



## THE COMMITTEE OF 100

# FYI

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### What's Next for Delaware's Economy?

There is growing concern about the pace of Delaware's recovery from the Great Recession and the prospects for future economic development. Throughout the ordeal of the last five years, Delaware's unemployment rate has been below the national rate. But during that time the state shed approximately 25,000 non-farm jobs and has recovered only about 5,000 of them. Construction has been hardest hit, with employment levels almost 40% below pre-recession levels and 10,000 fewer jobs.

So what will be Delaware's next economic engine? The state historically has put its eggs in a few big baskets like the 4 Cs (chickens, cars, chemicals, and credit cards). Some are now saying that the next "big idea" may be "lots of little ideas." The question is, how do we create the conditions that will allow those "little ideas" to flourish? What investments in infrastructure, education, and workforce development do we need to make? What policies and funding need to be in place to assist and reward innovation?

You can help the Committee of 100 try to answer those questions. Send your thoughts on concrete steps Delaware can take to get its economy moving again in the short term and to position itself for sustained growth in the future. No idea is too big or too small. As a result of the article this past weekend in the [News Journal](#), several members have already sent suggestions.

Next month, the Committee of 100 will be co-sponsoring a roundtable discussion with economic development officials from around the state to begin what we hope will be a focused effort to get government and business working together on a common strategy to get Delaware back to work.

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<http://www.delawareonline.com/apps/pbcs.dll/article?AID=2013303240041>

## **Growth in jobs remains sluggish**

*Written by Jonathan Starkey and Jeff Montgomery The News Journal Mar. 24 delawareonline.com*



Gov. Jack Markell stood last week before a room full of business leaders inside the Sheraton Dover Hotel, defending his work to attract employers and to build Delaware's economy two days after AstraZeneca announced it was cutting 1,200 jobs in the state.

Banks in Wilmington are hiring, Markell told the Delaware State Chamber of Commerce's annual meeting of state manufacturing firms. The Delaware City refinery is back open and employing hundreds, he said.

But he could not ignore the news of the day.

"We still are in a challenging economic time," Markell said. "I don't have to mention anything beyond the announcement the other day from AstraZeneca."

Last week delivered the latest bad news in a series of troubling developments for Markell's efforts during the past four years to bring jobs to the state. Before AstraZeneca's announcement, there were new setbacks for Fisker Automotive that cast even more doubt on the company's future here. And before that, Markell's deal to lease the Port of Wilmington collapsed after the private company he hoped would help rebuild and expand operations suspended negotiations.

Those difficulties lay bare a stark reality for Markell: The jobs recovery in Delaware remains profoundly unstable, leaving thousands out of work in a state economy slow to recover from the Great Recession. Delaware has struggled to regain its footing and has missed out on a national recovery assisted by a return of [car](#) manufacturing.

"After leading the U.S. early in the recovery in job growth, Delaware is now lagging behind the rest of the nation, with flat payrolls since late 2011," PNC economists wrote in a first-quarter analysis of the state's economy. Those economists expect Delaware's recovery to

gain steam this year, but it will remain troubled by the impact of federal budget cuts on Dover Air Force Base and new financial regulations that could weigh on profits in Wilmington's banking sector.

The problem is serious enough that state business leaders are taking action. David M. Wolfenden, president of the Committee of 100 business group and a partner in a certified public accounting firm, said the organization is sponsoring a statewide summit next month to "brainstorm" economic development.

"Economic data supports the idea that the states across the country that are either doing well or have signs of doing well had something to pull them out of this economic downturn," Wolfenden said. "States at the top of the list all have one thing in common, oil or gas or energy. Delaware does not have that. I would go one step further and say that today, Delaware doesn't necessarily have anything that can pull us out."

More than 32,000 Delawareans who want work cannot find a job, according to the latest figures from the federal government's Bureau of Labor Statistics.

The state's unemployment rate has ticked up in recent months to 7.2 percent, despite Markell's best efforts to lure businesses here.

The weak economic recovery is not just affecting the jobs market. Inside Legislative Hall in Dover, Markell is pushing to extend higher recession-era taxes on businesses and individuals as revenues lag under slow employment growth. State budget writers rely heavily on personal income taxes to pay for health care services and public education, among other programs. Those revenues have fallen flat in the last five years as the recession doomed Delaware's jobs market and a recovery has not returned state businesses to pre-recession hiring patterns.

"Obviously, we live in a different economy," state Finance Secretary Tom Cook, a member of Markell's cabinet, told lawmakers last week. "Four years ago, things were much worse. We're on the right path. But we have not recovered nationally or in Delaware as expected."

### **Next big push?**

Markell, in interviews and appearances before business groups like the Committee of 100 last week, insists his plan to grow the economy is working. Despite the bad news, Delaware is on the right path, Markell argued.

"It's not a matter of defending a record," he said in an interview late last week. "It's a matter of stating facts."

Despite Fisker's stalled effort to build cars in a Newport-area car plant, which many believe will never come to fruition, he said banks are growing jobs in Wilmington. That growth is

due partly, he argues, to cash incentives the state used to convince the banks to stay or relocate here.

JP Morgan Chase announced plans to add 1,200 Delaware jobs last year using \$10 million in taxpayer assistance from the state. Capital One, after its acquisition of ING Direct, received \$7 million in exchange for a promise to add 500 jobs here.

Hundreds also are working at the oil refinery in Delaware City after Markell helped broker a sale from Valero to PBF Energy using more than \$40 million in state assistance. And Amazon opened a fulfillment center warehouse last year in Middletown that employs about 850 people, tapping nearly \$7.5 million in taxpayer funded grants.

Jed Hatfield, president of Colonial Parking, said his company's 40 or so parking lots and garages in Wilmington have been filling up as banking jobs return to the city. But he's waiting for another boom in employment that will help his business, as progress has been slow.

"We need some additional stimulation, whether it's going to come from government or otherwise," said Hatfield, calling for more government support in growing young technology businesses. "What's the next big push going to be? I don't know what the answer to that is."

### **Losing ground**

Delaware's economy has been on a roller-coaster trajectory since the financial collapse in 2008 tossed thousands into the ranks of the unemployed and dramatically reshaped the state's industrial makeup.

Two automotive plants closed: Chrysler's Newark site in December 2008 and General Motors' Boxwood Road

site in June 2009. AstraZeneca has greatly reduced employment during the past several years, from a high point of 5,300 in 2005 down to about 2,300 after last week's announced reductions take effect.

The loss of well-paying jobs at AstraZeneca makes matters much worse for Delaware's recovery, said Edward Ratledge, director of the University of Delaware Center for Applied Demography and Survey Research and a member of the committee that generates state revenue estimates.

Available jobs have not kept pace with population growth, Ratledge said. The state's economy, which has grown only about 2 percent a year, has been plagued by a downed construction industry and pressures on the financial sector that once provided a strong foundation for economic growth.

Companies also have turned to technology to replace labor, reducing the need for jobs, Ratledge said.

“I think we’re going to be just dawdling along here, probably, where we are. Maybe we’ll get a little pickup

in growth,” he said. “I don’t know what drives that. People aren’t spending like they used to. They don’t have the money that they used to have.”

John Stapleford, an economist at the libertarian-leaning Caesar Rodney Institute, said Delaware has a “below-average performing economy” compared with surrounding states and even the beleaguered economic recovery nationally. “The question is: Why?”

Stapleford attributes some of the slow growth to higher taxes on businesses and individuals signed into law by Markell during the recession, as well as high costs for insurance and energy in Delaware.

“The alternative energy programs that we’re pursuing, good or bad, whatever you think, are making that disadvantage worse” by burdening utility customers, especially industrial users, with higher rates, Stapleford said.

Markell made energy costs a priority in his first term and last year secured an agreement with municipal suppliers to cap and reduce rates over three years. The deal came after he publicly warned that local governments were putting a drag on the economy by using utility rates to supplement their budgets.

But Stapleford said the state’s energy rates remain more expensive overall for electricity. Another important energy source, natural gas, remains unavailable in parts of the state.

### **Offering cash**

The state’s business owners and leaders have their own ideas about what would bring more jobs here.

Allan Best, who manages the DuPont Co.’s Pencader plant where 170 employees produce plastic aircraft and automotive parts, said more must be done to train workers for the skills that businesses need.

Markell has advocated improving training programs. In his State of the State address in January, Markell referenced training partnerships between the Delaware Department of Labor and Delaware Technical Community College, and he promised to create a “Delaware Skills Bank” that would be used to focus training programs on skills needed by businesses.

“One of the most frustrating conversations I can have is with local businesses who tell me they have vacancies but they don’t have people to fill the slots,” Markell said last week in an interview.

Donna O’Dell Hoke, owner of the Newark screen printing shop Unique Impressions, which has more than 40 employees, questioned the practice of awarding cash to large businesses to lure them to Delaware. “Do they take a big gamble on one company or do they take the same dollar amount and divide it out between people like us, who could really use the money?” she said.

Markell awarded Fisker \$21.5 million in grants, including cash for electric bills, to build electric cars at the former GM plant. The fall 2009 announcement included remarks from Vice President Joe Biden and union officials whose members remain out of work or have traveled to Ohio and Kansas to keep working for GM.

Fisker’s plan to build cars on Boxwood Road remains troubled. Delaware got into the deal on the back of the federal government, which promised the California–based startup a loan of \$529 million to design its first-generation electric car and build its second model, the Atlantic, here.

That loan was suspended in May 2011 after Fisker failed to reach agreed-upon sales and production milestones. And just last week, the company’s talks with a Chinese investor, which are seen as critical to the company moving forward, fell apart, according to a report in the Wall Street Journal. The company’s co-founder, Hendrik Fisker, also walked away from the company, citing disagreements with new management. Markell, whose courting of Fisker was supposed to be a cornerstone of his first term, is not ready to declare the project dead.

“I think they face a very, very challenging situation,” he said.

### **Markell’s strategy**

Using direct taxpayer assistance in the form of cash grants has been the most frequent tool wielded by the Markell administration to convince businesses to stay and come here.

Bloom Energy got \$16.5 million, plus surcharges on Delmarva Power customers’ electric bills, to build a fuel cell factory where the Chrysler plant once stood in Newark. Citigroup, Discover and other banks have received millions in taxpayer dollars to keep or bring jobs to Delaware. Markell and his economic development director, Alan Levin, recently met with relocation specialists, consultants who help companies decide where to relocate, at separate meetings in Philadelphia and New York. He said Delaware was not on their radar as much as he would like.

The state faces some challenges when competing with others, including higher wages than in some Southern states and a strong union presence that keeps some companies away, Markell said.

“There are some businesses who would rather be in an environment where organized labor is not as prevalent,” he said. Still, Markell insists his strategy is working. He points out that his administration has worked with dozens of small businesses that receive less

attention from the media and the public.

Milton-based Atlantis Industries, an injection molding firm that makes plastic parts for automotive, military and medical clients, received \$260,000 to bring jobs downstate. ILC Dover, the Frederica company known for helping build space suits, received a \$550,000 grant commitment from the state in January with plans to relocate 115 jobs from Mexico.

The Markell administration also used \$250,000 to back Start-it-Up Delaware, a new group founded by local business leaders and startups to grow entrepreneurial activity.

“This is happening day in day out, week in week out,” Markell said. “They tend not to get as much attention, but the fact is the huge majority of the businesses that we’ve been working with are small businesses.”

But is it enough, asks Ratledge and others who know Delaware’s economy.

One problem, Ratledge said, is that the state has relied more than others on the financial sector for jobs, and “that still hasn’t sifted out yet.”

Another problem is the construction industry, an area that in the past has offered work to many but that remains particularly weak now.

Without a stronger recovery and more jobs, the state will pay the price, he said.

“You haven’t made a dent, and you have a much larger group of underemployed and ‘left the labor force’ people. Many of them will show up on the Medicaid rolls. Those numbers have slowed down a little, but they’re still running close to a quarter of a million people,” Ratledge said, adding that there are many unknowns in the coming months about the state’s economy. “There’s no easy answer.”