

# **Economic Growth in Delaware: Costs, Benefits, and Realities**

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## **Executive Summary**

There are several prominent examples of successful regional development and many more of failed regional development (slides 2 and 3). Reproducing a “Silicon Valley” in Delaware is unlikely. Factors that have led to the failure of many large-scale regional development efforts include an unprepared labor force, insufficient time to allow for success, failure to recruit key firms and/or industries, inadequate infrastructure, cultural and institutional barriers to growth, and in general an inability to take the “second step” in the growth process.

What we can reasonably expect in Delaware is sustained moderate economic growth in the future, provided we understand the costs and benefits associated with growth, build on the foundations currently in place, and avoid the mistakes of failed regional development efforts.

### **What are the foundations of regional economic growth?**

The professional literature stresses the importance of educated people (slide 8) and of an infrastructure--roads, telecommunications, sewer, water, airports, and ports-- that works (slide 10). Also important is the cultural and institutional environment, including incentives (taxes and enabling legislation), sharing of intellectual property rights, labor laws, “one-stop” shopping, and clearly delineated land use rules (slide 11). Research indicates that, while incentives have historically been provided through fiscal policy, “new wave” programs have recently moved to the forefront; these policies include support of innovation, industrial modernization, technological advancement, and technology transfer programs (slide 12). Tax abatements are generally not significant in stimulating economic growth, while right-to-work laws are. While regional amenities are important to economic growth, in firm-location decisions, avoidance of disamenities is more important than attraction to amenities (slide 13).

Finally, the professional literature stresses the cumulative and reinforcing effects of regional growth (slide 14). Access to pools of specialized labor reduces training costs and minimizes the loss of productivity resulting from the mismatch between workers and firms. By following other firms, new companies can reduce or even eliminate the search costs involved in industrial location. And by locating in an established urban setting, firms can maximize information-intensive business contacts, which spawn product innovation.

### **What are the realities of economic growth policy for Delaware?**

Economic growth policy for Delaware must face the reality that economic development resources are limited. Delaware does not have sufficient resources to promote economic development of all kinds in all places and must be selective with regard to growth policies. Benefits and costs should be the basis for

the selection of growth policies (slide 15).

### **What are the benefits and costs of growth in Delaware?**

At the top of the list of benefits are providing desirable job opportunities for Delawareans, expanding the tax base to support increased public services, increasing private-property values, ensuring Delaware's future (growth is cumulative and reinforcing), and expanding markets to support increased consumer choice (slide 16). Research indicates that on average, nationwide, one in five new jobs created goes to local residents, with the other four going to in-migrants (slide 17).

The potential costs of economic growth in Delaware include congestion, crime, environmental degradation, urban sprawl, loss of local identity, and cross-border effects (slide 19). Research indicates that congestion can be a particularly high cost and the benefits of the transportation infrastructure can best be realized by using the existing stock more efficiently (slide 20). Higher incomes lead to higher total crime rates (slide 21). Economic growth brings an initial stage of environmental degradation, followed by a period of improvement; when a particular standard of living is attained, constituents begin to focus on surrounding environmental amenities (slide 22).

Research also indicates that the costs of urban sprawl can be sizeable (slide 23). Urban sprawl leads to conflicting land uses, pressures on agricultural and open space, higher cost of service provision, transportation congestion, and social disparities.

A final cost that is particularly important for Delaware stems from the reality that our growth is fueled by out-of-state workers (slide 24). Delaware must provide transportation infrastructure to continue to accommodate these workers. On the other hand these costs are mitigated by the expansion of the local tax base without requisite resident costs, such as schools, sewers, etc.

Benefits vary by industry and by location. Average salaries, for example, range from \$36,000 in the finance sector to \$15,000 in the retail sector (slide 26). Average income is approximately \$32,000 in New Castle County, but only \$21,000 in Sussex County (slide 27). Research indicates that the distribution of benefits is wider than the immediate growth area (slide 28). Costs vary by industry and location as well, particularly environmental sensitivity, congestion, and the potential loss of local identity.

### **What do we mean by economic growth?**

Growth indicators include more jobs, more people, more tax revenue, more public services, and higher per capita income. Research indicates that while gross output and employment are adequate measures of aggregate growth, personal income is more relevant for determining the economic welfare and average material well-being of individuals (slide 30).

It is important to develop a scheme that systematically evaluates the costs and benefits associated with specific growth proposals. We present a tableau to help accomplish this task (slide 31) and provide three example evaluations. The first example is a hypothetical financial firm desiring to locate in New Castle County (slide 32), the second is a manufacturing firm in New Castle County (slide 33), and the third is a manufacturing firm in Kent County (slide 34). For each case we examine the prospective costs and benefits.

**What pattern of economic growth can we reasonably expect for Delaware in the future?**

Delaware can attain sustained moderate economic growth. To achieve that, we must avoid the mistakes of others, recognize growth opportunities and be prepared to take the necessary second steps, build on the foundations currently in place, be receptive to the important cultural and institutional determinants of growth, understand the costs and benefits associated with various proposals, be cognizant of the need to handle the cross-border effects, and explore “new wave” governmental policies.