Over the past 10 years, using the standard measures – e.g., output, employment, personal income, annual wages and median household income – the Delaware economy has been performing poorly. Even Delaware's low unemployment rate, the 11th lowest among the states, is due primarily to slow growth in the State's labor force.

Will these slow times pass? After all, the Delaware economy has been hit with some major blows: the closing of two automobile plants, the downsizing of DuPont and Astra Zeneca, and the impact of the 2008 recession on the financial services industry.

Many positive efforts are underway to turn the Delaware economy around. These include: the launch of the Delaware Prosperity Partnership, the recent "Ready in Six" initiative to streamline permitting, the University of Delaware STAR campus, opening development opportunities in the Coastal Zone, and the creation of opportunity zones through the State.

Nevertheless, despite the many positive efforts, the Delaware economy will continue to be constrained by a number of barriers.

Public Education

Public education in Delaware has been hit with a variety of structural changes over recent years: court ordered school busing, the rise of the independent vocational school system, magnet schools, charter schools, and the rapid increase in single parent families.

While young people from families with college educated parents are still well served by the Delaware public schools, test scores indicate that the majority of students are not. For 20 years two-thirds of Delaware's public school 8th graders have tested functionally illiterate in reading and math, including over 80% of black 8th graders. A majority of graduating seniors are deemed not "college ready."

This lackluster performance has resulted in an out-migration of young professionals to residences in nearby Pennsylvania school districts. Currently, $3.5 billion of wages earned at jobs in New Castle County (NCC) end up at homes in Chester and Delaware counties. The poor reputation of Delaware public schools, especially in NCC, also discourages some major businesses from locating in the State.

No Growth Land Use, and a Slow Permitting Process

The passage of NCC's 1998 Uniform Development Code (UDC) swiftly halted—and continues to harm-- economic growth and development. Within just a few years employment in the County had flat-lined and remains so today. The Delaware Population Consortium projects no gains in employment in the NCC through 2030.

More residents are moving out of NCC than are moving in and residential permits have shifted predominantly to NCC's incorporated areas (e.g., Middletown). NCC now ranks last in contribution to Delaware economic growth. The lack of growth has spurred a steady increase in NCC government taxes, which further limits growth.

The UDC language was clearly aimed at slowing growth: “growth management,” “control density,” “preserve agriculture,” and “protect from adverse consequences (of development).”

Today NCC accounts for only 58% of Delaware’s population, yet it produces 78% of the State’s earnings by place of work. Obviously, any drag on the economy of NCC is a drag on the economy of Delaware.

State and local agencies are very slow to approve permits needed for business start-ups and expansions.

The Pipeline Effect

Since their birth, the baby-boomers have disrupted the economy – starting with sales of Dr. Spock’s manual on babies to a wild college campus construction boom. The leading edge of the baby-boomers is now reaching age 70 and the Boomer Effect continues, with exaggerated effects in Delaware.

The Boomers are leaving the labor force and moving into the pension income and high health maintenance years.

Meanwhile, unlike states such as North Carolina and Texas, Delaware has net out-migration of young people. So, there is a pipeline effect, with more people at the end of the pipeline and fewer people entering. The consequences are unavoidable.

Over the next 10 years the number of bodies leaving the Delaware labor force will exceed the number of bodies coming in, constraining the economy. The State pension fund is up to a $1.5 billion unfunded deficit because the surge of baby-boomer retirees far out strips the market earnings on assets and the contributions of current employees. The unfunded healthcare liability to current and retired State employees is $8 billion and the retired baby boomers are moving into the high healthcare need years. Obviously, the two politically powerful state employee unions, ASFCME and the DSEA, will fight tooth and nail against any change in benefits.

The soaring unfunded State pension and healthcare liabilities will start to eat into the State’s General Fund, or result in higher taxes.

Delaware ranks 8th among all the states in state and local government expenditures per capita. State and local government spending in Delaware equals 18% of output. Assuming a conservative indirect economic multiplier of 1.5, state and local government spending in Delaware drives 27% of the State’s economy. Reduced state and local government spending or higher taxes will obviously be a drag on Delaware’s economy.

High Industrial Electric Rates

High industrial electric and natural gas rates have contributed to the loss of half the energy intense manufacturing in the state, such as chemical plants and steel mills. The loss of high paying, blue collar jobs has contributed to Delaware’s Median Household dropping from inflation adjusted $70,000 a year in 2000 to $58,000 in 2016, the worst performance in the country. Industrial electric rates have averaged 26 percent above the national average from 2003 to 2015 and are 20% above as of April of 2019. Currently Delaware industrial electric rates are higher than Pennsylvania and Maryland, and 39% higher than North Carolina.

Delaware has laid a heavy hand on the state's electric generation industry with mandatory rules for more premium cost, intermittent, wind and solar power, and carbon dioxide (CO_2) emission caps that require electric generators to buy costly emission allowances. The emissions taxes may raise six-fold by 2030, and may also be added to gasoline and diesel fuel. While well intentioned, the rules have simply not worked to lower CO_2 emissions, and have sent more electric generation out-of-state which results in additional extra charges. Utility scale wind and solar projects are now cost competitive with new conventional power plants and no longer need mandates.

The state government also has driven up industrial electric rates by agreeing to transfer half a billion dollars from Delmarva Power ratepayers to Bloom Energy. This Qualified Fuel Cell Provider tariff that was approved by the Delaware Public Service Commission in 2011 represents an extraordinary burden (the "excess cost" borne by ratepayers is over $200 million to date, the total is growing by about $3 million per month, and by its terms the tariff will remain in effect until 2033).

Corporate Tax and Labor Policies

The Tax Foundation ranks Delaware 50th on business tax rates when high corporate income tax rates are combined with the Gross Receipts Tax on sales. The Gross Receipts Tax was supposed to be phased out starting in 2009, but was extended. Rising tax revenue from federal tax cuts provide an opportunity to phase out the Gross Receipts Tax. Delaware's reliance on a questionable state run prevailing wage survey, instead of a more robust federal survey raise the cost of highway and school construction by as much as thirty percent. Delaware does not provide workers with the freedom to not pay union dues, a show stopper for companies looking for new state to locate a business.

What Can Be Done?

Policies can be changed to improve the economic ecosphere in Delaware:

1) Experiments in some charter schools, and troubled regular public schools have shown what works to improve learning. The formula that seems to work is hiring and training a good principal with hiring and firing authority and minimal interference from the school board. The principal is responsible for establishing a culture of success which permeates every facet of a school's operation including selection of curriculum, demeanor of students, professionalism of teachers, participation of parents, and expectations of everyone.
2) Pre-building business parks provides space and limits permits needed for companies looking to expand or locate here. A change in culture is needed in state and local permitting agencies to become more helpful in granting permits while maintaining the spirit of regulations.
3) Repeal carbon dioxide emission taxes, and wind and solar mandates.

4) Phase out the Gross Receipts Tax.
5) Give workers the freedom to pay union dues.
6) Adopt federal estimates of Delaware construction prevailing wages.

Delaware's economy can grow if we are ready to slay some sacred cows.

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