



Analytics

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RE: Delaware Personal Income – Storm Clouds

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According to the U.S. Bureau of Economic Analysis (BEA), Delaware per capita income has gone from 10% above the U.S. to currently 5% below. The reasons for this are clear.

BEA tracks three components of personal income: earnings (wages, proprietors' earnings), dividends, interest and rent, and transfer payments (mostly composed of Social Security, Medicare, and Medicaid).

Over the past 5 years (2014Q1 – 2019Q1), earnings in Delaware have increased slower than the nation (15% in DE vs 20% in U.S). Jobs have been added more slowly in Delaware, but more importantly the majority of those jobs have been low wage (e.g., restaurants, home care aides). Meanwhile, with the downsizing of DuPont and Astra Zeneca, many high wage jobs have disappeared.

The experiment with a state estate tax encouraged a number of high-income households to move, at least on paper, from Delaware. So, while dividends, interest and rent increased 28% across the nation over the last 5 years, they grew only 23% in Delaware.

Finally, over the past 5 years transfer payments soared in Delaware (up 34%) compared to the nation (up 27%). In Delaware transfer payments accounted for 32% of the net increase in personal income over the 5 years compared to 17% for the U.S.

Of the three major components of transfer payments in Delaware, Medicaid increased the most rapidly over the last 5 years (47%), followed by Medicare (41%), and Social Security (31%). Medicaid rose just 34% across the U.S.

In early 2019, transfer payments per person in Delaware are \$11,349 compared to \$9,550 across the U.S. Medicaid payments per person in Delaware are 31% higher than the nation and Social Security per person is 26% higher.

Transfer payments, in particular, are unlikely to rise faster than inflation. And, at \$783 thousand for FY20, Medicaid is already the largest single item in Delaware's state budget.

Slow growth in earnings combined with a high reliance on transfer payments guarantees future slower growth in Delaware personal income.

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