

ECONOMIC FREEDOM RETREATS IN DELAWARE

According to the Fraser Institute, Delaware has fallen from the 10th most economically free state in the nation in 2002 to the 38th least economically free state.

The Fraser Institute's Economic Freedom Index (EFI) rankings are considered one of the most influential reports published by any think tank. Nobel Laureate Douglass North has called it the "best available...description of efficient markets."

As important as the summary ranking, the Index shows a state where it is weak and strong, allowing the audit to identify where policy changes can lead to more robust economic performance.

In the most recent Index (released in 2018), the most economically free states were Florida, followed by New Hampshire, Texas, Tennessee and South Dakota. The least free states were New York, Kentucky, West Virginia, California and Alaska.

Across 250 research studies, economic freedom among the states has been found to be positively associated with a variety of measures of per-capita size of the economy (e.g., per capita personal income) and the growth of the economy, as well as various measures of entrepreneurial activity.

Among the ten factors that compose the state economic freedom index, the largest drop in ranking for Delaware occurred in "transfers and subsidies as a percentage of personal income." Such payments rose from 12% of Delaware personal income in 2002 to 21% in 2018. The rapid rise was driven by the 2007-08 recession together with lower growth in Delaware wage earnings.

The second largest drop in ranking for Delaware was driven by a ten fold increase in the amount of "other taxes" collected by state and local government. This is a catch all bin for revenue from fees, fines and the like. The increase was driven primarily by Delaware adopting an estate tax, which fortunately is now gone.

Finally, Delaware lost ground because of a substantial rise in "general consumption expenditures as a percentage of income." Between 2002 and 2018 in Delaware state and local government spending has risen faster than personal income.

While the Fraser Institute's EFI by state is just one measure, its strong statistical relationship to economic growth and development raises concern as Delaware's rank among the states plunges.

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