

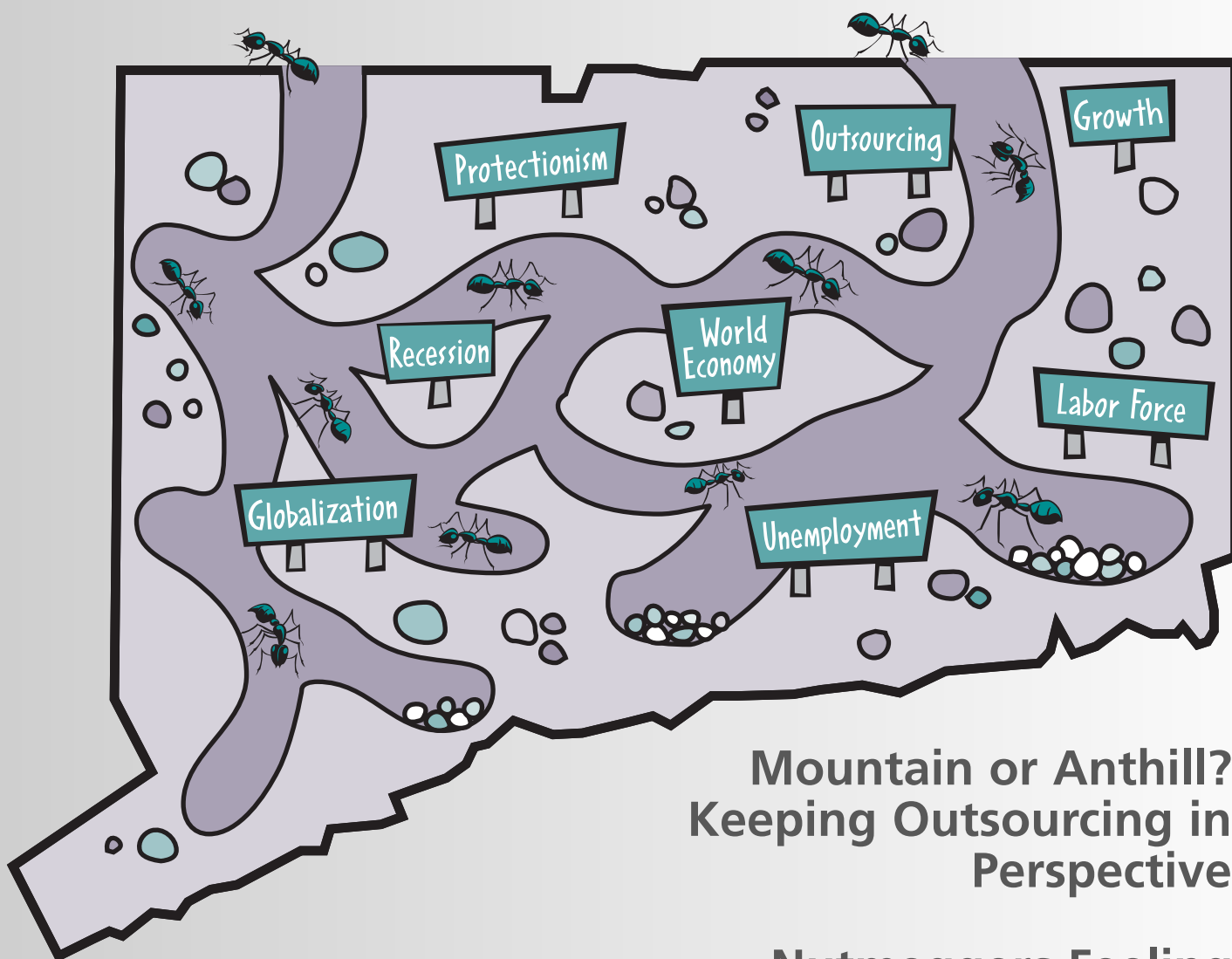
THE CONNECTICUT Economy



A University of Connecticut Quarterly Review

Spring 2004

Getting Down and Dirty On Jobs



Mountain or Anthill?
Keeping Outsourcing in
Perspective

Nutmeggers Feeling
Antsy Over Job
Losses

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CONNECTICUT ECONOMIC INDICATORS

(Percent change: 2003-Q1 to 2004-Q1)

Indicators of Current Economic Activity

Total Nonfarm Jobs	-0.6%
Number Unemployed	-11.7%
Labor Force	-0.8%
Manufacturing	
Jobs	-4.1%
Avg. Weekly Hours	+0.9%
CT Mfg. Prod. Index	-2.7%
Avg. Hourly Earnings	+3.1%
New Auto Registrations	-4.4%
Travel and Tourism Index	+7.2%
Bradley Airport	
Passengers	+5.4%
Freight	+10.8%
State Tax Receipts	
Sales	+6.3%
Income	+22.7%
Real Estate Conveyance	+30.4%
Normalized Electricity Use	+2.6%
State Exports ('02-Q4 to '03-Q4)	+0.9%
Personal Income (est.)	+3.1%
Confidence in Current Economy	+20.5%
Coincident GDI	-1.1%

Indicators of Future Economic Activity

<i>Courant</i> Help-Wanted Ads	-10.5%
Avg. Initial Unemp. Claims	-14.2%
Housing Permits	+29.3%
Net New Business Starts	+19.0%
Confidence in Future	+11.4%
Leading GDI	+1.3%

Good news



-11.7%
Number Unemployed

Bad news



-0.8%
Labor Force

A Funny Thing Happened on the Way to the Recovery

Initial figures from the U.S. and State Labor Departments showed Connecticut gaining more than 1,000 jobs in 2003-Q4, suggesting the economy would soon start piling on job gains. No such luck. Benchmark revisions of estimated payrolls cut the state's employment total by more than 6,000. So no sooner had they appeared than the new jobs were gone. Should we abandon hope?

Nonfarm jobs, after quarterly plunges averaging 5,000 earlier in the slump, have stabilized of late, inching up 100 in 2003-Q4 and slipping 500 in 2004-Q1. But beneath the placid surface, there was movement among sectors and regions along with signs that job growth could eventually bubble to the top.

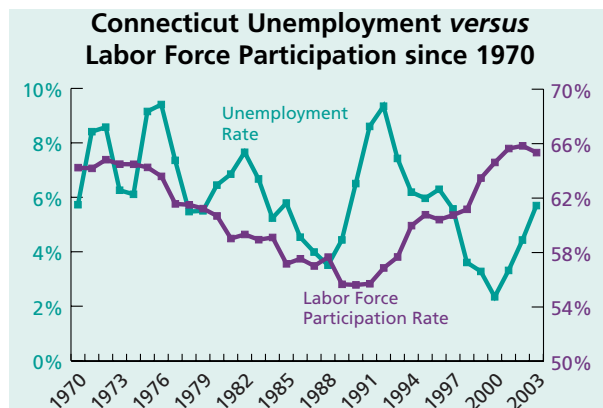
Manufacturing gave up an additional 2,000 jobs in 2004-Q1, on top of the 900 lost in 2003-Q4. But for the second consecutive quarter the workweek was about 20 minutes longer than at the same time last year. Wages were up, too, by 3.1%. The surge in hours and strength in earnings are consistent with other data showing a 0.9% bounce in 2003-Q4 exports (the latest figures available), which are primarily manufactured goods, and 11% jumps in freight traffic at Bradley in both 2003-Q4 and 2004-Q1.

The trade-transportation-&-utilities sector (TTU) showed some spunk with the addition of 2,600 jobs between 2003-Q4 and 2004-Q1. Some 1,600 were in retail trade, the rest in wholesale trade, transportation and warehousing. The long-suffering information services sector took a well-deserved break from job losses, even adding a few hundred posts. For other sectors the quarter was a mixed bag. Education-&-health and leisure-&-hospitality barely held steady after many quarters of rapid job gains, while business-&-professional services again retreated, though more slowly than in 2003-Q4.

Construction jobs slipped by about 600, despite a still robust housing market. Housing permits climbed 29.3% in the four quarters ending 2004-Q1, while existing home sales were up 11.6%. Though increases seem to be moderating, home prices were higher, too, by 5.8%.

The same Labor Department data revision that erased the state's job gains also changed the complexion of labor market performance. Danbury and New Haven, thought to be gaining jobs last year, lost some after all. Danbury did add jobs this quarter on a year-over-year basis, and compared with last quarter New Haven did, too. But, by both measures, Stamford and Waterbury flexed greater muscle and appear to be the areas with renewed strength. (For more on the labor markets, see pages 14-15).

One bit of good news, a drop in unemployment, was eclipsed by an even bigger decline in the labor force, suggesting that some Nutmeggers may have abandoned hope of finding work. The complex and often confusing relation between unemployment and participation in the labor force is explored on pages 12 and 13. The accompanying graph looks at that link over time. In the 1970s and 1980s, labor force participation trended downward along with the more volatile unemployment rate. Since then the two series have generally moved in opposite directions. For much of the recent slump, however, rising unemployment boosted labor force participation, perhaps as other household members started looking for work when the primary breadwinner lost her job.



Source: *The Connecticut Economy*, from U.S. Labor Dept. and Census Bureau data.

But hope is not lost. Besides the continued strength in housing, income growth, and pockets of job growth, other forward-looking indicators remain positive. Initial unemployment claims edge ever lower as corporate layoffs ease. CCEA's forecast of jobs and GSP calls for modest improvement (see page 19). And statewide, employers are doing some bellwether hiring: jobs for temporary workers shot up at an 11.7% annual rate in 2004-Q1. The challenge for the state will be to turn these temporary posts into permanent positions, and it is on the vexing question of jobs that we focus this issue.

Too Vital to Leave to Politicians: Connecticut's Big Stake in the World Economy

By Arthur W. Wright

First it was the moveable anti-globalization protests at G-7 meetings, then the 2000-2001 recession. Now, it's the hysteria over "outsourcing" and "offshoring" of U.S. tech jobs. Is 60 years of U.S. international policy at risk?

Senator Christopher Dodd (D-CT) jumped onto the crowded "Stamp Out Outsourcing" bandwagon early this year, proposing legislation that would punish firms that sent work abroad. The Senator's knee-jerk response to the media-driven flap was a classic example of the protectionist instinct at work.

The Third Law of International Trade holds that protectionism begets an equal and opposite reaction from trading partners. The collective result "protects" no one, and all those "protected" are eventually worse off. In the 1930s the infamous Smoot-Hawley tariffs ultimately helped deepen the Great Depression by further reducing exports and hobbling the recovery.

If cooler heads prevail, we may yet avoid shooting ourselves in the foot. Meanwhile, it's imperative to remind ourselves once more of how much our prosperity depends on the global economy.

As the U.S. Economy Goes, So Goes Connecticut's

The health of the U.S. economy is the most important driver of any state's economy. When the national economy coughs, many states are bound to catch cold. Connecticut's slow employment growth since 2001 owes a lot to the nation's so-called jobless recovery from the latest recession.

Fortunately, after World War II American policy makers drew the correct lesson from the debacle of Smoot-Hawley and decided to push for open markets at home and abroad. One result is that, since Western Europe and Japan recovered economically from the War, the share of exports in total U.S. Gross Domestic Product (GDP) has more than doubled—from 4.5% in 1959 to about 10% today. So export growth has made a net contribution to overall U.S. economic growth in the past half century.

The ratio of *imports* to GDP has grown even faster, more than tripling over the same period, to over 14%. Thus, imports have exerted a bit of a drag on U.S. economic growth. To some, the growth of imports is a bad thing, even "unfair" to U.S. workers or firms. We need to remember, though, that part of the foreign income arising from our purchases will, down the road, return as demand for U.S. exports. Meanwhile, we get to use all the imported stuff, while foreigners only get claims to future U.S. output.

Connecticut—the "international state" according to one State website—has long participated in the

global economy, though within limits set by U.S. policy. Early in the 1800s, Nutmeg State entrepreneurs begged, borrowed or stole much-needed technology in brass and textiles from Great Britain. Under the 19th-century Gold Standard, Connecticut partook generously of the inflows of European financial capital. From the end of the Civil War to World War I, our state thrived under the protectionist tariffs (an issue between North and South in the Civil War) that fostered rapid economic growth in the growing free trade area opened up by U.S. westward expansion. Connecticut then suffered along with the rest of the nation under the Depression-era tariffs, and has benefited from the expansion of world trade since World War II.

This Is "Benefiting"?

By my reckoning, exports of goods and services currently constitute some 7% of Connecticut gross state product (GSP)—three points *below* the national average! What's more, the share in close neighbor Massachusetts is 9%, and in tiny Vermont way up around 20%. Texas isn't far behind at 17%, and the likes of Louisiana and Washington come in about at the national average of 10%. What's going on here?

Connecticut's actual standing may not be as wimpy as those numbers suggest. First, the figures probably understate our state's exports of services. Absent any state-level data for services exports, I simply scaled up state goods exports by the national share of services exports (about 40%). But Connecticut's share in GSP of exportable services (legal, educational and business) plus the Finance-Insurance-Real-Estate and Communications sectors, greatly exceeds the share in states like Texas and Washington.

Second, the role of exports in the last three states and Vermont is exaggerated by the way Census assigns goods exports to states: according to where the stuff leaves the country. Thus, Texas, Vermont and Washington all have international borders, while Louisiana is at the mouth of the Mississippi. Vermont ranked 33rd among the 50 states in total value of goods exports in 2003, despite being next to last in GSP in 2001 (the last year available). And Texas was No. 1 in goods exports in 2002 and 2003, even with a GSP only 56.2% of California's in 2001.

Still feeling confident about the quality of export data? In 2003, the fourth largest state goods-exports total, on a Census basis, was "Unknown State (UK)," accounting for nearly 5% of the national total. The records were simply not clear enough to credit them to any particular state.

Goods Exports By Sector

According to Census, in 2003 a mere 25 commodities at the detailed North-American-Industrial-Classification-System (NAICS) 6-digit level accounted for over half of the total value of our state's goods exports. But the top 5 such commodities—various aircraft parts, turbojets, surgical gear, and retail medications—provided nearly 42%, or four-fifths, of that half.

Cutting the Census data at the broader 2-digit NAICS level, the Massachusetts Institute for Social and Economic Research (MISER) at UMass/Amherst reports that two categories, “industrial machinery” and optical, photo, medical and surgical gear, alone accounted for 54 percent of the state’s total goods exports in 2003. Another 5—electrical machinery, aircraft and parts, plastics, “special classifications,” and paper products—boosted the share above 75%.

Thus, while Connecticut exports a lot of different products, the bulk of them are concentrated in the few sectors detailed above. Pratt & Whitney’s loss of the Boeing 7E7 engine contract may reduce the concentration in the aircraft sector somewhat, but that is scarcely good news for many Connecticut workers. On a more positive note, services exports have been holding their own nationally, and (as noted earlier) the Nutmeg State’s economy is particularly strong in producing exportable services.

Fear and Loathing over Outsourcing

Six months ago, outsourcing would not have had a place in a study of Connecticut’s stake in economic globalization. In the interim, of course, a media bonfire has erupted, with all the usual careful attention to fact and analysis.

The tinder consisted of the “jobless recovery” in the U.S., particularly in white-collar tech jobs, and reports from countries like India of major growth in such job categories. The spark came from the 2004 Presidential election race. Candidate Kerry condemned “Benedict Arnold CEOs.” Not to be outdone, legislators in state capitals and Washington chimed in with a raft of measures (like Senator Dodd’s) designed to eradicate offshoring of U.S. jobs from the face of America.

“Outsourcing” has been going on for years, and by no means only in the U.S. Until recently, it was mostly confined to manufacturing—for instance, the “Big 3” U.S. automakers struggling to catch up with better-designed, lower-cost imports. Palliatives like unemployment compensation and retraining grants have absorbed some of the shock. Still, blue-collar workers have borne many of the dislocation costs.

The impetus to outsource jobs in tech services—accounting, programming, legal writing, etc.—is the same as it has long been in manufacturing: cost savings, from using cheaper foreign labor, but more fundamentally the competitive restructuring of whole industries to improve quality. In today’s global auto industry, a Ford Taurus may contain as much or more “foreign content” as a Toyota Camry. The same sort of thing is now underway in many segments of software production.

One of the likely victims of protectionist measures against outsourcing and the inevitable retaliatory measures would be the “insourcing” of jobs for U.S. residents at foreign-owned firms. In 2001, little Connecticut ranked 17th in the number of insourced jobs, according to Census data. More, our total of 123,900 insourced jobs, at some 1,200 foreign-owned firms, came to about 7.4% of all Connecticut jobs—a share that was just 0.1 point

behind #1 South Carolina, and 0.6 points ahead of 3rd place New Jersey. In *manufacturing*, Connecticut’s insourced jobs in 2001 made up 15.5% of sector employment, for a national ranking of 22nd.

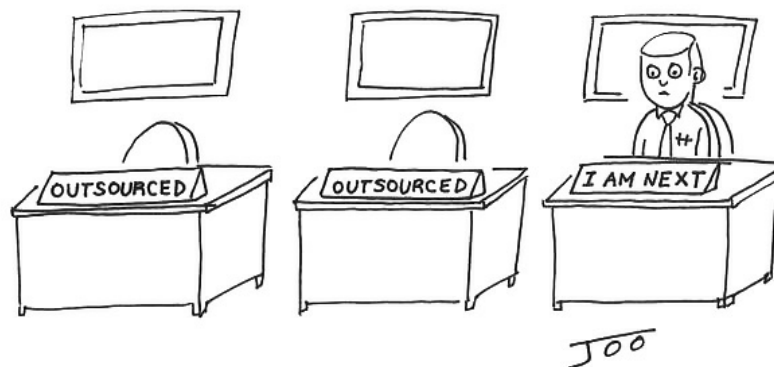
Stop! Don’t Shoot!

So has the protectionist train left the station? Let’s hope not, for the benefits of free trade are indeed many and wonderful. Free trade maximizes a nation’s total output, and with it the national income. Consumers get the lowest possible prices. Producers are compelled to use resources efficiently or pay the ultimate price. Less grandly, pressures from abroad have sparked innovation in U.S. banking and the lowering of cotton subsidies, to name just two examples.

That’s the strong, most clearly stated part of the economist’s message. The weak part, often lost in the shuffle, is compensating the losers out of the social gains from free trade. Whereas the gains are social, and a bit abstract, the lost jobs are personal, and concrete.

Existing unemployment programs or relocation and retraining grants are widely regarded as too little for too few—patchwork, regionally variable, and short-lived. Sen. Max Baucus (D-MT), ranking minority member of the Senate Finance Committee, is one voice in the wilderness pushing to expand and improve “trade-adjustment assistance.” With outsourcing now a factor in the 2004 campaign, perhaps the White House will not oppose his efforts as it did in 2002.

Longer term, of course, a strong educational base (in general but especially in scientific and technical fields) is an essential investment in keeping good tech jobs at home and attracting new foreign investment. Other steps worth pursuing include greater receptivity in Washington to local criticisms of “No Child Left Behind,” improved funding of secondary and undergraduate lab facilities, expanded research grants and graduate fellowships, and more attention to the visa problems of foreign students and scholars seeking to study or work in the U.S.



Connecticut Job Losses: Our Share of National Effects? Or Are We Shifting for Ourselves?

By Steven P. Lanza

Connecticut may still be struggling to add jobs, but indications are that the state's long job slide may have ended in 2003-Q3. At such a juncture, it may be instructive to look back at what we've been through. How did this slump compare with the last? Was it a microcosm of the national recession, or were unique local forces at work? The answers may affect where we go from here.

To tackle such questions, regional economists use a technique called shift-share analysis. That technique decomposes changes in employment in an area—for instance, due to recession—into three distinct parts, attributable to: (1) changes in the national economy; (2) the specific mix of fast- or slow-growing industries in a region; and (3) the “competitiveness” of those industries.

A region's “share” of a national slump is simply the overall percentage decline in jobs nationally. Its “mix” effect would arise from having a sectoral composition of jobs different from the nation's. The rest of a region's effect would come from its

sectors performing better or worse—that is, being more or less “competitive”—than the same sectors nationally. (Descriptive as it may be, the term “competitive” is something of a misnomer, as it ignores the possibility that employment may grow more slowly than the nation while productivity grows faster.)

Applying shift-share analysis to Connecticut, I find that the state's recent slump generally followed the national tide, but that state-specific developments between the Great Recession of the early 1990s and this decade's Tech Tumble helped mitigate recessionary job losses. Moreover, the Nutmeg State currently appears no more vulnerable than the U.S. to economic assaults such as outsourcing.

One initial caveat: measuring job changes since the peak of the 1980s expansion in 1989 is complicated because NAICS employment statistics go back only to 1990. So for purposes of analysis, I apportioned the missing year's job losses by industry on the basis of industry performance during the 1990 to 1992 period of decline for which data are available.

The Great Recession

Connecticut's Great Recession stretched from 1989-Q1 to 1992-Q4 and cost the state more than 150,000 jobs, or 9% of its total. Shift-share analysis allows us to sort out the sources of the total loss. The U.S. economy lost 1.5 million jobs or 1.3% between 1990-Q2 and 1991-Q3. As shown in column (1) of Table 1, had Connecticut simply “shared” in the national slump, the state would have shed about 23,000 positions. But the state's recession started earlier, lasted longer and sank deeper, so Connecticut lost some 130,000 more jobs than its “share.” The added reduction, by shift-share accounting, was the net result of the particular mix of industries in the state, and the relative competitiveness of those industries.

As column (2) of Table 1 shows, Connecticut's industrial mix actually gave it a boost during this period because its particular combination of industries was performing relatively well nationally. The state had a fairly high concentration of jobs in sectors that weathered the recession well, particularly in education and health services. Education and health gained jobs nationally, and Connecticut had a high concentration of jobs in that sector—11.3% of its total at the start of the recession versus 10.0% nationally. Connecticut also had a lot of jobs in sectors that lost big. For example, manufacturing accounted for 19.0% of Connecticut's jobs at the start of the recession compared with 16.2% nationally. But on balance, the industry mix favored the state a bit, offsetting about 400 of the recession-related job cuts.

Competitively, however, the state took a drubbing. Column (3) of Table 1 reveals that fully 130,000 jobs, or 85% of the total, were lost because of the relatively poor performance of Connecticut's industries. The reductions were especially severe in manufacturing; trade-transportation-&-utilities (TTU); and construction. Construction plunged 33% versus 11% nationally, and manufacturing slid 14% as opposed to just 4% nationally. In only one industry—education-&-health services—did Connecticut's differential performance translate into a few job gains to help offset losses everywhere else.

The Tech Tumble

The recent Tech Tumble produced a mild downturn in Connecticut but a harsher slump nationwide. Connecticut's 3.5% drop in jobs between 2000-Q3 and 2003-Q3 was a small dip compared with its 9% dive in the 1990s. In contrast, the national 2.1% job slide over the 2001-Q1 to 2003-Q3 period was 60 percent steeper than the 1.3% rate of the earlier recession.

Table 1: Sources of CT Job Changes (000's) During the Great Recession

	Column (1) Share	Column (2) Mix	Column (3) Competitive	Column (4) Sum
Construction	-1.0	-7.0	-16.0	-23.9
Manufacturing	-4.3	-9.6	-31.4	-45.2
TTU	-4.5	-2.2	-35.5	-42.3
Information	-0.6	0.4	-4.2	-4.5
Finance	-2.2	0.3	-14.1	-16.0
Business Services	-2.4	-0.5	-8.1	-11.0
Education & Health	-2.6	13.8	9.8	20.9
Leisure	-1.5	1.2	-11.8	-12.2
Other	-0.9	0.6	-14.8	-15.2
Government	-2.9	3.5	-3.9	-3.2
Total	-22.9	0.4	-130.0	-152.5

Table 2: Sources of CT Job Changes (000's) During the Tech Tumble

	Share	Mix	Competitive	Sum
Construction	-1.3	0.4	-1.8	-2.8
Manufacturing	-4.9	-31.4	-2.8	-39.1
TTU	-6.5	-5.6	-0.4	-12.6
Information	-1.0	-5.8	-0.8	-7.5
Finance	-2.9	7.0	-4.2	-0.1
Business Services	-4.5	-5.4	-12.0	-21.8
Education & Health	-5.0	23.9	-2.3	16.6
Leisure	-2.5	3.9	3.4	4.7
Other	-1.3	3.5	-1.3	1.0
Government	-5.0	12.7	-4.4	3.4
Total	-34.8	3.2	-26.6	-58.2

Table 3: Sources of Differential Performance (000's) Between Two Recessions

	Share	Mix	Competitive	Sum
Construction	-0.3	7.3	14.1	21.1
Manufacturing	-0.6	-21.4	28.5	6.1
TTU	-2.0	-3.4	35.1	29.7
Information	-0.4	-6.1	3.5	-3.0
Finance	-0.8	6.8	10.0	15.9
Business Services	-2.1	-4.8	-3.9	-10.8
Education & Health	-2.5	10.1	-12.1	-4.4
Leisure	-0.9	2.7	15.2	16.9
Other	-0.3	3.0	13.5	16.2
Government	-2.1	9.2	-0.5	6.6
Total	-11.9	2.8	103.4	94.3

Source: *The Connecticut Economy* based on data from the U.S. Department of Labor.

The tech slump cost Connecticut about 58,000 jobs—about one-third the number lost in the 1990s. Had jobs in the state dropped at the rate they did nationally, the cost to Connecticut would have been about 35,000 positions (the total under the “share” column of Table 2). Whereas in the early 1990s, 15% of the job casualties stemmed from a weak national performance, this time that fraction reached 60%. So Connecticut clearly “shared” more of this national recession than the last. The remaining 23,000 jobs lost can be traced to industry mix (+3,200) or competitive forces (-26,000).

As earlier, the state’s mix of industries helped compensate for recession-related job cuts, a bit more so this time than before. Connecticut’s concentration of jobs in sectors such as education and health, finance, and government, which have done well nationally, made up for steep declines in manufacturing. On net, the state’s industry mix offset more than 3,000 recession-related job reductions (the total under the “mix” column of the second table).

Connecticut again lost jobs due to the competitive performance of its industries, but this time the losses were limited to fewer than 27,000. Only leisure-&-hospitality managed to gain jobs on a competitive basis. Construction and finance fared relatively poorly compared to their counterparts nationally. Even government, which includes the state’s casino jobs, did worse than average. But business services, the growth sector of the 1990s expansion, took the biggest bruising.

Dynamic Shift Share

Connecticut lost 94,000 fewer jobs in the recent recession than in the last one. Why such a difference? Did changes in the state’s industrial structure mitigate the effects of the most recent recession, or were broader national forces at work? Shift-share analysis also provides insight into this issue.

Just as we decomposed the total job loss in each recession, we can decompose the job loss differential into these same three parts—share, mix and competitive effects—by subtracting each number in Table 1 from the corresponding number in Table 2.

As column (4) of Table 3 shows, the job loss differential totaled 94,300. Most sectors of the economy did better in the second recession than the first, particularly TTU, which lost 30,000 fewer jobs, and construction, which lost 21,000 fewer jobs. Only information and business services, which were hard-hit nationally in the latest recession, and education-&-health, which added jobs, had an easier time of it in the Great Recession than in the Tech Tumble.

Based on the relative depth of the national recessions, we might have expected Connecticut to lose more jobs in the second recession, not fewer (column 1). Changes in the mix component offset some of this expected loss. Education-&-health contributed the most to the mix component, compensating for about half the effect of the state’s reliance on manufacturing.

But thanks to improved competitiveness, Connecticut lost 103,000 fewer jobs in the Tech Tumble (column 4)—an amount that accounted for almost all of the difference in performance between the recessions. More than half of this “savings” was concentrated in manufacturing and TTU alone. What’s more, unlike the share and mix components, which reflect the national economy’s influences, the competitive component measures influences internal to the state. Thus, Connecticut’s superior performance in the Tech Tumble compared to the Great Recession can largely be credited to endogenous economic changes. Developments over the period, from industry restructuring to an improved business climate and added investments in human and physical capital, evidently helped to insulate the economy against recessionary job losses.

Postscript: Outsourcing

At the moment, one of Connecticut’s highest-profile challenges is the loss of domestic jobs to foreign providers. Does Connecticut’s improved competitiveness help shield it against the vagaries of “outsourcing?”

A recent University of California at Berkeley study by Bardhan and Kroll (<http://repositories.cdlib.org/iber/fcreue/reports/1103>) identifies more than a dozen key U.S. industries, with 5% of the economy’s jobs, as at high risk of outsourcing. Beyond these sectors, the risks are spread more broadly, but the total exposure could run as high as 11% of all jobs.

Data limitations preclude making detailed comparisons, but we can compare Connecticut with the nation in four of the larger industries, accounting for 80% of the jobs identified as high risk in the Berkeley study.

The industries in question—telecommunications, computer systems design, accounting/bookkeeping/payroll, and computer and electronics manufacturing—represent about 4% of total jobs in both the U.S. and Connecticut economies. In the recent recession, jobs in these combined industries were down 20% nationally and 22% in Connecticut.

As Table 4 shows, most of the Connecticut job losses in these four industries trace to share and mix effects, which are national in scope. State-specific competitive effects explain just 11% of job losses in Connecticut, and nearly all of this is concentrated in the computer systems design sector.

The upshot? Connecticut seems no more vulnerable to the outsourcing wave than does the U.S. generally. For a state long accustomed to bearing more than its share of the burden from competitive job losses, this is welcome news.

Table 4: Job Changes (000's) in Connecticut Industries at Risk to Outsourcing, 2000-Q3 to 2003-Q3

	Share	Mix	Competitive	Sum
Computer/Electronics Manufacturing	-0.5	-5.8	-0.6	-6.9
Telecommunications	-0.3	-2.9	0.7	-2.5
Accounting/Bookkeeping/Payroll	-0.2	-0.6	-0.2	-1.0
Computer Systems Design	-0.5	-3.8	-1.7	-6.0
Total	-1.5	-13.1	-1.8	-16.4

Source: *The Connecticut Economy* based on data from the U.S. Department of Labor.

Taking Apart Taking Part: Local Labor Force Participation Rates

By Peter Barth and Dennis Heffley

Ever wonder how a rising unemployment rate can accompany an increase in total employment? Or how employment could rise while the labor force shrinks? A key to such paradoxes is the “labor force participation rate”—the percent of the population 16 years and older who are either employed or unemployed but actively seeking work. Often regarded as a measure of labor supply availability, the participation rate varies over time and even more so across geographic areas. Our analysis of town-level data for Connecticut shows that resident labor force participation rates respond to both local and area unemployment rates, along with other attributes of the town or its population.

Not So Mysterious

Like most economic paradoxes, a simultaneous increase in total employment and the unemployment rate is easily explained. Consider an economy with an age 16+ population of 100 persons: 57 employed, 3 unemployed but actively seeking work, and 40 who are not employed and not actively seeking work (i.e., not in the labor force). Using the definitions shown below, the unemployment rate is 5% ($= 3/60$) and the participation rate is 60% ($= 60/100$) because both employed persons and unemployed job-seekers count as part of the labor force. If the population is steady, but the participation rate rises to 70%, the labor force will expand from 60 to 70. If 9 of these extra 10 persons find work and one does not, the new unemployment rate will be 5.7% ($= 4/70$), despite a 15.8% gain in total employment from 57 to 66 persons. No voodoo economics here: the unemployment rate for the new members of the labor force (10%) simply exceeds the initial unemployment rate (5%), causing the overall rate to rise, even though most of the new labor force participants do find work. The example is plausible enough, and shows the importance of changes or differences in the participation rate. But how much do participation rates really vary?

Some Labor Force Definitions

Civilian Labor Force : (CLF)	members of the civilian non-institutional population 16 years and older (POP16+) who are employed (E) or unemployed (U) and actively seeking work; by definition, $CLF = E + U$.
Unemployment Rate: (U/CLF)	the fraction of the labor force unemployed, often expressed as a percentage.
Participation Rate:	the fraction of the civilian non-institutional population aged 16+ in the labor force ($CLF / POP16+$), often expressed as a percentage.

Rates Vary Over Time...

Labor force participation rates vary over time for many reasons, including changes in the age mix of the population, race and ethnicity, household structure, educational attainment, disabilities, mobility, and language barriers. Participation rates also depend on the availability of jobs and the perceived chance of landing one.

If high unemployment rates signal job scarcity, high search costs, and a low probability of success, some unemployed persons will rationally abandon their job search. If so, they no longer get counted as part of the labor force—they are neither “employed” nor “unemployed” in the official statistics. This “discouraged worker effect” often emerges in recessions and makes unemployment look milder than it in fact is. Some refer to this as “hidden unemployment.”

But the effect of the unemployment rate on labor force participation is not so simple. For example, if high unemployment causes some household members who normally shun the labor market to seek employment because others in the household suffer or anticipate job losses, this “added worker effect” could partially offset or even outweigh the discouraged worker effect. Empirical studies of labor markets over the business cycle, however, tend to find that the discouraged worker effect dominates, leading to a net negative relationship between the labor force participation rate and the unemployment rate.

...And By Location

Discouraged worker and added worker effects also crop up in cross-sectional data. Locally high unemployment rates might discourage potential job seekers, reducing local participation rates, especially where residents’ lack of mobility limits their access to other, healthier labor markets. (Interestingly, high mobility can also reduce local participation rates if active job-seekers move away, leaving behind a disproportionate number of persons not seeking work.) If the discouraged worker effect swamps the added worker effect in cross-sectional data, we again should see a net negative relationship between the participation rate and the unemployment rate.

Our cross-sectional study of labor force participation in Connecticut’s 169 towns began with a simple scatter plot of the March 2004 unemployment rate by place of residence, as reported by the Connecticut Department of Labor (DOL), and the estimated labor force participation rate for each town. To estimate the participation rates we used DOL figures for the labor force (employed plus unemployed seeking work) in each town in March 2004, coupled with estimates of the 2004 age 16+ population, based on Census 2000 figures and town-specific rates of population growth between 1990 and 2000. Both variables are listed in the centerfold (pages 10-11). The scatter plot revealed no clear link between the participation rate and the unemployment rate in each town, but this could mean several things. First, added worker and discouraged worker effects might be negligible.

Second, added worker and discouraged worker effects might simply offset one another. Finally, factors other than the unemployment rate might affect participation rates, but these additional factors are ignored in a simple scatter plot of the two variables. The question requires a more complete study of why participation rates vary.

Sources of Variation

Connecticut's mix of towns offers an interesting setting for studying the determinants of labor force participation. As shown in the centerfold, participation rates vary considerably across the state's 169 towns, from a low of 47.9% in Southbury, the site of a large retirement community, to a high of 87.9% in rural Kent. The 169-town average is 68.6%. [Note: In an earlier (Winter 2002) centerfold, we used Census 2000 data to calculate labor force participation rates. Those rates were systematically lower than the ones reported in this issue, because there we used *total* population, rather than the age 16+ population, as the base.]

The table below summarizes the results of a regression analysis using data for all 169 towns to relate local labor force participation rates to twelve factors that could influence participation. This method estimates the effect of each factor on participation rates, controlling for the other possible sources of variation. For each factor, the table gives the minimum, average, and maximum values across the 169 towns, the estimated effect (positive or negative) on the labor force participation rate, and the statistical significance (or reliability) of each estimate. Jointly, the twelve variables account for 35% of the variation in local labor force participation rates. The six most significant factors(*) account for nearly all of that amount.

To see if the discouraged worker effect dominates the added worker effect, or vice versa, we included the town's own unemployment rate and the average unemployment rate in adjacent towns as explanatory variables. Both coefficients are highly significant and negative, suggesting that higher unemployment rates, locally and nearby, are associated with a lower participation rate, controlling for other factors. The net discouraged worker result is consistent with many other studies of labor force participation.

The local "real wage," as measured by the average wage in the town's labor market area divided by the town's median house value, is positively related to the labor force participation rate—labor supply rises with the expected real wage—but the result is statistically weak, as is the negative estimated effect of distance from the town to the labor market center. The percentage of households with no access to a vehicle also has a negative, but somewhat more significant, effect on participation.

The expected effect of town educational attainment is ambiguous: higher education generally boosts the rewards of work, but a higher percentage of college educated persons also might reduce the need for multiple income earners within households. Our estimates show a net effect that is negative, but not very significant. Other factors with

even lower levels of significance were the percentage of the population 65 years or older and the percentage of disabled persons in the 21-64 age group.

Socioeconomic factors apparently play an important role in labor force participation: percent non-white and percent with a non-English home language are negatively related to labor force participation. These statistically significant results are consistent with job discrimination or other labor market barriers that discourage participation by minorities and non-English speakers.

Two final attributes are positively associated with labor force participation in Connecticut towns: community stability, as measured by the percentage of households living in the same housing unit for the last five years, and the percentage of female-headed households with no husband present. Both effects are quite significant. The positive effect of community stability on participation rates seems sensible enough. But the positive effect of female-headed households, often viewed as a mark of less stable communities, bears explaining. Single-parent households clearly face obstacles to labor force participation, but the absence of another parent also creates a need to secure a job or perhaps public support. In either case, the single parent will likely be counted in the labor force. The employed single-parent is certainly part of the labor force, but so is the unemployed single parent who may be required to seek employment to qualify for public support. Mid-1990s welfare reforms in many states substantially tightened work requirements and limited maximum periods of public support.

Go Forth and...Participate

About this time each year, high schools and colleges offer a new crop of potential workers to the labor force. How well those students fare in their search for a job, and how they affect the labor markets they enter, varies greatly depending on personal skills, the geographic scope of their search, local labor market conditions within that search area, and the strength of the larger economy. As we've shown, labor force participation is a complex process, even at the community level. Labor supply decisions of individuals, particularly the young, are even more complex and a lot less predictable. Just ask any (sufficiently old) parent.

Town Attributes Affect Labor Force Participation Rates

	169 Connecticut Towns:			Estimated Effect on LFPR	Statistical Significance
	min	avg	max		
*Town unemployment rate (UR)	1.70	4.48	10.84	negative	high
*Average UR in adjacent towns	2.05	4.48	6.97	negative	high
Real wage (LMA wage/median house value)	0.09	0.25	0.47	positive	low
Distance to central town of LMA	0.00	14.59	36.00	negative	low
Percent with no vehicle	0.70	5.16	36.10	negative	moderate
Percent adults with BA or higher	10.20	33.72	74.40	negative	low
Percent age 65+	6.04	13.41	26.07	negative	none
Percent age 21-64 disabled	4.84	13.94	31.14	positive	none
*Percent non-white	1.31	8.26	72.28	negative	high
*Percent with non-English home language	2.86	10.78	46.54	negative	high
*Percent female-headed households	4.25	8.87	29.64	positive	high
*Percent in same housing unit 5+ years	40.49	62.58	76.00	positive	high

Source: *The Connecticut Economy* based on data from the Connecticut Department of Labor and the U.S. Bureau of the Census.

Labor Force
March 2004

Unemp. Rate
March 2004

LF as % of
16+ Population

Labor Force
March 2004

Unemp. Rate
March 2004

LF as % of
16+ Population

Labor Force
March 2004

Unemp. Rate
March 2004

LF as % of
16+ Population

Bridgeport LMA

Ansonia	9,006	6.5%	61.7%
Beacon Falls	3,004	5.8	72.7
Bridgeport	62,897	9.3	60.9
Derby	6,608	6.5	65.8
Easton	3,562	3.1	62.5
Fairfield	28,182	3.6	61.0
Milford	27,828	5.0	65.2
Monroe	10,210	3.9	68.2
Oxford	5,477	4.7	70.1
Seymour	8,275	5.4	65.8
Shelton	20,373	5.1	65.7
Stratford	25,063	5.6	62.9
Trumbull	17,156	4.1	63.7

Danbury LMA

Bethel	9,588	4.0%	69.1%
Bridgewater	964	2.8	63.0
Brookfield	8,421	3.2	68.3
Danbury	39,961	4.3	62.8
New Fairfield	7,004	3.0	66.8
New Milford	14,563	3.7	67.4
Newtown	12,740	3.3	64.3
Redding	4,415	2.9	71.1
Ridgefield	12,573	2.2	70.2
Roxbury	1,109	2.4	60.9
Sherman	2,078	1.8	63.3
Washington	1,778	2.9	65.2

Danielson LMA

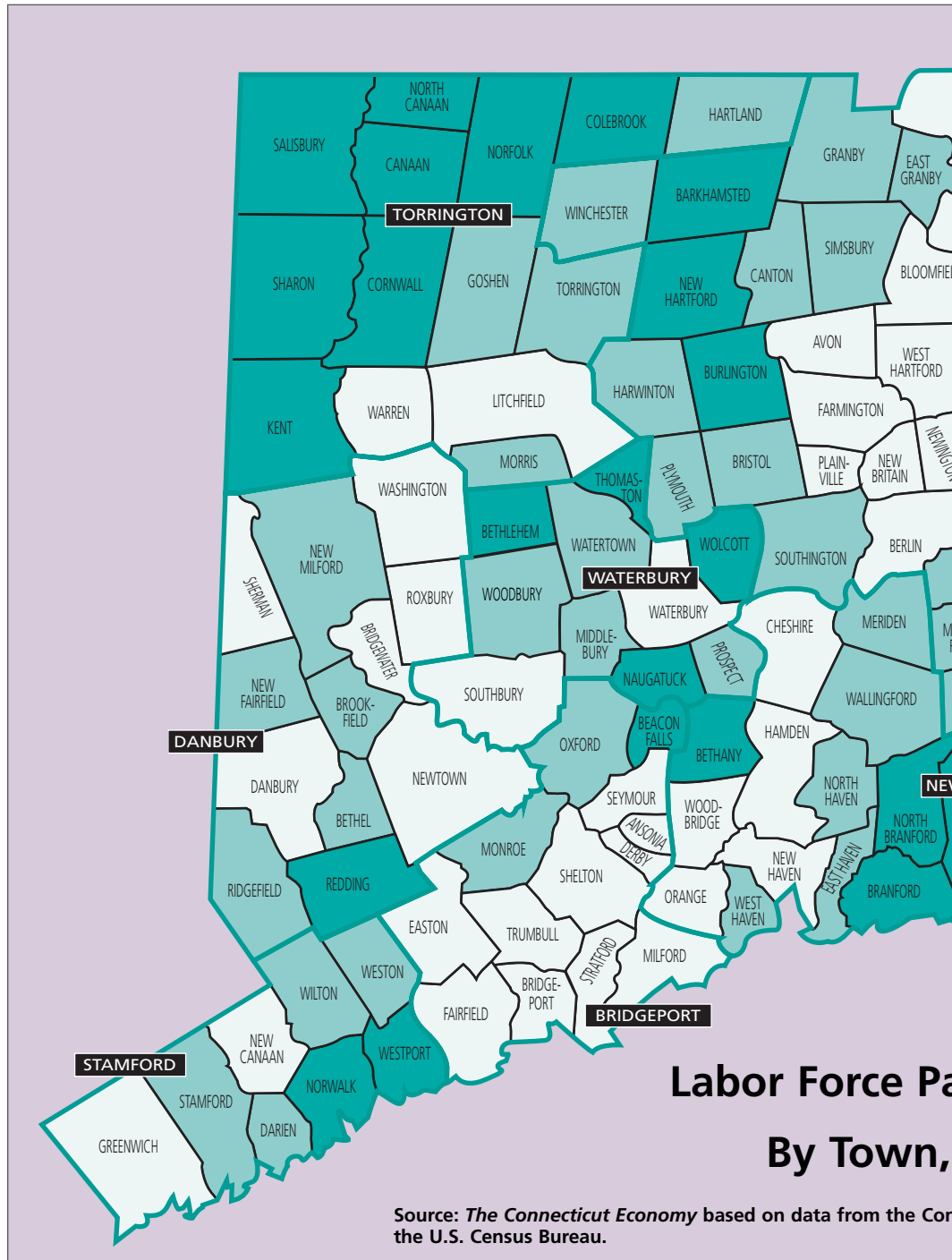
Brooklyn	3,979	4.3%	68.2%
Eastford	958	4.8	70.7
Hampton	1,211	4.2	85.7
Killingly	9,220	7.0	71.5
Pomfret	2,319	3.8	74.0
Putnam	4,600	6.9	64.5
Scotland	927	2.9	72.1
Sterling	1,746	5.5	67.7
Thompson	4,749	6.8	67.9
Union	433	3.9	74.0
Voluntown	1,499	6.3	72.4
Woodstock	4,209	3.8	70.4

Hartford LMA

Andover	1,673	3.7%	67.9%
Ashford	2,212	4.7	67.9
Avon	8,160	3.3	64.0
Barkhamsted	2,061	6.6	74.6
Berlin	9,585	4.6	65.2
Bloomfield	10,057	5.9	63.3
Bolton	2,813	3.2	70.5
Bristol	31,595	6.6	66.6
Burlington	4,611	4.4	70.9
Canton	4,916	3.9	70.3
Chaplin	1,190	5.4	65.3
Colchester	7,533	5.5	63.4
Columbia	2,714	4.2	68.8
Coventry	6,381	5.0	69.4
Cromwell	6,934	4.7	65.3
Durham	3,548	3.7	68.1
East Granby	2,601	3.8	68.8
East Haddam	4,499	4.7	63.9
East Hampton	7,363	4.3	61.5

East Hartford	25,897	6.7%	67.1%
East Windsor	5,454	6.1	70.2
Ellington	7,597	4.4	71.5
Enfield	23,080	5.0	64.1
Farmington	12,202	3.8	62.4
Glastonbury	16,746	3.0	65.6
Granby	5,630	3.7	69.2
Haddam	4,116	4.5	72.0
Hartford	50,727	10.8	60.4
Harwinton	2,885	6.0	69.8
Hebron	4,593	4.1	67.7
Lebanon	3,598	4.0	65.1
Manchester	28,592	5.1	64.1
Mansfield	9,716	2.5	53.4
Marlborough	3,060	4.6	70.3
Middlefield	2,253	4.7	67.2

Middletown	23,325	5.5%	66.8%
New Britain	33,913	8.5	61.8
New Hartford	3,494	5.2	74.4
Newington	15,525	4.7	64.9
Plainville	9,329	6.2	66.5
Plymouth	6,200	7.0	69.6
Portland	4,613	5.1	67.6
Rocky Hill	10,121	4.2	66.2
Simsbury	11,870	3.0	68.1
Somers	4,374	4.4	48.7
South Windsor	13,877	3.6	72.3
Southington	21,467	5.3	67.7
Stafford	5,665	6.7	64.2
Suffield	6,843	4.1	58.6
Tolland	7,604	3.8	72.3
Vernon	15,579	4.9	71.0



**Labor Force Pa
By Town,**

Source: *The Connecticut Economy* based on data from the *Current Population Reports* published by the U.S. Census Bureau.

	Labor Force March 2004	Unemp. Rate March 2004	LF as % of 16+ Population
West Hartford	28,286	3.7%	54.1%
Wethersfield	12,352	5.1	56.8
Willington	3,407	4.1	69.9
Winchester	5,615	8.0	68.5
Windham	10,517	6.9	57.1
Windsor	14,489	5.0	65.2
Windsor Locks	6,574	4.9	69.9

Lower River LMA

Chester	2,098	3.5%	67.5%
Deep River	2,649	3.6	71.6
Essex	3,578	3.9	65.9
Lyme	1,136	2.5	68.0
Westbrook	3,621	4.1	67.3

New Haven LMA

Bethany	3,003	4.0%	76.0%
Branford	16,823	4.3	70.9
Cheshire	14,698	3.5	63.2
Clinton	7,461	3.8	72.6
East Haven	15,605	5.6	67.0
Guilford	12,217	3.2	71.4
Hamden	31,225	4.0	65.2
Killingworth	3,304	3.4	66.5
Madison	9,264	2.6	65.5
Meriden	31,020	6.3	69.9
New Haven	57,722	6.9	61.8
North Branford	8,106	4.1	73.5
North Haven	12,823	3.6	68.8
Orange	6,944	3.2	66.3
Wallingford	24,107	4.6	69.8

West Haven	28,757	6.0%	70.1%
Woodbridge	4,454	2.6	62.6

New London LMA

Bozrah	1,566	4.3%	83.1%
Canterbury	2,923	5.7	78.6
East Lyme	10,701	2.9	68.6
Franklin	1,185	2.6	81.2
Griswold	6,215	6.0	73.2
Groton	17,682	5.1	60.3
Ledyard	8,440	3.3	76.8
Lisbon	2,483	4.5	77.2
Montville	11,706	3.8	76.5
New London	13,593	6.8	69.5
North Stonington	3,082	4.0	78.2
Norwich	19,900	5.9	71.1
Old Lyme	4,453	2.8	73.1
Old Saybrook	6,296	2.6	73.1
Plainfield	8,571	7.0	76.3
Preston	2,717	3.8	73.8
Salem	2,412	4.0	79.9
Sprague	1,799	7.9	79.3
Stonington	10,904	2.6	73.8
Waterford	11,473	3.9	72.4

Stamford LMA

Darien	9,626	2.3%	68.2%
Greenwich	30,525	2.1	63.9
New Canaan	9,413	1.8	65.6
Norwalk	48,305	4.3	71.2
Stamford	65,715	3.9	68.0
Weston	5,071	2.0	68.5
Westport	14,038	2.1	71.7
Wilton	8,874	2.4	67.8

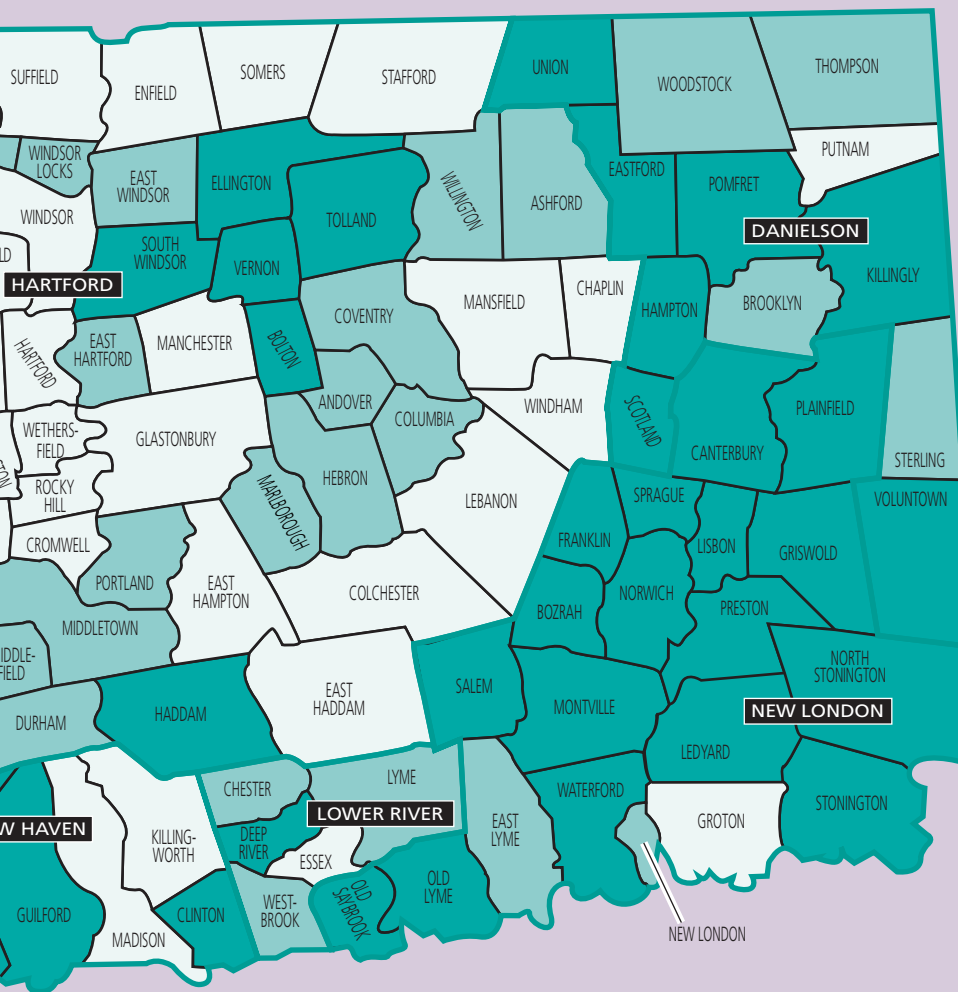
Torrington LMA

Canaan	724	2.8%	82.5%
Colebrook	838	1.8	71.2
Cornwall	813	2.5	72.4
Goshen	1,553	3.6	67.9
Hartland	1,070	5.0	68.1
Kent	1,976	2.7	87.9
Litchfield	4,264	4.3	66.2
Morris	1,273	4.5	67.3
Norfolk	909	5.5	76.2
North Canaan	2,187	3.2	80.7
Salisbury	2,385	2.6	75.6
Sharon	2,060	1.7	84.9
Torrington	19,277	6.6	67.7
Warren	660	3.0	65.1

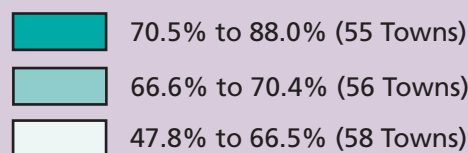
Waterbury LMA

Bethlehem	2,026	4.7%	72.9%
Middlebury	3,536	4.0	68.7
Naugatuck	16,953	6.8	71.6
Prospect	4,914	4.6	69.4
Southbury	7,533	4.2	47.9
Thomaston	4,313	7.8	72.1
Waterbury	53,016	8.4	65.4
Watertown	12,095	5.6	69.8
Wolcott	8,646	5.1	71.2
Woodbury	5,325	3.8	70.4

169-town Average 10,526 4.5% 68.6%



Participation Rates March 2004



Connecticut Wants Action on "Lost Jobs"

By James R. Moor, Jr.

In case you haven't heard, we're in the third year of a "jobless recovery". Pundits and politicians widely speculate about where jobs have gone and why, assessing blame and urging policy changes. It's no surprise, then, that concern about "lost jobs" is competing with the war in Iraq as this year's leading election issue.

With this in mind, April's *Webster-UConn Survey* not only asked Connecticut residents how they felt about lost jobs, but also probed for the reasons why. Their answers confirm that lost jobs matter to a lot of Nutmeggers. Perhaps more telling is their degree of conviction and what that might mean come election time.

Which of the Following Statements About Job Prospects Come Closer to Your View?

First we asked Survey respondents to choose between two very different statements about job prospects. The order in which the statements were read to respondents was randomized to avoid bias.

Statement A: *If economic recovery continues and strengthens, unemployment will go down to where it was before the recession, because businesses will create new jobs that replace those that were lost.*

Statement B: *Even if economic recovery continues and strengthens, unemployment will not go down to where it was before the recession, because many jobs have been moved overseas and will not return.*

The same choice was posed in a national NBC News / *Wall Street Journal* Poll late last year. Here are the results from the two surveys:

	Statement A	Statement B	Some of Both	Don't Know
Connecticut	35%	56%	2%	7%
Nationwide	44%	48%	3%	5%

A clear majority of Nutmeggers believes that global competition has caused a significant and to some degree permanent loss of U.S. jobs—in contrast to a more even split nationwide several months ago. Moreover, there is surprisingly little significant variation in attitudes across Connecticut's various demographic groups (by age, gender, income, education, or location). Only 18-34 year-olds (43% to 47%) came close to a toss-up. Conversely, 35 to 64 year-olds (31% to 63%), who provide the bulk of the state's workforce, went strongest for Statement B. Overall, state opinion broadly and firmly asserts that lost jobs are an issue, and doubts that continued economic growth will bring them back.

How Do Nutmeggers in Either Camp Answer Other Questions About Jobs?

It gets more complicated, though, when we compare how respondents on each side answered other questions related to jobs. (We've eliminated those not choosing A or B from the proportions below.) Each response pattern listed is statistically different from that for the state as a whole.

	Statement A	Statement B
Jobs are plentiful in my area right now	54%	46%
Jobs are hard to get in my area right now	28%	72%
More jobs in six months	54%	46%
Fewer jobs in six months	21%	79%
Republican	49%	51%
Democrat	35%	65%
Independent	35%	65%

Those who see jobs as plentiful and likely to become more so in six months' time tend to choose Statement A. Those seeing jobs as hard to get are overwhelmingly likely to choose B. Even Republicans, who are significantly more upbeat about current and future job availability (not shown), can't quite muster a majority in favor of Statement A. By a two-to-one margin, both Democrats and independents are firmly in the lost jobs camp. Current state opinion, then, is that lost jobs are a potent and potentially polarizing political issue, with adherents on both sides of the aisle.

As I Mention Possible Reasons for the Loss of American Jobs Due to Foreign Competition, Please Tell Me if You Think Each is a "Major" Reason, a "Minor" Reason, or Not a Reason for Lost Jobs?

	Webster-UConn Survey		Major Reason	Minor Reason	Not A Reason	Don't Know /Other
	Green	Purple				
The table summarizes Survey responses to each of the possible reasons offered in random order to respondents. Nutmeggers' choices are in green. The purple figures are choices made last month in a nationwide <i>Newsweek</i> poll that asked the identical questions.	People in other countries are willing to work for lower pay	86%	80%	9%	3%	2%
	Investors and CEOs want profits and don't care where they come from	76%	77%	14%	6%	4%
	Other countries have lower environmental and worker health standards	64%	61%	21%	8%	7%
	Consumers in this country want everything at the lowest possible price	61%	56%	24%	12%	3%
	There is weak corporate leadership in this country	39%	42%	33%	22%	6%
	Labor unions in this country have too much power	45%	35%	30%	22%	3%
				28%	27%	10%

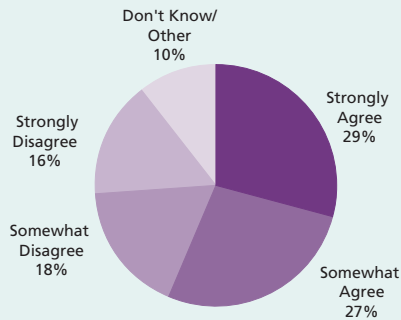
State residents are pretty much in sync with the nation on the reasons behind lost jobs, with cheap foreign labor and profit-hungry capitalists leading the pack. The only statistically different response between the two surveys is to the question about labor unions, which garnered significantly more support here than across the nation. Labor union power is also the only reason that has a significantly different response pattern by political affiliation. About half (52%) of independents see labor union power as a major reason for job loss, with Republicans (48%) close behind, but Democrats at just 33%.

Agree or Disagree: Low Productivity Jobs Move Overseas; High Productivity Jobs Stay Here

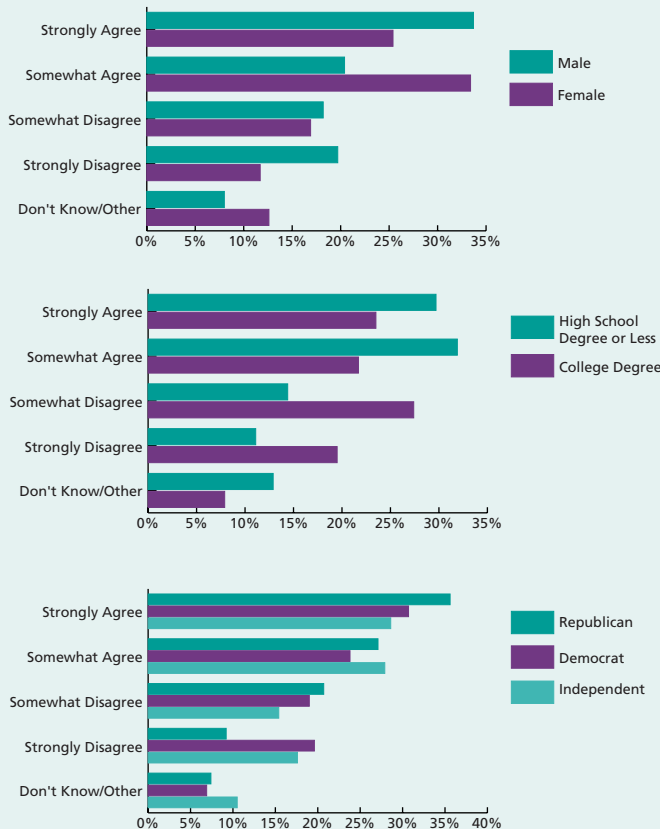
We then asked if respondents agreed or disagreed with the following statement and, if so, to what extent:

"The jobs that move overseas tend to be lower productivity jobs. America's role in the global economy is creating tomorrow's higher productivity jobs, not protecting yesterday's lower productivity jobs."

A majority (56%) of respondents agreed with this statement, and those that "strongly agree" outnumbered those that "strongly disagree" by nearly two-to-one. State residents seem to understand that there is a process of change at work in the global economy, and that there can be no guarantee that lower productivity jobs will stay home. "Right on!" many economists would say.



Three of the demographic cuts yielded significantly different results from the overall pattern.



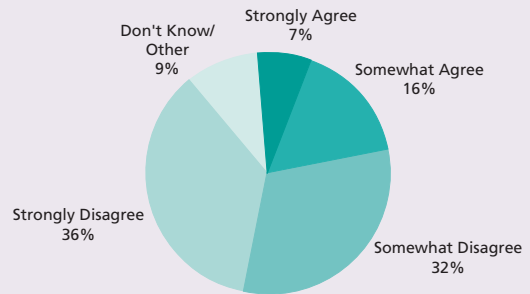
Interestingly, the least agreement (46%) is found among college graduates and the highest (62%) among those with a high school degree or less. Perhaps the global economy's raid on American tech jobs hits too close to home for the former group. Predictably, Republicans most strongly agree and Democrats least, but the difference is not that dramatic.

Agree or Disagree: Politicians and Policymakers Have Done Enough to Reduce Unemployment in Connecticut

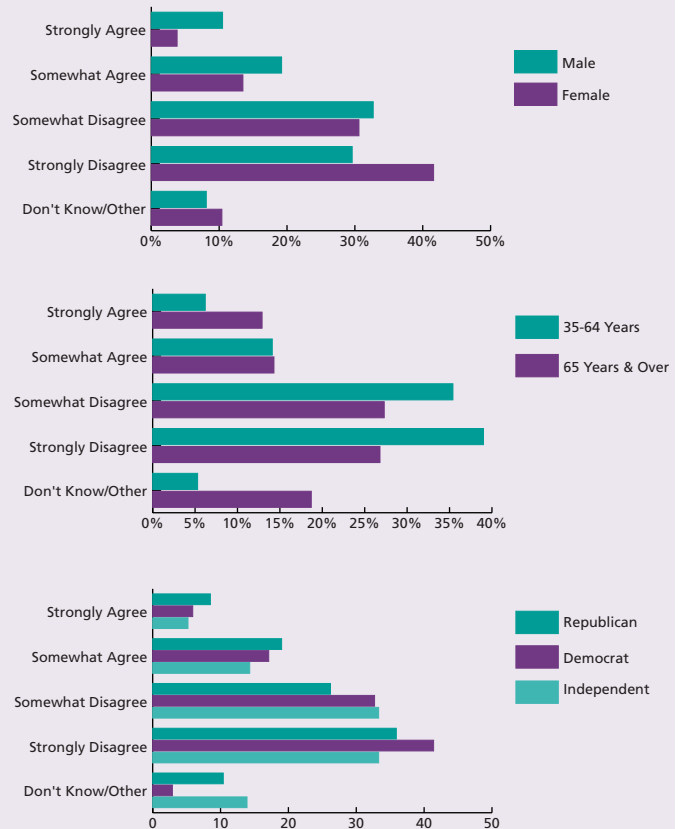
And now the \$64,000 question: how much of a difference is a politician's stance on lost jobs likely to make? The Webster-UConn Survey asked whether or not respondents agreed with the following statement:

"Politicians and policymakers in the state have done enough to reduce unemployment in Connecticut."

The preponderance of Nutmeggers disagree, and a plurality strongly so.



The significantly different demographic response patterns are limited to age and gender.



In particular, women and residents 35 to 64 years old are most in favor of greater political effort. Male residents and young people are most willing to give state politicians the benefit of the doubt, but that tops out at under one-third in agreement. That independent voters disagree most with this statement doesn't bode well for incumbents courting their votes.

Taken together, this quarter's polling says that Connecticut residents see "lost jobs" as a central issue and will be looking for candidates who promise to "do something".

Data Revisions Take Some Shine Off LMIs

By Steven P. Lanza

In its annual benchmark revision of nonfarm jobs, the Labor Department lowered its estimate of payrolls in every labor market, taking some of the luster off the areas' labor market activity indexes (LMIs). Payroll estimates for 2003 were reduced by an average of 1.3%, but the downward revisions were biggest in markets previously thought to be making the most headway toward recovery. Danbury's job total was trimmed by 3.3%, and New Haven's by 1.9%.

The year's first quarter, however, carried with it some promising developments for a couple of labor markets that have long been struggling to gain economic traction. Reductions in the number unemployed and a jump in the real manufacturing wage boosted Hartford's LMI by 0.3 percentage points. The area continues to come up short on jobs, however. By contrast, Stamford added jobs in

all major industries except manufacturing, information and government, and saw its LMI climb 1.2%.

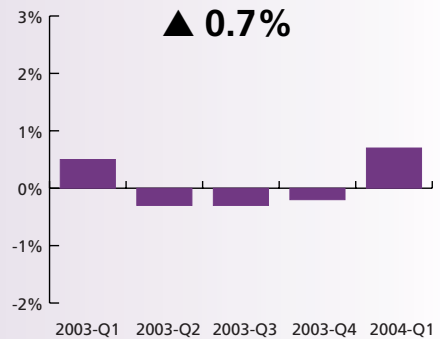
All but one labor market showed continued momentum in 2004-Q1; the exception was Danbury. Nevertheless, Danbury's LMI stood higher in Q1 than at the same time last year.

The LMI measures the four-quarter change in a composite index of labor activity for every labor market region for which data are available. The index includes five variables: the labor force, jobs, the number unemployed, weekly manufacturing hours, and real hourly earnings in manufacturing. (Because of limited data, Stamford's index excludes the last two variables). The bar graphs show the recent percentage changes in the LMI. All figures discussed in the text are four-quarter changes unless otherwise indicated.



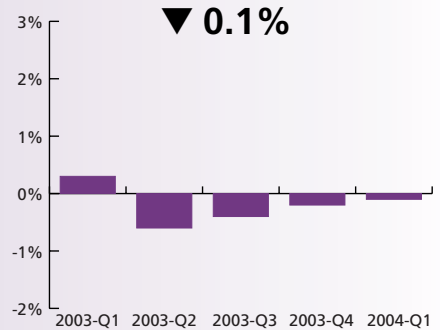
Bridgeport

- ▶ Employment continued to lag, but all other indicators showed surprising strength, helping propel Bridgeport's LMI upward by 0.7%.
- ▶ The number unemployed dropped for the first time this business cycle, while the area clocked its first increase in average manufacturing hours in six quarters.
- ▶ Few industries escaped 2004-Q1 without significant job losses, but cuts were especially deep in manufacturing and business services.
- ▶ Slowing job losses suggest Bridgeport could see annualized net job gains, totaling perhaps 700, in the coming year.



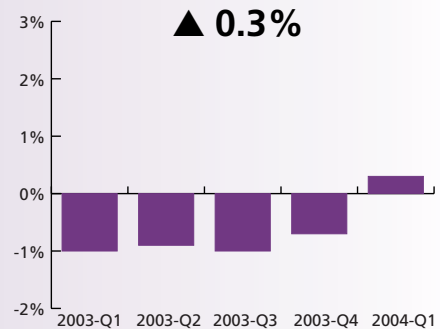
Danbury

- ▶ Despite moderate job growth, Danbury's LMI edged down a bit because real hourly manufacturing earnings took a 6% dive.
- ▶ The labor force held steady, so with the area's economy adding jobs, the number unemployed fell for the first time this business cycle.
- ▶ The lingering slump continued to cost Danbury jobs in manufacturing, business services and information; all other sectors posted gains.
- ▶ Though job gains look to be modest, Danbury should reliably post annual increases of several hundred positions for the balance of the year.



Hartford

- ▶ Robust growth in real hourly manufacturing earnings lifted the Hartford LMI into positive territory for the first time in the current business cycle, but sluggish jobs remain a drag on the index.
- ▶ The drop in the number unemployed outpaced the labor force decline, so the unemployment rate dipped lower than a year ago.
- ▶ Eighty percent of job losses came from cuts in manufacturing; business services joined education-&-health and leisure-&-hospitality in adding jobs.
- ▶ Momentum is moving in the right direction, but Hartford payrolls will likely remain several thousand positions shy of last year for the next several quarters.



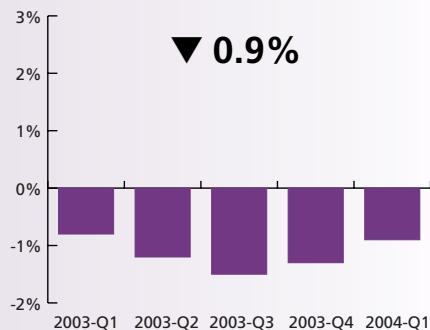
New Haven

▶ Though job losses eased, a 9.3% cut in the real manufacturing wage accounted for much of the drop in New Haven's LMI this quarter.

▶ The labor force grew 0.4%, but absent any net new jobs, the number unemployed was up 1.1%.

▶ Reductions of 900 in business services and 1,100 in trade-transportation-&utilities offset gains in other service industries; construction and manufacturing both lost jobs.

▶ The trend suggests that job losses could end next quarter; after that, payroll totals may run a couple thousand ahead of last year's levels.



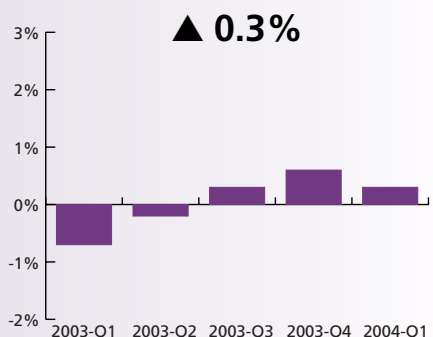
New London

▶ Except for a slight increase in the number unemployed, all index components contributed equally to New London's slow but steady LMI growth.

▶ Manufacturing hours and price-adjusted wages were both up, putting real weekly pay about one percent ahead of last year.

▶ Job gains in construction offset reductions in manufacturing, and most service industries added workers, but government (which includes the casinos) saw some cutbacks.

▶ Slowing employment momentum could cost New London several hundred jobs on an annualized basis in the next couple quarters before the area returns to a period of steadier job gains.



Stamford

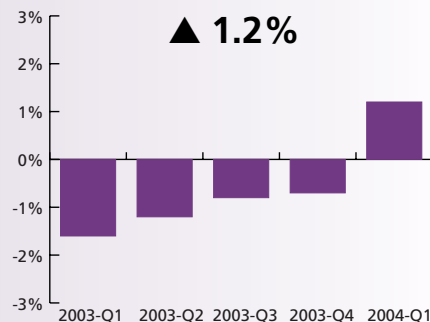
Note: Stamford's index excludes weekly hours and hourly earnings and is not directly comparable with indices for other LMAs.

▶ Stamford's LMI turned around thanks to a trifecta of firsts for this business cycle: a four-quarter increase in jobs, a drop in the number unemployed, and a rise in the labor force.

▶ With new entrants to the labor force finding jobs, the unemployment rate also registered its first four-quarter decline since the slump began.

▶ Manufacturing jobs took a nosedive, but Stamford posted strong gains in education-&health and leisure-&hospitality.

▶ Quarter one's payroll increase appears sustainable, so in coming quarters look for area jobs to remain about 1,000 above year-ago levels.



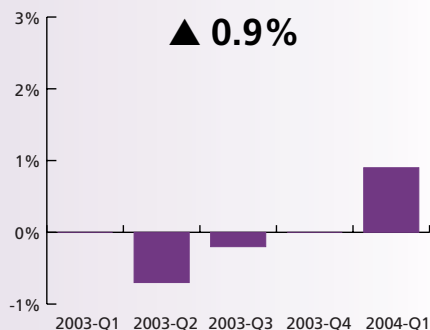
Waterbury

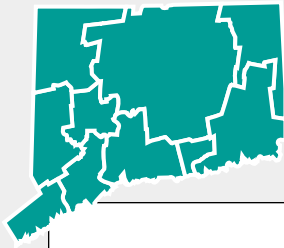
▶ A big boost in real manufacturing wages brought Waterbury its first LMI increase since the beginning of the downturn.

▶ Many new entrants to the labor force found work, so the unemployment total has finally begun to ease.

▶ Manufacturing employment is still slipping, but healthy increases in business services and retailing put the region's job changes into the plus column.

▶ Now that Waterbury has finally added jobs, the four-quarter gains should climb to about 1,000 in the next few quarters.





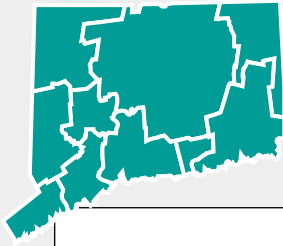
Labor Market Data

Labor Market Area	Labor Force		Nonfarm Jobs		Unemployment Rate (%)	
	2004-Q1 (000)	% Change Year Ago	2004-Q1 (000)	% Change Year Ago	2004-Q1	2003-Q1
Bridgeport	227.2	-1.0	182.5	-0.6	6.2	7.0
Danbury	115.0	0.3	87.7	0.4	3.6	4.1
Danielson	36.0	-1.2	21.4	-0.5	5.7	6.7
Hartford	602.0	-1.5	588.3	-0.8	5.7	6.4
Lower River	13.0	1.3	9.8	3.5	3.8	4.7
New Haven-Meriden	286.9	-1.0	253.3	-0.8	5.1	5.4
New London-Norwich	165.7	-0.5	142.4	0.4	4.8	5.2
Stamford	191.2	0.1	193.4	0.5	3.3	3.8
Torrington	39.7	2.1	28.1	3.7	5.2	5.8
Waterbury	117.8	-0.8	82.0	0.1	6.9	8.0
Statewide	1,776.0	-0.8	1,619.2	-0.6	5.2	5.9

Labor Market Area	Housing Permits		Housing Prices		Manufacturing Jobs	
	2004-Q1	% Change Year Ago	2004-Q1 (000)	% Change Year Ago	2004-Q1 (000)	% Change Year Ago
Bridgeport	324	128.2	\$359.4	6.7	28.8	-3.1
Danbury	191	70.5	414.3	5.6	12.2	-7.6
Danielson	68	21.4	N/A	N/A	N/A	N/A
Hartford	851	18.0	213.0	9.2	70.7	-5.4
Lower River	18	-25.0	N/A	N/A	N/A	N/A
New Haven-Meriden	154	0.0	253.4	10.2	30.1	-3.1
New London-Norwich	179	29.7	189.5	1.7	19.3	-1.2
Stamford	234	7.8	692.0	-5.8	10.2	-10.0
Torrington	54	12.5	175.4	5.7	3.8	0.0
Waterbury	103	45.1	179.5	4.8	12.9	-2.0
Statewide	2,176	29.3	347.3	5.9	194.6	-4.1

Labor Market Area	Average Weekly Earnings		Average Weekly Hours		Average Hourly Earnings	
	2004-Q1	% Change Year Ago	2004-Q1	% Change Year Ago	2004-Q1	% Change Year Ago
Bridgeport	\$798.05	8.3	41.2	1.0	\$19.39	7.2
Danbury	714.80	-3.3	41.4	1.1	17.28	-4.3
Danielson	N/A	N/A	N/A	N/A	N/A	N/A
Hartford	840.47	8.3	42.5	0.1	19.76	8.2
Lower River	N/A	N/A	N/A	N/A	N/A	N/A
New Haven-Meriden	656.97	-9.3	41.2	-1.7	15.95	-7.7
New London-Norwich	746.48	2.7	41.5	0.2	17.97	2.4
Stamford	N/A	N/A	N/A	N/A	N/A	N/A
Torrington	N/A	N/A	N/A	N/A	N/A	N/A
Waterbury	697.67	9.1	37.8	-1.8	18.44	11.1
Statewide	750.88	4.0	41.7	0.9	18.01	3.1

Sources: Quarterly figures prepared by *The Connecticut Economy* based on monthly estimates from the Connecticut Department of Labor. Figures are not seasonally adjusted. Statewide totals are not necessarily the sums of individual labor market areas. Housing permits are quarterly totals based on monthly figures from the Connecticut Department of Economic and Community Development, and are not seasonally adjusted. Housing prices, from UConn's Center for Real Estate and Urban Economic Studies, are preliminary.



L a b o r M a r k e t D a t a

Labor Market Area	Construction* Jobs		TTU** Jobs		Information Jobs	
	2004-Q1 (000)	% Change Year Ago	2004-Q1 (000)	% Change Year Ago	2004-Q1 (000)	% Change Year Ago
Bridgeport	6.3	0.0	35.9	-0.9	4.2	-3.8
Danbury	3.8	2.7	19.0	2.9	2.7	-3.6
Danielson	N/A	N/A	N/A	N/A	N/A	N/A
Hartford	18.5	-4.0	100.7	-1.9	11.4	-4.7
Lower River	N/A	N/A	N/A	N/A	N/A	N/A
New Haven-Meriden	8.5	-5.5	45.4	-2.3	9.2	2.6
New London-Norwich	4.3	6.6	24.1	1.5	2.4	-2.7
Stamford	5.6	2.5	34.1	0.3	6.5	-1.5
Torrington	N/A	N/A	N/A	N/A	N/A	N/A
Waterbury	3.1	-5.2	15.8	1.5	1.3	-2.5
Statewide	56.3	0.8	302.0	-0.4	39.0	-2.4

* Includes Natural Resources & Mining
** Trade, Transportation & Utilities

Labor Market Area	Financial Activities Jobs		Business Service* Jobs		Education & Health Jobs	
	2004-Q1 (000)	% Change Year Ago	2004-Q1 (000)	% Change Year Ago	2004-Q1 (000)	% Change Year Ago
Bridgeport	13.7	3.0	18.8	-5.1	32.6	2.3
Danbury	4.2	0.0	9.2	-5.5	13.5	3.9
Danielson	N/A	N/A	N/A	N/A	N/A	N/A
Hartford	71.1	-0.7	60.9	1.5	88.7	0.9
Lower River	N/A	N/A	N/A	N/A	N/A	N/A
New Haven-Meriden	13.8	0.5	25.1	-3.5	60.3	0.8
New London-Norwich	3.7	5.7	10.6	-1.2	19.1	1.8
Stamford	26.9	1.1	44.2	0.8	23.0	3.3
Torrington	N/A	N/A	N/A	N/A	N/A	N/A
Waterbury	3.5	2.9	8.6	4.0	15.3	-1.1
Statewide	142.5	0.4	190.7	-1.6	265.3	0.9

* Includes Professional Jobs

Labor Market Area	Leisure & Hospitality Jobs		Other Service Jobs		Government Jobs*	
	2004-Q1 (000)	% Change Year Ago	2004-Q1 (000)	% Change Year Ago	2004-Q1 (000)	% Change Year Ago
Bridgeport	13.2	5.3	6.5	-3.0	22.5	-1.0
Danbury	6.6	2.6	4.0	8.1	12.4	3.1
Danielson	N/A	N/A	N/A	N/A	N/A	N/A
Hartford	40.4	1.9	24.2	3.6	101.7	-0.4
Lower River	N/A	N/A	N/A	N/A	N/A	N/A
New Haven-Meriden	16.7	5.5	10.3	4.7	33.8	-1.9
New London-Norwich	13.4	2.8	4.3	2.4	41.2	-1.7
Stamford	15.4	5.7	8.9	1.5	18.7	-2.1
Torrington	N/A	N/A	N/A	N/A	3.6	-1.8
Waterbury	5.4	3.8	3.2	1.1	13.0	-1.5
Statewide	119.1	3.4	62.2	1.0	247.5	-1.8

* Includes Casinos

Engineering Our Future

By John F. Cassidy,
Senior Vice President, Science & Technology
United Technologies Corporation

Job loss, outsourcing, and offshoring are words that fill our ears and the newspapers we read every day. Many would have us believe globalization is new to the scene. But it's not.

World exports have grown from 1% to 20% of GDP over the last fifty years. Foreign direct investment has increased also, growing more than 17% worldwide in the last 20 years. And the economies of less-developed countries (LDCs) are growing rapidly. In 1980, LDCs represented 18% of world GDP. That share has increased to 26% today and could climb to 33% by 2025.

Globalization is not the enemy. Outsourcing, often blamed for the current job situation, accounts for a little over 2 percent of jobs lost. In fact, globalization creates new jobs. The Commerce Department recently estimated that Americans employed by U.S. affiliates of majority-owned, non-U.S. companies grew by 4.7 million from 1997 through 2001. Simultaneously, non-Americans working at affiliates of majority-U.S. companies abroad rose by only 2.8 million. Many factors contribute to job losses, but outsourcing is not the main culprit.

Today's jobless recovery partly reflects increased productivity. While productivity growth improves our quality of life, the U.S. Department of Labor reports that each percentage point of annual productivity growth also costs the country approximately 1.3 million jobs in the short run, all else equal. And we're not alone. Alliance Capital Management recently reported that, over the last seven years, while the U.S. lost 11 percent of factory jobs, Brazil lost 20 percent, Japan 16 percent, and China 15 percent.

What One Company Can Do

No single factor has changed UTC over the last decade more than productivity. Today, Otis produces twice as many new elevators, and Carrier 2.5 times as many air conditioners, as in 1990 with a workforce just 20 percent larger. We rely on lean manufacturing methods, pioneered by the Japanese, to boost productivity, keep our company competitive, and preserve our ability to employ people. We also concentrate on the highest value-added activities and let the lower-knowledge and lower-wage work go elsewhere. To sustain this, we require the most educated workforce on the planet.

To this end, we implemented our Employee Scholar Program in 1996. We pay all costs for tuition, fees, books, and course materials, for all full- or part-time UTC employees, anywhere in the world. We give them paid time off equal to more than three weeks annually. We don't limit course selections in any way. And when an employee receives a degree, we grant him or her UTC common stock worth \$10,000.

Today, nearly 15% of our domestic workforce is enrolled in college and university coursework, more than half seeking advanced degrees. Our participation rates are three times the national average for companies with similar programs. And the retention rates for participants is double that of all employees.

We extend program availability for a year in the event of lay-off, but go to the extraordinary length of extending it for four years for any job lost to domestic or foreign work relocation farther than 50 miles.

Since the program was established, 13,500 employees have earned degrees all over the world. We have had graduates in Argentina, Brazil, China, Hong Kong, Korea, Mexico, Poland, Russia, Singapore, South Africa, and Taiwan, just to name a few.

Since the program's inception, employees have been awarded more than 1.8 million shares of stock (including splits) valued today at over \$170 million. Our program costs now exceed \$60 million annually, and total more than \$460 million since 1996.

What We All Must Do

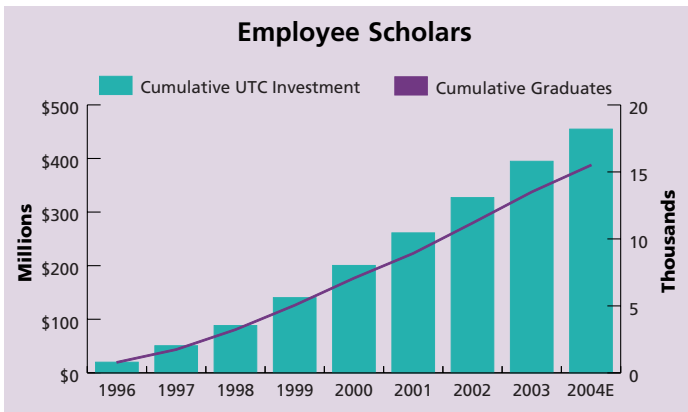
Successful as UTC's Employee Scholar Program has been, no one company can shoulder the burden alone. As a community and as a nation, we need to focus urgent attention on our future workforce. The number of U.S. engineering graduates has been stagnant for decades. Reports from the U.S. Department of Education's National Center for Education Statistics (NCES) show that, last year, more students were granted bachelor's degrees in recreation and leisure studies than in mechanical engineering. The U.S. Department of Labor forecasts that 2.7 million knowledge-based jobs—basically, engineering jobs—will become vacant in 2010 due to new opportunities and large-scale retirements. At current U.S. college graduation rates in these fields, fewer than half those jobs could be filled by Americans. Over the same period, China alone expects to have graduated 2.1 million engineers.

Ironically, our kids may be technologically savvy, but they're not interested in *why* today's gadgets are so cool. According to NCES, 90 percent of American children use computers, and one of every four kindergartners taps the Internet. But NCES test results show that just 16 percent of 12th graders in the U.S. are proficient in math, and only 18 percent in science. If our children's interest in science and technology is not sparked at a young age, it should come as no surprise that we have fewer and fewer degrees granted in those fields in later life.

Two changes will be important if we are going to fix the problem. First, we all need to share in this responsibility—business leaders, parents, citizens, policy makers, and educators. Second, we need to think about this problem differently; simply evolving from where we are now will not address the challenges ahead.

If the United States wishes to continue to compete successfully in the global economy, we need to address these issues immediately. Our current workforce is feeling the pressure of a changing American marketplace, which for better or worse drives labor force demographics.

You don't have to be a rocket scientist—or an economist—to see that remaining on our current path will lead America to economic disaster. Engineers and scientists brought us the quality of life we enjoy today. Our country's global economic leadership in the world is on the line. If we are to win the race—if we want to be able to run at all—education is key. That is the only way to engineer our future.

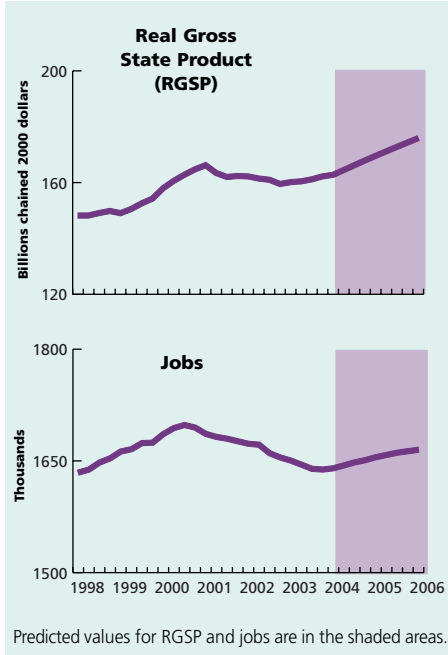


Today's Forecast: Strong GSP and Productivity Growth, With Periods of Weak Job Gains

By Peter E. Gunther

The forecast of seasonally-adjusted Connecticut employment continues to show mild strength, despite seasonally-unadjusted declines after Christmas and into the winter. 2004-Q1's four-quarter employment loss of 37,000, though hefty, was somewhat less than the 40,000+ cuts in the first quarters of the previous three years.

Employment recovery is forecasted to remain weak—an added 13,000 jobs by Q4 this year and 10,000 more during 2005. Even by 2006, employment will still be well below the halcyon levels at the turn of the century, suggesting continued room for growth.



This modest employment recovery is predicated on robust national GDP growth of 5.0%, slow growth in real manufacturing earnings (0.5%), and a cooling of residential housing permits this year by 2,000 over last. Slower GDP growth would lower the Connecticut forecast, while better earnings growth and housing starts would boost both employment and GSP.

During 2004-Q1, better than two-thirds of housing

permits were granted in the Hartford (39%), Bridgeport (15%), New London (8%) and New Haven (7%) labor market areas. Reflecting differences in housing costs and type, permits by value were more concentrated in high-cost Bridgeport (40%) and less so in Hartford (27%), New Haven (13%), and New London (8%).

In contrast to employment, real GSP is forecasted to surpass its previous high by the third quarter of this year. Although it will lag U.S. GDP growth, Connecticut GSP is expected to expand by 3.5% this year and 3.8% next year—both more than twice the rate achieved last year. Such high rates of GSP growth are indicative of the pace required for even mild employment recovery, given expected productivity gains.

Since 1978, Connecticut real GSP per worker, a crude measure of productivity, has increased at an average rate of 0.6% per quarter. In 2004-Q1, productivity was 2.6% below trend, an indication of excess capacity. But the forecast implies that average productivity will rise 0.8% per quarter, or 3.2% annually, over the next eight quarters, thus moving the state to within 1.0% of its historical trend. While above-average rates of productivity growth do nudge us closer to capacity in the short-term, they may come at the expense of robust job growth.



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The Connecticut Travel and Tourism Index

The overall index increased 7.2% in 2004-Q1 compared with the same quarter the year before. The index consists of hotel-motel revenues, slot machine revenues, attendance at six major tourist attractions, and traffic on five tourist roads.

Hotel/Motel Rev.	▲ 11.2%
Slot Machine Rev.	▲ 6.6%
Attendance	▲ 7.7%
Traffic	▲ 3.3%
Overall	▲ 7.2%

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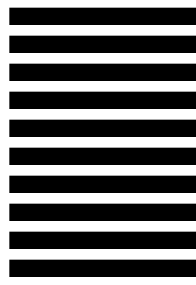
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THE CONNECTICUT Economy

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Department of Economics, Unit 1240
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Recovering State Economy Presents Opportunities

By William Aniskovich,
Senate Minority Leader Pro Tempore



What a difference a few months makes when it comes to putting the state budget together. Last year, after endless show-downs and a raucous debate over how to fill a \$1.2-billion budget hole, the legislature, months late, finally passed a tax and spending plan in a special August session.

The economic news this spring is far more encouraging. Wall Street's rebound has been good for Connecticut's capital gains receipts. Connecticut's unemployment rate has dropped nearly a full point to 4.7 percent versus a year ago, and new claims are down 11.7 percent. And we've achieved real savings through a slimmed-down state payroll and the Early Retirement Incentive Program.

The budget and the recovering economy combined to yield a fiscal surplus of about \$240 million for FY 2004. And they obviated the need to securitize \$300 million of the state's anticipated tobacco industry settlement award this year.

It took Connecticut until 1999 to recover the more than 156,000 jobs it lost during the recession of 1989-1992. Nationally, hundreds of thousands of jobs have been added to payrolls in recent months—337,000 in March and another 288,000 in April. Two national newspapers, the *New York Times* and *USA Today*, both have reported spikes in help-wanted ads this spring.

Despite the promising economic signs there is cause for concern. Connecticut has to remain fully competitive lest companies look to other states for trained workers or ship business overseas. The cost of doing business in our state is 13 percent higher than the national average, according to a recent report by the Connecticut firm of Scillia, Dowling & Natarelli. And we've heard a lot about how the wages of programmers or accountants abroad may run as little as 10 or 15% of pay scales in Connecticut.

How can we deal with these challenges? For openers, we should not create punitive trade barriers that invite retaliation. Connecticut is home to 1,200 foreign-owned businesses that support more than 120,000 jobs. These jobs, and others like them across the U.S., would be at risk in a global trade war.

Retaining jobs in Connecticut is not about forcing employers to stay; it's about creating a business climate that invites them to grow.

Thus, we should expand public-private partnerships like those the State has forged with private non-profit organizations to train young people and retrain older workers for new positions. Several of our major employers in the financial services industry have joined with the state and its workforce retraining partners to tap federal funds to assist in the effort. The goal is to provide incumbent workers with additional skills to keep them competitive for the next decade, particularly in jobs linked to information technology and science.

Finally, an additional step to reduce the costs of doing business in Connecticut would be meaningful tax reform. Simply shifting the tax burden from local property to personal or corporate incomes, as the Blue Ribbon Commission on Tax Reform has proposed, is ill-conceived. Even worse, the proposal to add a surcharge to personal property taxes as a way of shifting local taxes away from real property would surely harm our job base.

Real tax relief will only follow from controls on state spending. If government wants to promote job creation and economic growth, the legislature must have the courage to restrain its appetite for spending other peoples' money.

State government has an opportunity to be a partner with business and industry in the effort to promote a stronger economy. The only question left is whether it can meet the challenge.

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