

A Small State With Big Gaps... Are They Getting Even Bigger?

By Dennis Heffley

Al Gore and others describe the gulf between the haves and have-nots of our Internet era as the digital divide. The term refers to knowledge and experience differences, differences that can increase socioeconomic disparities. Economists will continue to debate whether the information revolution is a social equalizer and source of new rewards for anyone with a clever idea, or a cause of greater inequality. But recent changes in Connecticut town-level data indicate that some inequalities, as well as public efforts to redress them, are on the rise.

An unprecedented expansion, rapid productivity gains, low inflation, the explosion of the Internet and information-based technologies—it all seems a bit too good to be true. But maybe all this rosy economic news masks some problems that persist or are getting even worse. Critics, for example, point to growing inequalities in educational access, job opportunities, income, and wealth. Some New Economy enthusiasts share these concerns, but until Census 2000 long-forms are tallied and the results released, we can't be sure that the Information Age has narrowed or widened the economic and social gaps between individuals or households. However, annual town-level data and estimates, compiled by state agencies and groups like the Connecticut Policy and Economic Council, already reveal some interesting changes in the inequalities that separate communities.

"Two Connecticut" or 169?

Connecticut is small but diverse. In population, our 169 towns range from 686 residents in rural Union to 136,764 in Bridgeport. The state's smallest town in area, Derby, is only 5.3 square miles, about one-twelfth the size of New Milford, Connecticut's largest town. Because of these differences in population and area, population density ranges from 25 persons per square mile in Union to almost 8,600 in Bridgeport. But town differences are not just a matter of political boundaries and where folks settle. Of more interest and importance are the economic and social disparities between towns and how these differences have changed.

Economic well-being is complex—certainly more than just take-home pay. Property wealth, taxes, public transfers, education and other public services all affect the well-being of a town's residents. So, to see if disparities among Connecticut's towns have increased or not, we need to look at changes in a variety of factors.

The table to the right shows, for a number of relevant variables, the average of the "bottom-10" towns, the median (85th ranked) town, and the average of the "top-10" towns. Averaging values at the extremes, rather than

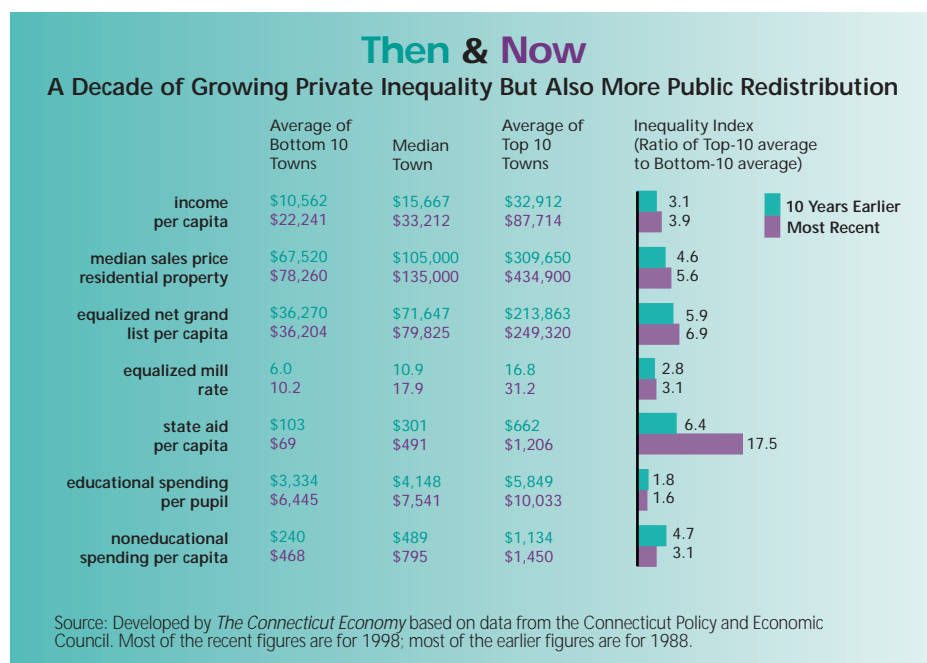
simply comparing the lowest and highest figures, reduces the influence of "outliers" at each end of the spectrum and gives a more stable measure of inequality—the ratio of the average for the "top-10" towns to the average for the "bottom-10" towns. This ratio, shown by the bars on the right side of the table below, allows us to see if inequality has increased or decreased over time. For each item, recent figures (mostly 1998) are compared with figures from a decade earlier. The economy was relatively healthy at both points, so changes should not just reflect business cycle differences.

Private Inequalities and Public Remedies

A decade ago, income per capita in the ten richest Connecticut towns averaged 3.1 times the average figure for the state's ten poorest towns. By 1998, the ratio had increased to 3.9—\$87,714 versus \$22,241. Why the increase? The top-10 average grew 167% over the decade, compared to a 111% increase in the bottom-10 average. Even at the median, per capita income growth (112%) was about the same as for the bottom-10.

Inequalities in property wealth are also on the rise. Whether we use the median sales price of residential property or a more comprehensive measure of property wealth—the equalized net grand list per capita—the top-10/bottom-10 ratio is higher now than ten years ago. Since housing costs are the main source of local price differences (see page 7), the median residential sales price also could serve as a cost-of-living measure. Thus, some of the growing inequalities in income and wealth are neutralized by sharper differences in housing costs—a point not lost on renters or recent homebuyers in Fairfield County.

Besides measuring wealth, property values determine how heavily a town must tax its residents to raise money for schools and other services. Property-poor towns often must impose high tax rates unless other revenue sources exist. The best available measure of property taxes per \$1,000 of market valued is the equalized mill rate. By 1998, equalized mill rates in the ten towns with the lowest property taxes averaged 10.2, up 70% from the 1988 figure of 6.0. However, the growth in the average equalized mill rate among the top-10 taxed towns was even larger, from 16.8 to 31.2, or almost 86%. Equalized mill rates can rise when taxes go up or when property values fall, so at least some of the rate increases may reflect the erosion of property values in the early 1990s. Whatever its source, though, the siz-



able increase in effective property tax rates contrasts sharply with reductions in Connecticut's sales tax rate and effective state income tax rates since the early 1990s.

Property taxes are not the only revenue source. Despite their high property tax rates, poor towns also rely heavily on state aid. And the range of state aid per capita has gotten bigger. Some of the wealthiest towns received less state aid per capita in 1998 than they did ten years earlier. Some of the poorest towns got considerably more: Waterbury was up 40%; Bridgeport, 72%; Hartford, 79%; New Haven, 90%; and New London, 160%. The distribution of state aid has become more favorable to poorer towns, offsetting some of the greater inequality in the distribution of private income and property wealth.

And what about public services? Has the redistribution of state aid allowed poorer towns to hike public spending more rapidly than their wealthier neighbors? The table indicates some movement in this direction. Within the bottom-10 group, school spending per pupil rose 93% over the 10-year period, from an average of \$3,334 to \$6,445. Growth within the top-10 group was 72%.

Other evidence of redistribution in educational resources are the upward shifts in the school spending rankings of some of the state's poorest towns: from 31st to 5th in Hartford, 42nd to 30th in New London, 51st to 38th in Waterbury, 85th to 24th in New Haven, and 119th to 19th in Windham. Similarly, even public outlays on non-educational services have become more evenly distributed, further compensating for some of the greater inequality in private income and property.

Converging or Diverging?

Many factors affect economic well-being, but even the few examined here indicate that the last ten years have brought some changes. Incomes and property values grew faster in wealthier communities than in poorer ones, widening the economic gaps between Connecticut towns. Effective property tax rates increased sharply throughout the state, but grew fastest and remain highest in some of the state's poorest towns, discouraging economic development and further aggravating income and wealth inequalities.

Not all of the changes, however, point to greater divergence in economic well-being. Living costs increased more rapidly in affluent towns, primarily due to faster growing housing prices in those areas. State-aid per capita increased for poorer towns and decreased for wealthier ones, enabling more rapid growth in both educational and noneducational public services in low-income areas. But, whether housing market adjustments and publicly financed redistribution of resources can adequately compensate for increases in the inequality of private resources is a critical question for Connecticut and the New Economy.

The State Income Tax By the Numbers

By William A. McEachern

Since 2000 Census data will not become available for more than a year, state income tax figures remain the best source of information about economic activity across towns and over time. Fueled by a bull market that seemingly wouldn't quit and a state economy then in its sixth year of expansion, Connecticut income tax receipts roared ahead in 1998. Higher-income taxpayers continued to shoulder an ever-increasing share of the total—the top 0.2% of filers paid more state income taxes than the bottom 70% put together.

Based on data just released for 1998, Connecticut's income tax continued to rack up the revenue. The number of income tax returns filed by year-round residents increased by 2.1% and adjusted gross income jumped by 9.7%. And despite policy changes that eroded the income tax base, tax receipts still climbed 8.1%.

Bottom Half, Top Half

The median adjusted gross income (AGI) for the 1.33 million Connecticut filers in 1998 was about \$40,000, the same as in 1997. Those filers who reported an AGI below the median (i.e., half the 1.33 million filers) paid an average of \$206 in Connecticut income taxes in 1998, or about \$4 per week, a 10% drop from their 1997 tax bill. Their state income tax in 1998 averaged 1.0% of their AGI, down from 1.1% in 1997. Taxes paid by the bottom half fell because of expanded tax rate cuts at low levels of income and because the property-tax credit was increased.

Filers below the median as a group earned 14.6% of the AGI reported statewide, but paid only 4.9% of the \$2.8 billion collected in 1998, down from 5.8% in 1997. So their share of income tax payments in 1998 was only one-third their share of income receipts.

Filers reporting an AGI above the median paid an average of \$4,122 in 1998, or about \$80 per week, up from \$68 per week in 1997. Their state income tax amounted to 3.3% of their AGI, up from 3.2% in 1997. Filers above the median AGI paid 95.1% of the state income tax total in 1998, up from 94.2% in 1997.

Filers with an AGI of at least \$100,000 accounted for 12.8% of all filers and 54.8% of all AGI but contributed 64.5% of all state income taxes in 1998. Thus, the top eighth of filers based on AGI paid nearly two-thirds of all Connecticut income taxes.

Only 1 in 570 Connecticut income tax filers, or 0.2%, reported an AGI of at least \$2,000,000 in 1998. That group paid \$499.1 million in state income taxes, an amount that exceeded the total paid by the bottom 70% of all filers put together. In terms of the number of filers, the 2,330 filers with an AGI of at least \$2,000,000 paid more than the 928,000 filers reporting an AGI of \$60,000 or less.

Income Tax History: Progressively Higher

Between 1992, the first full year of the state income tax, and 1998, the number of Connecticut filers increased by 10.9%, total AGI rose 50.8%, and income tax receipts climbed 48.2%. The average tax per filer increased from \$1,593 to \$2,128, or 33.4%.

The median AGI climbed from about \$35,000 in 1992 to \$40,000 in 1998, or 14.3%. Among filers with an AGI below the median, the average AGI increased from \$19,231 in 1992 to \$20,722 in 1998, a growth of 7.8%. The average tax of filers below the median AGI fell from \$244, or 1.3% of AGI, in 1992, to \$206, or 1.0% of AGI, in 1998. Among filers below the median, the average tax declined by 15.6% between 1992 and 1998.

Among filers with an AGI above the median, the average AGI jumped from \$87,232 in 1992 to \$125,983 in 1998, for a growth of 44.4%. The tax bite on filers above the median AGI went from \$2,940, or 3.4% of AGI, in 1992 to