



# Analytics

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Producing business climate rankings of states has become a cottage industry. There are now at least 11 such rankings published by credible organizations. Delaware ranks between 2 and 42 across the various rankings. So, do these rankings provide any useful information to encourage economic growth in Delaware?

A recent analysis of business climate rankings from the Public Policy Institute of California is a big step forward. Using relatively sophisticated statistics, the analysis attempted to identify which components of the business climate indexes were most important as predictors of economic growth.

The interesting, but not so surprising finding, is that business climate indexes that focus on productivity-quality of life variables (e.g., crime rates, poverty, college attainment, infrastructure, patents, and air quality) have little or no predictive power for state economic growth. Whereas business climate indexes that focused on taxes and costs were consistent predictors of growth in employment, wages, and output.

It seems that the costs of doing business, such as union membership, electric rates, and business tax rates, are the drivers of economic growth, especially with “footloose” industries, and that the quality of life is an effect. That is, for example, a growing economy attracts human capital, lowers demand on social services, and allows tax rates to remain unchanged (or even fall!).

So, when only the five business climate rankings that focus on taxes and costs are considered, how does Delaware fare with regard to the drivers of economic growth?

- **Electricity costs** – The most recent data from the U.S. Department of Energy shows Delaware with the 8<sup>th</sup> highest industrial electric prices among the states.
- **Union membership rate** – Delaware ranks 24<sup>th</sup> among the states, well below leaders such as New York, Michigan, and New Jersey.
- **Taxes** – With no sales tax, modest property taxes, moderate unemployment taxes, no tax business property (e.g., equipment), and a large portion of taxes exported, Delaware ranks well with regard to the overall tax burden on business. The recent increase of the top marginal income tax rate to 6.95 bumped Delaware up to the 14<sup>th</sup> highest among the states and Delaware’s top corporate capital gains tax rate is 8<sup>th</sup> highest. Delaware’s workers compensation benefits per \$100 of wages are average.

- **Size of government – Delaware also ranks well on the relative size of state and local government, especially with regard to the volume of social service spending. With the growth in its Medicaid outlay, however, this is starting to change.**

**Overall, except for electricity costs and some recent tax rate hikes, Delaware fares well in the business climate race.**

**Dr. John E. Stapleford, Director  
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