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Shifting Sands: Delaware Personal Income

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As the state of Delaware enters into budget negotiations for the coming fiscal year, the health of Delaware's personal income looms large. The personal income tax provides 35% of the state's general fund revenues. How has personal income in Delaware been faring and what can we expect over the next few years?

Over the past decade Delaware personal income has been growing at about the same rate as the nation. Since Delaware population growth has exceeded the nation's, per capita income in Delaware has dropped from 4% above the nation to less than 1% above today. This per capita income convergence is driven by demographics and the changing structure of the state's economy.

The fastest growing segments of Delaware's population…blacks, Latinos and the elderly…all tend to have lower per capita income than average. According to the Delaware Population Consortium these groups will continue to be the fastest growing segments for the long term.

At the same time, wage and salary income growth has fallen behind the nation due to a series of structural hits on the state's economy. Financial services stopped growing and job cuts in the industry tended to focus on the higher wage positions. Automobile manufacturing disappeared. The chemical industry continued to shrink. Most job growth occurred in the lower wage industries such as retail trade and tourism or in healthcare where wages are average.

Significant shifts have also been taking place in the composition of Delaware's personal income. Wage and salary income has become moderately less important as a component of personal income and income from dividends, interest and rents has dropped from 21% to 17% of total income. This drop in the contribution of non-earned income is driven by both the demographic changes and by the current recession.

The growth area in Delaware personal income over the past decade has been transfer payments. As a proportion of personal income transfer payments have jumped from about 12% to almost 17%. This shift is found across the nation, but is occurring more rapidly in Delaware. The two major components of transfer payments, medical benefits and social security, have been rising considerably faster than the nation.

About 46 cents out of every dollar of transfer payments to Delaware is for medical benefits, split between Medicare and Medicaid. Between 1998 and 2008 medical benefit transfer payments have risen almost one and a half times faster in Delaware than throughout the U.S. The growth has been especially disproportionate in Medicaid. This means that Delaware strongest performing industry, healthcare, is very dependent upon any regulatory changes coming out of Congress.

Social security payments account for almost 37 cents of every dollar of Delaware transfer payments. Not surprisingly given the rapid migration of seniors into southern Delaware, this component of transfer income has been increasing 25% faster than the nation. Despite the recession, unemployment compensation is only a minor part of total transfer payments.

Because of demographic and economic trends, the moderate performance of Delaware personal income will continue over the near term. As reflected in the December, 2009 estimates from DEFAC, wage and salary income will bounce back slowly over the next few fiscal years. The growing contribution of transfer payments limits state personal income tax revenue and shifts some portion of control for the state's economic future to Washington, D.C. With the first wave of the baby boomers reaching 65 years old this year, even without sustained in-migration the elderly population in Delaware will soar. Finally, in keeping with the small business focus of the DEDO, nonfarm proprietors' income will continue to grow in importance.

Dr. John E. Stapleford is a member of the Caesar Rodney Institute's Board of Directors.

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