



Back to School

The ABCs of Business Regulation

Wage Competition in Higher-Ed

Linking Home Values to Test Scores

CONNECTICUT ECONOMIC INDICATORS

(Percent change: 2010-Q2 to 2011-Q2)

Indicators of Current Economic Activity

Total Nonfarm Jobs	+1.0%
Number Unemployed	+1.1%
Labor Force	-0.6%
Manufacturing	
Jobs	+1.1%
Avg. Weekly Hours	-1.1%
CT Mfg. Prod. Index	+0.5%
Avg. Hourly Earnings	+5.2%
New Auto Registrations	+45.4%
Travel and Tourism Index	+2.9%
Bradley Airport	
Passengers	+7.2%
Freight	+0.6%
State Tax Receipts	
Income	+13.4%
Sales	+4.9%
Real Estate Conveyance	-4.7%
Electricity Sales (April, May)	+3.5%
State Exports	+22.1%
Personal Income (est.)	+3.5%
Coincident GDI	+0.7%

Indicators of Future Economic Activity

Initial Unemp. Claims	-2.9%
Housing Permits	-34.8%
Net New Business Starts	+3.8%
Leading GDI	+0.4%

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TAKING STOCK

Dead Cat Bounce?

Connecticut scored a seeming rebound in nonfarm employment during 2011-Q2, as the state posted 3,400 new jobs after a disappointing addition of barely 400 the quarter before. But like the bounce that followed the feline's fatal fall, there may be less to the jump than meets the eye.

Most of the quarter's gain traces to revised local government employment numbers for June. Winter storm closings forced schools to delay summer break so more employees than usual showed up on local government payrolls that month. Other sectors of the economy, however, posted less dubious additions in 2011-Q2. Jobs advanced in education and health, in accommodation and food services, and in retail and wholesale trade—all industries that have been trending higher since the recovery's start, if not before. And continued job losses in construction were hardly unexpected considering the housing bust.

But Connecticut's small surge in manufacturing, fed by the global upturn and cheap dollar, has stalled. And jobs are down again in finance and in professional and business services, sectors that had helped the state's recovery get off to a running start.

As slow as things are around here, our economy is outperforming other New England states. Following the U.S. pattern, the New England econo-

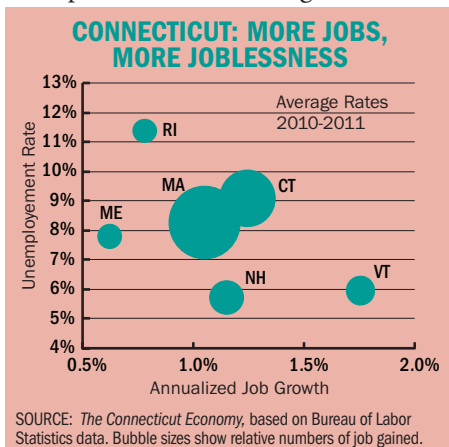
mies bottomed out at the end of 2009. Since then Connecticut has been adding jobs, on average, at about a 1.2% annual rate, faster than every regional neighbor save Vermont (see graph). And, as illustrated by the relative sizes of the graph's bubbles, Connecticut's average monthly gain of about 1,700 jobs is second in number only to more populous Massachusetts.

But employment growth so far has been insufficient to chip away at the state's elevated rate of joblessness. The graph also shows that Connecticut's unemployment rate has been stuck at 9% or more since jobs started reappearing in early 2010. Most of those unemployed, 65%, have been jobless 15 weeks or longer—highest in New England and sixth highest among states. The longer-term unemployed face notoriously high obstacles to finding permanent work.

And for those fortunate enough to have work, life is no bowl of cherries. Weekly earnings in Connecticut's private sector are up 1.1% in the four quarters ending 2011-Q2, but that gain is insufficient to keep pace with rising prices over the same period. What's more, workers have had to log 1.5% more hours for that pay, so hourly earnings have dropped in nominal and in real terms.

The real fear now is that the slowing U.S. economy could start erasing the modest gains Connecticut has made so far, costing the state jobs and aggravating unemployment (see page 14). Even if the economy does pick up, job gains will remain modest by historical standards.

In recognition of the season, this issue goes back to school, covering the ABCs of regulation, determinants of higher-education salaries, and the effects of school quality on home values. We also welcome the thoughts of CEA's new executive director on upgrading the teaching profession.



Economic Regulation of Business

MARKET SAFEGUARD OR DEVELOPMENT STRAIGHTJACKET?

BY STEVEN P. LANZA

Small businesses are a rich source of economic innovation and private sector jobs. But since they lack the extensive resources of major corporations, small firms also can be especially vulnerable to onerous business regulations. For good or ill, all states regulate economic activity within their borders, but Connecticut places more constraints than average on its businesses. If small-employer growth is the goal, how much regulation is too much? What could Connecticut stand to gain by easing its regulatory burden and making itself more business-friendly?

Doing business in Connecticut isn't easy, even for someone with an extensive Rolodex and decades of experience in the trenches. Just ask George McGovern. Yes, *that* George McGovern. Few politicians epitomize late 20th-century liberalism better than Mr. McGovern, the longtime U.S. Senator from South Dakota and onetime Democratic presidential nominee. Once tagged as the candidate of "amnesty, abortion and acid," McGovern, along with figures like Ted Kennedy and Hubert Humphrey, was a pillar of the political left wing.

McGovern is far less known for later recanting some of the business regula-

tory policies he had once helped craft. Swept out of the Senate in 1980 on a tide that carried Ronald Reagan to the White House, McGovern hit the speaking circuit and then used the proceeds to open an inn and conference center in Stratford, Connecticut, fulfilling a lifelong dream. Then, just a few years later, his enterprise was bankrupt. Writing in a 1992 *Wall Street Journal* op-ed, McGovern attributed his business's demise partly to the 1990 recession, and partly to well-intentioned but ill-conceived federal, state, and local business regulatory strictures of the sort he had long supported. Knowing what a burden such regulations often place on businesses "would have made me a better U.S. senator and a more understanding presidential contender," he conceded.

THINKING SMALL

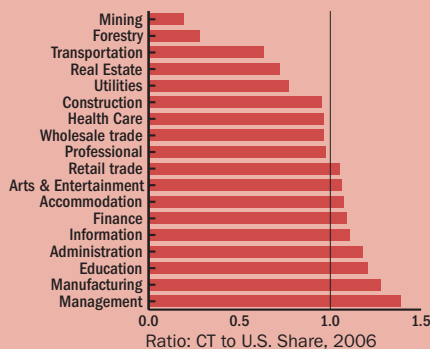
McGovern's was one of Connecticut's small-employer firms (businesses with 1 to 499 employees) that currently number about 75,000 and account for nearly 98% of the state's employers and half its private-sector jobs, according to the latest (2006) U.S. Commerce Department data. The vast majority (88%) of these businesses have fewer than 20 employees.

Mirroring its economy generally, Connecticut has a particularly high concentration, relative to the U.S. as a whole, of small employers in manufacturing and in the administration, support and management of companies and enterprises. Small manufacturers are 28% more numerous in the Nutmeg state than they are nationally, while administration and management firms, which employ armies of office administrators, accountants, auditors and financial managers, are nearly 20% more common here (horizontal bar graph).

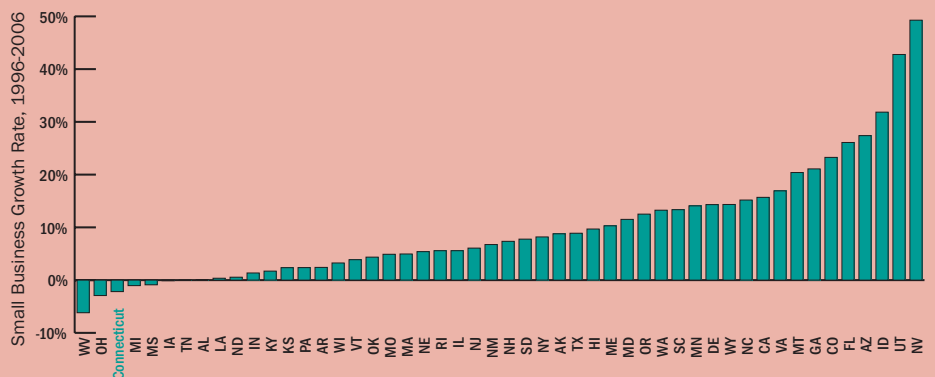
But Connecticut has lagged behind other states in cultivating these job-rich enterprises. Between 1996 and 2006, Connecticut actually lost 1,700 or 2.2% of its small-employer firms—the third biggest drop in percentage terms after West Virginia (-6.2%) and Ohio (-2.9%). The average state, meanwhile, saw a 10% increase in small-employer firms (vertical bar graph).

Connecticut's small businesses are clearly concentrated in the some of the most lucrative sectors of the economy, but why have they struggled so to grow their numbers? Scholarly research points to a number of factors that may influence the formation and growth of small-business enterprises. These determinants commonly include

CT OUTPACES THE US IN KEY SMALL-BUSINESS INDUSTRIES...



...BUT LAGS IN ITS SMALL BUSINESS GROWTH RATE



SOURCE: *The Connecticut Economy*, based on U.S. Small Business Administration data.

LEAST (1) AND MOST (50) REGULATED STATES: 2006

	Principal Component Index	Ruger/Sorens Index
1	Alabama	Michigan
2	Mississippi	North Dakota
3	North Dakota	Kansas
4	Kansas	Pennsylvania
5	Louisiana	Idaho
6	South Carolina	Indiana
7	Texas	Georgia
8	Tennessee	Iowa
9	Idaho	South Dakota
10	Iowa	Utah
11	South Dakota	Colorado
12	Oklahoma	South Carolina
13	Utah	Arizona
14	Arizona	Nebraska
15	Colorado	Alabama
16	Missouri	Delaware
17	Indiana	Virginia
18	Florida	New Hampshire
19	Georgia	Florida
20	West Virginia	Wyoming
21	Nebraska	Oklahoma
22	Wyoming	Missouri
23	New Hampshire	Wisconsin
24	Wisconsin	Alaska
25	Pennsylvania	Louisiana
26	Alaska	North Carolina
27	Virginia	Texas
28	Arkansas	Ohio
29	North Carolina	Tennessee
30	Ohio	Minnesota
31	Michigan	Kentucky
32	Minnesota	Montana
33	Nevada	Mississippi
34	Montana	Nevada
35	New Mexico	Illinois
36	Kentucky	Hawaii
37	Illinois	New Mexico
38	Delaware	Oregon
39	Hawaii	Vermont
40	Oregon	Arkansas
41	Washington	West Virginia
42	Vermont	Connecticut
43	Connecticut	Massachusetts
44	Massachusetts	California
45	Maryland	New York
46	California	Washington
47	Maine	Maryland
48	Rhode Island	New Jersey
49	New York	Rhode Island
50	New Jersey	Maine

SOURCE: *The Connecticut Economy*, based on data collected by Ruger and Sorens and published by the Mercatus Center, at George Mason University, in "Freedom in the 50 States."

age, gender, education, foreign birth, unemployment, taxation and the availability of financing for small business. Senator McGovern's experience suggests that excessive regulation also plays a role in hamstringing business owners and entrepreneurs who simply don't have the resources of larger firms to cope with these constraints.

QUANTIFYING REGULATION

To assess the impact of government's regulation of business we first need a serviceable measure of the regulatory burden. Two political science professors—William Ruger of Texas State University and Jason Sorens of SUNY Buffalo—have taken a positive step in that direction by collecting data on more than 200 public policies for each state for the years 2006 and 2008. They use the raw data to construct indexes of economic and personal freedom, and rankings of fiscal and regulatory policy across states. Their report "Freedom in the 50 States," is published by the Mercatus Center of George Mason University.

The idea of a regulatory index is a good one, as it combines dozens of separate laws and policies covering labor, health, licensing, utilities, and more into one summary measure of the regulatory burden. Yet, by their own admission, the Ruger/Sorens index is inherently subjective as it weights variables "roughly according to the number of people affected by the policy, the intensity of preferences on the issue, and the importance of state policy variation." Different weighting schemes are, of course, possible, and the authors invite readers to experiment with alternatives and devise their own rankings.

One such alternative is to let the data "do their own talking" by calculating the first principal component of the constituent measures, something many statistical software packages do quite easily. The first principal component of a set of variables is a simple linear combination of the elements that provides a "best fit" model of all the data points. By capturing the central

tendency of the data, the first principal component provides a good way of summarizing the data without introducing the researcher's own subjective biases.

In practice the two approaches aren't far apart. The principal component ranking of Connecticut's regulatory environment in 2006 puts Connecticut at 43rd, compared with a Ruger/Sorens rank of 42 (where 1 is least regulated, and 50 is most). Six of the same states occupy the top 12 least regulated spots in both indexes and nine of the same states are in the bottom 10 most regulated. The principal component approach, however, has the added virtue of greater objectivity.

So why does Connecticut rank so low? Like most of New England, Connecticut has fairly exacting labor standards—it has a relatively high minimum wage, a prevailing wage law, mandatory workers' compensation, and it is a non-right-to-work jurisdiction. Connecticut also requires special licensing for more occupations than any other state, including massage therapists, athletic trainers, and TV and radio technicians. And, like most states in the populous northeast, Connecticut has fairly rigorous land use standards marked by a significant state (versus local) role in land use planning, numerous endangered species statutes, and few safeguards against

KEY DETERMINANTS OF SMALL BUSINESS GROWTH RATES

Variable	Coefficient	p-value
<i>Constant</i>	0.880	0.002
<i>Foreign Born</i>	0.541	0.140
<i>Age</i>	-0.022	0.000
<i>Unemployment</i>	-3.553	0.001
<i>BA+</i>	-0.004	0.319
<i>Business Loans</i>	0.098	0.022
<i>Taxes</i>	-0.083	0.094
<i>Regulation</i>	0.394	0.001
<i>Regulation²</i>	-0.300	0.027
<i>Neighbor Growth</i>	0.271	0.000
<i>Adjusted R²</i>	0.62	
<i>Observations</i>	50	

SOURCE: *The Connecticut Economy*.

so-called regulatory takings. But in other categories, such as health insurance and utilities, Connecticut's regulations come pretty close to those of the average state.

MODELING BUSINESS PERFORMANCE

Government regulation needn't be a drag on business activity. Ideally, regulation can promote and expand markets by protecting against fraud (e.g. through mandatory ingredient labeling) and anti-competitive practices (e.g. by outlawing price-fixing) and by resolving conflicts over alternative resource uses (e.g. with residential and industrial zoning). But in the extreme, government regulations can yield a bewildering knot of red tape that can stymie even the most enterprising of business people or afford a privileged status to the politically-connected few.

The accompanying table shows the results of a regression of the percentage change in small businesses across states from 1996 to 2006 against a number of key determinants including the principal component index of regulatory policy. The regression reveals a statistically significant, quadratic relationship between small business growth and regulation. This means that, after controlling for other factors, modest levels of regulation are associated with higher rates of small business growth, but beyond a certain point additional constraints can hobble business performance.

This inverted U-shaped relationship, pictured in the graph below is consistent with the initial hypothesis that economic performance benefits from some regulation, but is hurt by too much of it. The graph suggests an optimal level of regulation at about the 66th percentile of state rankings. (An alternate specification of the model, which excludes the less-significant education variable, implies an optimal regulation ranking at the 60th percentile.) Thus, the most-regulated of states, which includes Connecticut (at the 86th percentile), may be able to boost small business growth by easing their regulatory burdens.

If, for example, Connecticut's burden was closer to that of Minnesota, Michigan, Ohio or North Carolina, each of which ranks at about the 60th percentile, Connecticut might have had a small-business growth rate one to two percentage points higher than it did over the 1996 to 2006 period—enough to have stemmed the small-employer losses that actually occurred.

OTHER CONSIDERATIONS

Readers should, however, be careful about inferring an exact causal link between the regulatory index and business growth, in part because the growth period (1996-2006) precedes the year (2006) for which detailed regulatory information is available—an unavoidable limitation of the data. Regulations in place as of 2006 might influence growth in later years, but they can't affect what came before. Still, if regulatory environments change slowly, states that were highly regulated in 2006 were probably highly regulated in 1996—a burden that may have constrained growth.

Another chink in the causality armor is that the results appear sensitive to the choice of regulatory index. Using the Ruger/Sorens index in the regression yields the same inverted-U regulatory curve as the principal component index, and points to a slightly-lower optimal regulatory burden at about the 50th percentile. But the coefficient estimates producing that result are not

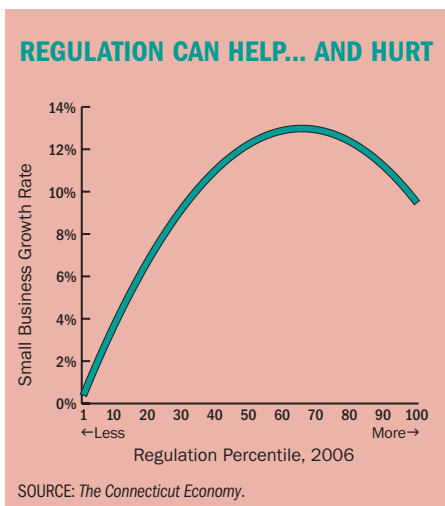
statistically significant. Translation: the Ruger/Sorens index by itself does not meet the statistical evidentiary standard necessary to infer a meaningful link between regulation and business growth.

Convincing evidence does, however, exist that small-employer growth exhibits a so-called spatial lag, as seen from the positive and significant coefficient on small-business growth in neighboring states. States are, in other words, products of their broader regional environment and are more likely to enjoy faster growth where their neighbors do too.

The regression also suggests other ways, besides lightening the regulatory burden, to promote the growth of small businesses. Boosting small business loans could help. Six in ten Connecticut small businesses receive funding—about the average for the 50 states. In some states that number is nine of ten or more. Boosting funding from six to seven of ten firms could add a percentage point to the small business growth rate.

Lowering taxes also could promote small business growth, though the obvious risk is that it would limit the provision of public goods and services essential for business formation. Connecticut ranks at the 80th percentile for taxes among states. Dropping taxes to the 50th percentile could be enough to add another two percentage points to the growth rate.

And while changing the demographic characteristics of a state's population is no easy feat, the regression results suggest that greater shares of foreign-born residents and younger populations benefit small business growth. From this perspective an open-arms immigration policy and efforts to encourage young people to stay and move here may make a lot of sense.



Wage Competition in Higher Ed

BY DENNIS HEFFLEY AND
MARYJANE LENON

The internationalization of higher education has increased competition for faculty. Top-tier universities actively recruit faculty (and students) throughout the world. Once seen as an “old boys’ club,” where whom you knew seemed to matter as much as what you knew, academic labor markets have become better organized, more transparent, and increasingly competitive. But competition in labor markets does not always equalize rewards.

WHY SO DIFFERENT?

According to the American Association of University Professors’ *Annual Report on the Economic Status of the Profession, 2009-10*, the average faculty salary at UConn was \$103,768, while the figure at Eastern Connecticut State University, less than 9 miles down the road, was \$77,338. At Providence College, in neighboring Rhode Island, faculty members averaged \$81,886 in annual salary. Why doesn’t this competition for faculty equalize salaries, even in relatively nearby locations?

Disparities are even larger across the many universities and colleges in the AAUP report, ranging from \$33,255 at tiny Villa Maria College in Buffalo, New York, to \$159,546 at Stanford University in California, with a mean of \$69,776. But such differences are not the result of inadequate competition—quite the contrary. Labor markets, if they are truly competitive, will reflect differences in workforce composition, institution type, and site-specific factors such as cost-of-living and average income.

THE MARKET FOR ACADEMIC TALENT

To see if academic labor markets exhibit competitive forces and operate much like non-academic ones, we use the detailed AAUP data on salaries and

other institution-level characteristics for 1,232 U.S. colleges and universities. We augment the data with U.S. Census Bureau state-level data on average income and the cost of housing, a key determinant of overall living costs.

Our goal is to analyze primary sources of the large variation in average salaries across the colleges and universities in the AAUP report. Since there are many potential reasons why salaries vary, we employ a common statistical technique—multiple linear regression analysis—that allows for many sources of variation and isolates the contribution of each factor to the overall variation in academic salaries.

The factors that potentially affect an institution’s average salary (across all ranks), for which data are available, include: size of the institution as measured by the number of full-time faculty; type of institution based on the predominance of various degree programs (1 = doctoral; 2A = master’s; 2B = bachelor’s; 3 = associate’s); the dollar value of fringe benefits; percent female faculty; percent full professors; percent associate professors; and whether the institution is publicly or privately funded. We also include two Census variables to capture interstate differences in average pay (per capita income) and living costs (median gross rent per room, defined as median gross rent, utilities included, divided by the median number of rooms in renter-occupied units).

RESULTS

The adjacent table summarizes the regression results. The sign of each coefficient indicates whether average faculty salaries are positively or negatively associated with that particular variable, while the p-value is a measure of the statistical significance of the result. A p-value below 0.05 generally indicates a high degree of statistical significance. The adjusted R-square indicates that the 11 variables listed

in the table account for 75.4% of the total variation in average salaries across the universities and colleges in the sample.

One factor that appears to have a significant positive effect on average salaries is faculty size, a proxy for size of the institution. This “size effect” also may reflect faculty quality. Larger institutions with a full array of academic programs and facilities tend to attract better qualified faculty members by offering not only higher salaries, but also other benefits such as research support, lab space, modern facilities, and the opportunity to work with other talented researchers and students.

Institutions with higher percentages of their faculty at full professor and associate professor ranks also exhibit higher salaries. But, as might be expected, the percentage of full professors has a larger and more statistically significant effect than the percentage of associate professors.

Higher salaries also are associated with higher fringe benefits, even after controlling for other factors in the

FACTORS THAT INFLUENCE AVERAGE FACULTY SALARIES

	Coefficients	p-value
<i>Constant</i>	27.390	0.000
<i>Faculty Size</i>	0.008	0.000
<i>% Full Prof.</i>	0.156	0.000
<i>% Associate Prof.</i>	0.053	0.112
<i>Fringe Benefits (\$)</i>	1.333	0.000
<i>% Female</i>	-0.060	0.029
<i>Type 2A (Master’s)</i>	-8.037	0.000
<i>Type 2B (Bachelor’s)</i>	-10.888	0.000
<i>Type 3 (Associate’s)</i>	-14.933	0.000
<i>Public (vs. Private)</i>	-5.285	0.000
<i>Median Gross Rent/Rm</i>	0.052	0.000
<i>Per Capita Income</i>	0.360	0.001
<i>Adjusted R²</i>	0.754	
<i>Observations</i>	1,232	

SOURCE: *The Connecticut Economy*, based on data from the American Association of University Professors in its *Annual Report on the Economic Status of the Profession, 2009-10*; and the U.S. Bureau of Census.

regression. One might expect some substitutability between salary and fringes: institutions with lower fringe benefits offering higher salaries to attract faculty. But the regression results suggest that any such “substitution effect” is swamped by a strong positive link between salaries and fringe benefits. An additional dollar of fringes is accompanied by an extra \$1.33 in salary payments.

Many universities and colleges have programs to actively recruit and retain female faculty members. Despite such efforts, a female wage gap persists in higher education, as in many other areas of the economy. Even after controlling for other differences that affect salary structure, institutions with a

higher share of female faculty members also tend to exhibit lower average salaries.

The “dummy” (or indicator) variables—Type 2A, Type 2B, and Type 3—reflect the focus of the institution. Each of the variables shows how much lower average salaries are for that type of institution, relative to Type 1 institutions (the reference category) that have a wide variety of doctoral programs. Salaries in Type 2A colleges, which have few doctoral programs but a variety of master’s programs, average \$8,037 less than in Type 1 institutions, even after controlling for faculty size and other differences. In Type 2B (mostly bachelor degrees) and Type 3 institutions (mostly associate degrees), the gaps are even larger—\$10,888 and \$14,933, respectively.

Ownership status of the institution also affects average salaries. Other characteristics equivalent, a public institution is likely to have a lower average salary than a private one. The estimated difference is \$5,285. Contrary to popular opinion, the result suggests that public universities and colleges do not systematically “overpay” their faculty relative to similar private institutions.

As in any industry, faculty pay also is affected by income per-capita levels and the general cost of living. Housing cost differences drive most of the differences in overall living costs, so we use median gross rent per room in renter-occupied housing as a state-specific proxy for the cost of living. Similarly, per capita income is used to control for the general level of wages and salaries in each state. Faculty salaries are, not surprisingly, higher in states that have higher average incomes and more expensive housing.

ACTUAL VS. PREDICTED PAY

Another interesting application of the regression is to see how faculty members seem to fare at some of New England’s colleges and universities, particularly those located in Connecticut and neighboring Rhode

Island. The “fit” of the model to the data is quite good, so using the estimated coefficients to calculate each institution’s predicted salary, based on its own reported characteristics, we can compare its actual average salary with the predicted pay. These figures are presented in the first two data columns of the second table, along with the percentage by which the actual average salary exceeds or falls short of the predicted value.

In both states, elite private universities, such as Yale (+20.4%) and Brown (+14.4%), pay higher salaries than the model predicts. UConn salaries are slightly below the predicted value (-0.2%), while salaries at the University of Rhode Island are substantially less (-14.3%) than predicted for an institution with its particular characteristics.

Many of the private liberal arts institutions in both states tend to pay more than predicted: Connecticut College (+4.6%), Quinnipiac (+7.9%), Trinity (+7.7%), and Wesleyan (+13.1%) in Connecticut; Bryant (+24.2%), Roger Williams (+9.6%), Salve Regina (+0.8%), and Providence (+3.0%) in Rhode Island. But some private colleges—Albertus Magnus (-2.1%), Fairfield (-6.9%), Saint Joseph (-3.7%), Hartford (-8.5%), and Rhode Island College (-13.6%)—as well as all four of Connecticut’s state university campuses—Central (-6.8%), Eastern (-12.2%), Southern (-6.8%), and Western (-10.5%)—have pay scales below the predicted values.

SPECIAL BUT NOT IMMUNE

Colleges and universities are special places for many reasons, but they are not immune from market forces in their competition for students or faculty. Average faculty salaries by institution, as reported by the AAUP, clearly reveal the effects of this competition. Salaries vary in predictable ways that reflect the unique characteristics of each institution as well as local job and housing market conditions.

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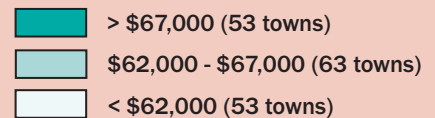
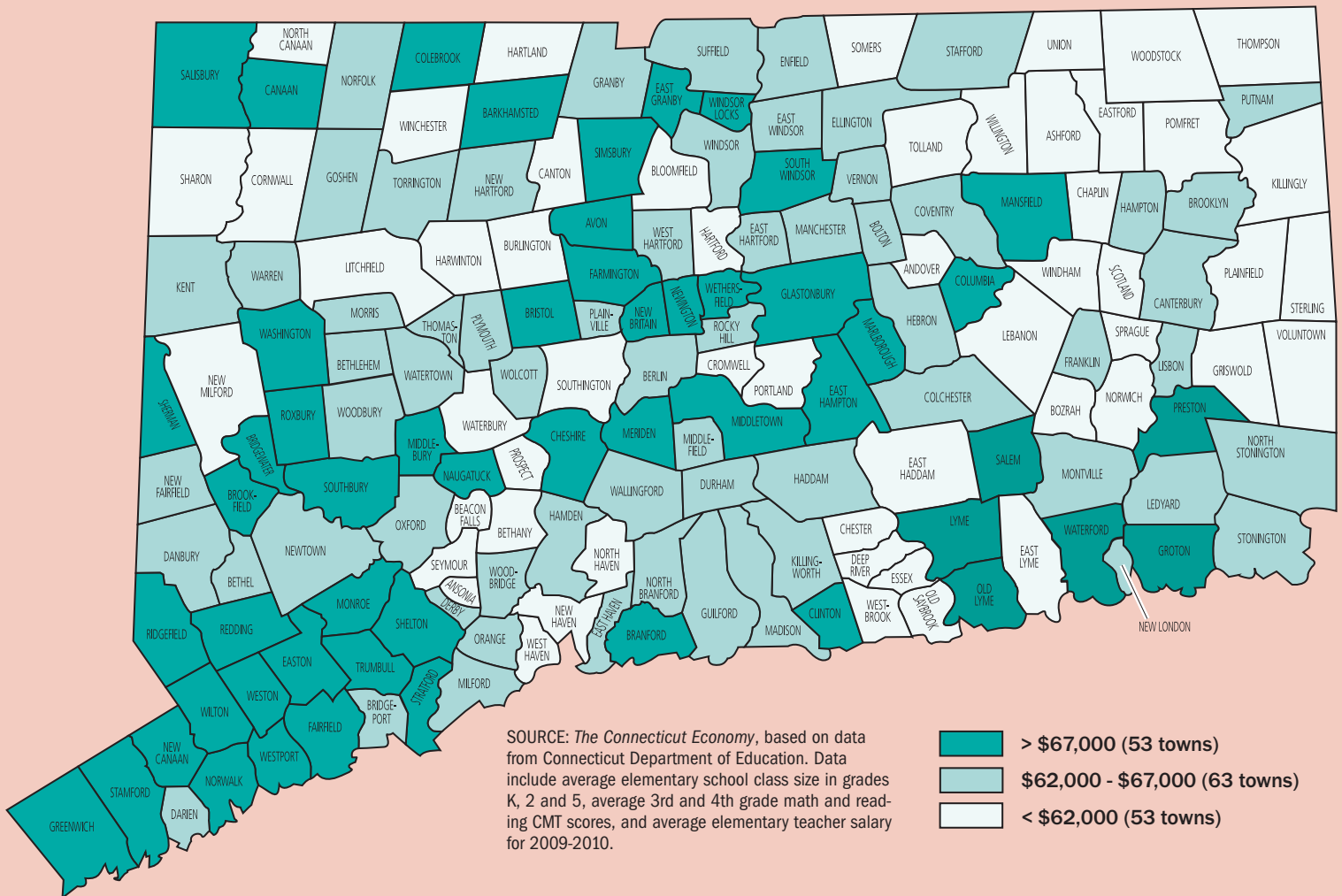
AVERAGE SALARY BY TYPE OF INSTITUTION

	Average Salary (\$)		% Over (+) or Under (-) Predicted Value
	Actual Value	Predicted Value	
Connecticut Institutions			
<i>Albertus Magnus</i>	66,331	67,643	-2.1
<i>Central CT</i>	78,871	84,589	-6.8
<i>Conn College</i>	85,370	81,600	4.6
<i>Eastern CT</i>	77,338	88,117	-12.2
<i>Fairfield</i>	90,626	97,366	-6.9
<i>Quinnipiac</i>	95,528	88,499	7.9
<i>Saint Joseph</i>	68,071	70,704	-3.7
<i>Southern CT</i>	78,043	83,723	-6.8
<i>Trinity</i>	86,538	80,356	7.7
<i>UConn</i>	103,768	103,966	-0.2
<i>U. of Hartford</i>	70,303	76,839	-8.5
<i>Wesleyan</i>	94,018	83,101	13.1
<i>Western CT</i>	81,775	91,414	-10.5
<i>Yale</i>	134,363	111,638	20.4
Rhode Island Institutions			
<i>Brown</i>	112,219	98,116	14.4
<i>Bryant</i>	104,057	83,766	24.2
<i>Comm. Coll. of RI</i>	61,504	66,703	-7.8
<i>Providence</i>	81,886	79,523	3.0
<i>RI College</i>	66,698	77,237	-13.6
<i>Roger Williams</i>	91,843	83,763	9.6
<i>Salve Regina</i>	70,370	69,826	0.8
<i>URI</i>	84,362	98,420	-14.3

SOURCE: The Connecticut Economy.

THE CENTERFOLD

Average Elementary Teacher Salary, 2009-2010



	CLASS SIZE	CMT SCORE	SALARY (\$000S)
Bridgeport - Stamford LMA			
Ansonia	21.3	244.4	53.0
Bridgeport	22.5	217.0	63.5
Darien	21.4	279.5	66.9
Derby	21.1	237.8	64.4
Easton	20.1	281.9	68.0
Fairfield	19.8	274.2	74.3
Greenwich	19.8	272.7	81.3
Milford	18.3	258.7	63.0
Monroe	20.7	278.9	76.7
New Canaan	20.1	289.1	75.7
Newtown	19.9	281.9	66.2
Norwalk	20.0	251.3	80.3

	CLASS SIZE	CMT SCORE	SALARY (\$000S)
Oxford	23.1	263.0	63.9
Redding	18.6	281.1	77.0
Ridgefield	19.6	280.3	76.1
Seymour	19.5	261.1	56.9
Shelton	20.1	263.1	69.2
Southbury	20.1	273.2	68.1
Stamford	20.1	249.8	77.1
Stratford	20.4	253.0	72.4
Trumbull	19.1	280.2	71.5
Weston	22.0	275.6	77.0
Westport	20.1	280.3	71.5
Wilton	20.2	284.1	76.6
Woodbridge	18.7	275.3	64.4

	CLASS SIZE	CMT SCORE	SALARY (\$000S)
Danbury LMA			
Bethel	17.8	272.4	62.6
Bridgewater	14.8	272.9	72.1
Brookfield	21.4	269.9	67.7
Danbury	20.6	250.1	65.9
New Fairfield	20.8	259.9	66.2
New Milford	19.9	260.3	61.7
Sherman	17.7	275.8	67.8
Enfield LMA			
East Windsor	21.1	245.7	66.0
Enfield	18.7	257.4	64.8
Somers	19.3	256.0	57.6
Suffield	19.1	270.7	66.5
Windsor Locks	18.4	254.0	67.4

	CLASS SIZE	CMT SCORE	SALARY (\$000S)
Hartford LMA			
Andover	15.9	270.6	56.8
Ashford	15.9	248.9	54.1
Avon	21.3	279.7	76.6
Barkhamsted	19.3	269.1	68.7
Berlin	18.7	268.1	66.5
Bloomfield	17.1	239.8	61.3
Bolton	17.8	271.5	63.7
Bristol	18.8	247.6	67.3
Burlington	18.9	273.4	58.8
Canton	19.9	275.6	58.8
Colchester	21.1	260.4	65.3
Columbia	19.3	259.7	67.7
Coventry	21.3	265.9	62.5
Cromwell	20.2	263.4	59.8
East Granby	18.3	264.3	76.1
East Haddam	17.5	265.4	61.6
East Hampton	20.0	262.4	70.5
East Hartford	18.9	223.6	66.8
Ellington	22.2	265.6	63.5
Farmington	21.0	281.5	71.8
Glastonbury	19.3	273.9	69.3
Granby	22.0	280.7	65.2
Haddam	19.0	267.2	63.1
Hartford	20.8	217.7	61.4
Hartland	20.3	281.1	58.1
Harwinton	18.9	273.4	58.8
Hebron	20.4	273.0	62.6
Lebanon	17.3	254.8	59.1
Manchester	18.7	250.4	62.3
Mansfield	17.2	273.2	72.8
Marlborough	17.5	282.0	69.3
Middlefield	18.9	261.3	66.8
Middletown	19.0	252.8	70.0
New Britain	22.9	209.4	69.3
New Hartford	15.4	280.2	62.2
Newington	19.9	266.5	69.4
Plainville	18.7	262.2	63.2
Plymouth	16.8	250.1	63.4
Portland	19.1	261.0	57.9
Rocky Hill	17.6	269.5	65.5
Simsbury	20.9	284.8	71.5

	CLASS SIZE	CMT SCORE	SALARY (\$000S)
South Windsor	20.7	264.2	69.6
Southington	18.2	276.2	61.2
Stafford	20.1	253.6	63.4
Thomaston	18.7	254.2	63.7
Tolland	19.8	267.5	59.4
Union	16.3	-	58.4
Vernon	19.7	244.5	63.4
West Hartford	20.4	269.9	63.0
Wethersfield	20.6	260.2	73.5
Willington	18.6	252.9	56.8
Windsor	18.0	251.8	64.4

	CLASS SIZE	CMT SCORE	SALARY (\$000S)
New Haven LMA			
Bethany	17.9	266.6	50.7
Branford	19.5	264.0	67.3
Cheshire	20.0	271.9	70.1
Chester	16.0	269.4	58.7
Clinton	19.1	256.7	67.3
Deep River	16.4	264.1	59.1
Durham	18.9	261.3	66.8
East Haven	19.6	240.7	63.1
Essex	16.4	274.5	56.9
Guilford	18.7	277.2	62.1
Hamden	19.1	246.9	64.9
Killingworth	19.0	267.2	63.1
Madison	19.0	283.2	62.8
Meriden	20.5	237.9	67.8
New Haven	21.5	224.0	55.5
North Branford	20.0	255.3	62.2
North Haven	19.5	263.5	60.9
Old Saybrook	17.1	269.0	58.6
Orange	17.2	279.4	64.0
Wallingford	18.4	260.8	62.2
West Haven	19.9	241.7	61.8
Westbrook	16.9	267.5	61.3

	CLASS SIZE	CMT SCORE	SALARY (\$000S)
Norwich - New London LMA			
Bozrah	21.7	273.3	55.7
Canterbury	15.1	258.3	64.4
East Lyme	17.2	273.7	61.0
Franklin	19.0	280.0	64.6
Griswold	19.4	244.4	57.0

	CLASS SIZE	CMT SCORE	SALARY (\$000S)
Groton	19.6	250.5	69.6
Ledyard	18.8	271.8	66.9
Lisbon	15.2	251.7	64.4
Lyme	17.6	271.9	70.8
Montville	17.7	258.3	64.7
New London	19.4	220.2	66.6
North Stonington	19.4	267.2	64.4
Norwich	19.2	233.7	59.4
Old Lyme	17.6	271.9	70.8
Preston	16.8	250.6	68.7
Salem	16.5	275.2	72.6
Sprague	18.0	250.3	50.9
Stonington	18.9	264.1	62.4
Voluntown	14.5	258.6	49.4
Waterford	18.4	261.1	72.8

	CLASS SIZE	CMT SCORE	SALARY (\$000S)
Torrington LMA			
Bethlehem	19.4	262.0	62.8
Canaan	11.0	-	68.5
Colebrook	15.7	249.8	73.0
Cornwall	13.0	-	57.5
Goshen	14.9	255.0	63.8
Kent	15.8	259.6	62.9
Litchfield	21.5	271.1	57.8
Morris	14.9	255.0	63.8
Norfolk	17.7	244.1	64.4
North Canaan	14.5	245.4	61.0
Roxbury	14.8	272.9	72.1
Salisbury	15.5	276.5	68.6
Sharon	11.8	251.8	59.9
Torrington	19.1	251.4	63.3
Warren	14.9	255.0	63.8
Washington	14.8	272.9	72.1
Winchester	19.5	243.3	60.7
Woodbury	19.4	262.0	62.8

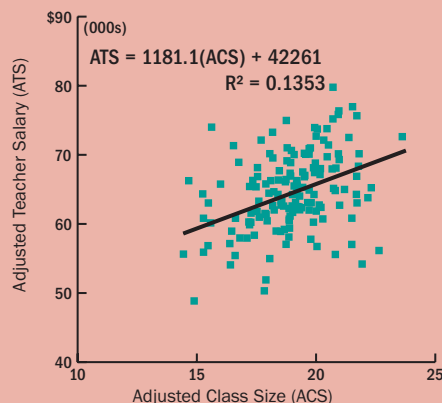
	CLASS SIZE	CMT SCORE	SALARY (\$000S)
Waterbury LMA			
Beacon Falls	20.4	256.2	60.8
Middlebury	20.1	273.2	68.1
Naugatuck	21.2	240.4	68.4
Prospect	20.4	256.2	60.8
Waterbury	21.6	232.8	58.5
Watertown	21.7	252.7	62.7
Wolcott	19.0	266.4	63.1

	CLASS SIZE	CMT SCORE	SALARY (\$000S)
Willimantic - Danielson LMA			
Brooklyn	19.0	249.2	65.7
Chaplin	15.8	-	60.3
Eastford	15.7	261.2	60.5
Hampton	17.7	250.9	64.7
Killingly	17.9	244.0	60.0
Plainfield	20.6	248.2	60.7
Pomfret	18.1	270.3	55.6
Putnam	19.1	230.7	63.1
Scotland	17.7	-	61.6
Sterling	16.1	252.3	53.6
Thompson	18.0	256.4	57.0
Windham	20.5	226.4	57.5
Woodstock	18.5	259.4	59.3

Town Average	18.8	260.9	64.6
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ABOUT THE CENTERFOLD

The centerfold maps average elementary teacher salary for town for the 2009-2010 school year (for higher-ed pay, see pages 6-7). As one might expect, salaries are highest in southwestern Connecticut, and in the wealthier (and more costly) suburbs surrounding major cities. Among many other decisions, school districts must choose between small class sizes and many teachers or large classes and fewer teachers. The scatterplot shows the tradeoff between teacher pay and class size. Holding student performance (CMT scores) and per-pupil spending constant, a one-student increase in class size is associated with a nearly \$1,200 increase in teacher salaries.



Isolating the Effect of School Quality on Property Values

BY PARAMITA DHAR

It's widely accepted that school quality affects property values. Connecticut residents often choose where to live not because of neighborhood quality, other local public services, or tax rates alone, but because of the quality of the local public schools. Unfortunately, all of these factors are often correlated and difficult to untangle. And yet isolating the real impact of schools on property values is important in evaluating both the potential benefits of local education and households' willingness-to-pay for better educational performance. So how much are Nutmeggers really willing to pay for good schools?

BACKGROUND

Between 1994 and 2004, home prices in Connecticut averaged \$235,000 according to a sample of owner-occupied home prices from Banker and Tradesmen. But some homes cost far more. The most expensive 10% of homes carried price tags of \$650,000 and higher. How much of this price premium reflects differences in school quality, and how much reflects other local characteristics or the attributes of the homes themselves (e.g., bedrooms, bathrooms)?

Many previous studies of the home value/school quality link have ignored the effects of neighborhood quality and other public services because they are difficult to disentangle from the effects of school quality alone. But since these other local attributes likely correlate with school quality, any study that omits neighborhood effects and focuses only on the effects of test scores or other school quality measures on house prices will likely overstate the impact of school quality.

An important study by Sandra Black (*Quarterly Journal of Economics*, vol. 144, 1999) addressed this issue by

comparing house prices on either side of school attendance zones, which typically are sub-areas of school districts. Two houses on different sides of an attendance zone boundary are likely to share the same neighborhood, even though the children attend different schools. Ideally, using such boundary observations allows one to isolate the “pure” effects of school quality on house values without having to worry as much about the confounding influence of neighborhood quality. Black found that the estimated effect of school quality on house values fell 30-40 percent after controlling for neighborhood quality. This means that people may be less willing to pay for school quality than previously thought. School quality still matters, but part of their willingness-to-pay for housing is directed at simply living in a better neighborhood.

Using attendance zone boundaries has some drawbacks. In some school districts, attendance zones are unavailable in digital form and difficult to transform into a usable format, or records of historical attendance zones may no longer even exist. Also, when districts are growing, attendance zones may be subject to future revision, creating public uncertainty about which school children will be attending and thereby reducing the effect of current school quality on property values. More permanent district boundaries are less subject to such uncertainty. Finally, school finance variables, like per pupil spending and property tax rates, typically do not vary across attendance zone boundaries, and so the effects of these factors on property values can only be studied by using variation across districts.

Focusing on school district boundaries has several potential advantages, but it also may affect a vital underlying

assumption of boundary approaches: that houses on either side of a boundary occupy the same neighborhood. Durable boundaries, like school districts, give owner-occupants both the incentive and the time to sort onto either side of the boundary based on their personal preferences and endowments. Over time, this sorting may create differences in neighborhood quality between locations that are relatively close in terms of distance.

Therefore, in making comparisons across school district boundaries, we need a way to control for neighborhood quality differences across those boundaries. To do this, we: (1) use panel-data (housing sales near district boundaries in multiple districts over a period of years), (2) use fixed effects (dummy variables) associated with each side of a district boundary to control for potential neighborhood quality differences across those boundaries, and (3) exploit the variation in school district test scores over time to identify their effects on property values. Specifically, we make cross-boundary comparisons of the changes in school quality over time to the changes in housing prices over time by using repeated cross-sections of Connecticut housing transactions and school district data for the period 1994-2004. This type of analysis is described as a “difference-in-differences” (DID) approach. We progressively restrict our sample by considering housing transactions that are close to the district boundaries, and our analysis controls for a standard list of housing attributes as well as broader housing market conditions.

DATA AND RESULTS

Sales price, the dependent variable in our analysis, is taken from a sample of home purchase transactions provided by Banker and Tradesman for the State

of Connecticut: a sample of sales of owner-occupied properties with 1-4 units, from 1994 to 2004. The data include information about the address, selling price, assessed value, sales date, and unit characteristics (internal square footage, number of rooms, bedrooms, bathrooms, building age and lot size). Each property is geo-coded to a specific town and census tract. The first table gives summary statistics for the sample of properties within 2500 feet

SUMMARY STATISTICS (ALL YEARS)

< 2500 ft. Subsample		
	Mean	S.D
Housing Attributes		
Price (\$1,000s)	254	539
Rooms	6.74	3.00
Bedrooms	3.13	1.52
Bathrooms	1.78	0.91
Age	43.0	23.7
Sq. Ft. (1,000s)	1.68	2.63
School District Characteristics		
Test Score	-0.504	1.38
Taxes	-2.92	0.22
Spending (\$1,000s)	8.60	1.27
GraduationRate	90.47	9.77
Enrollment	7254	6051
Free Lunch (%)	25.41	25.34
Non-English (%)	13.4	15.6
Sample Size	68,288	
% Central City	38	

SOURCE: Based on data from Paramita Dhar's Ph.D dissertation titled *Three Essays on Urban Economics*, Univ. of Conn. 2011.

of a school district boundary.

Our key measure of district school quality is the average 8th grade mathematics test score, which is standardized for the state by year. We use the 8th grade test score to maintain uniformity across all houses in most towns, since there is typically only one middle school/junior high in Connecticut school districts. In Connecticut, the vast majority of public school students residing in a school district attend schools in that district. Also, according to the *American Community Survey*,

over 90% of all students in Connecticut attend public schools.

Since we are looking across school district boundaries, which normally correspond to town boundaries in Connecticut, property taxes and per pupil spending will differ on either side of the boundary. Our sample also contains some consolidated school districts, where two or more small towns combine resources to serve students from those towns in a single middle school and a single high school. Towns in these “regional districts” have their own property tax rates but common 8th grade test scores and per pupil spending. Beyond these key school district attributes, we also use the individual house characteristics and a large number of fixed effects to control for differences in market circumstances.

The second table compares the key results from a traditional OLS (ordinary least-squares) regression, controlling for observed neighborhood quality, to the results from regressions using a traditional boundary fixed effects model (following Sandy Black) and our DID model. The resulting estimate of the effect of test scores on property values for the OLS regression is 0.082, or an 8.2 percentage point effect of a one standard deviation change in test scores. The estimate increases to 0.093 with the inclusion of Black’s boundary fixed effects, while our DID approach reduces the estimated influence of test scores to 0.065. The estimated property tax effect in our model is -0.559 (or 56 percent of the difference in property taxes are capitalized into property values), compared to OLS and boundary fixed effects estimates of -0.655 and -0.312. The estimated school expenditure effect is 0.058 using the DID approach, as opposed to 0.107 and 0.036 for the OLS and boundary fixed effect estimates.

So what is the bottom-line effect of school quality on home values? For a Connecticut home worth \$250,000, the OLS model suggests that a one-standard deviation increase in test scores would raise the home’s value by about \$20,500. The DID approach

suggests a slightly smaller, \$16,250 increase instead. The trouble with the OLS estimate is that the \$20,500 change partly reflects the effects of other community attributes. The predicted \$16,250 impact, on the other hand, is a more accurate estimate of the effect of school quality alone.

SCHOOL QUALITY, TAX AND SPENDING CAPITALIZATION ESTIMATES

	OLS	Boundary Fixed Effects	Difference in Differences
Test Scores	.082	.093	.065
Taxes	-.655	-.312	-.559
Education Spending	.107	.036	.058
Size	65,571	65,325	65,325

SOURCE: Based on data from Paramita Dhar's Ph.D dissertation titled *Three Essays on Urban Economics*, Univ. of Conn. 2011.

SUMMING UP

Many studies have confirmed that school quality is an important determinant of home values. Unfortunately, separating the effects of school quality and neighborhood quality has proven difficult. The problem was partially resolved in an important study by Sandra Black, but her use of data from school attendance zones raised other concerns related to changes in attendance zone boundaries or the lack of historical information about these boundaries. This analysis, based on information about home sales near the more permanent boundaries of school districts in Connecticut towns, confirms that school quality effects on property values are indeed significant. However the analysis shows that previous estimates of the size of this effect are probably too large, not by 30-40% as Black had found, but by closer to 25%. More accurate estimates of this effect are important in evaluating both the potential benefits of local education and households’ willingness-to-pay for better educational performance.

Paramita Dhar received her Ph.D in Economics from UConn in 2011 and is now Assistant Professor of Economics at CCSU.

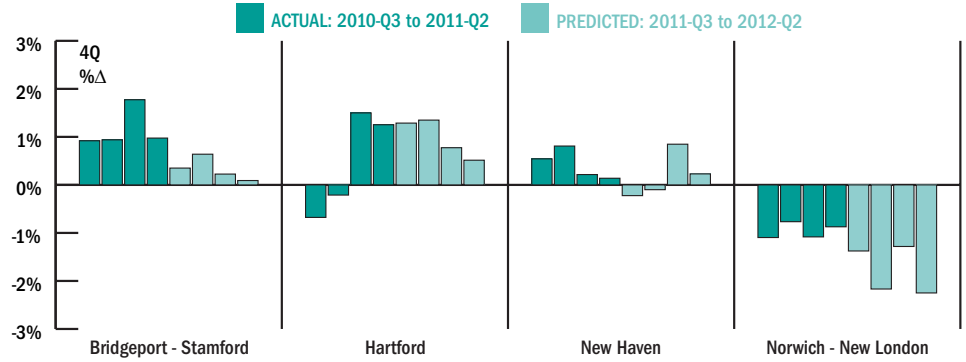
LABOR MARKET OUTLOOK

Forecasts for Key Labor Market Areas

BY STEVEN P. LANZA

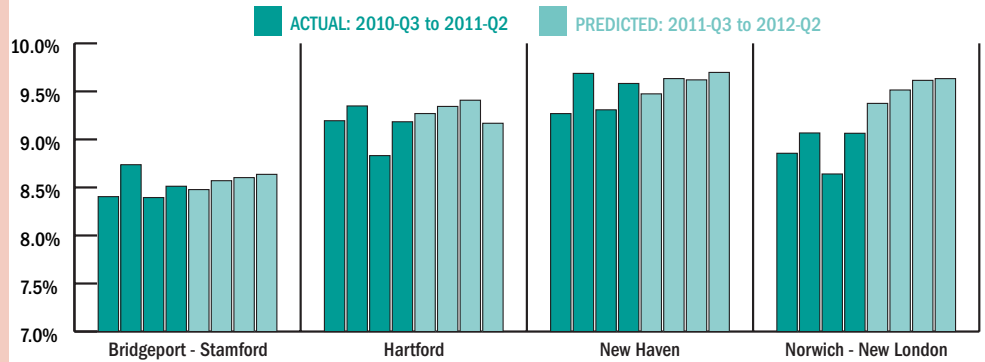
JOB S

Expect nonfarm job growth to slow across regions. Hartford and Bridgeport-Stamford have the best chances of posting four-quarter gains over the forecast period, but any increases will be weaker than the regions' long-run average growth rates. Job losses will, however, likely continue and even accelerate in the Norwich-New London area. New Haven is something of a mixed bag. A rebound will follow an initial slump, not because 2012-Q1 will be strong; 2010-Q1 was just plain weak.



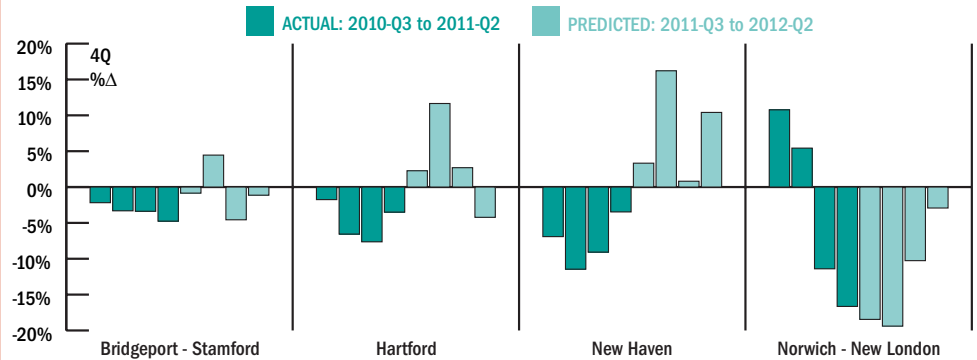
UNEMPLOYMENT RATE

Jobless rates will keep rising in the major Connecticut labor market areas as employment growth fails to keep pace with the natural increase in the labor force. Unemployment will be lowest in Bridgeport-Stamford and in Hartford, the two areas with the best job prospects in coming quarters. In the slower-going New Haven and Norwich-New London areas, the jobless rate will make a run at record highs for the current business cycle.



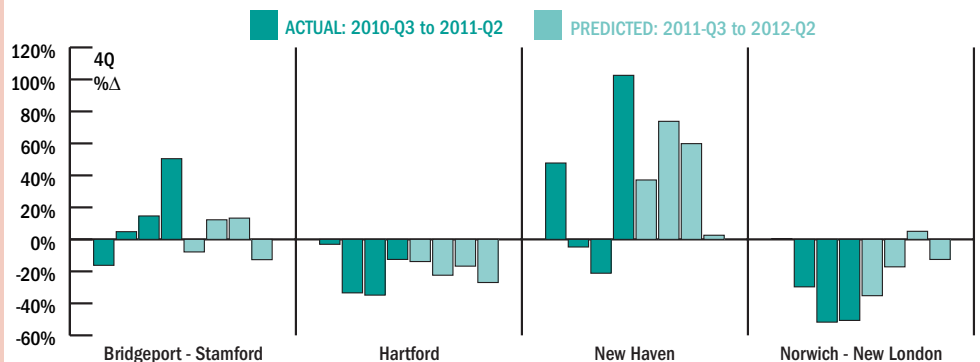
HOUSING PRICES

Connecticut constant-quality home prices may be poised to firm up, particularly if other economic indicators beat expectations. Prices in the Hartford market have already started to rise a bit in the last two quarters—an improvement that should translate into four-quarter gains in coming periods. New Haven and Stamford could register similar advances, and even the struggling Norwich-New London area may see price declines begin to ease.



HOUSING PERMITS

And there are some signs of nascent stability in permits for new home construction. From admittedly diminished bases, permits jumped 50% in Stamford while doubling in New Haven for the four quarters ending 2011-Q2. New homes should keep sprouting up in these areas even, in New Haven's case, after discounting for the unusual size of the quarter's gain. New London could see its decline in permit activity start to ease, but Hartford seems stuck in reverse.



LABOR MARKET DATA

2011-Q2 Summary Statistics

Connecticut's economy has made limited progress. In the four quarters ending 2011-Q2, jobs inched up 1% overall, thanks largely to gains in education & health care and business services. But housing prices, permits and sales are still in decline. Earnings are up, but workers are logging more hours for lower wages.

Labor Market Area	LABOR FORCE		UNEMPLOYMENT RATE		NONFARM JOBS		CONSTRUCTION JOBS		MANUFACTURING		TTU* JOBS	
	2011-Q2 (000)	% Change year ago	2011-Q2 (%)	2010-Q2 (%)	2011-Q2 (000)	% Change year ago	2011-Q2 (000)	% Change year ago	2011-Q2 (000)	% Change year ago	2011-Q2 (000)	% Change year ago
Bridgeport - Stamford	479.1	-0.5	8.4	8.3	402.3	0.8	10.2	-10.0	35.3	-1.3	71.8	2.3
Danbury	91.1	-0.9	7.3	7.5	65.7	0.8	-	-	-	-	14.6	0.9
Enfield	50.6	-0.5	9.1	9.1	44.8	1.0	-	-	-	-	-	-
Hartford	598.1	-0.4	9.1	9.1	540.7	1.1	17.3	-0.2	56.5	0.2	86.0	1.2
New Haven	315.0	-0.8	9.5	9.2	266.1	-0.1	8.3	-4.9	26.0	-2.1	48.8	2.4
Norwich - New London	151.3	-2.1	8.9	8.7	129.3	-1.1	3.4	-4.7	14.6	-0.2	23.1	2.5
Torrington	55.4	-0.1	8.4	8.8	35.7	1.0	-	-	-	-	-	-
Waterbury	102.5	-0.3	11.9	11.9	63.5	1.6	2.0	-4.7	7.5	-0.4	12.5	3.3
Willimantic-Danielson	58.9	-1.0	10.3	10.5	35.7	0.6	-	-	-	-	-	-
STATEWIDE	1889.1	-0.6	9.1	9.0	1631.5	1.0	50.7	-1.2	167.4	1.1	291.3	1.0

Labor Market Area	INFORMATION JOBS		FINANCE JOBS		BUSINESS SERVICES		EDUCATION & HEALTH		LEISURE & HOSP.		GOVERNMENT JOBS	
	2011-Q2 (000)	% Change year ago	2011-Q2 (000)	% Change year ago	2011-Q2 (000)	% Change year ago	2011-Q2 (000)	% Change year ago	2011-Q2 (000)	% Change year ago	2011-Q2 (000)	% Change year ago
Bridgeport - Stamford	10.7	-2.7	43.0	0.7	65.0	1.2	68.9	5.0	35.7	3.5	45.5	-3.5
Danbury	-	-	-	-	7.4	0.9	-	-	5.6	4.3	9.2	6.6
Enfield	-	-	-	-	-	-	-	-	-	-	-	-
Hartford	11.0	0.3	60.7	-1.0	60.5	1.6	98.5	1.8	43.1	3.6	87.1	2.0
New Haven	4.8	-8.9	12.2	-0.3	26.4	5.2	74.7	1.9	20.6	-4.9	34.0	-3.8
Norwich - New London	1.5	-6.3	3.1	0.0	9.3	-0.4	20.6	2.1	14.5	-1.4	35.8	-5.0
Torrington	-	-	-	-	-	-	-	-	-	-	-	-
Waterbury	0.7	0.0	2.0	3.4	4.4	-5.7	16.8	5.9	5.2	-1.3	10.1	0.0
Willimantic-Danielson	-	-	-	-	-	-	-	-	-	-	-	-
STATEWIDE	31.6	-0.3	134.0	-0.4	196.7	2.5	314.8	2.7	137.8	1.1	246.1	-1.1

Labor Market Area	HOUSING PRICES		HOUSING PERMITS		HOME SALES		AVG. WKLY. HOURS		AVG. WKLY. EARNINGS		AVG. HRLY. EARNINGS	
	2011-Q2 (\$000)	% Change year ago	2011-Q2	% Change year ago	2011-Q2	% Change year ago	2011-Q2	% Change year ago	2011-Q2 (\$)	% Change year ago	2011-Q2 (\$)	% Change year ago
Bridgeport - Stamford	485.9	-4.8	204	44.7	894	-45.3	33.6	1.0	1043.7	2.9	31.0	1.9
Danbury	290.7	1.2	45	-4.3	104	-55.9	35.5	0.3	965.0	0.5	27.2	0.2
Enfield	168.2	-7.0	28	-30.0	81	-41.3	-	-	-	-	-	-
Hartford	282.5	-3.5	265	-12.0	724	-59.2	35.4	0.4	1045.7	1.6	29.5	1.2
New Haven	205.6	-3.5	146	-72.1	282	-48.8	33.1	1.6	884.8	4.2	26.7	2.5
Norwich - New London	199.2	-16.6	57	-49.6	77	-58.6	30.5	-2.6	690.9	2.2	22.7	4.9
Torrington	211.8	7.4	11	-21.4	19	-78.4	-	-	-	-	-	-
Waterbury	144.5	-6.8	17	-45.2	85	-26.7	34.7	4.4	807.4	6.7	23.2	2.2
Willimantic-Danielson	129.3	-	35	25.0	16	-27.3	-	-	-	-	-	-
STATEWIDE	327.2	-4.4	808	-34.8	3260	-31.3	33.9	1.5	952.5	1.1	28.1	-0.4

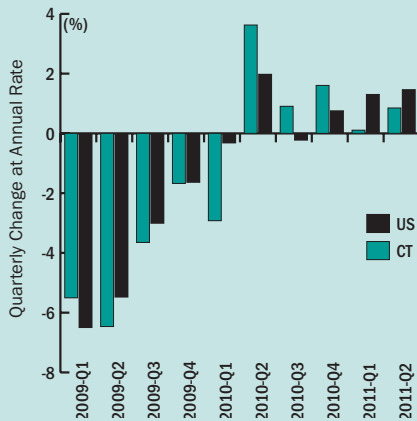
*Trade, Transaction and Utilities

THE QUARTERLY FORECAST

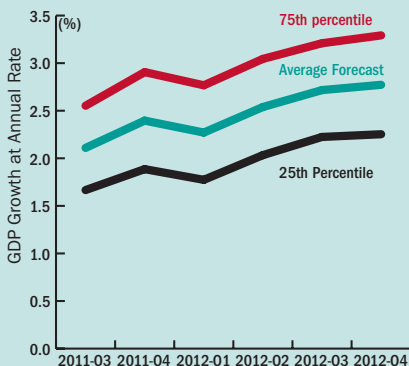
Less of the Same

BY STEVEN P. LANZA

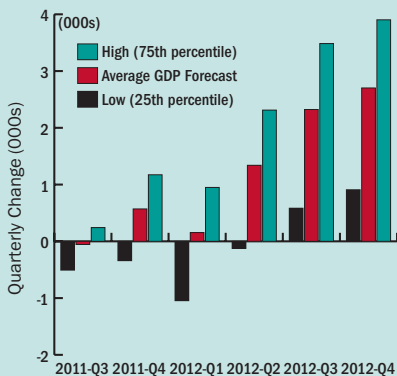
JOB GROWTH DECELERATES



GDP GROWTH OUTLOOK: IMPROVING BUT STILL SUB-PAR



IF GDP PICKS UP, CONNECTICUT JOBS WILL TOO



Connecticut nonfarm jobs were short on pizzazz in 2011-Q2, the second such quarter in a row (first graph). By itself, slow growth isn't surprising, considering the recent downward revision of U.S. GDP and other drags on economic performance. But even the much-denigrated U.S. job count fared better on a relative basis. Unfortunately for Connecticut, the outlook suggests less of the same.

Economists have lowered their expectations for 2011-Q3 growth downward to 2.1%, from an average of 3.4% just this past spring, according to the latest (August 2011) *Wall Street Journal* survey of nearly 50 professional forecasters. These forecasters anticipate that GDP growth will strengthen in coming quarters but still remain well below 3%—the average growth rate for the U.S. economy over the long run (second graph).

Their pessimism is understandable. The latest revisions to GDP numbers showed that the recession was more severe and the recovery more tepid than first realized. Problems across the pond continue to fester with no firm resolution of the European sovereign debt crisis. And violence has even broken out on the streets of stolid Great Britain. Extremism in America has largely been limited to right-wing intransigence on lifting the federal debt ceiling, but that was enough to prompt S&P to lower the credit rating on U.S. financial obligations from AAA to AA+. The stock market summarily tanked.

What does this outlook imply about job growth IN Connecticut for the rest of 2011 and beyond? Based on the historical relationship between U.S. GDP and Connecticut job growth, the state can expect to see jobs stall in the next few quarters before picking up

some steam later next year. At best, Connecticut will add only 2,700 jobs quarterly—barely matching the state's long run average growth rate—and that's not until the momentum actually kicks in (third graph). The net job increase between 2011-Q3 and 2012-Q3 would total less than 5,000.

But there are some bright spots: oil prices are in retreat, banks are again lending to individuals and to businesses. The state finally has a deal with public sector employees that will avert layoffs and Connecticut's history with hurricanes suggests that job growth won't be upended by Irene's wake. So the economy could beat expectations. The more optimistic economists of the group, those at the upper quartile, think the U.S. economy will grow about a half-point faster than the survey average. In the four quarters ending 2012-Q3, the state's job count would stand 8,000 higher.

The economic risks to the forecast are, however, to the downside. With U.S. growth so slow, one big shock could be enough to push GDP into negative territory. And policymakers have little stomach for a renewed round of fiscal or monetary stimulus. Respondents to the *WSJ* survey put the country's chances of entering a dreaded double dip in the next year at nearly 30%.

None of those polled predicted that the economy would actually shrink, but the more pessimistic of forecasters, those at the lower quartile, see GDP growth lagging about a half-point below the forecast mean—enough to send Connecticut into economic limbo. The state would lose hundreds of jobs quarterly before posting some meager gains late next year. And Connecticut would be left with about 1,000 fewer jobs in 2012-Q3 than in 2011-Q3.

A FORWARD LOOK (continued from page 16)

statistical difference among 31 states, including Connecticut, in the severity of this gap. In fact, scores among lower income, minority, and non-English speaking students in Connecticut are among the highest in the nation and show some of the fastest gains. What does make our achievement gap difficult to close is that our top students outscore their counterparts across the nation. This is a positive thing, but it also challenges us to do more to help lower-scoring students make even greater gains.

Let me propose another way to begin to tackle these and other challenges: Let's upgrade the status of the teaching profession.

Teachers know what's needed to take on the challenges we face. Finland, for example, reduced its achievement gap through a comprehensive approach that included a major upgrade of the teaching profession. Finnish teachers spend nearly half their in-school time in professional development and collaborative planning. Our system, in contrast, too often struggles to attract and retain high-quality teachers.

In Connecticut, urban school districts have become "training grounds" and "feeder systems" for advantaged, suburban schools—just ask any urban school personnel director. An estimated 20% of urban teachers leave every

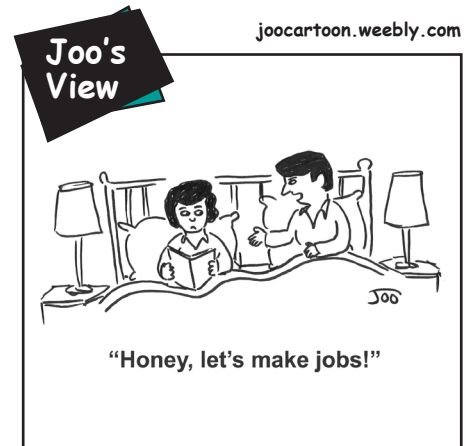
year, and the consequences are serious. Nationally, the economic impact of high teacher turnover reaches \$7.34 billion annually. The best-performing nations recruit 100% of their teachers from the top third of college graduates, the U.S. recruits only 23% from this top tier. In urban centers that share hovers around 14%.

Our country and our state must change how they view the teaching profession. Part of a dwindling middle class, teachers are locked into wage freezes without step advancements, and asked to carry an ever-increasing portion of their health insurance costs. There was a time when average teacher salaries in Connecticut were first in the nation—commensurate with our state's wealth ranking. With average salaries slipping to fourth place, this is no longer the case. And our ranking could drop even further. Last year 38 of 70 districts that negotiated contracts froze wages and suspended step advancement for newer teachers. Salaries in New York and Massachusetts, by comparison, continue to reflect modest growth.

The number-one recommendation of a recent McGraw-Hill Research Foundation study on the condition of teaching is: "Make a concerted effort to raise the status of the teaching profession in the U.S." In other nations the

norm is to provide teachers with continuous feedback, time to collaborate, support, mentoring, and professional respect. In an era of rising standards and increased workloads, we owe our own teachers nothing less.

Just as each school year brings new hope and challenges for students and teachers, there's new opportunity for policymakers. Governor Dannel P. Malloy has convened a school funding task force to develop a more predictable, reliable, and equitable funding system—a task force on which I'm proud to serve. A new funding system, coupled with an upgrade of the teaching profession, would put our state on firmer ground to provide all children with the best teachers and the most formidable tools they need to succeed. We have all waited long enough.



THE CONNECTICUT TRAVEL AND TOURISM INDEX

The overall index increased 2.9% in 2011-Q2 compared with the same quarter the year before. The index consists of room occupancy, slot machine revenues, attendance at six major tourist attractions, and traffic on five tourist roads.

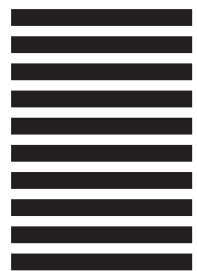
Room Occupancy	▲ +11.6%
Slot Machine Revenue	▼ -1.3%
Attendance	▲ +4.3%
Traffic	▼ -3.0%
Overall	▲ +2.9%

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A FORWARD LOOK

Upgrade The Teaching Profession

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CONNECTICUT EDUCATION ASSOCIATION



A new school year begins, and teachers are again asked to be the miracle workers they truly are. As a former teacher, special education counselor, CEA's political coordinator, policy director, and now the newly appointed executive director, I know firsthand that the start of a new school year is an unforgettable experience. Each school year brings a new set of challenges, but it also offers teachers renewed hope. Having this annual opportunity, unique to the education field, helps make teaching so special and rewarding.

Recently, I visited the Mark Twain House in Hartford. It wasn't my first visit, but what struck me the most—given my new role at CEA—was a quote that remains truer today than Samuel Clemens might have imagined. He said, "Out of the public schools, grows the greatness of a nation."

Education is essential to democracy. But education, powered by the engine of public schools, is also a vehicle that can move our wobbly economy forward, lowering unemployment and boosting worker earnings. This June, when the U.S. unemployment rate averaged 9.2%, unemployment for those with a Master's degree was only 3.4%. For those without a high school diploma, by contrast, the jobless rate exceeded 14%.

This link between economic performance and education is widely acknowledged. Recently, the state legislature considered a high school reform plan that would have revamped curriculum requirements to ensure that students are workforce or college ready. Unfortunately, budget constraints pushed the plan to the back burner. And while we wait to implement high school reform, we also debate another key challenge: the achievement gap.

Connecticut, like the rest of the nation, faces a gap in achievement levels between better and less-advantaged students. But cross-state math and reading scores show that there is no

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