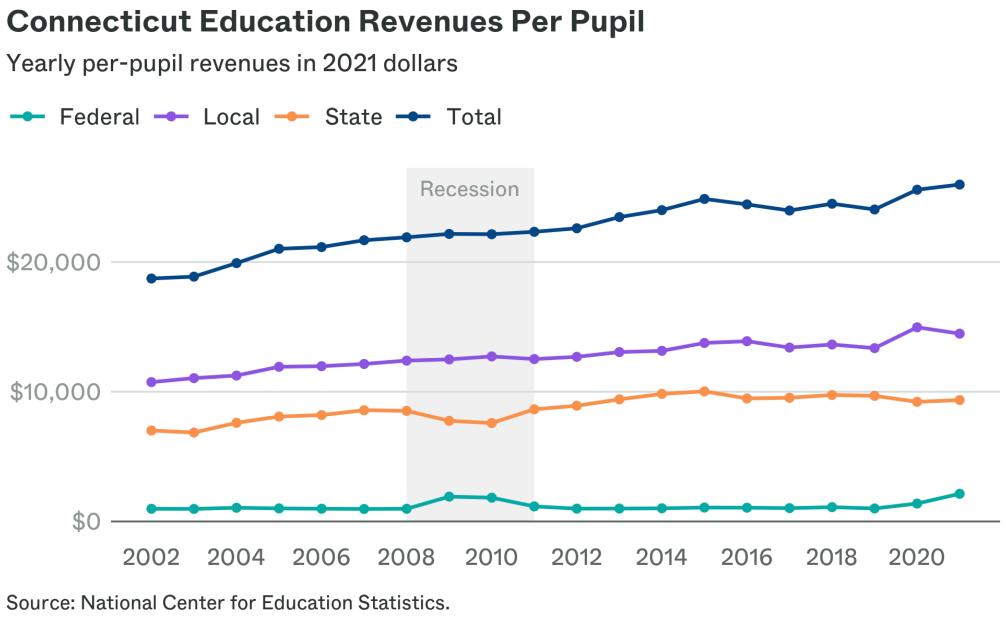
CONNECTICUT

Lessons from the Great Recession

1. How did the Great Recession affect education spending?

The Great Recession provides some indication of how Connecticut's education budget may fare during a future recession. Between 2008 and 2010, Connecticut reduced per-pupil state-level education spending by roughly $1,000 (adjusted for inflation), equivalent to wiping out a full month of educational spending for every student. This was offset, however, by roughly equivalent increases in federal revenues through the American Recovery and Reinvestment Act (ARRA).

By 2011, Connecticut was one of only 16 states where inflation-adjusted, per-student spending was higher than in 2008.[1] Education spending continued to increase in real terms until 2015, despite increasing financial instability at the state level. An analysis of state spending using data from the National Association of State Budget Officers (NASBO)[2] shows that Connecticut held education spending steady during the recession and increased spending on Medicaid and other welfare assistance programs. The "Other" category, capturing all other government spending including debt service, administration, and public safety, saw the sharpest decline and a slower recovery post-recession. While this analysis does not capture how funds were spent, it does indicate that Connecticut has historically prioritized education funding when facing fiscal constraints.

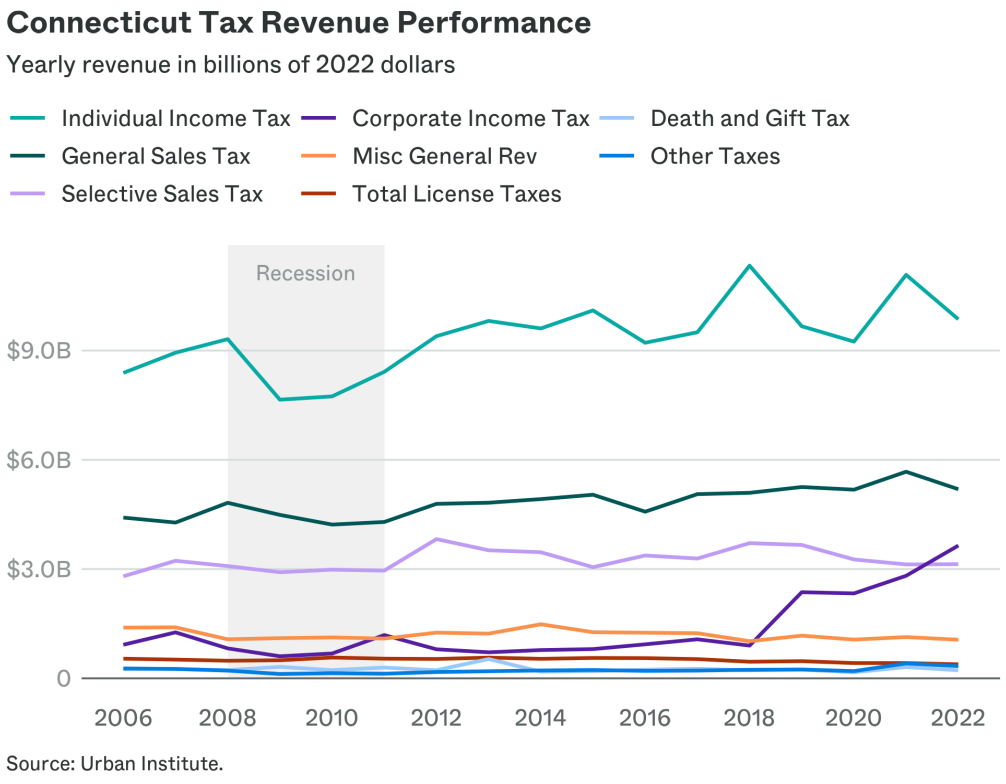


Source: National Center for Education Statistics.

2. How did the state's revenue base perform during the Great Recession?

In the immediate aftermath of the Great Recession, Connecticut saw a sharp decrease in income tax revenue and a smaller decline in general sales tax revenue, the two largest sources of state tax dollars. Income tax revenue began to recover by 2010 and had surpassed pre-recession levels by 2012. Sales taxes took longer to begin recovering and only fully recovered by 2013. Total revenue recovery was aided by significant tax changes in 2011 and 2012, including an increase in the top marginal income tax rate and increased selective sales and corporate taxes.[3] Connecticut's tax revenues depend especially on high-income earners—2.5 percent of tax filers are responsible for 41 percent of income tax receipts—so even small changes to high-income tax rates can generate significant revenue.[4]

It took roughly 4.5 years for Connecticut's tax revenues to fully recover from the Great Recession, matching the national average state recovery time.[5] A future recession may be driven by different economic factors. But this analysis suggests that Connecticut's tax policy responsiveness was key to its revenue recovery, and that recovery time may depend on the impact of a recession on high-income earners.[6]



Source: Urban Institute.

Notes

1. Phil Oliff and Michael Leachman, *New School Year Brings Steep Cuts in State Funding for Schools* (Center on Budget and Policy Priorities, October 7, 2011), https://www.cbpp.org/research/new-school-year-brings-steep-cuts-in-state-funding-for-schools.
2. National Association of State Budget Officers, "Archive of State Expenditure Report," https://www.nasbo.org/reports-data/state-expenditure-report/state-expenditure-archives.
3. Connecticut State Department of Revenue Services, "SN 20116 Summary of Tax Provisions Contained in 2011 Conn Pub Acts 6," June 10, 2011, https://portal.ct.gov/drs/publications/special-notices/2011/sn-2011-6; Nicholas Johnson, Catherine Collins, and Ashali Singham, *State Tax Changes in Response to the Recession* (Center on Budget and Policy Priorities, March 8, 2010), https://www.cbpp.org/sites/default/files/atoms/files/3-8-10sfp.pdf; and CT.gov, "OLR Bill Analysis: SB 1239," 2011, https://www.cga.ct.gov/2011/BA/2011SB-01239-R00-BA.htm.
4. Christopher Keating, "Who's Balancing CT's Budget as Residents Struggle Financially? Top 2.5% Pays 41% of State Income Tax," *Hartford Courant*, December 22, 2024, https://www.courant.com/2024/12/22/whos-balancing-cts-budget-as-residents-struggle-financially-top-2-5-pays-41-of-state-income-tax/; and Wesley Tharpe, *Raising State Income Tax Rates at the Top a Sensible Way to Fund Key Investments* (Center on Budget and Policy Priorities, February 7, 2019), https://www.cbpp.org/research/state-budget-and-tax/raising-state-income-tax-rates-at-the-top-a-sensible-way-to-fund-key.
5. Barb Rosewicz, Justin Theal, and Alexandre Fall, "Decade After Recession, Tax Revenue Higher in 45 States," Pew, January 9, 2020, https://pew.org/39AxqhJ.
6. Keith M. Phaneuf, "CT's Tax Receipts Rebound Faster than Those in Most States," *CT Mirror*, January 28, 2019, https://ctmirror.org/2019/01/28/cts-tax-receipts-rebound-faster-than-those-in-most-states/.