

# THE CONNECTICUT Economy

*A University of Connecticut Quarterly Review*

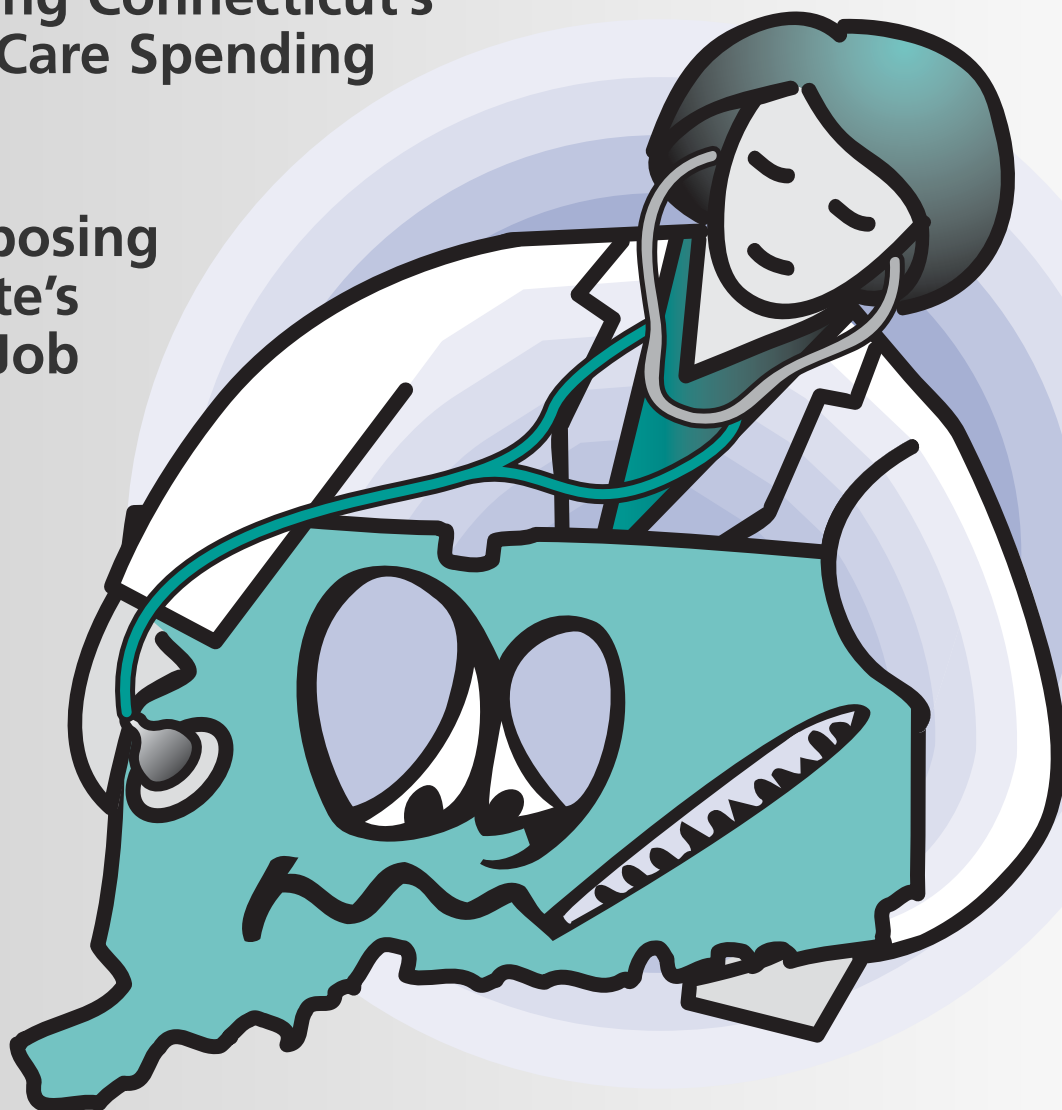


*Winter 2003*

**Diagnosing Connecticut's  
Addiction to Casino Gaming**

**Dissecting Connecticut's  
Health Care Spending**

**Decomposing  
the State's  
Future Job  
Growth**



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## CONNECTICUT ECONOMIC INDICATORS

(Percent change: 2001-Q4 to 2002-Q4)

### Indicators of Current Economic Activity

Total Nonfarm Jobs	-0.4%
Number Unemployed	+17.9%
Labor Force	+1.0%
Manufacturing	
Jobs	-4.2%
Avg. Weekly Hours	-1.5%
CT Mfg. Prod. Index	-0.9%
Avg. Hourly Earnings	+0.2%
New Auto Registrations	-7.2%
Travel and Tourism Index	-2.1%
Bradley Airport	
Passengers	+6.4%
Freight	-19.2%
State Tax Receipts	
Sales	+4.6%
Income	-6.9%
Real Estate Conveyance	+27.8%
Normalized Electricity Use	+0.3%
State Exports ('01-Q3 to '02-Q3)	+6.2%
Personal Income (est.)	+3.2%
Retail Sales ('01-Q3 to '02-Q3)	+10.1%
Confidence in Current Economy	-50.0%
Coincident GDI	-1.8%

### Indicators of Future Economic Activity

Help-Wanted Ads	
<i>Hartford Courant</i>	-30.8%
<i>The Advocate of Stamford</i>	-14.6%
State Job Service Postings	-7.7%
Avg. Initial Unemp. Claims	+0.1%
Housing Permits	+6.4%
Net New Business Starts	+24.1%
Confidence in Future	-34.4%
Leading GDI	+1.0%

## An Economy Derailed?

It was a grisly train wreck. In 2002-Q4, the state's economy, logged its worst quarter of the current downturn, as employers axed more than 8,000 workers from their pay-rolls—fully one fourth the total lost since the economy crested in 2000-Q3. It's always tempting to do a little economic rubbernecking—paying more attention to the accident scene than to the road ahead—but giving into the urge this quarter could leave one with the wrong impression.

To be sure, 32,000 jobs have been lost since the peak. Fully 27,000 of those have come from manufacturing, but only about 10,000 are direct casualties of the recession. Long-running industry trends would have eliminated 17,000 manufacturing jobs in any event. Even so, the disappearance of 3,400 jobs this quarter alone made for a particularly gruesome end of the year for that sector. Total hours worked, an informal index of the sector's output, also declined 0.8% in 2004-Q4.

The carnage was not limited to manufacturing. Jobs in construction, which had generally held steady during the slump, slipped by 900 in the quarter—in part, perhaps, because of severe weather. Also hard hit, though less so in percentage terms, were services, down 1,400, and retail trade, off by 1,100.

On the bright side, the household survey showed rock-steady employment between 2002-Q3 and 2002-Q4—at levels maintained throughout much of the year. Unlike the employer payroll survey, which tallies the number of *jobs*, the household survey counts the number of *people* with jobs. Multi-job holders who lose one job nevertheless remain employed. And individuals who work in small businesses are missed by the employer survey, which is skewed toward older and larger employers. In fact, net new business starts, where many of tomorrow's new jobs will appear, were up 24.1% between 2001-Q4 and 2002-Q4. Initial weekly unemployment claims generally fluctuated between 5,000 and 6,000 throughout the year, with no discernible trend upward, and stayed there in 2002-Q4 as well. To be sure, the unemployment rate crept higher over the year but not because more people became jobless. Rather, more folks entered the labor force in hopes of finding work.

The state's labor markets showed renewed signs of health. In the broadest measure of labor activity—a diffusion index of 50 labor market variables—rising indicators now outnumber falling indicators (see pages 14-15). And half the state's labor markets are posting growth in their individual indexes of labor activity.

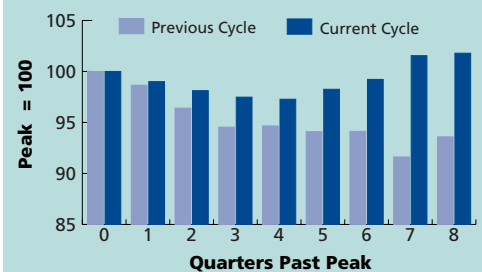
Connecticut's economy continued to receive strong support from consumers. Incomes, the fundamental fuel for consumer spending, rose by an estimated 3.2% between 2001-Q4 and 2002-Q4. And retail sales, graphed here as an indexed four-quarter moving average to remove seasonal effects, were higher last quarter than at their 2000 peak. At this point in the last

business cycle, retail sales had only just bottomed out. Third quarter figures, the most recent available, also showed sales of existing homes running 3% ahead of levels from a year earlier at prices that were 9% higher. The sizzle in housing prompted a spate of new home building, with new permits in 2002-Q4 up 6.4% from the year before.

However steadfast consumers have been, gnawing concerns remain about the depth of their determination. Our *Webster-UConn Survey* revealed that 25% fewer Nutmeggers plan to buy a home in the next six months than at the same time last year. Fifteen percent fewer plan to buy a new car. The same survey found residents generally more bullish on the stock market than the U.S. norm, but growing increasingly bearish. Nutmeggers expect stock prices to rise rather than fall by a margin of 2 to 1—a significant drop from last year's 5 to 1 ratio.

Fears about the market are symptomatic of a general unease over global and economic conditions. Analysis in this issue suggests that such factors have a significant—but limited—impact on Connecticut's economy (see pp. 4-5). Nevertheless, with U.S. GDP growth at a virtual standstill, business investment in reverse, and confidence in the dumper, it will take more than Yankee ingenuity to get this train back on the track.

### This Time Around, Retail Sales Are Giving The Economy A Boost



Source: Developed by *The Connecticut Economy* based on data from the Department of Revenue Services.

### Good news



**+4.6%**  
Sales Tax Receipts

### Bad news



**-6.9%**  
Income Tax Receipts

# Sectoral Sources of Connecticut Job Growth

By Steven P. Lanza

As Connecticut struggles to shake off the recession and rebuild its economy, analysts ponder which of the state's industrial sectors will generate future job growth. The question is more than academic. Businesses and individuals who must make decisions today about capital investments or education and training can't wait until tomorrow to discern new economic trends.

Connecticut has long relied on the strength of its finance, insurance and manufacturing sectors to power its economy. The state, even now, has a greater-than-average concentration of jobs in those sectors—evidence of a comparative advantage that allows Connecticut to specialize in the production of goods and services in these industries and then trade profitably with other states and countries. But sectors of Connecticut's economy that stood as pillars of past success need not offer the same support in the future. Where, then, will new job growth originate?

## A Brief Methodological Excursion

Identifying the drivers of employment growth is complicated because sectors often move up and down in tandem, even when growth in one sector is simply a reflex to growth in other sectors. Fortunately, it is possible to disentangle those effects and identify the key sectoral sources of new employment in Connecticut, with a modeling technique called vector autoregression, or VAR. This technique uses a system of equations, one for each variable of interest, in which each variable is modeled as a function of its own past values and the past values of all the other variables. Model estimates show how a given variable responds to sudden changes, or shocks, in its own or other values.

Because of its interlocking structure, a VAR can capture complex interdependencies among sectors of the economy. Total Connecticut employment, for example, is expressed as a function of its own past values as well past employment in the state's separate industrial sectors (which are themselves functions of their own and other past values). A VAR can also help quantify the impact of outside forces acting on the Connecticut economy, such as oil price spikes or changes in U.S. output and job growth, thus illustrating the degree

to which Connecticut's economic fate is tied to that of the nation or the world.

I modeled the interaction of monthly changes in 13 key national and state variables over the period 1989 to 2000—the most recent complete business cycle. The five national variables consisted of (to prices, U.S. real GDP and employment, and (to capture the effects of monetary and fiscal policy) the federal funds rate and the federal deficit. The Connecticut-specific variables were employment in seven of the state's key industries—finance, insurance and real estate (FIRE), manufacturing, services, trade, government, transportation, communications and utilities (TCU) and construction—plus total statewide employment.

In setting up a VAR, the order in which the variables enter the model is important: those that are logically prior to others should appear first. In my analysis, variables with national effects precede variables with strictly local effects, to capture the idea that Connecticut activity depends on the national economy. And in rank-ordering Connecticut-specific industries, those with an export focus, such as FIRE and manufacturing, precede those with a focus on serving local markets, such as construction.

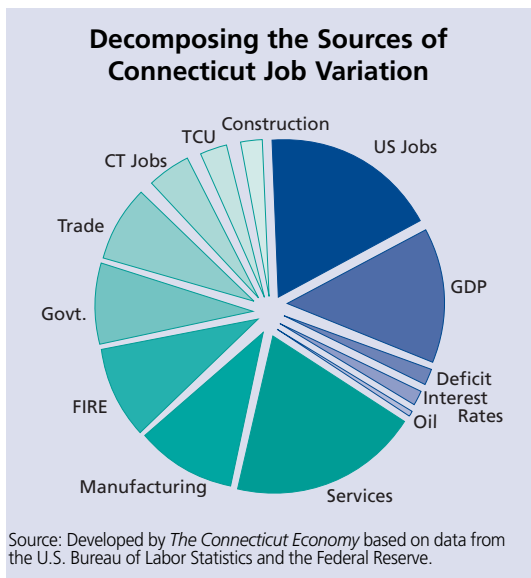
## As Goes the Nation...

The accompanying pie chart documents the results of this exercise. According to the model, economic shocks at the national level explain only about a third of the total variation in Connecticut job growth over the 1989-2000 period (the blue slices), with most of the effects lasting about a year. Shocks from the state's economy, by contrast, account for fully 65% of the variation in job growth (the green slices). These findings are consistent with other research on the relative importance of similar variables for metropolitan job growth in many regions across the U.S.

Among the outside forces influencing the Connecticut economy, oil prices have the smallest effect—in fact accounting for next to none (less than 1%) of the total variation in job growth. What little impact there is shows up in the state's energy-hungry manufacturing and transportation sectors, but even there the influence on job growth is barely 5% of the total within those sectors. Federal monetary and fiscal policies also appear to have little influence on Connecticut job growth. Changes in the federal deficit and in interest rates have an impact of about 1.5% each. The effects on services and manufacturing job growth from changes in monetary policy appear modestly higher, perhaps because investment in these sectors is more interest-rate-sensitive than in others.

By far the most significant national influences on Connecticut job growth are changes in real GDP and in total U.S. employment. U.S. job growth is the second biggest influence on total Connecticut job growth, and GDP growth is third biggest. Together, these two variables account for 32% of the total variation in Connecticut job growth.

Besides influencing on total jobs statewide (as illustrated in the pie chart), national GDP and



employment also have effects on jobs on a sector by sector basis (not shown in the chart). Such effects are, however, much smaller than they are for the state as a whole. At one extreme, in the case of FIRE, barely 4% of the variation in jobs can be traced to changes in GDP and national employment, while a whopping 91% of the variation results from changes specific to the FIRE industry. At the opposite extreme, 27% of the variation in jobs in the trade sector stems from GDP and national employment, while the sector itself accounts for just over half of its own variation. For all sectors in the Connecticut economy, changes in GDP and in U.S. jobs combined typically account for only about a tenth of the variation in sectoral job growth. But in every case, more than half of the job variation within sectors comes from shocks unique to those sectors.

### Home Grown Growth

The results so far strongly suggest that the state's fortunes are tied to some extent to the performance of the nation's economy. But the big green area of the pie chart reminds us that Connecticut must largely make its own luck: most of the variation in total Connecticut job growth is a product of the performances of the state's separate sectors. Over the most recent business cycle, services accounted for the greatest proportion of the variance in total employment (19%), trailed by manufacturing (10%), FIRE (9%), and government (8%).

The strong showing from services suggests that this sector may, as many suspect, be eclipsing FIRE and manufacturing as a job powerhouse. Without a doubt, the business-service and health-related segments of the economy scored some impressive gains in the 1990s (see Dennis Heffley's piece on pages 6-7). And government's competitive position in the lineup reflects the emergence of a casino gambling industry over that same period of time (see Art Wright's piece on pages 12-13), because jobs at the Mohegan Sun and Foxwoods casinos, which are owned by Indian tribes, are counted under the government sector.

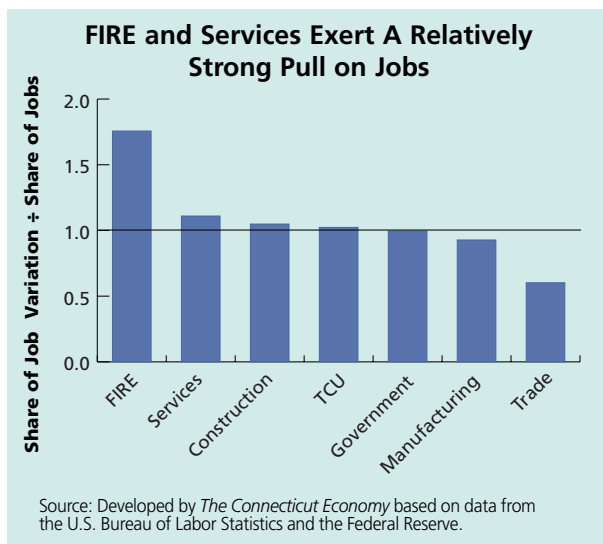
By another index, however, the influence of the state's FIRE sector remains significant. Though

FIRE accounts for about 9% of the total variation in job growth from national and local influences combined (the blue segments of the pie chart, plus the green segments), it accounts for fully 15% of the variation from the local sector (the green segments) alone. Over the last business cycle, however, FIRE comprised 9% of total Connecticut jobs, so its influence over job changes exceeded its share of job totals. So too the services sector, which accounted for 32% of the total variation in job growth coming from the local sectors, even though it housed 29% of total jobs.

The accompanying bar chart illustrates the *relative* job generating strength of the sectors by graphing the ratio of the share of employment variation to the share of total state employment. Sectors with ratios above 1.00 exert especially strong employment leverage (e.g., services), and vice versa (trade). Construction, TCU and government appear to wield an influence over total job changes that is commensurate with their size. The case of government may seem especially odd—surprisingly high to those who see government as an impediment to growth; surprisingly low to those who might have expected an extra boost from the massive growth in casinos during the period of study. The relative lack of strength of the manufacturing sector, which comes in with an index value of 0.93, is also notable. One consolation is that, though manufacturing employment is caught in a long secular decline, job losses in this sector likely engender relatively few additional losses elsewhere in the state's economy.

### Where Do We Go From Here?

Job losses today aren't just limited to the manufacturing sector, but when jobs do begin to return we'll want to know where to start looking for them. Under the Connecticut economy's current structure, job growth is largely the product of local sector dynamics, and some key sectors—FIRE, services, government—carry special weight. To be sure, national events do have an influence, but that influence is relatively limited. For example, oil price shocks—always a topic of concern and especially now as the Middle East again heats up—appear to be easily absorbed by the state's economy. Most of the variation in job growth depends on developments within Connecticut's separate industrial sectors. The state's service sector, not usually considered a key export industry, nevertheless appears to be a significant source of job growth. Manufacturing and FIRE, long the linchpins of Connecticut job growth, seem to be on different tracks: manufacturing's clout is diminished, but FIRE is still riding high.



# Health Care Spending, Connecticut Style

By Dennis Heffley

Connecticut's health care spending pattern departs from the 50-state norm in two important respects: the fraction spent on nursing homes is the largest in the country; and the fraction going to hospitals is the smallest. Why the unusual pattern? Population characteristics are part of the story, but federal Medicare rules also may play a key role.

American health care is big business. In 2001, U.S. health spending topped \$1.4 trillion, equal to about one-seventh of the nation's gross domestic product. In Connecticut alone, health services currently employ 165,500 persons, accounting for about 9.8% of total nonfarm employment, compared with 8.2% nationally. But health care activity is not uniform across states. According to 1998 estimates reported by the U.S. Department of Health and Human Services, Connecticut's total health care spending per person (\$4,639) ranked 4th in the nation, just behind our three neighbors: Massachusetts (\$4,920), Rhode Island (\$4,668), and New York (\$4,661). Connecticut's figure exceeded the 50-state average (\$3,685) by almost 26% and was more than 73% above Idaho's per capita spending (\$2,673), the nation's lowest.

Income clearly explains much of the variation in spending. Most forms of health care are what economists call "normal goods"—consumed more often or more intensively as income rises. This produces the pattern seen in the adjacent scatterplot, where per capita health spending in wealthier states typically exceeds that in poorer states. Yet, because health spending tends to rise less rapidly than income, the share of income going to health care in wealthier states is generally lower than in poorer states. Connecticut, for example, ranks only 42nd by this measure of "health care burden," but this does not mean that we are immune from health care funding problems.

## An Odd Mix

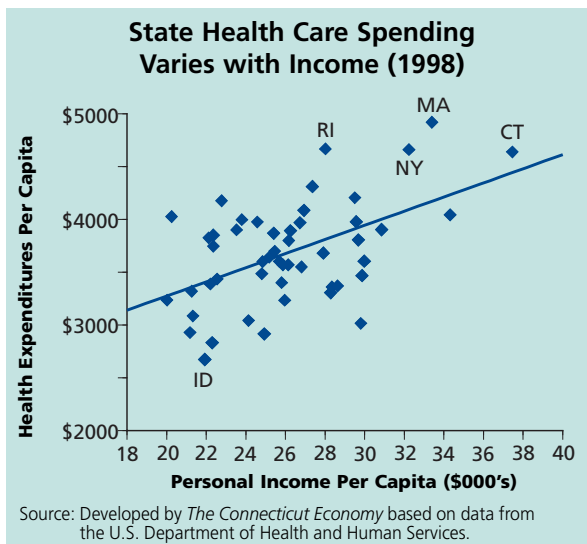
One of Connecticut's current health care problems—the precarious financial status of its hospital sector (see page 20)—becomes clearer if we compare the mix of health spending in Connecticut with the pattern in other states. The bar graph on the next page compares the percentage of

Connecticut's total health care spending that goes to each of six categories (hospitals, physicians and other professional services, dental services, nursing homes, prescription drugs, and other personal health care) with the 50-state average.

In four categories—physicians and other professional services (28.2%), dental (5.9%), prescription drugs (8.9%), and other personal health care (11.4%)—the share of Connecticut's health care spending is close to the 50-state average. But the other two categories stand out. The state's share of spending on nursing homes (14.9%) is highest in the nation. At the other extreme, its share of spending on hospitals (30.8%) ranks dead last. Are Connecticut residents who might normally receive hospital care being treated in nursing homes? Probably not. So what other factors might explain this odd mix?

## Possible Causes

In part, Connecticut's unusually high nursing home spending may reflect its above-average share of population aged 65+ (13.8% versus 12.4% nationally), as well as its nation-leading per capita income. Nationally, about 40% of the payments to nursing homes are direct payments from patients or private insurers. These private funds are simply more abundant in wealthier states. And even the other 60% of payments to nursing homes, financed heavily by Medicaid (the government's medical assistance program for the poor), is less constrained in wealthy states because nearly half of Medicaid funding is state-financed. Poorer states have less to spend on Medicaid. And that, in turn, limits the federal contribution, even though the federal formula for Medicaid matching grants favors lower-income states by covering a somewhat



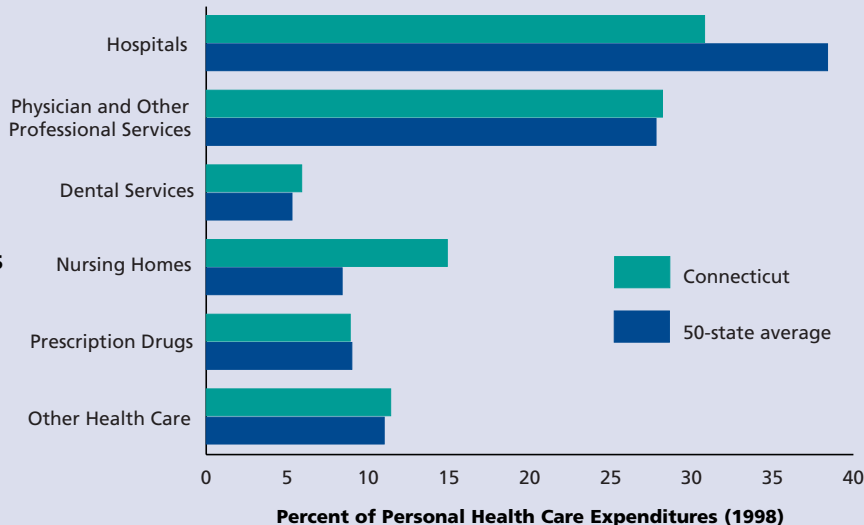
Source: Developed by *The Connecticut Economy* based on data from the U.S. Department of Health and Human Services.

larger share of program spending.

Hospital care, the low-end outlier in Connecticut's health spending pattern, depends even more on federal policies than does long-term care. Medicare, the federal health insurance program for the elderly, covers nearly a third of all hospital payments in the U.S. and plays a key role in setting hospital reimbursement

rates. Medicare uses a "prospective payment system"—flat reimbursements to hospitals for specific diagnoses, designed to reward cost-effective treatment and to discourage unduly complex treatments or long hospital stays. If these payments do not fully reflect differences in hospital wages or operating costs in various parts of the country, wealthier (high-cost) states may face inadequate Medicare

## Connecticut's Distribution of Health Care Spending Departs from the 50-State Norm for Hospitals and Nursing Homes



Source: Developed by *The Connecticut Economy* based on data from the U.S. Department of Health and Human Services.

reimbursements. That, in turn, would pressure hospitals in such states to boost their charges to private insurers and self-pay patients. To the extent that this “cost-shifting” is resisted, especially by HMOs and other insurers, hospitals may find it quite difficult to even cover their costs. This seems to be so for at least some of Connecticut’s hospitals, which are caught between rigid federal reimbursement rules and the restrictions of managed care.

### A Diagnostic Test

Common statistical methods can be used to test for the factors associated with the state’s low share of health care spending on hospitals. Incorporating available data for all 50 states, I used multiple regression methods to relate the percentage of health care spending on hospital care to nine factors, listed below with their expected effects:

- ◆ *per capita personal income*—should have a *negative* effect on the hospital share if hospital spending rises less rapidly than income;
- ◆ *percent of population eligible for Medicare*—should have a *negative* effect if Medicare reimbursement rules limit charges;
- ◆ *percent of population insured*—should have a *positive* effect, controlling for others factors;
- ◆ *HMO penetration rate*—should have a *negative* effect on the hospital share if HMOs resist cost-shifting more vigorously than other insurers;
- ◆ *physicians per capita*—should have a *positive* effect if additional physicians generate extra hospital admissions rather than primarily diverting patients to office-based treatments;
- ◆ *hospital beds per capita*—should have a *positive* influence if the “availability effect” of more capacity dominates its “competitive effect” on hospital prices;
- ◆ *registered nurses per capita*—should have a *positive* effect if higher staffing attracts more patients and increases labor costs per patient;

- ◆ *percent of population who smoke*—should have a *positive* effect if smoking is unhealthy;
- ◆ *percent of population who are obese*—should have a *positive* effect if obesity is unhealthy.

### Results

In all, about two-thirds of the interstate variation in hospitals’ share of health care spending can be explained by this group of variables. The first four variables (income, Medicare, insurance, and HMO penetration) all have the expected signs, with income and Medicare having the largest and most statistically reliable impacts, followed by HMO penetration. After controlling for other factors, the percent insured seems to have no significant effect on the hospital spending share. More physicians and hospital beds are both associated with a larger hospital share—findings that are consistent with many other studies of hospital spending. The effects of more RNs on the share of spending on hospitals is not statistically significant. Finally, more smoking significantly increases the share of spending on hospital care, while the effect of obesity appears to be positive but less certain in size. Given Connecticut’s observed characteristics, the predicted share of health spending going to hospital care (30.9%), based on the estimated model, is very close to the actual share (30.8%).

### Hard Choices Ahead

The regression results generally support the view that the financial woes of Connecticut hospitals reflect the state’s unique characteristics as well as the constraints imposed by Medicare reimbursement policies. With most of these factors beyond the control of hospital administrators, it’s unlikely that the situation will quickly change. In fact, the hospitals’ problems could become more severe if the proposed introduction of Medicare drug coverage diverts program resources from hospital care—an all-too-predictable outcome.

# Manufacturing: Reports of Its Demise Are Greatly Exaggerated

By Stanley McMillen

So you think manufacturing is dead in Connecticut, and in the U.S. for that matter? Think again. Manufacturing is alive and kicking, but with many fewer workers than in the past. In Connecticut, this sector is an amazing story of tenacity and adaptation.

First, the old news—though it's really not news. While U.S. manufacturing employment held steady at between 15 and 20 million over the last 50 years, Connecticut's manufacturing sector has lost 200,000 jobs, or 44%, since the late 1960s. In 1950, manufacturing accounted for half the jobs in Connecticut; today, the figure is only 1 in 6 jobs. Service-sector employment surpassed that in manufacturing in the early 1970s, and now accounts for almost 35% of Connecticut's private-sector employment. Services also account for 23% of total value added in the economy, compared with just 17% in manufacturing.

But the good news is that Connecticut's manufacturing workforce is among the most productive in the U.S. In 1977, it took one unit of Nutmegger labor to produce one unit of manufacturing value added; in 2000 that same unit of labor produced almost 2.66 times as much. Connecticut's 1977 value added per service-sector worker was slightly higher than that of a manufacturing worker (\$31,000 vs. \$30,000), but by 2000, the value added per manufacturing worker exceeded that of a service worker by \$26,000 (\$80,000 vs. \$54,000). Between 1990 and 1999, output per manufacturing worker grew by 42% in the U.S., but by 52% in Connecticut. That translates into an annual average productivity growth rate fully 0.75 points higher for Connecticut than for the U.S. (4.74% vs. 3.99%). The chart below shows Connecticut's notably higher productivity growth rate in manufacturing and in all sectors in terms of Gross State Product (GSP or value added) in dollars per year per worker.

## Some Good News

Manufacturing, though notorious for job losses in Connecticut, is still a source of good news for the state's economy. In 2001, manufacturing accounted for 17.6% of real (inflation-adjusted) GSP, 17.9% of private sector payrolls, 6.1% of private-sector businesses (about 5600 firms, roughly the same number as in 1977), 26.2% of the total value of shipments, 95.1% of merchandise exports, and 5.5% of state sales and use tax revenue

(\$169.7 million). Connecticut's manufacturers pay \$153.9 million in State corporate income taxes (26.3% of the total). Manufacturing workers pay 18.4% of Connecticut's personal income tax (based on a tax-to-earnings ratio of 4.3%), while manufacturing firms employ 15.5% of the private-sector workforce. And Connecticut manufacturers receive 69.3% of all patents issued in the state.

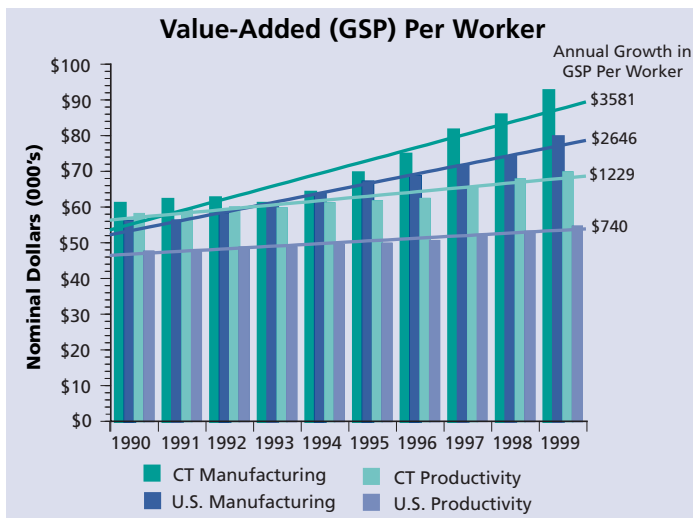
This core sector of the state's economy has the largest employment multiplier, 2.88—that is, each new manufacturing job creates 1.88 additional jobs. By contrast, the multiplier for Finance, Insurance and Real-Estate (FIRE) is 2.48, for TCU is 2.42, for Services is 1.69, for Wholesale and Retail Trade's is 1.55 and for Government's is 1.48. Each increase of \$1 million in manufacturing shipments produces an increase of \$1.95 million in all sales, and creates 14 new jobs, 7 of which are in non-manufacturing industries. The initial \$1 million increase generates \$680,000 in new personal income and \$65,000 in indirect business taxes in Connecticut.

Connecticut's manufacturers buy more than \$22 billion in goods and services from other state businesses each year, including \$760 million from FIRE, \$3.37 billion from the Wholesale and Retail Trades, \$3.05 billion from Services, \$1.8 billion from TCU, and \$1.04 billion from other sectors. Manufacturing purchases \$11.95 billion from itself.

CCEA, in cooperation with Connecticut Economic Resource Center (CERC) and the Manufacturing Alliance of Connecticut (MAC), produces an annual manufacturing competitiveness index for Connecticut. That index compares Connecticut with the 49 other states using 52 variables, grouped into six categories: Cost, Economic Structure, Physical Infrastructure, Quality of Life, Technology, and Workforce Productivity. Each includes between 7 and 13 variables, and each variable contributes equally to the category score. (See [www.mact.org](http://www.mact.org) for details.) The MAC 2003 Index shows that:

- ◆ Connecticut now ranks 35th out of all states in manufacturing costs (ranked high to low).
- ◆ Connecticut ranks 12th in Economic Structure (i.e., industry mix, composition of employment and output and growth rates), unchanged from 12th in the 1992 Index, though down from 7th in 2000 and 9th in 2002.
- ◆ Connecticut ranks 7th in Workforce Productivity, unchanged from 7th in 1992 and 2000, though down from 5th in 2002 and 4th in 2001.
- ◆ Connecticut's Physical Infrastructure ranks 31st, slightly improved from its 33rd ranking in the 1992 Index, but worse than rankings in recent years.
- ◆ Connecticut ranks 3rd among the 50 states in Quality of Life and has steadily improved from 13th in the 1992 Index.
- ◆ Connecticut ranks 4th in Technology, improved from its 1992 Index rank of 6.

Overall, Connecticut ranks 3rd in the 2003 MAC Index. Massachusetts is number one, while Colorado is number 2. So Connecticut manufacturing ranks among the best, but there is still work to do. Two particular areas, Costs and Physical Infrastructure, present opportunities for improvement. Not all costs are bad and some should be regarded as investments (e.g., education and health). Several costs that Connecticut can work to lower, relative to other states, are mandated costs and property taxes on new equipment (Michigan, for example has no property tax on new equipment). Connecticut also needs to address aggressively its transportation bottlenecks, which threaten economic growth. R&D tax credits could be expanded to stimulate investment in new products and processes. Finally, Connecticut needs to address its ageing manufacturing workforce with programs and incentives to encourage young people to pursue manufacturing careers.



## Despite Mounting Uncertainty, Connecticut Workers Are Satisfied On-the-Job

By James R. Moor, Jr.

The latest quarterly *Webster-UConn Survey* shows growing unease among Connecticut’s residents, but they are still largely satisfied with their circumstances at work. Confidence in near-term economic conditions has fallen steadily over the last year, and nearly one-third of the workers surveyed now think that “maintaining their employment” is their greatest concern over coming months (see top pie chart on the right). Yet nearly nine out of ten (88%) workers say that, overall, they’re either “very” or “somewhat” satisfied with their jobs (second pie chart).

There is, of course, some variation among different cohorts of our state’s workers. For example, a very high proportion—over 95%—of high-income and college-educated respondents are either very or somewhat satisfied with their jobs. A considerably smaller proportion of younger and lower-income workers are similarly satisfied. Predictably, the survey shows greater satisfaction, in most of the responses discussed below, among higher-paid than among lower-paid workers.

The survey responses in the third pie chart, which covers job security, are marginally less positive than for overall job satisfaction, but still they do not convey as much angst about job retention as the first chart might indicate. Not surprisingly, self-employed workers report significantly higher satisfaction than average not only with job security, but also with job recognition and prospects for advancement. Our state’s self-employed clearly hold their “bosses” in high regard.

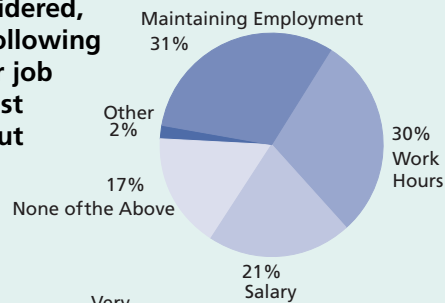
Moving to salary in the fourth pie chart, the two most positive responses, totaling just three-quarters of those surveyed, suggest less satisfaction with salaries than with job security or job satisfaction. Moreover, only 25% say they are “very” satisfied with salary, well below the top response to the other job attitude questions. Not surprisingly, these salary-related responses show a strong correlation with income level, and with age as well, as younger workers tend to have lower incomes. Satisfied or not, a majority of Connecticut’s employees feel underpaid for what they do—like workers everywhere, we suspect.

Lastly, the latest *Webster-UConn Survey* shows that Nutmeggers are decidedly less upbeat about their “prospects for advancement.” Looking at the bottom pie-chart, only a slim majority is either very or somewhat satisfied. But there’s a predictable correlation with age: 70% of young workers chose these top two responses, well more than older groups. While these results may be symptomatic of contemporary business trends such as the flattening of larger organizations or persistent cost cutting, the age-difference probably traces mostly to the difference in hopes (realistic or not) that motivates many people to keep getting up early every workday.

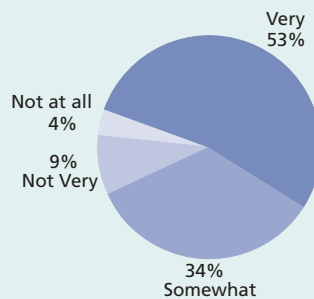
Connecticut’s job holders seem to be reasonably satisfied. Perhaps they are able to look beyond the struggling economy and put today’s difficulties into longer-term perspective. Such attitudes bode well for Connecticut’s clear-cut comparative advantage of a highly productive workforce.

### The Webster-UConn Survey Says...

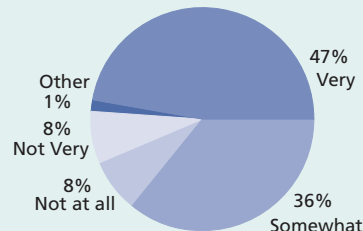
All things considered, which of the following aspects of your job will you be most concerned about in the coming months?



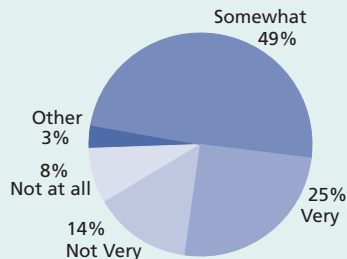
Overall, are you very, somewhat, not very, or not at all satisfied with your job at present?



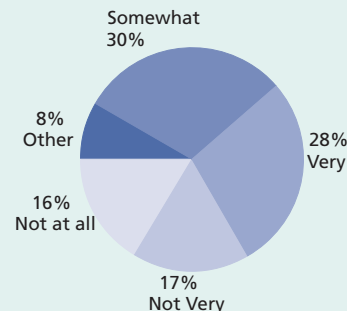
How satisfied are you with your job security?



How satisfied are you with your salary?



How satisfied are you with your prospects for advancement?



This quarter’s *Webster-UConn Survey*, conducted by the University of Connecticut’s Center for Survey Research and Analysis, reports the results of in-depth interviews with 344 randomly selected Connecticut residents who hold jobs. The results may be projected, statistically, to all Connecticut workers, with a margin of error of +/- five percentage points. Respondents fairly represent both male and female workers in a wide array of occupations and industries around the state, with differing ages, incomes, and education levels.

Med. Age of Population % HHs. Headed by Females Female Labor Part. Rate %

Med. Age of Population % HHs. Headed by Females Female Labor Part. Rate %

Med. Age of Population % HHs. Headed by Females Female Labor Part. Rate %

**Bridgeport LMA**

Ansonia	36.8	15.6%	49.9%
Beacon Falls	36.7	9.5	47.0
Bridgeport	31.4	24.0	49.7
Derby	37.7	13.0	49.1
Easton	40.4	6.3	42.8
Fairfield	38.5	8.5	45.8
Milford	39.4	9.7	48.6
Monroe	38.1	6.0	45.4
Oxford	38.4	6.9	45.7
Seymour	38.5	9.5	47.5
Shelton	39.8	8.5	46.8
Stratford	40.3	12.5	49.2
Trumbull	40.3	7.4	44.8

**Danbury LMA**

Bethel	37.1	9.0%	47.7%
Bridgewater	44.6	5.5	43.1
Brookfield	39.2	7.8	45.4
Danbury	35.2	10.5	44.9
New Fairfield	37.3	6.5	43.3
New Milford	36.8	9.0	45.8
Newtown	37.5	5.8	43.4
Redding	41.0	5.1	42.4
Ridgefield	39.4	6.0	42.2
Roxbury	44.1	4.2	44.2
Sherman	42.1	5.2	45.6
Washington	42.6	6.8	48.6

**Danielson LMA**

Brooklyn	37.6	11.5%	48.8%
Eastford	39.3	6.1	45.1
Hampton	40.2	7.6	48.7
Killingly	36.5	12.7	48.1
Pomfret	38.6	7.8	48.7
Putnam	38.3	12.9	42.2
Scotland	36.7	6.9	47.2
Sterling	34.4	8.4	45.7
Thompson	38.5	8.9	47.3
Union	40.0	4.6	42.3
Voluntown	36.3	7.0	44.7
Woodstock	39.2	6.9	47.0

**Hartford LMA**

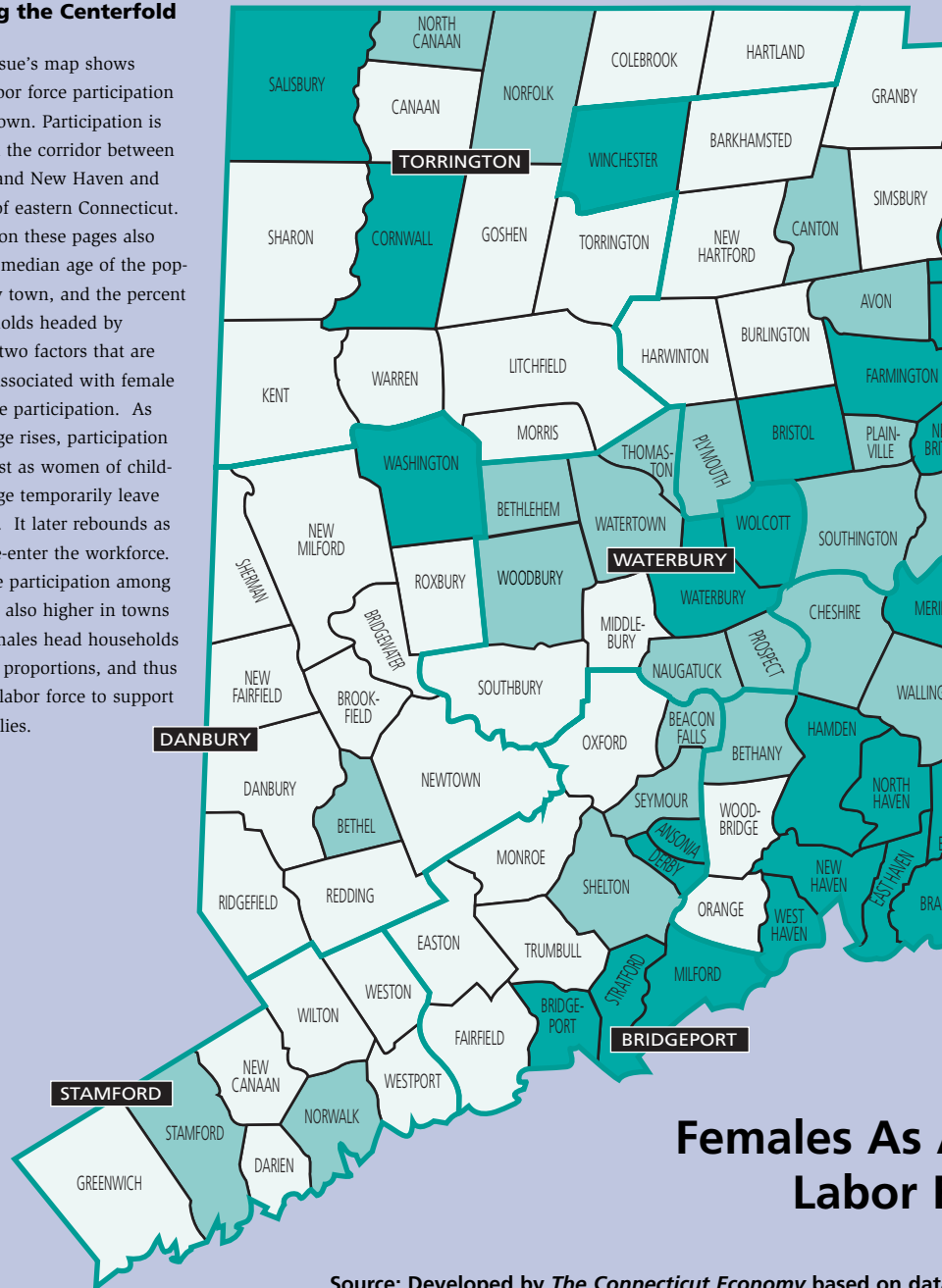
Andover	38.0	8.0%	47.0%
Ashford	36.3	8.5	47.8
Avon	42.0	4.7	46.9
Barkhamsted	39.7	6.2	46.3
Berlin	41.0	7.7	47.3
Bloomfield	43.9	15.9	53.0
Bolton	40.5	6.6	47.4
Bristol	37.6	11.5	48.0
Burlington	38.0	6.6	46.2
Canton	39.9	8.1	47.6
Chaplin	36.7	9.1	46.0
Colchester	35.3	9.2	47.8
Columbia	39.6	7.4	46.5
Coventry	36.6	7.2	44.2
Cromwell	40.2	7.8	49.7
Durham	38.3	7.1	46.9
East Granby	39.4	7.5	49.1
East Haddam	38.5	6.9	47.8
East Hampton	32.2	8.5	47.0

East Hartford	37.4	17.4%	48.8%
East Windsor	39.0	10.1	45.6
Ellington	36.9	6.6	47.0
Enfield	37.3	10.2	46.4
Farmington	40.4	7.1	48.2
Glastonbury	39.8	7.5	47.1
Granby	39.6	5.9	45.4
Haddam	40.3	6.9	48.3
Hartford	29.7	29.6	51.0
Harwinton	41.4	5.2	45.6
Hebron	36.8	5.9	46.7
Lebanon	38.2	8.8	46.9
Manchester	36.5	13.0	48.6
Mansfield	22.0	7.7	52.0
Marlborough	39.0	6.6	47.5
Middlefield	40.3	7.3	49.7

Middletown	36.3	11.6%	49.4%
New Britain	33.9	17.7	48.9
New Hartford	39.3	6.6	46.0
Newington	41.9	10.7	50.4
Plainville	39.6	10.0	47.6
Plymouth	37.5	9.7	46.6
Portland	39.0	9.4	48.2
Rocky Hill	40.6	7.9	49.6
Simsbury	39.6	6.4	45.1
Somers	37.4	6.7	46.1
South Windsor	39.0	7.5	48.4
Southington	39.7	8.9	47.6
Stafford	37.8	10.1	47.4
Suffield	39.0	6.9	48.2
Tolland	37.4	5.9	46.9
Vernon	37.7	10.5	48.3

**Reading the Centerfold**

This issue's map shows female labor force participation rates by town. Participation is highest in the corridor between Hartford and New Haven and portions of eastern Connecticut. The data on these pages also show the median age of the population by town, and the percent of households headed by women—two factors that are strongly associated with female labor force participation. As median age rises, participation falls at first as women of child-bearing age temporarily leave their jobs. It later rebounds as women re-enter the workforce. Workforce participation among women is also higher in towns where females head households in greater proportions, and thus enter the labor force to support their families.



**Females As Labor**

Source: Developed by The Connecticut Economy based on data from the U.S. Bureau of the Census.

Med. Age of Population    % HHs. Headed by Females    Female Labor Part. Rate %

West Hartford	40.0	9.3%	48.6%
Wethersfield	44.1	9.6	49.1
Willington	33.6	6.0	46.1
Winchester	39.5	10.2	48.0
Windham	31.4	16.8	48.4
Windsor	38.9	11.7	46.3
Windsor Locks	39.8	13.0	49.3

**Lower River LMA**

Chester	41.7	7.0%	46.6%
Deep River	39.1	9.1	46.8
Essex	43.4	5.2	45.6
Lyme	47.1	4.7	45.0
Westbrook	41.5	7.8	45.8

Med. Age of Population    % HHs. Headed by Females    Female Labor Part. Rate %

**New Haven LMA**

Bethany	40.6	6.6%	46.9%
Branford	41.4	9.8	49.5
Cheshire	38.4	6.9	47.7
Clinton	38.2	8.4	47.3
East Haven	38.8	12.0	48.8
Guilford	41.8	7.2	47.3
Hamden	37.7	11.3	50.4
Killingworth	39.8	4.3	44.7
Madison	41.0	6.6	45.6
Meriden	36.2	15.2	48.7
New Haven	29.3	22.9	51.6
North Branford	39.1	8.0	48.6
North Haven	41.9	8.1	48.5
Orange	43.2	6.7	44.4
Wallingford	39.1	9.0	47.6

Med. Age of Population    % HHs. Headed by Females    Female Labor Part. Rate %

West Haven	36.4	15.6%	48.9%
Woodbridge	42.8	6.5	43.1

**New London LMA**

Bozrah	40.1	7.4%	43.6%
Canterbury	38.2	8.1	46.8
East Lyme	39.0	8.4	49.1
Franklin	39.9	6.1	46.5
Griswold	36.7	11.2	47.9
Groton	32.5	10.5	50.0
Ledyard	37.1	9.4	47.7
Lisbon	39.0	8.9	49.0
Montville	36.5	9.9	47.0
New London	31.2	17.8	50.1
North Stonington	39.6	7.7	48.2
Norwich	36.9	15.0	49.0
Old Lyme	42.9	7.0	45.8
Old Saybrook	44.5	7.7	47.4
Plainfield	35.4	13.1	48.7
Preston	41.0	7.0	48.3
Salem	37.1	6.8	47.0
Sprague	37.1	12.2	46.6
Stonington	41.7	8.9	48.3
Waterford	41.7	8.7	47.7

**Stamford LMA**

Darien	38.0	5.6%	39.0%
Greenwich	40.2	8.0	43.4
New Canaan	40.2	6.6	39.7
Norwalk	36.6	12.2	47.7
Stamford	36.4	11.5	46.7
Weston	39.7	5.0	41.9
Westport	41.4	6.8	42.8
Wilton	40.2	5.4	44.2

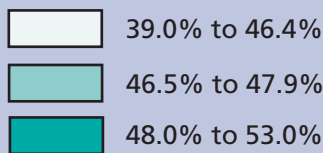
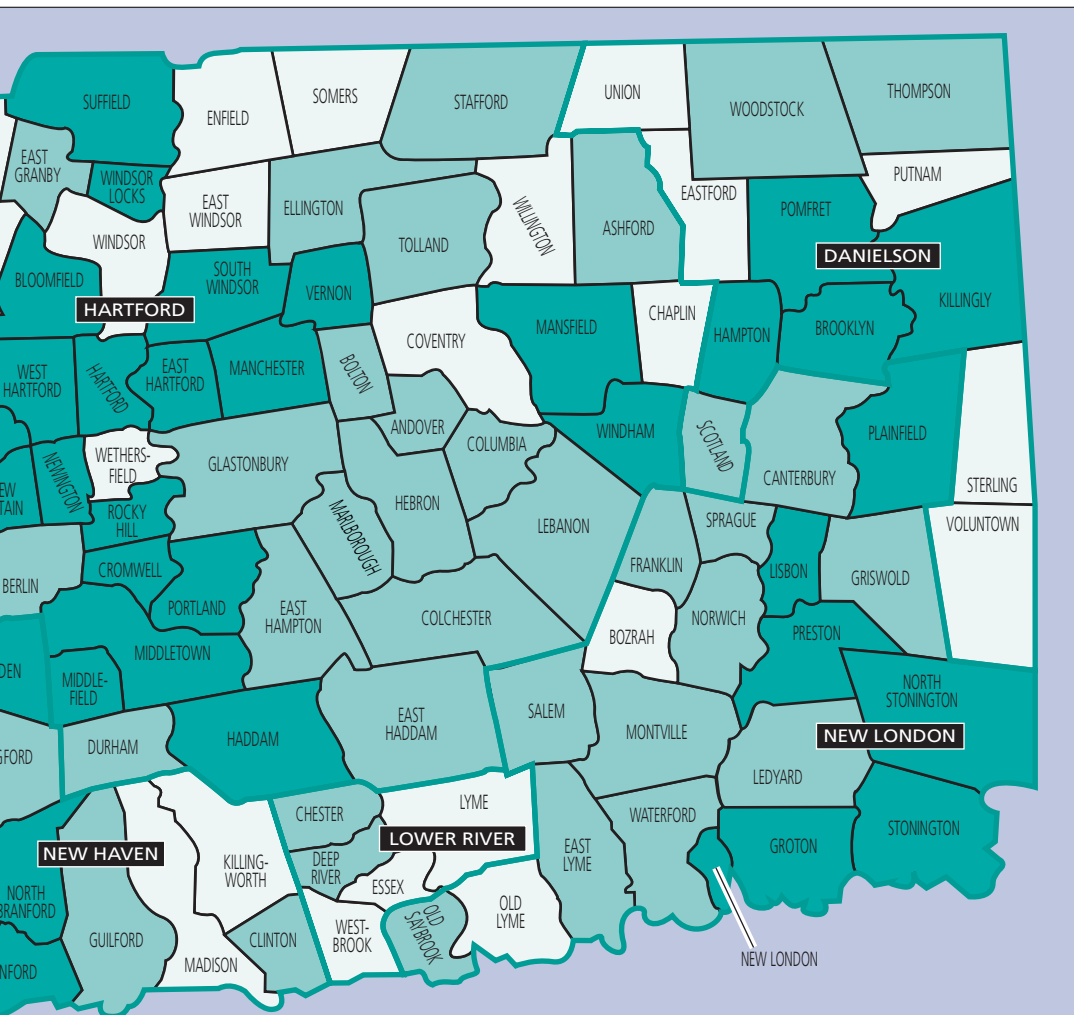
**Torrington LMA**

Canaan	41.8	7.2%	46.2%
Colebrook	41.1	5.1	46.4
Cornwall	43.5	8.5	49.0
Goshen	43.4	5.4	45.1
Hartland	39.8	8.5	46.1
Kent	42.7	6.7	43.9
Litchfield	42.6	7.2	46.4
Morris	41.0	5.9	46.2
Norfolk	41.2	6.5	46.7
North Canaan	40.1	9.9	47.9
Salisbury	47.2	7.2	50.1
Sharon	45.0	7.5	45.6
Torrington	39.1	10.3	46.2
Warren	42.0	5.0	42.9

**Waterbury LMA**

Bethlehem	42.2	6.6%	46.7%
Middlebury	42.8	6.3	44.9
Naugatuck	35.5	12.8	46.9
Prospect	39.4	7.1	46.5
Southbury	45.7	5.4	43.7
Thomaston	37.8	9.2	47.6
Waterbury	34.9	19.1	49.5
Watertown	39.0	9.4	47.1
Wolcott	38.1	18.7	48.5
Woodbury	41.0	8.0	47.4

**169-Town Average 39.0    8.9%    47.0%**



**A Percent of the Force, 2000**

a from the

# Casino Gaming: The Energizer Bunny of Connecticut Politics

By Arthur W. Wright

For over a decade now, casino gaming has been the political issue that just keeps on marching along in Connecticut politics. Think this Energizer bunny will finally wind down because the General Assembly has repealed the State's "Las Vegas night" law, or because the U.S. Bureau of Indian Affairs has rejected the Golden Hill Paugussets' application for recognition as a tribe? Don't bet on it. Too many people have big stakes in the issue for it to run out of juice any time soon.

The two existing casinos (Foxwoods and Mohegan Sun) and their owners (the Mashantucket Pequot and Mohegan tribes, respectively) are the only major players in the ever-swirling controversy who are *not* continuously caught up in casino politics. They are too busy running their highly successful businesses and playing the major statewide roles they have thus earned. Doubtless, they take comfort that the only other major player that could cause them trouble, the State of Connecticut, can't afford to do anything that would threaten its \$400 million yearly rakeoff from slot machine profits (on which more later).

Whence, then, the staying power of this political issue? Simple: politics-as-usual, and the economic profits or "rents" offered by the casino business.

## The Politics-as-Usual of Casino Gaming

The contending political forces include the usual suspects: institutions such as churches that have long relied on casino nights to raise money; the economic interests (e.g., workers and suppliers) that have sprung up around Foxwoods and Mohegan Sun; and the small towns nearby that have had to cope with the

attendant auto traffic and other headaches. But the main political force keeping the casino issue alive is public sentiment against gambling.

Moral opposition, often on religious grounds, is only one component of that sentiment, but it is the most focused. The astonishing commercial success of Foxwoods and Mohegan Sun has mobilized this opposition, where the small-change wagering of the State lottery could not. With all the talk of a third casino at the end of 2002, elected officials responded to the focused heat on this issue by repealing the State's Las Vegas night law in early January 2003. (The repeal, which exempted the existing casinos, is not expected to stand up to legal challenge, giving legislators and the governor a free ride on this one.)

Broader public sentiment against gambling shows up as a vague unease about gaming as recreation. Public surveys have repeatedly found that people—even those who gamble—overstate the extent of social problems related to legalized gaming, and view it as yielding negative net benefits, despite the sizeable, and visible, economic benefits and apparently modest social harm.

The accompanying box summarizes what we seem to know about that harm. It is key in thinking about the social harm (as well as about the economic benefits) to focus on the *incremental* effects of adding a large casino to a region. The casinos' effects at the margin on crime and traffic appear no different from those of any large-scale new venture, except for crimes committed to support the habits of new gambling addicts.

To the extent a new casino would expand the total amount of gambling, gambling addiction would apparently increase by a modest though noticeable amount. But the distribution of the increase by income levels or ethnicity could be undesirable. The National Gambling Impact Study Commission (NGISC) in 2000 reported estimates of "pathological" or "problem" gamblers ranging from 1.7% up to 7.3% of the population. (Evidence

## Point / Counterpoint on Casino Gaming

How much *MORE* crime, traffic, and pathological or problem gambling is there in Connecticut because of Foxwoods and Mohegan Sun?

**CRIME:** Some problem gamblers commit crime to support their habits.  
But more people frequenting *any* local area will mean more crime there.  
And the non-gambling areas inside the casinos are family-friendly.

**TRAFFIC:** More out-of-town cars and buses are going to and from the casino region than before.  
Local traffic is worse, too.  
But increased traffic usually follows any increase in economic activity.

### GAMBLING

**ADDICTION:** More total gambling will likely mean more gambling addicts.  
But lotteries and other "neighborhood" gambling venues, not casinos, provide the most "prevalent" forms of gaming.

A national US commission in 2000 reported estimates of addictive-gambling incidence ranging from 1.7% to 7.3% of the population.  
But evidence from more gambling-friendly Australia suggests a figure towards the low end of the range.

Survey respondents near new casinos exaggerated the incidence of gambling addiction.  
But 13% of gambling patrons self-reported as "lifetime" problem or pathological gamblers.

Blacks and Hispanics seem to be more prone to gambling addiction than whites—perhaps because of differences in income levels.

The effects of gambling addiction on the affected individuals, families, and co-workers are often devastating.

from Australia, where gambling is more prevalent and viewed more tolerantly than in this country, suggests an incidence of gambling addiction close to the low end of the NGISC estimates.) Among patrons of “gambling establishments” surveyed, however, some 14% said they were “lifetime problem or pathological gamblers”. Interestingly, B. Grant Stitt and others, in the Winter 2000 *Journal of Gambling Studies*, found that residents of communities near recently opened casinos considerably overestimated the overall incidence of gambling addiction, at about one-sixth of the population.

Other survey data, including studies cited by the NGISC and by John W. Welte and his colleagues (*Journal of Gambling Studies*, Winter 2002), have found that state lotteries and other “neighborhood”-level gambling venues are the most readily available, although casinos account for the heaviest gambling “involvement” by amounts wagered. Blacks were less likely to gamble, but to play more heavily when they did, than either whites or Hispanics. Rates of pathological gambling were higher among blacks and Hispanics than among whites. That may be tied to income differences, as people better off were more likely to participate in gambling, but less likely to have problems with it, than those less well off. And New Englanders gambled more than other Americans—perhaps due in part to having two world-class casinos in a relatively small region.

Finally, while the *macro* impacts of gambling addiction may be modest, the *micro* effects—on individuals, families, and co-workers—are often devastating.

### **Create Monopolies and Investors Will Come**

Moral misgivings about gambling aside, a simple economic fact of life in today’s Connecticut will help keep the Energizer bunny’s batteries charged: some \$400 million, or more than 3%, of State revenue comes directly from the casinos’ profits on slot machines. In the current fiscal crisis, 3% of total State revenue ain’t hay.

Government bans on gaming have long given rise to the monopoly “rents” that attract criminals into the business. Las Vegas itself grew out of the legal deployment in Nevada of ill-gotten gains from other states by Bugsy Siegel and his cronies. The state lotteries, which began in the 1970s, and more recently legalized casino gaming in New Jersey, Connecticut and a growing number of other states, have taken some of the edge off Las Vegas’s glitter—and sent Nevada entrepreneurs like Steve Wynn looking for new opportunities elsewhere.

Though Foxwoods and Mohegan Sun are legal entities, the struggle over whether to allow a third casino in Connecticut is stoked by monopoly rents from State-set limitations on entry. Through no fault (or wisdom) of our own, Connecticut wound up in the 1990s helping demonstrate the enormous untapped market that existed for legalized high-stakes casino gaming. A key step was the 1991 deal between the Mashantucket Pequot tribe and then-Governor Lowell Weicker to allow slot machines at Foxwoods, but only there, in return for a 25% State share of the net profits (total handle minus payout). Because Connecticut’s Las Vegas night law didn’t cover the enormously profitable slots, they didn’t automatically fall under the umbrella of the federal Indian Gaming Regulatory Act of 1988 that forced the State to negotiate with the tribe over establishing the casino. Even with the extension of Gov. Weicker’s “crown monopoly” on slot machines to the state’s second casino, Mohegan Sun (with

the acquiescence of the Mashantucket Pequots), Connecticut’s casino industry still generates monopoly rents that sing a siren song to would-be investors in new casinos.

The State’s “royalties” from slots profits, now some \$400 million a year, give Nutmeggers of all stripes a stake in maintaining the crown monopoly. That’s why, a few years ago, the State set a 9-figure entry fee for the then-proposed Bridgeport casino, sinking Steve Wynn’s hopes for that particular project. And that’s why the legislature exempted the two existing casinos when it repealed the Las Vegas night law.

What would be the fate of a third casino in Connecticut? The answer is not straightforward. Not surprisingly, it has a lot to do with whether the State, willingly or not, puts its share of the crown-monopoly rents back in the “pot”.

The viability of a third casino in the state is sensitive to what happens in Massachusetts, Rhode Island, and New York. Ever since Foxwoods opened in 1992, various interests in our next-door-neighbor states have yearned to join in the fun. At the moment, New York is the only entrant, under Governor Pataki’s budget-driven program to allow up to six Indian casinos in his state. But the first one, just opened in Niagara Falls, poses little threat to Connecticut’s market share. More serious would be a Massachusetts casino just east of Providence or a Rhode Island casino just east of Stonington. To date, though, all we’ve heard from that quarter is talk, not pile drivers.

The inter-state dependence of course runs both ways in the region around southeastern Connecticut. Any Massachusetts or Rhode Island casino proposed there would face an uphill battle for financing precisely because Foxwoods and Mohegan Sun have set the entry bar so high through their rapid, glamorous expansion. No glorified bingo hall is going to draw many patrons away from the Connecticut casinos.

Proposals for a third casino in western Connecticut, e.g., in Bridgeport or Waterbury, will face one big obstacle and several imponderables. The big obstacle will be the State of Connecticut’s opposition to allowing slot machines, in order to protect its existing crown-monopoly royalties. A matching imponderable is whether, or when, another tribe is going to gain federal recognition, forcing the State to negotiate in good faith over opening another casino. (The Eastern Pequots face an appeal of their recent recognition.) The opening of a third Indian-owned casino could well mean the State’s loss of its slots royalties—and an added hole of nearly half a billion dollars in the State budget.

A final imponderable is whether, or when, one of Gov. Pataki’s six-pack of casinos will materialize in eastern New York state. That could weaken the case for a third casino in Connecticut, and even cut into Foxwoods’ and Mohegan Sun’s growth, in the process putting at least a sizeable dent in our State’s budget.

### **Stay Tuned...**

...and expect to keep seeing the Energizer bunny of Connecticut politics march round and round.

*The author was a consultant to Foxwoods Casino in 1993 and to the Mohegan tribe in its effort to build Mohegan Sun. Both Foxwoods and Mohegan Sun are Sustaining Partners of **The Connecticut Economy**. Neither casino nor its tribal owners is responsible for any opinions expressed above, or played any editorial role in the preparation of this article.*

# Labor Markets Itching for a Turnaround

By Steven P. Lanza

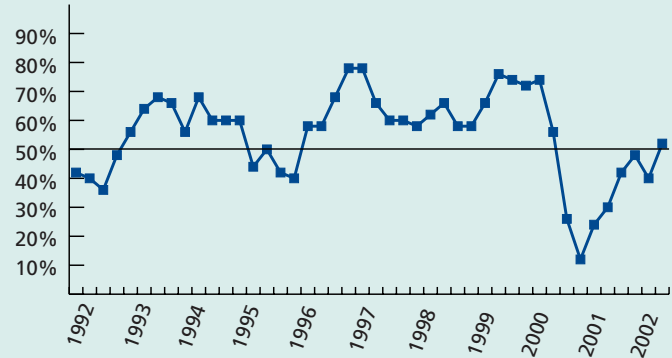
The labor market picture showed distinct improvement in 2002-Q4, recovering from a third quarter setback and aiming for a turnaround. In 2002-Q3, eight of the ten areas suffered declines in their labor market activity indexes or LMIs. Last quarter, half the areas posted gains. An LMI consists of five separate measures of activity for each of the state's ten regions, so fifty indicators in total are involved. Taken as a whole, a slim majority (52%) of all labor market indicators pointed up, suggesting an overall increase in labor market activity. (The trend over time for this diffusion measure is shown in the accompanying chart.) Momentum thus appears to have shifted in the labor market areas' favor.

Three labor markets—Hartford, Waterbury and Danbury—which together represent about half the state's economy, switched from the negative to the positive side of the LMI ledger. Each of these areas clocked an increase in manufacturing hours, possibly a prelude to a brighter future for jobs. Growing labor forces and rising real earnings also contributed to the changing fortunes of these three regions. For the remaining labor markets, 2002-Q4 was more of a mixed bag. On the whole, though, the last quarter of the year brought with it a few more pluses than minuses.

With this issue, we switch to a leaner, less wordy format in this section. We'd welcome your comments: slanza@ziplink.net.

*The LMI measures the four-quarter change in a composite index of labor activity for each labor market region. The index includes five variables: the labor force, jobs, the number unemployed, weekly manufacturing hours, and real hourly earnings in manufacturing. It is indexed so 1992 = 100. The line graphs show index levels, while the bar graphs show the recent percentage changes.*

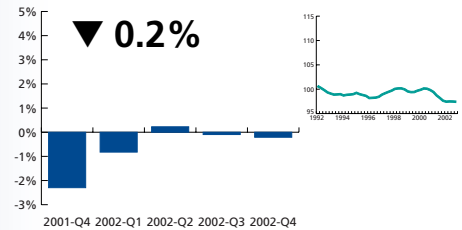
## Ten-Area Diffusion Index of Labor Market Activity Scores a Rebound in 2002-Q4



Each of the ten LMIs has five components. The diffusion index of labor activity shows the percentage of the 50 components in total that are expanding. The index is bounded by 0% and 100%. If every indicator in every labor market is falling, the index will register 0%, but if all indicators are rising, the index will measure 100%. The idea behind the diffusion index is that cyclical expansions or contractions will diminish in scope before coming to an end. A reading above 50% suggests that the labor markets are expanding, and vice versa.

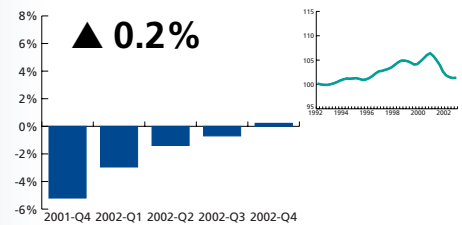
### Bridgeport

- Four-quarter job losses accelerated from 4,300 in Q3 to 5,300 in Q4.
- The labor force decline slowed from 4,600 to 1,600 over the same period.
- The number unemployed grew by 1,000, but the jobless rate, at 4.9%, is unchanged.
- Weekly manufacturing hours held steady, as real hourly earnings grew by 4.2%.



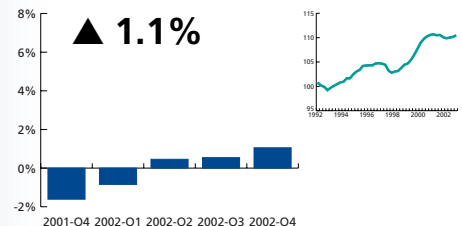
### Danbury

- As in Q3, jobs remained 1,100 below year-ago levels.
- Joblessness swelled slightly, but the labor force grew for the first time in 8 quarters.
- The unemployment rate fell from 3.0% in Q3 to 2.8% in Q4.
- Real hourly earnings were up 0.9%, and the workweek gained 84 minutes.



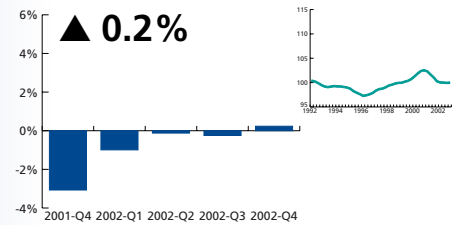
### Danielson

- Job losses slowed from 300 in Q3 to just 100 in Q4.
- As the labor force gained 700, the number unemployed jumped by 200.
- The jobless rate climbed from 3.8% in Q3 to 4.3% in Q4.
- Hourly earnings didn't change, but the workweek was 2 hours longer than 2001-Q4.



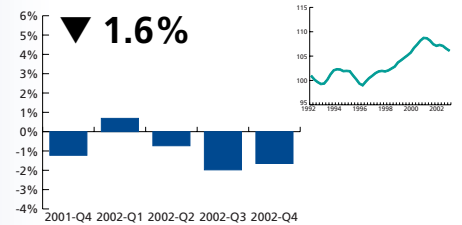
## Hartford

- Four quarter job losses edged up, from 11,300 in Q3 to 12,200 in Q4.
- The labor force enjoyed a growth spurt of 2,900, its first in 2 years.
- Unemployment climbed by 5,300 persons, pushing up the jobless rate to 4.3%.
- Continued earnings advances coupled with longer workweeks boosted pay 5.4%.



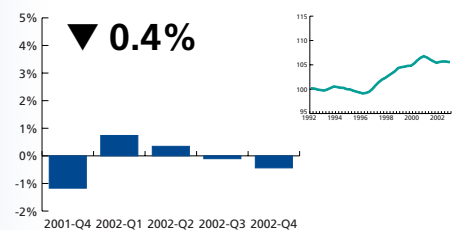
## Lower River

- Four-quarter job losses remained at 100.
- The jobless rate moved up from 3.0% in Q3 to 3.2% in Q4.
- A spate of new entrants lifted the labor force by 0.9%.
- Real hourly earnings held steady, but the workweek shrank by 24 minutes.



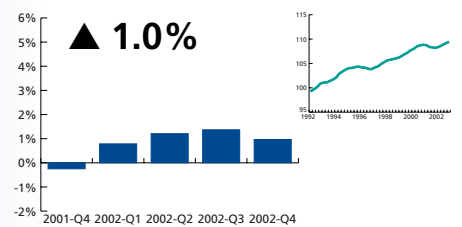
## New Haven

- Slow job growth continued, with a gain of 800 positions over four quarters.
- The labor force grew by 4,300, but so did the number unemployed, by 1,200.
- The jobless rate held steady at Q3's 3.7%.
- Real earnings slipped 1.1%, and manufacturers cut the workweek by 18 minutes.



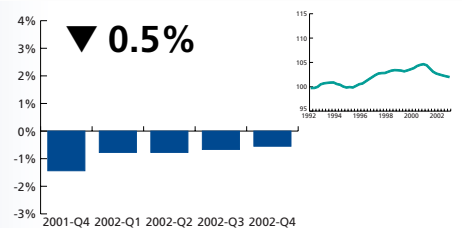
## New London

- The region again added jobs, at a slightly reduced four-quarter rate of 1,800 positions.
- And the labor force surged by 6,000—a 3.9% increase.
- But the number of newly jobless nearly doubled, to 1,500.
- Real earnings advanced 1.4%, offset partially by a 24-minute ebb in the work week.



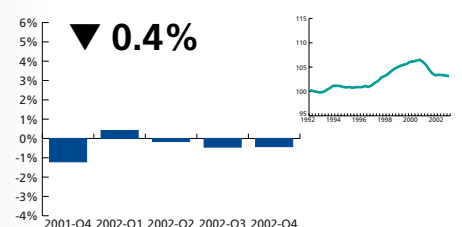
## Stamford

- Job losses accelerated to 2.0%, the region's highest rate so far in the downturn.
- Jobless totals and the size of the labor force both held steady.
- The unemployment rate was unchanged from Q3, at 2.7%.
- Real hourly earnings climbed 5.2%, though weekly hours tumbled 4.0%.



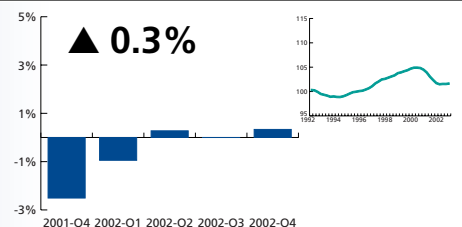
## Torrington

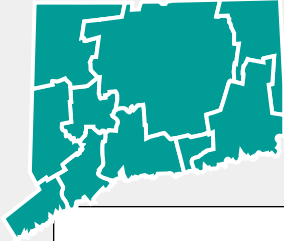
- Four consecutive quarters of job expansion ended with a loss of 400 posts.
- Growth in the number of jobless eased, but so did growth in the labor force.
- Unemployment remained stable at Q3's 3.4% rate.
- A 3.5% boost in weekly hours failed to offset a 3.7% erosion in real hourly earnings.



## Waterbury

- Job growth slipped 0.3% after holding steady for two straight quarters.
- 1,700 joined the labor force, though the number unemployed rose by 400.
- The jobless rate inched up, from 5.1% in Q3 to 5.2% in Q4.
- Weekly hours received a 0.5% boost, but real hourly earnings remained unchanged.





# Labor Market Data

Labor Market Area	Labor Force		Nonfarm Jobs		Manufacturing Jobs	
	2002-Q4 (000)	% Change Year Ago	2002-Q4 (000)	% Change Year Ago	2002-Q4 (000)	% Change Year Ago
Bridgeport	211.8	-0.7	180.9	-2.8	33.6	-5.5
Danbury	108.5	0.5	87.5	-1.2	17.5	-1.3
Danielson	34.9	2.0	22.0	-0.3	5.6	-0.6
Hartford	582.2	0.5	604.1	-2.0	84.9	-3.6
Lower River	12.4	1.1	9.9	-1.3	2.5	-7.4
New Haven-Meriden	281.5	2.4	264.4	0.1	35.5	-3.1
New London-Norwich	158.8	3.9	145.1	1.2	22.9	1.5
Stamford	190.8	0.0	203.9	-2.0	22.4	-3.0
Torrington	38.8	1.0	29.1	-1.4	4.9	-4.6
Waterbury	115.2	1.5	85.7	-0.3	15.7	-4.8
Statewide	1,717.8	1.0	1,685.1	-0.4	237.6	-4.2

Labor Market Area	Construction Jobs		Trade Jobs		FIRE* Jobs	
	2002-Q4 (000)	% Change Year Ago	2002-Q4 (000)	% Change Year Ago	2002-Q4 (000)	% Change Year Ago
Bridgeport	6.3	-6.9	40.5	-2.8	11.5	-3.9
Danbury	4.1	0.0	20.3	-2.2	5.5	-1.8
Danielson	1.1	0.0	5.4	-1.8	0.5	0.0
Hartford	22.1	-6.4	116.1	-3.8	72.6	-1.0
Lower River	0.5	0.0	2.0	1.7	0.3	0.0
New Haven-Meriden	10.5	0.6	53.3	-0.8	12.9	1.3
New London-Norwich	4.7	-9.6	29.2	4.3	3.4	1.0
Stamford	6.4	-2.0	42.3	-3.6	28.0	1.2
Torrington	2.6	8.5	6.8	-2.4	0.8	0.0
Waterbury	3.6	-2.7	17.9	-0.6	3.7	2.8
Statewide	65.4	-1.5	366.0	0.7	140.9	-0.9

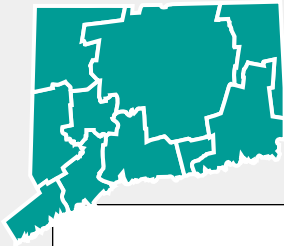
\* Finance, Insurance & Real Estate

Labor Market Area	Service Jobs		Government Jobs**		TCU* Jobs	
	2002-Q4 (000)	% Change Year Ago	2002-Q4 (000)	% Change Year Ago	2002-Q4 (000)	% Change Year Ago
Bridgeport	59.6	-1.9	21.2	-0.6	8.2	1.2
Danbury	25.1	-1.1	12.0	0.0	3.0	-1.1
Danielson	5.4	0.6	3.5	2.9	0.5	-11.8
Hartford	178.5	-1.0	102.2	0.1	27.6	-1.8
Lower River	3.3	-1.0	1.0	6.9	0.3	0.0
New Haven-Meriden	101.3	2.1	35.0	-0.4	15.9	-2.2
New London-Norwich	37.5	2.5	41.4	0.0	6.0	-3.2
Stamford	76.5	-1.9	18.9	-0.7	9.3	-5.1
Torrington	10.1	0.3	3.7	-3.5	0.3	-25.0
Waterbury	28.1	1.7	12.9	1.3	3.9	0.9
Statewide	543.4	0.4	256.8	1.9	75.0	-3.7

\*\* Includes Casinos

\*Transportation, Communications, and Utilities

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	Number Unemployed		Unemployment Rate (%)		Initial Unemployment Claims	
	2002-Q4 (000)	% Change Year Ago	2002-Q4	2001-Q4	2002-Q4	% Change Year Ago
Bridgeport	10.4	10.2	4.9	4.5	1,876	-6.0
Danbury	3.1	4.5	2.8	2.7	634	5.2
Danielson	1.5	18.4	4.3	3.7	363	10.4
Hartford	24.9	27.1	4.3	3.4	5,703	2.1
Lower River	0.4	33.3	3.2	2.5	*	*
New Haven-Meriden	10.5	18.9	3.7	3.2	1,754	15.4
New London-Norwich	5.6	36.6	3.5	2.7	940	4.2
Stamford	5.2	0.0	2.7	2.7	772	-0.6
Torrington	1.3	14.3	3.4	3.0	487	5.6
Waterbury	6.0	7.7	5.2	4.9	1,558	-4.4
Statewide	68.4	17.9	4.0	3.4	14,088	2.1

\* Lower River included in Hartford LMA.

Manufacturing Labor Market Area	Average Weekly Earnings		Average Weekly Hours		Average Hourly Earnings	
	2002-Q4	% Change Year Ago	2002-Q4	% Change Year Ago	2002-Q4	% Change Year Ago
Bridgeport	\$694.32	6.5	41.8	0.1	\$16.60	6.5
Danbury	630.01	6.7	40.0	3.5	15.75	3.1
Danielson	587.48	7.1	42.9	4.8	13.68	2.2
Hartford	771.45	7.7	42.9	1.7	17.97	5.9
Lower River	593.14	1.2	40.6	-0.9	14.61	2.2
New Haven-Meriden	683.17	-1.2	43.4	1.5	15.75	-2.6
New London-Norwich	746.15	2.8	40.9	-1.0	18.24	3.9
Stamford	612.20	3.2	41.3	-4.0	14.81	7.5
Torrington	612.54	1.9	41.0	3.5	14.94	-1.6
Waterbury	649.30	3.2	40.5	0.5	16.05	2.6
Statewide	\$691.90	1.7	42.8	-1.5	\$16.15	0.2

Labor Market Area	State Job Service Postings		Housing Prices		Housing Permits	
	2002-Q4	% Change Year Ago	2002-Q4 (000)	% Change Year Ago	2002-Q4	% Change Year Ago
Bridgeport	470	26.8	\$294.0	12.4	203	-24.5
Danbury	117	-2.8	383.2	12.5	244	25.1
Danielson	114	-35.3	N/A	N/A	110	26.4
Hartford	669	-27.6	180.9	9.1	941	12.0
Lower River	◆	◆	★	★	28	-20.0
New Haven-Meriden	420	5.2	197.1	5.8	190	-18.8
New London-Norwich	519	50.7	189.3	10.3	183	-2.7
Stamford	214	-11.2	653.0	11.6	180	57.9
Torrington	28	-68.9	143.6	4.6	75	5.6
Waterbury	182	-38.1	151.0	1.1	146	13.2
Statewide	2,733	-7.7	\$297.7	9.3	2,300	6.4

◆ Lower River included in Hartford LMA.

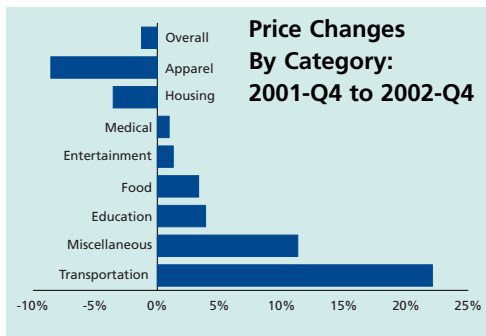
★ Market is too small for reliable estimates.

## Connecticut Prices on Their Best Behavior

By Madhuri Saripalle

CCEA collects prices quarterly in four Connecticut regions—Hartford, New Haven, Stamford and New London—and uses these prices to compute a Connecticut Price Index (CPI), based on weights obtained from the Bureau of Labor Statistics (BLS). Data from 2002-Q4 show prices overall falling at a four-quarter rate of 1.3%. Excluding housing, which has the largest weight in the commodity basket, prices rose 2.3%.

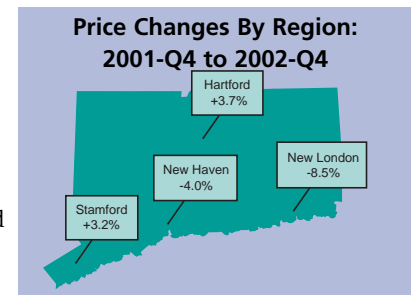
Price changes by commodity group were split. Among the gainers were: food (+3.3%), transportation (+22.0%), and miscellaneous commodities (+11.3%), due mostly to a 10% hike in cigarette prices. Within food, a 2.0% rise in grocery prices was comparable with the 2.2% increase in fast food prices. Prices of alcoholic beverages declined by 0.2%, and prices of other beverages by 0.7%. Gasoline accounted for 2.8 points of the 22-point rise in transportation prices, while auto maintenance contributed



the remaining 19.2 points. Within housing, apartment rents moved up by 2.1%, but mortgage costs, driven by falling interest rates, dropped by 5.8%, causing the

overall housing index to fall by 3.5%.

Regionally, Stamford and Hartford registered price increases of 3.2% and 3.7%, respectively, while the New Haven and New London CPIs declined by 4.0% and 8.5%, respectively. Food prices increased (5.0% to 8.3%)



everywhere, except in Stamford. Rents rose (by up to 2%) in all regions, while mortgage costs fell everywhere. The overall housing index increased by 2.7% in Hartford and 1% in Stamford, but fell in New Haven and New London by 12.7% and 24.4%, respectively.

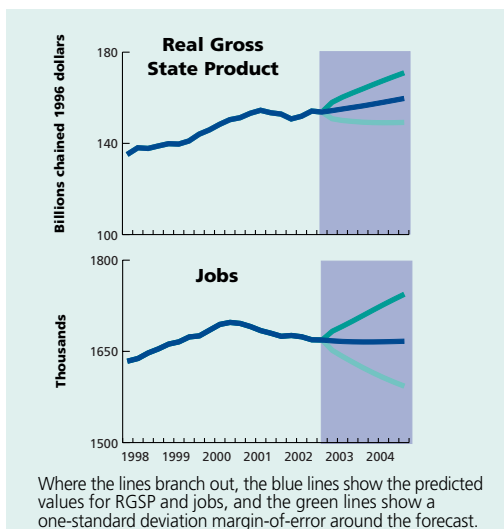
Transportation prices were on the rise, especially in Stamford and Hartford. The medical care index increased 3.4% in New London and 11.0% in Stamford, but fell about 3% in both Hartford and New Haven. Entertainment prices rose everywhere except Stamford, with the largest increase (14.5%) in New London. The prices of miscellaneous goods rose between 7% and 14% in all regions.

The bar-chart shows statewide price changes by major commodity groups. The regional price changes shown in the map include housing. Without housing, prices rose by 3.8% in New London, but by only 2.3% to 2.7% in the other regions.

## Decelerating Growth

By Peter Gunther

CCEA estimates that Connecticut's Real Gross State Product (RGSP) grew by 5.7% in the year ending 2002-Q4, much faster than the national rate of 2.8%. Early indications, however, suggest a 0.4% decline for the state between 2002-Q3 and 2002-Q4. This decline was driven primarily by higher rates of inflation and a drop in the quarter's seasonally adjusted housing permits (though they remained above levels of a year earlier). Though the preliminary figures are subject to change, any upward revisions are not likely to close the gap.



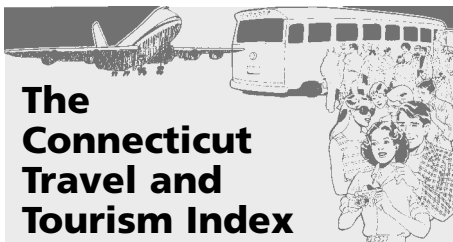
Connecticut employment declined by about 6,000 between 2001-Q4 and 2002-Q4. The layoff of 3,000 state employees in late November is not fully reflected in the 2002-Q4 job figures. Even so, total government employ-

ment fell by 1,800 in December, half of it from State government.

CCEA forecasts RGSP growth of 1.8% in 2003 and 2.1% in 2004. If the economy follows the lower range of the forecast (the light green line) output will drop 2.8% this year and remain flat in 2004. The forecast's upper range implies annual output growth of 5.4%.

The base forecast is predicated on sluggish 2.4% growth in U.S. Real Gross Domestic Product (RGDP) this year, followed by 2.6% growth next year, with declining housing permits through 2004-Q4. Rapid conclusion of hostilities with Iraq would improve the picture considerably, boosting estimates for housing permits and pushing the economy into the upper range of the forecast.

Forecasted base RGDP growth is insufficient to maintain current employment levels. Employment is expected to fall by another 3,000 this year, before flattening out and inching back up by 1,000 in 2004-Q4. The range of uncertainty in the employment forecast is relatively large. Employment could end 2004 as low as 1.59 million or as high as 1.74 million. The impacts of State government cutbacks are still working their way through the system. A faster recovery of RGDP, continued strength in housing, and increased military purchases of aircraft, engines and parts would boost employment and move Connecticut closer to its economic potential.



## The Connecticut Travel and Tourism Index

The overall index decreased 2.1% in 2002-Q4 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.	▼	2.4%
Slot Machine Rev.	▲	2.1%
Attendance	▼	6.6%
Traffic	▼	1.5%
Overall	▼	2.1%

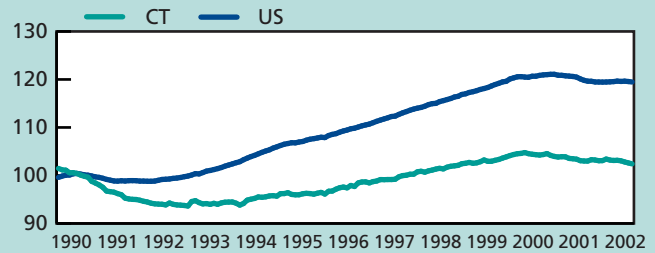


## INDEX OF ECONOMIC INDICATORS

1990 = 100

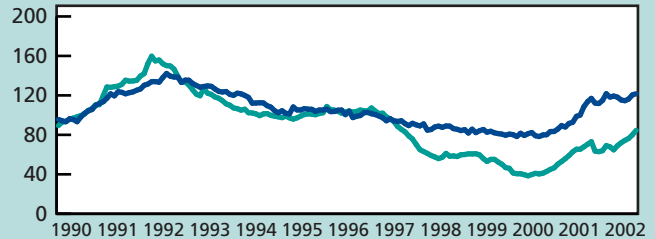
### Job Totals

(seasonally adjusted)



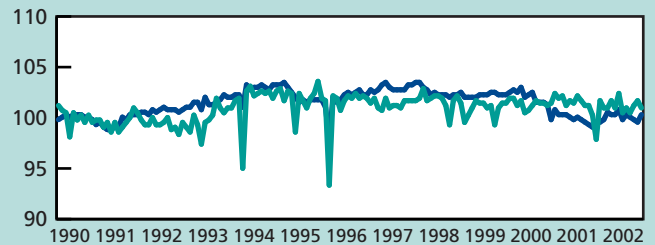
### Number Unemployed

(seasonally adjusted)



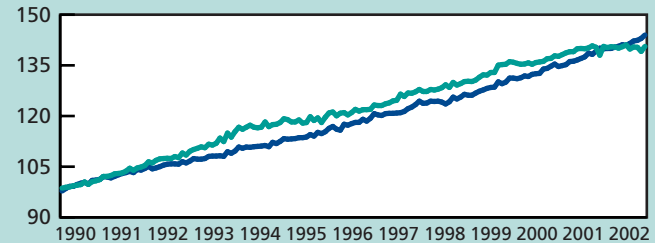
### Weekly Manufacturing Hours

(seasonally adjusted)

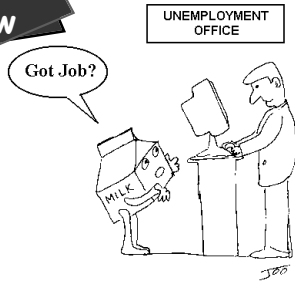


### Hourly Manufacturing Hours

(not seasonally adjusted)



### Joo's View



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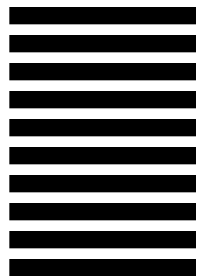
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## Connecticut's Hospitals: The Time is Now to Protect Our Healthcare Safety Net

By Jennifer Jackson  
President and CEO, Connecticut Hospital Association



Protecting the fiscal health of our acute care hospitals—the public's healthcare safety net—is absolutely necessary to preserve and improve their ability to provide high quality care to any person who needs it, 24 hours a day, 7 days a week, regardless of their ability to pay for the care they receive.

Despite recent improvements in the operating margins of a few Connecticut hospitals, most remain in a financially tenuous or, in some cases, seriously distressed position. Regardless of their respective bottom lines, Connecticut's 31 acute care hospitals all face a number of troubling issues: insufficient Medicare and Medicaid reimbursements; rising salary costs and a growing workforce shortage; greater administrative costs due to increased government regulation; unprecedented disaster and bioterrorism preparedness mandates; skyrocketing medical liability insurance premiums; and projections for a sharp increase in patients as the baby boom generation begins utilizing more hospital care.

According to preliminary results from a study recently conducted by the Connecticut Hospital Association (CHA), our acute care hospitals can be expected to experience a more than four-fold increase in utilization by patients age 65 and older during the next 20 years, with hospitalizations among this age group increasing from 68,403 in 2000 to 304,635 in 2020.

Connecticut hospitals are currently stretched to the limits of their capacity with total admissions for patients age 65 and older numbering fewer than 100,000 each year. Assuming that utilization trends continue and the number of admissions for this age cohort increases as projected by 2020, Connecticut's hospitals will have to heavily invest in their infrastructure over the next two decades to meet a surging demand for care.

For Connecticut hospitals to meet this challenge, they will need considerable help in the years to come. Operating margins of between four and six percent are generally accepted as the benchmark for fiscal health. Connecticut hospitals have fallen far short of that mark over the past ten years, recording a collective operating margin of less than one percent. These razor-thin hospital margins are simply not sufficient to fund the kind of expansion—both in facility and workforce capacity—that will be needed to avoid a statewide health care crisis.

This is why, even in the face of the national and state budget deficits, CHA will once again be calling upon our elected officials to protect our hospitals' vital safety net function.

We will be asking the Connecticut General Assembly to permanently repeal the hospital sales tax which, if reinstated, would cost Connecticut hospitals more than \$130 million each year, and to improve Medicaid reimbursement rates in Connecticut, which currently stand at an average of 74 cents for every dollar's worth of care provided by our state's hospitals (the fifth lowest rate in the country). On the federal side of the equation, CHA is joining the American Hospital Association and others in calling on Congress to enact provider payment relief to help improve Medicare reimbursement to our hospitals, which, like Medicaid, also falls well short of the cost of providing care.

Connecticut's hospitals share a proud tradition of being there for all of us, whenever we need them. To continue this tradition of caring, we are asking our state and federal legislators to be there for all of Connecticut's citizens by protecting our hospitals and investing in their future.

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