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The Government's Impact on Per Capita Income in Delaware

There exists an absolute need to reduce the size of government, principally government spending, at the state and local level in Delaware.

Preliminary evidence from anecdotes and econometric studies indicate that irresponsible action and unrestrained growth of government in Delaware has led to lower personal disposable income on average for all Delawareans. Furthermore, the loss of personal income takes its greatest toll among inner-city and economically depressed communities. Our initial investigations require further investigation and validation but here is the evidence we currently have.

Beginning in 2001, the Beacon Hill Institute at Suffolk University has published the "State Competitive Index," which measures the degree to which the public policies and conditions in a state ensure and sustain a high level of per capita income and its continued growth. To quote from the initial report of 2001: "The State Competitiveness Indicators Index ranks Delaware as the most competitive state, with a score of 7.22 on a scale of 0 (utterly uncompetitive) to 10 (extremely competitive)."

The Beacon Hill Institute used 1995 as the benchmark year for making comparisons. In 1995, Massachusetts was 1st and Delaware was 2nd among the 50 United States, but the order reversed by 2001 with Delaware becoming 1st. Delaware remained 1st and Massachusetts remained in 2nd place for the next two years.

Then, in 2004 Delaware slipped to 18th, and is now at 27th. Meanwhile Massachusetts has remained either 1st or 2nd, and Utah which was 11th in 2001 is now 1st.

In 2005 Delaware was 11th among the states in median family income, 11th in personal income per capita, 12th in disposable income per capita, and 9th in the percent of the population below the poverty level. Today Delaware ranks 15th, 13th, 15th, and 15th respectively. Every one of these measures of social well-being demonstrates a deterioration of Delaware's standing relative to the 50 states.

The personal side of losing our competitive advantage is told by the impact on the actual change in these values. In 2006, Utah, with a State Competitive Score of 7.39, experienced a $3,500 increase in median family income. Massachusetts, with a State Competitive Score of 7.07, saw their Median Family Income increase by $2,800. Contrast this with Delaware, who's 2007 State Competitive Score was 4.85, and experienced a decrease of $1,200 in Median Family Income.

Perhaps the most troubling aspect of this slide in Delaware's well being is that it appears to impact those that can least afford it most. While the relative change in disposal income caused our rank to move from 12th place to 15th, Delaware's rank based on the percent of the population below the poverty level changed from 9th to 15th, which is consistent with the hypothesis that the economically disadvantaged bare more of the burden of not being competitive.

In actual terms, according to the US Census Bureau in 2004, 9.9% of Delaware's population was below poverty level but by the end of 2006, 11.1% was below the poverty level. In 2008, 9.6% of Delaware's population was below the poverty level.

The State Competitive Index is a composite of eight sub-indexes. Each of the sub-indexes measures performance in a specific type of activity which can be thought of as a subject area. The score in each subject area is determined by the observed values of specific performance measures or tests specific to that subject. Many of these performance measures are things on which government action has a direct impact such as minimum wage and full-time-equivalent state & local government employees per 100 residents. Others are a direct outcome of business activity resulting from legislative or regulatory decisions.

Here is Delaware's Competitiveness report card beginning in 2001.

A = Ranked in the top ten
B = Ranked between 11 and 20
C = Ranked between 21 and 30
D = Ranked between 31 and 40
F = Ranked between 41 and 50

	2001	2002	2003	2004	2005	2006	2007
Overall	A+	A+	A+	B	C	C+	C
Government & Fiscal Policy	A	A	A+	A	A+	A	C
Security / Transparency	B-	B	B	C	C-	D	F
Infrastructure	B+	A-	D	D	F	F	F
Human Resources	C	B+	B	C	D	C	C
Technology	A	A	A	B-	B-	B	B
Business Incubation	A+	A+	A+	A+	A	A+	A+
Openness to Trade and Foreign Investment	A	A	A	B	A	B	B
Environmental Policy	C-	D	C+	F	F-	F-	F

While the full nature of the relationship between government policy and changes in Delawarean's well being needs to be better understood, preliminary results show that increasing or decreasing our competitiveness plays a key role.

Too much government and ineffective government action appear to be primary reasons for every area that has experienced a decline. While this appears true across the board, the areas contributing most to this decline are environmental policy, security, and infrastructure. These are the areas of heaviest or most recently increased government operation and regulation.

The Beacon Hill Institute estimates with a high degree of certainty that every full point move on the State Competitive Index (such as going from 5.0 to 6.0) is associated with a $1,163 move in real per capita income. Between 2003 and 2007 Delaware's State Competitiveness Index score declined from 7.81 to 4.85, a negative move of almost 3 full points.

If the Beacon Hill analysis is correct then the state and local government actions responsible for this decline are preventing the average Delawarean from realizing approximately $3,000.00 in additional income each year.

The Caesar Rodney Institute is a 501(c)(3) research and educational organization and is committed to being a catalyst for improved performance, accountability, and efficiency in Delaware government.