Analytics

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RE: The air is out of the Delaware economy

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After two decades of stellar performance, Delaware's economy moved in reverse during the most recent decade, and the near term outlook is subpar.

A DECADE OF DECLINE

The major measures of performance for the Delaware economy from 2000 through 2010 are grim. Compared to a median annual growth in total employment of 2.5% during the 1990s, Delaware crept along at 0.4% during 2000-10. If government jobs are excluded, total employment in Delaware actually retreated -5.4%. Similarly, with government transfer payments excluded (e.g., Social Security, Medicare, Medicaid), inflation-adjusted per capita personal income dropped -7.6% and output per capita declined.

WHAT ABOUT RIGHT NOW?

The recession is over, but Delaware remains in a deep hole. After this many months following the low point during the previous two recessions Delaware employment had regained its pre-recession peak levels. Currently, employment in Delaware is still 6% below the pre-recession peak, a shortfall of almost 31,000 jobs. Although initial claims for unemployment are slowly easing, Delaware's unemployment rate is double its historical average.

Residential construction permits are down two-thirds from peak and are barely one-half of the ten year average. The median sales price of housing is down 28% from the peak and is driving up personal bankruptcies in the state. The inventory of foreclosures remains at record levels. Driven by rising fuel and food prices, inflation in the region is creeping up and pushing some households to return to credit card debt.

THE OUTLOOK

The prognosis for Delaware's economy during the first half of this new decade is modest. While the Congressional Budget Office expects employment across the nation to rise 1% a year, the Delaware Department of Labor predicts an employment growth rate of 0.7% for the state.

The Caesar Rodney Institute concurs with the DDOL for the reasons below.

- ***Demographics* – Slower growth in the economy will cause net in-migration to Delaware to fall off by 25%. Further, while the aging baby-boomers will drive a 41% increase in the 65+**

- **cohorts over the decade, the number of persons in the age 20 to 29 cohort will remain unchanged. This means a constrained supply of labor.**

- ***Transfer payments* – The surge in Delaware's senior population has caused government transfer payments to jump from 10% to 20% of personal income over the past two decades. Transfer payments will never outperform the sources of income tied to market productivity (i.e., wages, dividends, proprietors' income). This means slower growth in purchasing power and the continued decline of Delaware personal income per capita relative to the nation.**

- ***Industry structure* – The industries projected to grow in Delaware have below average wages and productivity (e.g., leisure and hospitality, food services, retail). The industries projected to barely grow or even decline in Delaware have above average wages and productivity (e.g., finance services, manufacturing). The major projected Delaware growth industry, healthcare, is going to be constrained by caps on Medicaid and Medicare spending. The population of working poor in Delaware will expand.**

- ***Government corruption* – According to U.S. Department of Justice data, Delaware has jumped from 17th to 9th among all the states in the convictions of state and local public officials per capita. Corruption distorts and constrains markets.**

- ***Regulations* – Delaware's high economic growth years were a result of the deregulation of credit markets. State and local government in Delaware is now fixated on additional layers of environmental, energy (electricity), and land use regulations that drive up the direct and indirect (transactions) costs of business.**

- ***Unions* – Over the past decade right to work states have out-performed states like Delaware in terms of employment, income and output growth. State government in Delaware appears to be strongly influenced by unions. The flawed prevailing wage law takes tens of millions of dollars away from school capital improvements each year. The current head of the Delaware teachers union will soon slide into a non-merit position in the Department of Education. The Governor is willing to stack the membership of the State Health Resources Board to appease the building trades union.**

- ***Miscellaneous* – A variety of other realities will constrain Delaware's economic growth. The public education system test scores are mediocre. Delaware has the 11th highest marginal income tax rate in the nation, the 9th highest corporate income tax rate, and the 7th highest workman compensation rate per $100 of payroll. Delaware ranks 5th among all states in state and local government debt per capita and 14th in public employees per capita. Delaware now has the 5th highest violent crime rate and the 4th highest out of wedlock birth rate.**

The reality is that individuals and businesses are rational and self-interested, and can vote with their feet. Like many states in the Northeast and the Midwest, Delaware has institutions, interest group relationships, and habits in place that guarantee below average economy performance in the coming years.

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