The New York Times

Beneath Connecticut's Image of Affluence, Deep Fiscal Pain

By PETER APPLEBOME

Published: June 29, 2011

Think of Connecticut, and what comes to mind are the swells of Greenwich, the exurban good life of Litchfield County, the land of New England steady habits. By some measures America's richest state, it still evokes images of Yankee stability and enterprise relatively immune to the nation's economic and political tumult.

The reality is different. For the past two decades, the state has finished dead last nationally in creating new jobs. A recent forecast by an industrial consulting firm, IHS Global Insight, projected it would also finish last in job creation over the next five years.

Connecticut's finances are among the most troubled in the nation: it is last or close to last in financing pension obligations and retaining reserves for emergencies, and near the top in per-capita debt. And on Tuesday, Moody's lowered its outlook for the state's bond rating to negative from stable.

Despite already passing the largest package of tax increases in state history, legislators must return to Hartford on Thursday after an agreement with the state employee unions imploded. But the unbalanced budget is hardly the only problem. Connecticut, despite its affluent image and past successes, is facing a startling series of economic and fiscal challenges that it now has no option but to confront.

"No state had more resources and did less with them over the past 20 years," said William E. Curry Jr., a former Democratic candidate for governor who now writes about state and national politics. "Yeah, we wiped out in finance and real estate, but the real problem was our own poor choices.

"We tried to import jobs you must grow yourself. We tried to save cities with ballparks and convention centers. We borrowed like shopaholics, shortchanged pension funds and barely showed up for collective bargaining."

Gov. Dannel P. Malloy, a Democrat elected last year, recommended this week that the state eliminate 6,500 jobs — 5,500 through layoffs and the rest by attrition — to help close a projected $700 million deficit in the coming year. The hole was created last week when unions rejected a plan, negotiated by their leaders, that called for wage freezes for two years and a no-layoff guarantee for four years, as well as concessions on pensions and health care. Though 57 percent of union members approved the plan, it failed because collective bargaining rules required that at least 14 of the 15 unions ratify it and that the approving unions represent 80 percent of workers.

The stakes are enormous for Mr. Malloy, who has built a Connecticut-esque image as a rare governor charting a balanced path amid anti-union sentiment; for Democrats who control the legislature and have close ties to the unions; and for the unions themselves, which infuriated many allies by turning down a deal seen as far better than those being offered in other states.

After approving large tax increases this spring, mostly on sales and services, Mr. Malloy has said he would reject any additional ones. And though he was elected with strong union support, he said Wednesday that he now wanted to impose benefit cuts on the unions and would ask the General Assembly to pass legislation changing the way employees' pensions are calculated, reducing their sick days and freezing longevity payments.

But, according to many experts, the stakes are highest for the state itself. After two decades of stagnation, they say, the state cannot afford the short-term torpedo of mass layoffs at a time of high joblessness; the long-term hit of chaotic, ineffectual state government; or the old option of papering over liabilities with gimmicks and debt.

Fred V. Carstensen, director of the Connecticut Center for Economic Analysis at the University of Connecticut, said the state faced two major, interrelated problems.

The first is fiscal. Due in large part to a 20-year labor agreement negotiated by Gov. John G. Rowland in 1997, Connecticut has been locked into an increasingly untenable relationship with its employees. Under that contract, the state is obligated to pay 10 times as much for employee pension costs as workers do — the second-highest ratio among the 10 largest state pension systems, after Florida. But it has not been paying what it owes into the pension system. A 2010 report said Connecticut had the second-highest unfunded pension liability per capita in the country, after Alaska, at more than $4,500 per resident.

The second problem is an abysmal level of job creation and economic growth that has left the state with fewer workers employed now than in 1987. Professor Carstensen cited numerous reasons: an aging population; ineffective economic development strategies and bureaucracies; a weak community- and technical-college system unable to respond to the specific needs of businesses; excessive dependence on large companies, which tend to be the worst job producers; and inconsistent policies on corporate tax credits.

Beyond the numbers is a chasm between the state's affluent suburbs and its poor cities, particularly Bridgeport and Hartford, giving Connecticut the nation's worst academic achievement gap between poor students and their wealthier peers.

Everyone agrees that the state has been hurt by the long-term decline of traditional manufacturing jobs, but there is plenty of debate over who is responsible for the distress. Democrats blame the Republican governors, Mr. Rowland and M. Jodi Rell, who were in office from 1995 until this year, saying neither showed serious interest in enacting meaningful economic development programs. They say Mr. Rowland in particular was partial to splashy, piecemeal projects like the struggling Adriaen's Landing, which was supposed to revive Hartford, and they also blame him for the 20-year deal with the unions.

Republicans, however, say Democrats — who had vetoproof control of the legislature for much of Mr. Rowland's and Ms. Rell's tenures — are responsible for the inflated benefits for unionized workers, who have been consistent Democratic supporters. Unions might also point to what they see as a failure to tax the state's ultra-wealthy adequately.

Professor Carstensen said the deal the unions rejected last week could have addressed both economic and budgetary issues by avoiding the shock of mass layoffs and attacking structural problems in state government, particularly unfunded liabilities in retiree health care costs and pensions.

Instead, the state seems to have two options. Union leaders declined on Monday to ratify their members' vote against the agreement, indicating that some would like to salvage it, probably through a revote or changes to ratification rules. For now, Mr. Malloy and the legislature seem intent on pursuing the alternative of mass layoffs and program cuts: precisely the path the governor said he wanted to avoid.