Analytics

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RE: CIGNA and an appropriate use of State grant funds

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The state is considering a $2.4 million Strategic Fund grant to encourage CIGNA to keep its 470 jobs in Delaware. Does this make sense? Yes.

In a perfect world, businesses would not be able to coerce grants from state governments by threatening to relocate. This is not a perfect world, and service companies, such as CIGNA, without significant location specific investments in plant and equipment can readily relocate to other states.

And the math works out. The average wage across all occupations in the insurance industry in 2009 was $59,000. That translates into a CIGNA wage bill of almost $28 million. About 7% of all earnings by place of work in Delaware go to out of state residents. Since CIGNA is located minutes from Pennsylvania, let's assume 20% of the wages are exported. At an effective tax rate of 4.5% the remaining $22 million of wages translates into Delaware personal income tax revenue of almost $1 million per year. A conservative multiplier of 1.5 would add another $0.5 million of personal income tax revenue each year.

So, assuming CIGNA abides by the agreement and keeps 470 jobs in Delaware for six years, the state gains almost $9 million in revenue to offset the $2.4 million grant. If 50 extra jobs are also added over time, another $0.5 million of income tax revenue might result.

Is the CIGNA grant a bribe? Yes. But in the real world where firms can "vote with their feet," the ultimate decision making rule is whether the long run benefits exceed the costs. And given the tenuous condition of the economy, it is no time for idealism.

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