Executive Summary

BUILDING FROM STRENGTH

CREATING OPPORTUNITY IN GREATER BALTIMORE'S NEXT ECONOMY

JENNIFER S. VEY
FELLOW

THE BROOKINGS INSTITUTION | METROPOLITAN POLICY PROGRAM | 2012

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According to many broad economic indicators, the Baltimore metropolitan area is doing better than fine. In 2010, the median household income for the region was nearly $15,000 higher than for the country at large, and over the 10 years prior, real incomes rose in the metro, if slowly, even while incomes nationally shrank by more than 7 percent. Employment grew from 2000 to 2010 while declining nationwide, and during the economic downturn, the area's unemployment rate was consistently lower than the majority of its metropolitan peers.

Yet anyone who lives and works in Greater Baltimore knows the region is also home to many families and neighborhoods challenged by varying levels of economic and social distress. Although only about 10 percent of the region's residents are considered poor, nearly a quarter are low-income, meaning they are part of a family with a total income that is below 200 percent of the federal poverty line. Yet the regional economy hums along, baring the somewhat disquieting truth that a good economy for most can be had even while many aren't reaping its benefits.

Efforts and ideas to change this paradigm abound. The public, non-profit, and philanthropic sectors—in Baltimore and throughout the country—spend billions each year trying to help fill the gap between what a household can afford and what it actually takes to pay for basic needs. As critical as these interventions are, however, they are not targeted at expanding opportunity—that is, making greater numbers of middle-wage jobs available and accessible to those who want to get ahead—as much as trying to compensate for the fact that there isn't enough of it.

This report proposes a different approach, one simultaneously focused on investing in efforts to grow a more opportunity-rich "next economy" and helping low-income residents gain the education, skills, and other capacities needed to participate in it. To this end, it advances three primary messages:

❶ **Greater Baltimore is not generating enough quality jobs, and low-income people aren't accessing them.** Although Baltimore's low-income residents have higher rates of unemployment than metro residents overall, 97 percent of them have a job or have held one in the recent past.

Some of those workers may be only tenuously attached to the labor force, either moving in and out of employment or steadily working, but only part-time. But the fact remains that many low-income residents simply don't earn very much. In fact, about three-quarters of the region's low-income workers are employed in just a few industries, including healthcare, social, or educational services, arts and entertainment, accommodation and food services, retail, construction, and administrative services. These industries don't pay uniformly low wages, but they are big regional employers, with large shares of low-wage occupations. For example, approximately 10 percent of the total metro workforce is employed in retail, an industry in which more than 76 percent of jobs were in low-wage occupations. And while average annual wages in the healthcare and social assistance sector are approaching the average for all industries in the metro, 47 percent of the nearly 182,000 workers in the sector are employed in low-paying jobs.[TPD]

Yet it is not just low wages themselves that explain why Greater Baltimore has so many low-income residents. Rather, the region has an economic structure that for years has been producing too few decent-paying jobs that too few low-income workers are able to access.

Though the Baltimore region saw somewhat stronger job growth than the U.S. in the seven years leading up to the recession and experienced less job loss during it, its jobs engine over the past few decades has been sputtering. An examination of job growth by industry reveals that during the 27-year period prior to the Great Recession, growth in the lowest-paying third of Greater Baltimore's industries was 62.5 percent, closely mirroring that of the nation as a whole. But the number of jobs in the middle-paying third of industries rose by less than 37 percent, compared to 40 percent nationally, and growth in the highest-paying third was just 9.6 percent, while the U.S. saw an increase nearly three times that much.

Economists have been working furiously to understand these trends, and in so doing have revealed several key factors that for years have conspired to undermine the nation's—and its metros'—ability to create more and better-quality jobs. For one thing, the pace of U.S. innovation—a key driver of productivity and ultimately wage growth—has slowed over the past few decades. Meanwhile, the vast majority of U.S. firms have not adequately positioned themselves to take advantage of growing markets abroad, and few states and metros have put adequate policies and resources in place to help them. Finally, the American workforce has been losing some of its competitive edge, with many workers lacking the skills and education needed to successfully compete in a globalizing economy.

Given that the U.S. economy is largely driven by its metropolitan areas, it makes sense that employment and wage trends in Greater Baltimore have been strongly influenced by these same forces.

❷ Greater Baltimore has significant assets on which to build a more opportunity-rich next economy, but they aren't being fully exploited. If the past tells us anything about the future, it's clear that realizing a more productive, inclusive economic future will require a new model for next economy growth. Such a model demands that we take advantage of growing talent, demand, and investment from countries abroad by supporting **export-oriented** firms and other kinds of global engagement. It will require that we continually **innovate** in the products and processes that improve how we live and work—including in the **low carbon** technologies that will advance global health and environmental sustainability, strengthen our resource security, and boost U.S. leadership in the clean energy revolution. And it will compel us to provide better ways for workers to get the skills and education they need to produce, deploy, and ultimately share the rewards from that which we invent.

Greater Baltimore has a powerful set of assets and advantages that should allow it to grow and excel in such an economy, including a robust network of colleges and universities, several world-class hospital systems, close proximity to the nation's capital and, importantly, sophisticated firms, skilled talent, and formidable research capacity.

But these assets haven't been fully leveraged. Though the Baltimore metro produced $9.7 billion in total international exports in the 2010, the export share of the metro's total GMP is only 6.7 percent, ranking it 89th among its metro peers nationwide. Though the region excels on many typical indicators of scientific discovery and technological advancement, it is weak when it comes to translating its significant amount of life sciences and other research into new products and services, and the creation of new businesses is slow. And though its green economy is relatively large based on sheer size—its nearly 23,000 jobs ranks the area 22nd among the top 100 metros—the sector comprises a fairly small share (1.7 percent, ranking it 51st) of its overall economy.

Given its strengths—and weaknesses—it seems evident that efforts to move the region more firmly into the next economy will require a particular focus on industries that have the best potential to drive economic growth:

- a healthy, globally-connected **manufacturing** sector
- a robust, market-oriented **bioscience** industry
- an open, entrepreneurial **information technology** sector
- a large, diverse set of firms and jobs that convey a **"green"** benefit, and
- a **transportation and logistics** system that can efficiently and effectively move goods and people both within and outside the region.

Together, these five often intertwining industries can help ease the way we do business, improve our health, preserve natural resources, and allow us to access goods, services, and information more quickly than ever before. But perhaps the best reason Greater Baltimore should work to grow and develop these industries is because doing so will help build an economy characterized by greater numbers of good-paying jobs that greater numbers of workers can access.

Indeed, a detailed analysis of these five key next economy industries reveals that the share of workers earning a middle wage or better is higher in each than it is for the Baltimore metro as a whole. Even better, these industries *have a higher share of workers who are earning a decent living without having completed a 4-year college degree:* Though only 31 percent of all Baltimore workers without a bachelor's degree are employed in well-paying occupations, the same can be said for 51 percent of transportation and logistics workers, 45 percent of manufacturing workers, 42 percent of clean economy workers, 39 percent of bioscience workers, and 36 percent of IT workers. It's just these "opportunity sweet spots" that the region should be working to expand.

❸ **Greater Baltimore needs to focus both on investing in the next economy and ensuring low-income people are connected to it.** The Baltimore metro has strong seeds from which to grow a more export-oriented, innovative, greener region. But for the metro's low-income residents, the next economy is still too small, and too far out of reach. In fact, only a small fraction of the working poor were employed in the region's five next economy industries at some point during the past 5 years, which is precisely the point: If they were—at least somewhat steadily—they very likely wouldn't be low-income.

It is, in part, a matter of scale: As yet, these industries today simply aren't large enough—nor growing enough—to absorb all the low-income workers who might wish to join their ranks. Beyond this is the fact that many of the region's low-income workers face a range of barriers to attaining next economy jobs, possessing neither the education and skills employers need, nor the robust social, institutional, and physical connections needed to access—or perhaps even know about—the opportunities embedded in them.

As this report argues, it's time to take a different tack.

In the first place, Greater Baltimore's public, private, and non-profit leaders—along with the state—need to be **far more visionary, far more coordinated, and far more strategic about growing the next economy industries in which good wage jobs are the norm rather than the exception**. This means strengthening the next economy attributes that makes these sectors so critical to the region's future:

- ***Build a stronger export economy.*** To succeed in an increasingly competitive global economy, Maryland and Greater Baltimore must help firms overcome their reticence to export, and find new ways to tap growing markets abroad. This will require a thorough assessment of the major barriers to exporting that companies face, and what they need to surmount them. Armed with that information, the state and region should then work together to develop a strategy for increasing regional exports, with both quantifiable goals and clear measures for evaluating progress.

- ***Provide greater support for innovation and entrepreneurship.*** Greater Baltimore needs to covert more of its research into new products and firms, while at the same time ensuring that existing businesses—particularly manufacturers—are able to embrace new innovations:

  - **Help new ideas become new businesses.** To support the development and commercialization of early stage technologies, the public, nonprofit, and private sector must continue to work together to grow and organize the metro's angel community and mobilize it to make the early investments that traditional venture capitalists won't. Regional leaders should also consider how universities, incubators, educational and business coaching services, housing, and other amenities can be brought together in close geographic space—as leaders in Barcelona, Spain did—to advance innovation and entrepreneurship.

- **Help manufacturers stay on the cutting edge.** To help small- and mid-sized manufacturers (SMMs) implement new technologies—as well as the changes in management processes, work organization, and supply-chain relationships that often must accompany them—state and regional leaders could in the short term encourage firms to form a consortia focused on promoting manufacturing innovation, and helping workforce providers design training programs that meet their needs. Over the longer term, the public and private sectors should work with universities and other organizations to establish an advanced manufacturing research center in the region that would assist firms with research commercialization, technology transfer, and production innovation.

➤ ***Build on the region's clean economy strengths.*** To grow the clean economy, the region, aided by the state, should rigorously appraise the metro's clean economy strengths, opportunities, and the impediments to future growth and development. Leaders then need to use this analysis to help break down existing regulatory, financial, and other barriers to firm and job growth. Such efforts might include, at one end the spectrum, a revamping of government procurement processes so as to stimulate demand for local green products and services, or at the other, marketing Maryland firms to countries and companies abroad.

Greater Baltimore has the institutional and economic strength necessary to bring about the kind of transformational change suggested by these strategies.

These and other strategies aimed at promoting the growth of Greater Baltimore's next economy industries are essential—but they are not enough. Growing an opportunity-rich next economy also means **ensuring that regional workers have the information, skills, and connections needed to participate in it,** and that next economy employers thus have the labor force they need to expand and succeed:

- ***Help young and incumbent workers get the skills and education next economy employers need.*** To respond to a rapidly changing economy, Greater Baltimore's education and training providers must be able to nimbly adapt their curricula around the specific skills next economy firms require, while also employing 'bridge' and other programs that help more of those who enter their programs—whether straight from high school, or after years of work—stay the course and earn a credential. Perhaps most importantly, the workforce system needs to work much more closely with employers to increase the availability of apprenticeships, mentoring programs, and on-the-job training opportunities so that formal schooling is accompanied by real world experience.

- ***Build a more coordinated workforce delivery system.*** To create a more integrated, comprehensive, and ultimately successful education and workforce structure, leaders need to take an inventory of all the public, private, and nonprofit providers in the delivery system, the types of programs they offer, how successful they are in helping residents secure a good job, and the industries in which they are landing. Only by doing so can they begin to identify gaps and then work with providers and employers to help fill them. Then all the players in the system—businesses, community colleges, government, non-profits—must together develop a common regional vision and a set of goals against which to measure their joint progress toward not simply serving residents, but actually helping them access, maintain, and ultimately help create quality employment opportunities in growing sectors.

- ***Improve low-income workers' ability to get to next economy jobs.*** To broaden participation in the next economy, regional leaders must target land use, transportation, and infrastructure investments so as to better align, and help spur, residential and business development, while also helping improve physical connectivity between people and jobs. Integrating existing state and local efforts to foster transit-oriented development (TOD) in the metro into a next economy economic development strategy will be critical to this process, as will the continued build out of transportation infrastructure like the proposed Red Line.

Greater Baltimore has the institutional and economic strength necessary to bring about the kind of transformational change suggested by these strategies. Regional leaders must now build on that strength with a bold vision of the possible, and the collective will to achieve it. ■