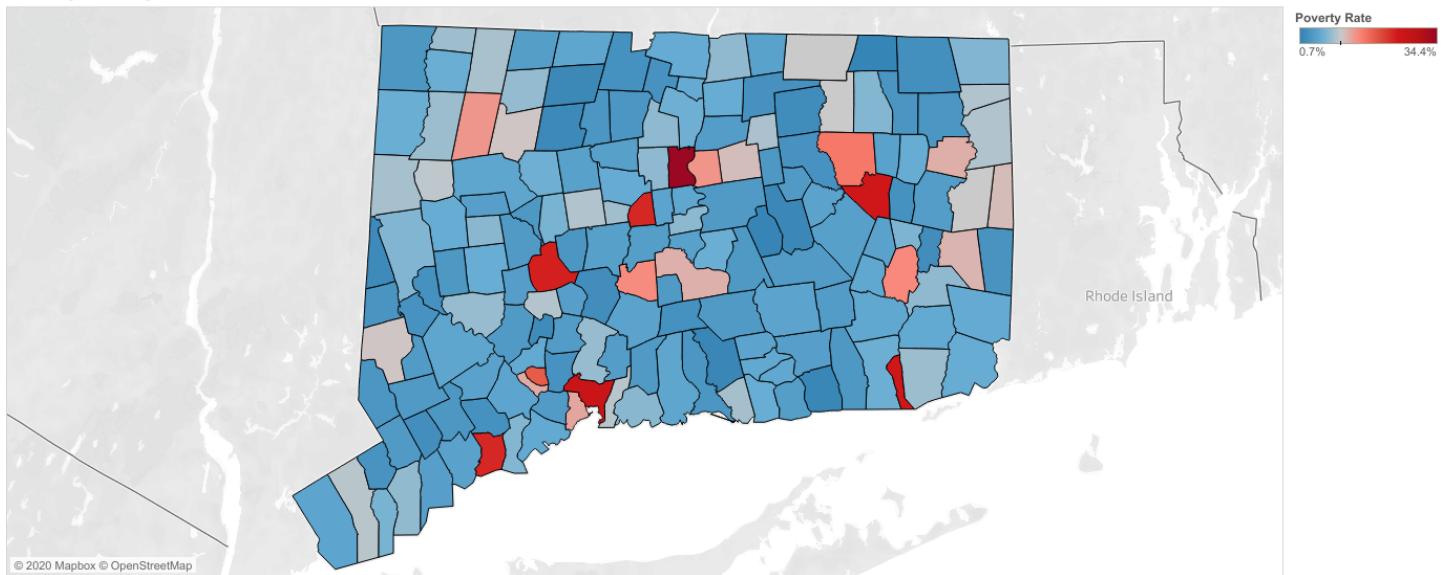
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Figure 3

Retrieved from

https://public.tableau.com/views/DisparitiesByRaceandPlaceworking/GiniIncomeInequality?:language=en&:display_count=y&:origin=viz_share_link

Poverty Rate by Town, Connecticut



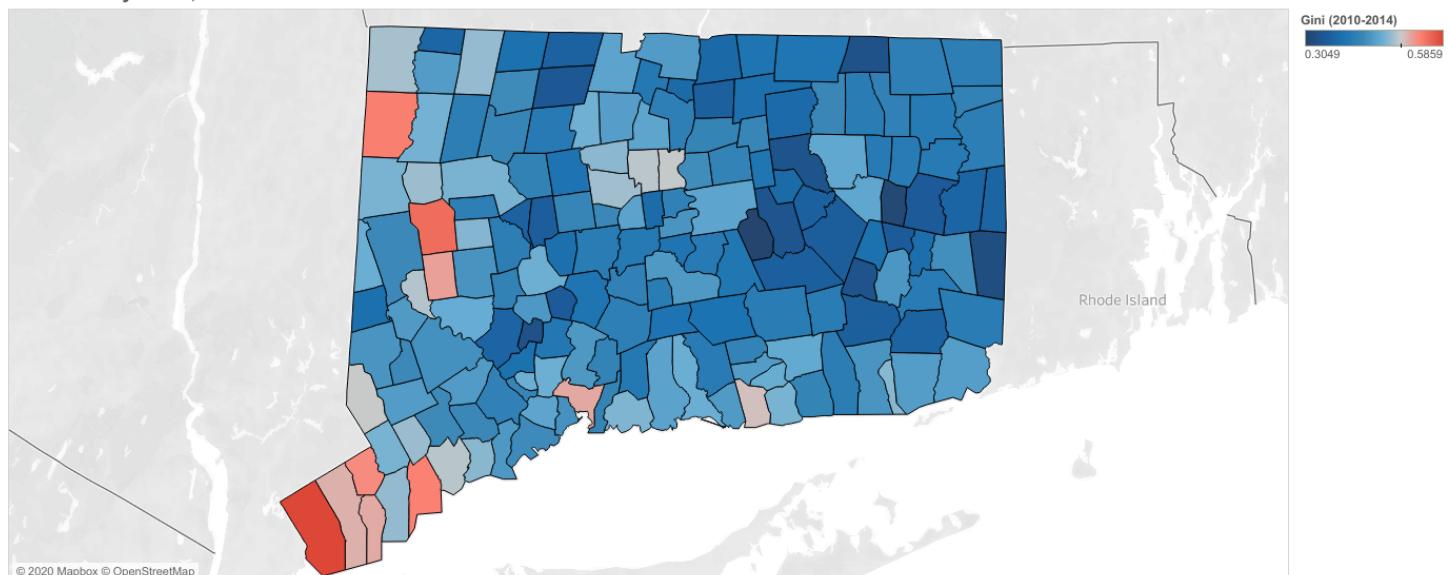
Data Source: 2010-2014 American Community Survey (Census) 5-year estimates (state rate based on 1-year estimates)

Figure 4

Retrieved from

https://public.tableau.com/views/DisparitiesByRaceandPlaceworking/GiniIncomeInequality?:language=en&:display_count=y&:origin=viz_share_link

Gini Index by Town, Connecticut



Data Source: 2010-2014 American Community Survey (Census) 5-year estimates (state index based on 1-year estimates)

Figure 5

Retrieved from <https://www.ctdatahaven.org/reports/concentrated-wealth-and-poverty-connecticuts-neighborhoods>

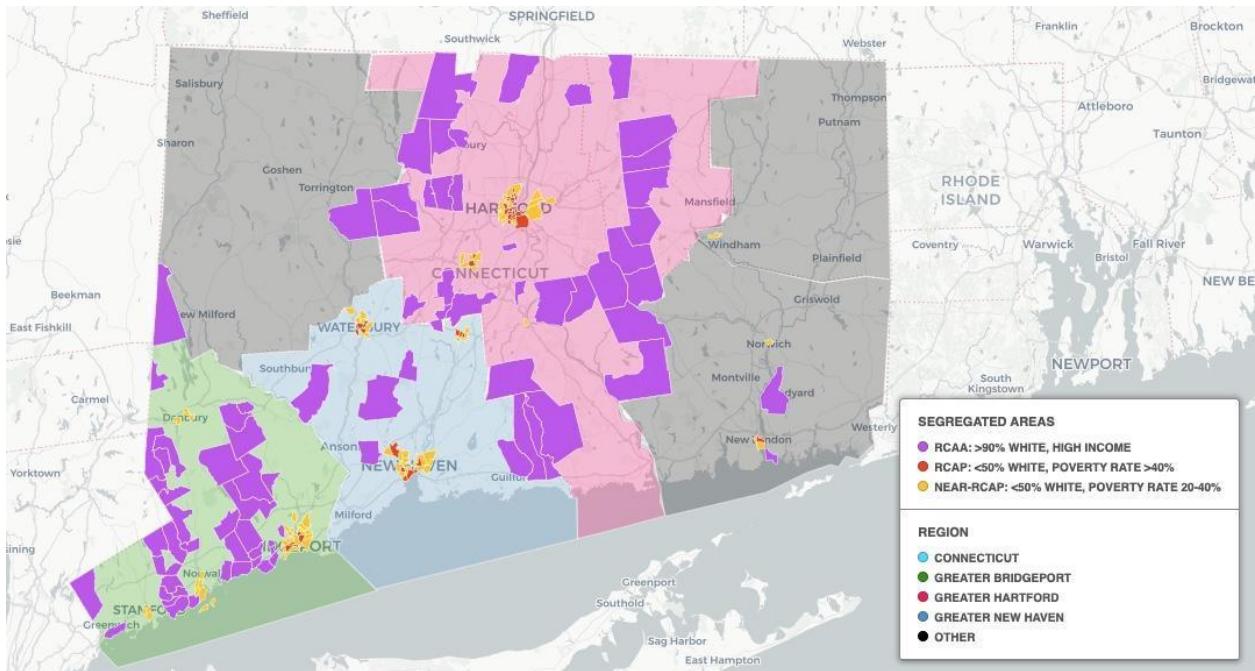
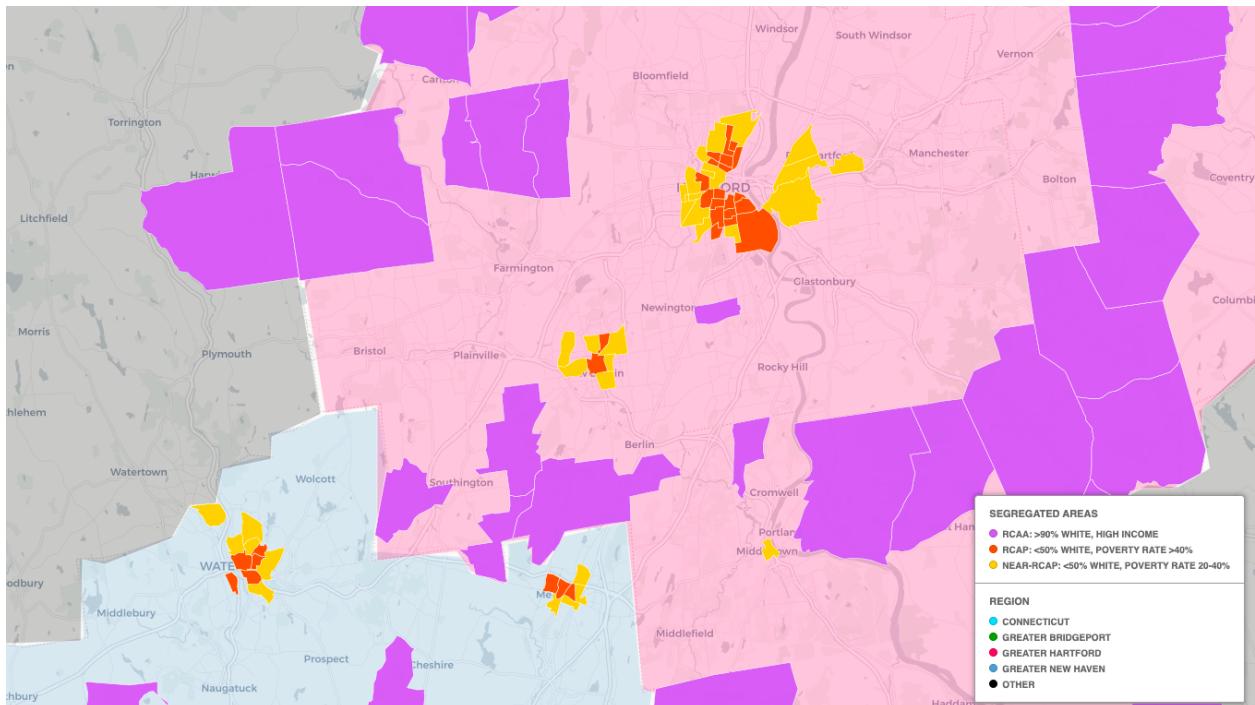


Figure 6

Retrieved from <https://www.ctdatahaven.org/reports/concentrated-wealth-and-poverty-connecticuts-neighborhoods>



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Figure 7

Retrieved from <https://www.ctdatahaven.org/reports/concentrated-wealth-and-poverty-connecticuts-neighborhoods>

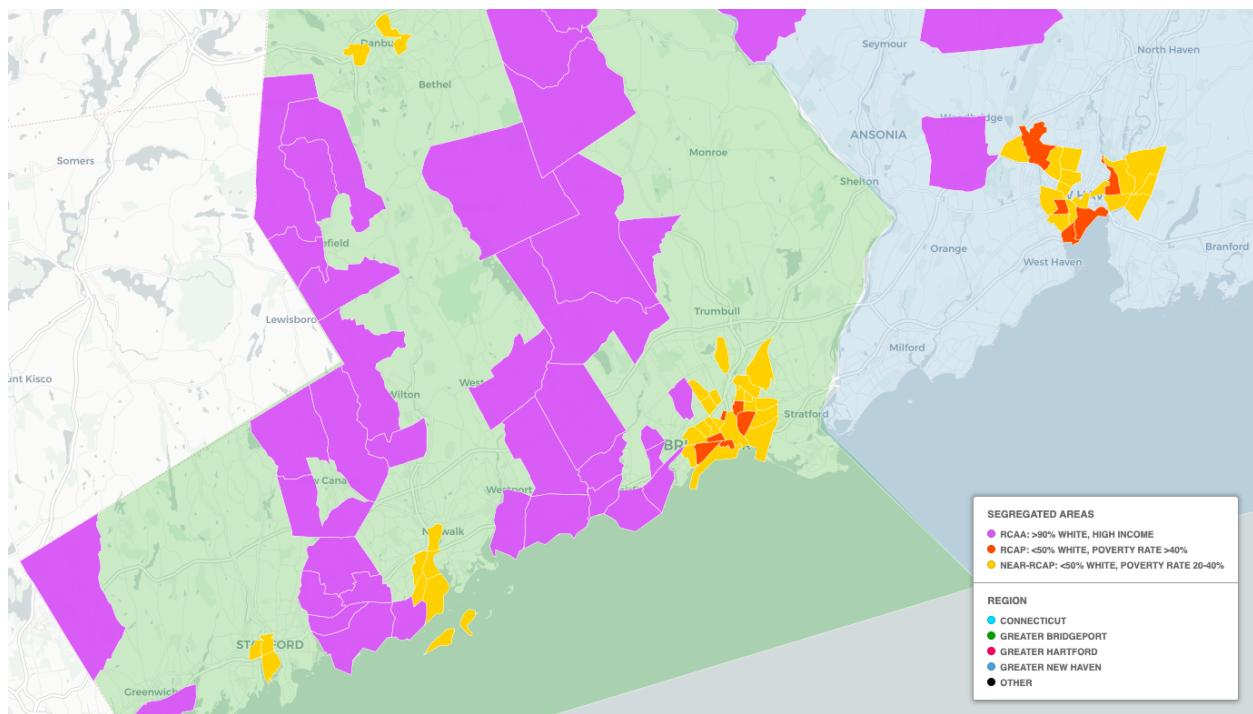


Figure 8

Retrieved from

<https://www.osc.ct.gov/reports/womenandgirls/GenderRacialEquityAnalysisObservations.pdf>



Figure 9

Retrieved from <http://ctstatefinance.org/resources/uploads/files/Tax-Incidence-Report-2014.pdf>

