



# Analytics

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Delaware is ranked number one in economic freedom among the states in the 6<sup>th</sup> edition of the Fraser Institute's *Economic Freedom of North America*. Why is this important? Economists contend that increased economic freedom permits businesses and individuals to respond more rapidly to changing market conditions, thus leading to increased economic growth. This is the underlying assumption of CRI's report on economic opportunity in Delaware ([http://www.caesarrodney.org/pdfs/2010\\_DE\\_Econ\\_Opp\\_Report5.pdf](http://www.caesarrodney.org/pdfs/2010_DE_Econ_Opp_Report5.pdf)). This relationship between state economic freedom and state economic growth has been confirmed repeatedly in econometric studies using the Fraser Institute index.

The areas of freedom where Delaware ranks low in the Fraser index are no surprise. First, Delaware has a high level of union density. Previous analysis by CRI confirmed that high levels of union membership were correlated with slower employment growth among states ([http://www.caesarrodney.org/pdfs/Prevailing\\_Wage\\_does\\_not\\_Have\\_to\\_be\\_Union\\_Wage2.pdf](http://www.caesarrodney.org/pdfs/Prevailing_Wage_does_not_Have_to_be_Union_Wage2.pdf)) Second, Delaware has a high top marginal personal income tax rate. CRI has shown that the recent increase in Delaware's top income tax rate will reduce in migration ([http://www.caesarrodney.org/pdfs/Taxation\\_Migration\\_-\\_let%27s\\_reverse\\_course.pdf](http://www.caesarrodney.org/pdfs/Taxation_Migration_-_let%27s_reverse_course.pdf)) and is unlikely to significantly boost income tax revenue.

Finally, Delaware's ranking was reduced because social security income is such a high

percentage of the state's economy. The Fraser Institute believes this reduces freedom because it makes a state more dependent upon Washington, D.C. and political decision making. This is an issue CRI will examine in its forthcoming research on retirees as an economic development strategy for Delaware.

An alternative measure of state economic freedom produced by the Mercatus Center ranks Delaware 24<sup>th</sup> from the top. Analysis by the CRI was unable to establish a statistically significant relationship between the Mercatus state rankings (index) and state economic growth.

So, what does all this mean for Delaware? Simply that many things are currently in place to allow for a return to economic prosperity. If the government would do its part in getting out of the way, businesses have the tools and know how to get Delaware back to work.

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