Viewpoint

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Foundations of Delaware's Economy

The four legs of the stool

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Delaware is very close to if not already beyond the point of no return regarding manufacturing, financial and agricultural jobs. It is almost entirely the fault of the General Assembly, the Governor's cabinet and the Governor. (The greater Northeast also has the same anti-manufacturing viewpoint and has contributed to the job losses.) I was part of this loss of jobs. My employer shut down operations at a manufacturing facility November 14, 2005 due to high costs (electricity, rail, etc) and lack of customers in this region.

I graduated from the University of Delaware in 1970 with BS degrees in both Chemical Engineering and Chemistry. The Delaware manufacturing sector was booming during that period. In fact employers had a very difficult time holding on to hourly employees, there was that much demand. A high school graduate could get a job as a chemical plant operator at one of a number of plants in Delaware. This continued through the late 70's, and then things began to fall apart. The energy situation was partly to blame. I worked for Diamond Shamrock Chemical Corp, later to be purchased by Occidental Chemical Corp (1986).

When the Delaware City plant was constructed in the mid 60's and through the 70's, our regional shipping orbit was a net importer of our major products, elemental Chlorine and Caustic Soda. When the plant shut down, essentially all the chlorine was being shipped by rail car to the gulf coast, there was very little regional demand for the product. The electric deregulation in 2002 was a disaster for us. We used large amounts of electricity. We had a tariff with Delmarva that allowed us to take advantage of cheap power on the off-peak hours, nights and weekends. After de-regulation, Delmarva unilaterally canceled our tariff. We were operating the plant at about 80+ percent capacity at the time. Our power bills under the tariff were over $1,000,000 per month.

After canceling the tariff the rates essentially doubled as we had no option other than buy power off the PJM grid by the hour, there were no other suppliers who would/could serve us. In June of 2003 we idled half the facility, laying off a few people. Our power bills while now operating at half the previous volume remained at $1,000,000 per month. This was unsustainable. The company tried many things to help the situation, but to no avail, resulting in total shut down on November 14, 2005.

The bottom line is that Delaware along with the greater north-east does not want heavy manufacturing; they only want "good industry" whatever that is. These manufacturing jobs are gone forever. Partly at fault is an act passed in 1971, The Coastal Zone Act. At the time it sent a huge message that Delaware was closing its doors to industry. Environmental regulations since that time have long superseded the need for this regulation. Again my company in the 90's had an opportunity to start a new business. Bleach is essentially mixing the two main products we make with water, chlorine and caustic soda. We wanted to construct a bleach plant; we had both raw materials on site. The Coastal Zone act prohibited this; my company went to great lengths to appeal this, but to no avail. After we lost this battle, the legislature made some modifications to the Coastal Zone act a year or so later that would have allowed this. The business opportunity for us had already passed, so we lost.

When Tom Carper was governor he had a little line that he used to describe Delaware's economic base. He used the comparison to a 4 legged stool, he told us at numerous meetings how important each leg was and how he was committed to keep all of them healthy. He and the governors following him did not really carry through with this commitment to keep all four legs whole.

The 4 legs were:

Manufacturing - Chemical, refinery, auto, steel, etc. This leg as heavy industry is essentially gone today; it doesn't take much research to see how far the employment has dropped. This is almost insignificant to the state's economic base as compared to a few decades ago.

Financial - You don't have to look too far to see how this has fared. Traveling through Ogletown and observing the empty former MBNA buildings pretty much tells the story for this entire segment. Again, another leg that has been cut off by probably 2/3.

Agriculture - DNREC, EPA and the "new people" moving to the rural areas are working overtime to destroy this sector. As it stands now, it is down from the 80's and 90's. Whether its nutriment management or trying to regulate the ventilation from the chicken houses, DNREC's actions indicate no interest in their long term stability.

Tourism - This is the one leg standing. It cannot support the financial needs long term, however.

A huge risk is on the horizon with all the federal financial regulations being promulgated (Sarbanes/Oxley; Dodd/Frank). We are conceivably facing the loss of our business advantage and all the revenue from this corporate legal advantage. If you take away this revenue from the state budget, we are truly doomed. As it is, if you follow the Chancery Court schedule each week, their caseload seems to be slowly decreasing. It is hard to see why we need the number of vice chancellors we now have.

When you compare employment by sector between the 80's, 90's to today, one thing really stands out: Government employment has skyrocketed while other sectors have declined. I've worked with DNREC for many years. This is one agency that has far too many layers of management, with far too many people. DNREC should have substantially fewer employees now as compared to the 80's based on the amount of industry operating. I'm sure you could say the same about DelDot or any other department. DNREC seems to spend more time trying to prohibit activities versus serving as a resource to determine how business could make things work. We can reasonably ask why Delaware's Governor Markell hired an inexperienced 29 year old from California to head DNREC?

What has California done to facilitate industry or retain jobs? They have done just the opposite; their numerous special standards have driven manufacturing out. California is now losing jobs with large numbers leaving the state. It was informative to read comments from the DNREC Secretary immediately after the refinery shut down. He said his top priority was to avoid lay-offs in DNREC. This was exactly the time to cut his costs. Instead we allow DNREC to make superficial changes that reduce a few unfilled positions and call it progress.

By bringing in the California model we get rulings on auto emissions that take us to California standards adding over $1,000 per vehicle as a cost to our residents. We have the participation in the Northeast Carbon trading. I tried to find out how much this cost customers; I couldn't get there even after calling a number of people from the power company to the state. Thank you to the Caesar Rodney Institute for clarifying the impact of this carbon program in your publications.

The Governor tells us how committed to jobs he and the General Assembly are one day, then he, his cabinet employees or General Assembly members do the same old things. One good example is Karen Peterson's call for a tax on oil lightered from the tankers in the Delaware Bay to add revenue. Before the Coastal Zone Act was passed, one of the proposed plans was to construct a deep water port off Big Stone Beach in the Delaware Bay where the tankers would lighter at a dock. Coal was to be loaded on ships for export also. This would be much safer as compared to the current practice of anchoring the super tankers then pumping the crude oil to smaller ships. Had Delaware done this, we could have charged for a service. Instead we want to maintain our purity, even if it is only an illusion.

Another area that is promoted is that industry should use the state resources to help cut costs. Are you kidding me??? When has anyone ever experienced government employees more knowledgeable regarding operating costs as compared to industry people? This is a total joke. The government is an example of how not to manage anything, especially with their default position of adding people. If the state government is so good at helping reduce costs, why haven't they applied this knowledge to state government operations? If they think they can help others reduce costs, a good justification would be to show where they have been successful in cutting government costs.

My former employer was intense on controlling costs. I've told people that about 5 years of their management at the state level would cure the excess spending problems as long as they had the authority. On years where we were not given specific reduction targets (real spending, not projected), our budget process gave us an increase of 1/2 of the anticipated inflation. We were expected to find savings at least equal to half of inflation. We always found ways to cut costs.

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