FORTUNE 500 COMPANIES, A CENTRAL LOCATION AND LOW TAXES CAN'T FIX WILMINGTON

Delaware’s Biggest City Is Ripe for Reinvention. What’s Missing?

BANKS, OFFICES AND A PARK. EVERYTHING BUT THE PEOPLE.

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For most travelers, by rail or road, Wilmington, Del. is little more than a skyline on the Northeast Corridor, forgotten as soon as it is passed. The names adorning the stumpy skyscrapers are blandly familiar: Barclays, Citibank, Bank of America, JPMorgan. Wilmington’s identity as a hub for the banking and credit card industry hasn’t given it much of a tourist or hipster cache. There isn’t even a Wilmington-based television show to joke about.

Walk downtown and it’s not all that easier to discern a local identity. The central business district is just that and nothing more. There are majestic historic buildings and a few trendy restaurants. But the city’s flagship coffee chain, Brew HaHa!, closes its downtown locations at 5pm. Even during the workday, sidewalks don’t have the buzz of human interaction found in nearby cities like Philadelphia and Washington, D.C. Evenings are downright moribund. If any activity does exist, it is sure to be captured on one of the most comprehensive CCTV camera network in downtown America.

“Occasionally the playhouse or the hotel has an event, but even then people just scurry in and scurry out,” says Reverend Douglas Gerdts, pastor of First & Central Presbyterian Church on the northwest corner of Rodney Square, the seat of wealth and power in Wilmington. “You show up on a Saturday and there’s nobody on any street anywhere. There’s just nothing.”

In the livelier section of downtown’s Market Street, it’s easy enough to find the imprint of affluent 21st-century urbanity: espresso bars, tapas lounges, loft apartments and arts institutions. Local merchants and economic development types have even rebranded the area “LOMA” — that’s SoHo speak for “Lower Market” — but the district is small and quickly drops off into an anonymity of parking lots and blank-faced office buildings. A visitor strolling through the city would be hard-pressed to guess that the region is home to more than half of all publicly traded U.S. companies and more than 60 percent of Fortune 500 companies. Among those that have a return address in Wilmington are Google, Coco-Cola and General Electric.

A century-plus history of loose regulations has made Delaware — and by extension its largest city — corporate America’s preferred address. Exceedingly lax incorporation laws allow companies to set up shell fronts here and escape taxation in states where they actually do business. Last year, 90 percent of all new initial public offerings were incorporated in Delaware. In March, the state celebrated the incorporation of its millionth active corporate entity. (By comparison, it had 917,092 residents in 2012.) That year, the Division of Corporation that administers business formations accounted for 26 percent of the revenue in the state’s general fund. It’s not hard to see why the office of the secretary of state stays open later than most of downtown Wilmington.

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At a moment when cities are at the fore of a global conversation about the future, it’s interesting to turn to Wilmington, a center of U.S. trade like none other. It is a financial capital that has quixotically failed to become a capital of commerce. Money flows in and out but leaves remarkably few traces on the city. Research increasingly indicates that successful economies are bound to the specific conditions of place and that, in particular, a city’s long-term health is tied to the lived experiences of its residents. Wilmington is one where that relationship is largely broken.

JUNK MAIL ECONOMY

Unpacking how Wilmington became an economic center that itself has no center requires a quick history lesson. The city was once home to both the giant DuPont company and the titular Du Pont family. The industrial chemical colossus made Wilmington its workshop, living quarters for its employees, and a playground for the company elite. During the first half of the 20th century, what was good for DuPont
was good for Wilmington. But the company went the way of most postwar manufacturing, with its capital fleeing to climates with laxer labor laws. The city was forced to fall back on the other industry that had grown up alongside the factories: corporate franchising.

This industry lives in office parks like the world headquarters of Corporation Service Company, a tree-shrouded building just west of Wilmington that happens to be a legal address for hundreds of thousands of businesses. It lives in anodyne office buildings like the one at 1209 North Orange St., the legal address of more than 200,000 corporations including behemoths such as Ford, Cargill and, yes, Google. (No pool tables or table tennis at this Googleplex.)

Corporation Service Company was founded in 1899, the same year Delaware passed its General Incorporation Act, setting franchise fees for corporations lower than neighboring New Jersey and tilting the playing field heavily in favor of management vis-à-vis shareholders. In the 114 years since, the act — combined with a series of laws passed in the 1980s loosening usury standards and allowing rapacious interest rates — have proven incredibly successful at keeping businesses in Delaware. At least on paper.

“Delaware is the biggest state provider of offshore corporate secrecy,” Nicholas Shaxson argues in the book Treasure Islands: Uncovering the Damage of Offshore Banking and Tax Havens. Shaxon places it in the same ranks as Switzerland or the Cayman Islands.

Meanwhile, the 1981 Financial Center Development Act removed Delaware’s caps on interest rates and created a host of other advantages for the credit card industry. (“Two hundred years of legislation capping interest rates in the United States had now lost all force,” Shaxson wrote.) The end result may have been bad news for many Americans, as the average household with credit card debt owes more than $15,000, but it attracted a lot of high-end professional jobs to the state’s only large city and buoyed downtown occupancy rates.

What this means for Wilmington is that its economy morphed from one based on producing and exporting things — first gunpowder and then
Its economy morphed from one based on producing and exporting things – first gunpowder and then chemicals – to one based on administering the invisible assets of businesses that produce things elsewhere.

many, in fact — the jobs required a skills level that ultimately forced bank employers to look not only outside of the city, but beyond the state’s border to find skilled workers,” says John Taylor, president of the Delaware Public Policy Institute, an affiliate of the State Chamber of Commerce.

Of course, there have been efforts to increase the number of jobs in state. The Financial Service Center Development Act included provisions to ensure that the nascent credit card companies put down concrete roots in Delaware, granting tax breaks if the banks hired 100 people apiece and put millions of dollars toward capitalization. Yet enforcing that regulation has proven difficult, as the law does not include any stipulations about what kind of jobs these can be or to whom they should be allotted.

Even more disturbing to Wilmington advocates is the attitude toward community reinvestment on the part of many Delaware-based banks. The federal Community Reinvestment Act was signed into law in 1977 as a legislative corrective to reverse decades of racist and classist redlining and encourage banks to lend to low- and moderate-income borrowers. It requires that deposit-taking financial institutions offer equal access to lending, investment and services to everyone within a given geographic assessment area. While most small cities have only a few banks, Wilmington has dozens. And while some groups, like the well-established social service and advocacy organization West End Neighborhood House, have been able to work with local banks to leverage large loans for community development and programming, others say that the banks have not done their part to ensure their money moves through the city’s neighborhoods.

“When I say, ‘Under the CRA, you are supposed
to gear toward an organization like us to help the community,’ they say, ‘I’ve never heard of that before,’” says Darlene Battle, director of the Delaware Alliance for Community Advancement, a non-profit advocacy group on city’s East Side.

Economist Alan Mallach, a senior fellow at the Brookings Institution, says there has “undoubtedly” been some benefit from the CRA, but that “there is only one strong community development grassroots initiative going on.” He means West End.

“There are many parts of Wilmington,” Mallach adds, “including quite a lot of the city’s distressed neighborhoods, that don’t have anyone to take advantage of CRA resources.”

ONE INDUSTRY, MANY COMPANIES

Wilmington knows it is in trouble. Data clearly
shows that the city has failed to provide the education and job opportunities needed to keep families moving up the economic ladder. Between 1999 and 2011, median household incomes in the city dropped by 16 percent among Latinos, who make up 12 percent of the city’s population, and 26 percent among African Americans, who make up 58 percent of the population, census data shows. (In 1999, the median household income for African Americans was $29,569 — which would translate to a little bit more than $40,000 today. Twelve years later in 2011, despite substantial inflation, that amount remained frozen at $29,594.)

The boons of Wilmington’s bizarre economy are divided pretty clearly along racial lines. At the same time as most Wilmingtonians were falling deeper into poverty, white median household incomes in the city rose by 2.7 percent, even as white wages remained stagnant nationally. African-American unemployment stood at 15 percent at last count in 2012, while white unemployment was at 9.5 percent.

“Growing up everybody wanted to work at DuPont, or one of the car manufacturing jobs, one of the good union pay jobs,” says Frank Reyes, who moved to Delaware from Puerto Rico and now works as a janitor in a downtown office building, and holds a second job at the Cherry Island Landfill. He is a member of Service Employees International Union 32BJ, which won a contract in 2009 that gave Reyes and his coworkers their first non-government-mandated raise and, for the first time, health benefits. Their most recent contract will increase their minimum wage to $10.40 per hour in January 2015. Asked if he knows of any other organized workers in the city, he shakes his head. “Not really, I haven’t heard of any other than the state unions,” he says. “We’re the only ones.”

Even in a country where income disparities regularly play out along racial lines, Wilmington’s wealth gap is particularly large. “There is this really great disparity between the white population and the African-American population,” Mallach says. “Wilmington has seen fairly significant economic growth in the last couple decades, more so than many of the other cities in the region...[but] the riverfront development, and the financial industry, and the jobs that are being created, are really benefiting only part of the population.”

Increasing rates of violence have accompanied the widening wealth gap. In 2010, the city experienced the highest number of murders ever: 27 in a city of just more than 71,000 people. (This year, crime rates are lower.) In 2012, Parent Magazine ranked Wilmington number one on its top-10 list of the most dangerous cities in America, on account of its staggering per-capita violent crime rate and preponderance of sex offenders.

“We found that economic opportunity is predictive of physical violence in the city,” says Yasser Payne, associate professor in the Department of Black American Studies at the University of Delaware. Payne recently conducted a survey of 520 black Wilmingtonians between the ages of 18 and 35, “who are mostly street-identified and/or were involved with the criminal justice system.” Economic deprivation, Payne says, “is a major reason why people go into the streets and engage in violence, and it’s a major reason you see the kind of breakdown in the community with regard to basic structural dimensions. In our study we found that 70 percent of the black men in our sample were unemployed.”

Suburban memories of riots in 1967 and ’68, which were actually of limited scope, still loom large in the public imagination — as does the nine-month National Guard occupation following Martin Luther King, Jr.’s assassination, the longest such occupation in the nation’s history. The experience is still cited as a primary cause of Wilmington’s decline and as evidence that it’s a very dangerous place.

“It’s hard to deemphasize the impact that had on the city,” says Gerdts, the Presbyterian pastor. “All of a sudden Wilmington had the reputation locally of being dangerous, and it still has that reputation. I struggle to have people come into the city on a weeknight. It’s hard for me to get people to come to something at the church really any time other than Sundays.”

The influx of banking institutions in the 1980s did little to change these perceptions. While the financial institutions operated shiny headquarters downtown — credit card giant MBNA’s multi-block complex took up residence across Rodney Square from the DuPont headquarters, as if to cement the passing of the baton — their commuter workforce and insular corporate culture didn’t encourage interaction with the city.
“DuPont encouraged employees to get out of the office during their lunch break, and business travel meant stores selling suitcases, garments, books,” says Will Minster, main street manager for the business improvement district Downtown Visions. This, he says, was not the case with the banks, which developed mall-like complexes to ensure that employees could have all their needs met without ever leaving the office building. MBNA’s complex featured a dry cleaner, health clinic, daycare center and subsidized cafeteria for employees, who could take overhead walkways from one tower block to another, eliminating any lunchtime foot traffic downtown.

This resulted in a local industry that could survive entirely within its own private sphere — a local economy with few ties to place beyond, of course, the tax revenues and philanthropy that keep the city afloat.

Which, it must be said, aren’t negligible. “If it weren’t for the corporations, Wilmington would be Chester,” says A. Richard Heffron, a lobbyist for the Delaware State Chamber of Commerce, referring to the small, poverty-stricken city outside Philadelphia. “Corporate America in Wilmington pays the taxes.” At a recent press conference about bulking up the police presence in the central business district, Mayor Dennis Williams claimed that downtown businesses were responsible for 70 percent of the city’s revenues.

“The business district is the lifeblood of any urban area. When your financial base is gone, you’re finished. Look at Camden, look at Trenton, look at Chester,” he told reporters, echoing Heffron’s language.

But in the last six years, with the dawn of the Great Recession and its reshaping of the financial industry, even those critical contributions have been compromised. Between 2008 and 2009, 1,000 jobs were lost in Delaware’s banking sector, according to the state bank commissioner, and a further 1,000 were lost in the 2011 layoffs at M&T Bank and HSBC. The industry shows no sign of returning to its 1999 peak, when financial institutions employed 30,100 residents.

Corporate buyouts have also changed the dynamic. In 2006 MBNA was sold to Bank of America,
which has its own corporate hometown in Charlotte, N.C. The last of the major Delaware banks, the Du Pont-created Wilmington Trust, was recently subsumed by New York-based M&T. Job losses accompanied both acquisitions.

Furthermore, the new players are unlikely to get as involved in local affairs as their smaller predecessors, which had deeper ties to the city. “No city can count on publicly owned corporations as the engines of local philanthropy anymore,” says Howard Wial, director of the Center for Urban Economic Development at the University of Illinois at Chicago and a nonresident senior fellow at Brookings. “Those companies’ primary allegiances are not necessarily to the regions where they have production and back office operations.”

On top of costing banking sector jobs and philanthropy, the financial crisis destabilized neighborhoods. In 2011, Delaware foreclosure rates were among the highest in the nation. Within the state, Wilmington’s New Castle County was hit hardest, with housing values in some parts of the city losing three-quarters of their value between 2006 and 2013. Over the last three years, well over a third of all sales transactions in Wilmington were distressed properties selling at sheriff’s auctions or short sales.

“[Wilmington] has high concentrations of poor people in very specific neighborhoods,” says Paul Calistro, executive director of West End Neighborhood House. “But take in the fact that you had a housing collapse, coupled with an employment downturn, and all those things create a perfect storm and [poverty] seems to be migrating into what had heretofore been stable communities.”

“Without the financial institutions, this city would be decimated,” Calistro adds. “There would be higher unemployment and no tax base to support the city.” But while no one wants the financial institutions to leave, there is a growing awareness that the state needs to diversify if it wants to keep growing or even remain stable.

Mono-industries aren’t a particularly reliable source of longtime stability, as Detroiter and people living across the Rust Belt can testify. If you live by the industry, you die by the industry. In 2002 there were 54,204 total jobs in Wilmington, and today there are 51,335. “You can still bank on the kinds of back office operations that Wilmington has, at least for a few more years,” Wial says. “But if we have another technological revolution that affects back office operations and banking, then everything is up for grabs again.”

Williams, who has emphasized austerity as key to the city’s future, seems cognizant of these challenges. Although he promised no tax increases or employment cuts in his 2013 State of the City address, municipal employees (the majority of whom are African American) will go without a raise for the fifth consecutive year.

The mayor also has doubts about the financial institutions’ future. “Banks can be pretty shaky right now with the way the market is going,” he says. “Homes are being foreclosed on, bad loans are taking place. We have to look at new technology, what is selling, what is needed in this nation.” He points to a new business that will bring in 50 jobs of the sort that put Wilmington on the map to begin with: A manufacturing facility that will produce military-grade gloves.

A century after the Du Ponts made Wilmington their town, and a generation after financial services
giants did the same, decision-makers are realizing that a single industry is no longer enough. Especially when it’s an industry so self-contained that hundreds of thousands of its boldface names can fit in a single-story building.

**STILL LOOKING FOR JOBS**

Pretty much everyone agrees that it’s time for Wilmington’s economy to diversify. The question is how. Nobody plans on a manufacturing resurgence — in fact, no one interviewed for this article other than Williams had heard of the glove-making outfit. More common is the interest in what Delaware Gov. Jack Markell calls the innovation economy. He wants to grow businesses in Wilmington rather than import them, which is how the financial service companies came to town. Earlier this year, the state gave a $250,000 grant to a Wilmington-based technology incubator called the coIN Loft. Inspired by the national coworking trend, coIN Loft occupies the fourth floor of a Market Street building facing the Delaware College of Art and Design. It is littered with the emblems of twenty- and thirty-something entrepreneurship: Tasteful but budget-friendly bottles of wine and cases of Yuengling Lager to fuel happy hours.

Despite the public support, it’s an uphill battle. “Square should have started here,” says founder Wes Garnett, referring to the Silicon Valley-born mobile device that allows small merchants to easily accept credit card payments through their iPhones. The incubator has graduated 100 companies, but it’s unclear how many of these will stay in the city or survive the tough first years of a start-up lifecycle. (Even if the tech scene does blossom, it could result in the same kind of polarized income disparities Wilmington now sees in its financial sector.)

Boosters point to reinvigorated entertainment, restaurant and housing markets along the riverfront and on lower Market Street as evidence of Wilmington’s resurgence. Over the past 12 years, a lot of attention, energy and resources have been directed toward the effort to attract middle and upper class residents. The city already has neighborhoods both upscale, like Rockford (home of U.S. Sen. Chris Coons), and solidly middle class, like Trolley Square (where street life is far more lively than it is downtown). But these are not close to the business district or the Amtrak station.

Efforts at reenergizing these areas have yielded substantial growth: The city’s downtown population increased tenfold over the last 13 years, going from 200 a decade ago to 2,000 and counting today. “We have people moving into the city — retirees, young people — that’s a relatively new phenomenon for Wilmington,” says Michael S. Purzycki, executive director of the Riverfront Development Corporation of Delaware, a state-created agency that acquires property to lay the groundwork for private developers. “The response has been excellent. We have two other developers who are exploring building high rises right now. The restaurant market continues to be strong, and we have a number of property acquisitions right now and are planning on more restaurant development.”

Purzycki concedes that the market for office space is slow, but believes other new developments promise jobs for lower-skill workers. A new Westin hotel is expected to go up soon and provide 100 jobs. Employment that’s already been created includes numerous food service jobs and, in his approximation, 80 jobs at the Penn Cinema IMAX theater, largely held by teenagers from other neighborhoods. “It’s not that these are such great jobs that create so much wealth,” Purzycki says. “They are low-paying jobs, but they give kids ownership over the riverfront, a sense that this area of development belongs to them and not just to the people who can afford $400,000 condominiums.” The Riverfront Development Corporation’s long-term strategy, according to Purzycki, is to integrate with the lower Market Street area.

“Anecdotally I know that Penn cinema, the new movie theater on the riverfront, is employing a lot of folks who are city residents,” says Carrie Gray, managing director of the Wilmington Renaissance Corporation, a public-private economic development agency. “So definitely a lot of job opportunities. Have the repercussions of investment in these areas trickled into the neighborhoods? Not yet. The riverfront has been under development for the last 15 years, which is not a long time, really, on the time-space continuum.”

If these redevelopment efforts have created substantial inner city employment growth, the proof doesn’t seem to be in the job numbers. Of the 28,313 employed Wilmington residents, 20,745 have to commute to work in suburban malls and the
region’s dwindling manufacturing firms. The city unemployment rate was 11.3 percent as of July 2013, compared to 9.61 percent in the 2000 census. The poverty rate has increased in that time as well.

Gerdts plans to move from his neighborhood near West End to the redeveloped downtown. His children have moved out, and he no longer needs so much space. But despite his intention to remain a city resident, he is concerned for what the future will hold for those who can’t afford to pick up and move downtown. “The only development in Wilmington in the 10 years that I’ve lived and worked in the city has favored the upper end of the income and/or commercial/banking interests,” he wrote. “I think we’re clearly headed to the same level as Camden.”

But Wilmington is unlikely to suffer the same fate as its upriver counterparts, which don’t even have commercial interests or an upper end of the income scale to cater to. Instead it is likely to continue on its current pattern, a city thoroughly divided along racial lines that offers very different opportunities to its residents. As Williams has hinted at, more developments like the glove manufacturer could go a long way toward providing working-class jobs. But it’s an open question as to whether Wilmington could or would develop something akin, perhaps, to the publicly owned and non-profit-operated Brooklyn Navy Yard, now home to a host of small-scale manufacturers and other businesses that employ local workers in reasonably well-paying jobs.

It was a cinch to get hundreds of thousands of shell companies to set up shop in Wilmington. Getting even a dozen actual enterprises, paying reasonable wages, to hire Wilmington residents looks like it will be a lot tougher.
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