

Philadelphia in Transition: Advancing an Equitable Economy in a Regional Shift from Industry to Innovation

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Philadelphia: A Case Study of a Steady-Average Regional Economy in Transition

Over the past several decades the U.S. economy has undergone tremendous shifts with the precipitous decline of manufacturing, the rapid growth of digital and automation technologies, and the polarization of job growth between high- and low-wage occupations with middle-wage job growth trailing behind. These changes have predominantly benefitted educated workers, fueling widening inequality and calling into question the future of good jobs for the majority of workers who do not have college degrees. To better understand the relationships between these industry-level changes and their implications for building solid pathways into the middle class, PolicyLink and the University of Southern California Program for Environmental and Regional Equity (PERE) examine these economic changes in the nation’s largest metropolitan areas between 2005 and 2015. This analysis is described in [Regional Economies in Transition: Analyzing Trends in Advanced Industries, Manufacturing, and the Service Sector to Inform Inclusive Growth Strategies](#), which presents a typology that classifies the 150 largest metros into seven types based on: (1) the growth of advanced industries, such as computer systems design and chemical manufacturing; (2) the decline of traditional manufacturing jobs; and (3) the quality of jobs in service-sector industries that generally do not require a bachelor’s degree and are therefore more accessible to economically insecure workers (defined as those with incomes below 200 percent of the federal poverty level).¹ The table below presents a summary of the seven regional types.

This report presents a case study of the Philadelphia region, which is classified as Steady-Average in our typology. In addition to the data analysis presented in the typology report, this case study includes data illustrating local labor market trends and racial inequities in economic outcomes that are informed by local research and interviews. All data points that are not otherwise cited are based on PolicyLink and USC-PERE analysis of data from the U.S. Census Bureau in the National Equity Atlas.

Philadelphia is categorized as Steady-Average on the basis of its modest decline in advanced industries, moderate loss of manufacturing jobs, and moderate quality of service-sector jobs accessible to workers without a bachelor’s degree. This case study considers these broad labor market trends and the recommendations put forth in the typology report, with specific consideration of Philadelphia’s economically insecure population, to understand how these economic changes can inform local and regional strategies to promote inclusive growth and increase economic security for people of color and low-income residents.

Policymakers in Philadelphia are wrestling with a dubious distinction for the City of Brotherly Love: the “poorest big city in the country.”² Philadelphia’s poverty rate remained at 26 percent in 2017, more than double the national rate.³ About half that number—almost 400,000 people in the region—live in deep poverty (50 percent of the federal poverty level, or about \$9,700 a year for a family of three).

Regional Typology Overview

Region Type	Decline in manufacturing	Rise in advanced industries	Quality of service jobs accessible without a BA degree	Number of metros
Leading Tech Hub	Slow	Most Rapid	High	7
High Prospects	Slow	Rapid	Moderate	24
Steady, Looking Up	Moderate	Above Moderate	High	10
Steady, Average	Moderate	Moderate	Moderate	66
Steady, Struggling	Moderate	Moderate	Low	13
Passed Over	Rapid	Slow	Moderate	24
Hardest Hit	Most Rapid	Slow	Low	6

Note: “Quality of service jobs accessible without a BA degree” refers to an index based on cost-of-living-adjusted average annual wages, wage growth, and employment growth in service industries in which the majority of entry-level jobs require less than a BA degree.

Recent policy changes are a promising start to improving job quality for low-wage workers, including the 2015 adoption of a bill to mandate paid sick leave for workers in businesses with 10 or more employees. In December 2018, the city established a “fair workweek” law to guarantee predictable and fair scheduling for workers in service and hospitality occupations, which is expected to benefit about 130,000 working people.⁴ Though state law prevents local leaders from increasing the minimum wage, the Philadelphia City Council also approved a measure that will lift the minimum pay for city employees, contractors, and subcontractors to \$15 per hour over the next four years, and is also considering measures to protect the rights of domestic workers.

But in a region where people of color have accounted for 100 percent of net population growth since 1990 and 46 percent of these people are economically insecure, there is more work to be done to build an equitable region for all residents, and a changing economic landscape in which to do it. Advancing inclusive growth in Philadelphia will require solutions to remove structural barriers; to increase economic security among the region’s most vulnerable residents; and to prepare the rising generation to participate, innovate, and lead. By leveraging its considerable resources to foster shared prosperity, Philadelphia can remedy racial economic inequities to the benefit of all residents. In 2017 alone, the region’s economy would have been \$76 billion stronger if there had been no racial gaps in wages or employment.⁵

This case study is structured as follows. First, it describes Philadelphia’s regional profile based on the sectoral employment changes measured in our typological analysis and the broader economic context in which these changes have occurred. Next, it presents data on the economically insecure population in the region and analyzes some of the key barriers to racial economic inclusion. Finally, it presents policy recommendations to advance inclusive growth in Philadelphia and other Steady-Average regions:

- Adopt equitable contracting and procurement processes by establishing diversity targets and helping businesses owned by people of color access public contracting and procurement dollars.
- Design wraparound supports for disadvantaged workers.
- Remove barriers that make it difficult for formerly incarcerated residents and other job seekers to access opportunity.
- Invest in the growth of small businesses and worker cooperatives owned by women and people of color.

The Importance of Equity for Philadelphia’s Future Economy

In our analysis of three key sectoral trends shaping regional economies in the United States, the Philadelphia metro area was among the large group of regions classified as Steady-Average—those with a moderate decline in manufacturing employment, modest growth or decrease in advanced industries, and moderate job quality among service industries accessible to workers without a bachelor’s degree (based on average wages, wage growth, and employment growth). Key trends include the following.

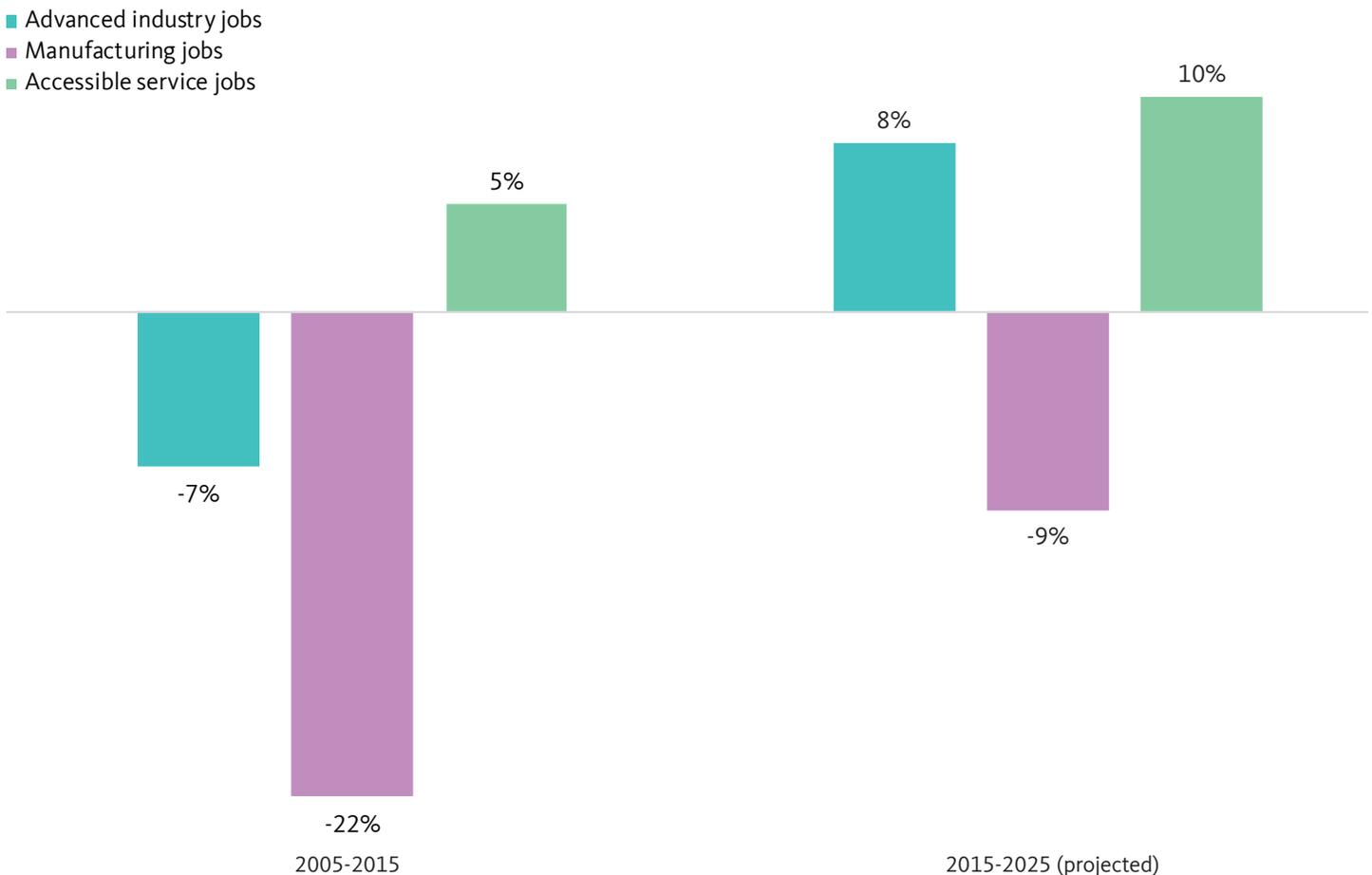
- From 2005 to 2015, the Philadelphia metro lost 7 percent of jobs in advanced industries (advanced manufacturing, advanced services, and energy and utilities) and 22 percent

of all manufacturing jobs. During the same period, service-sector jobs accessible without a bachelor’s degree grew by just 5 percent, and average wages for those jobs actually declined by 2 percent, to \$36,350.

- In the decade from 2015 to 2025, advanced industries employment is projected to grow by 8 percent, while manufacturing employment will decline by 9 percent. Accessible service-sector jobs are also expected to enjoy stronger growth of 10 percent, and average wages in those jobs are expected to increase by 16 percent to about \$42,000—enough to lift a family of three out of economic insecurity.

Employment in advanced industries and manufacturing jobs declined during the last decade while employment in accessible service-sector jobs increased.

Change in employment 2005–2015 and 2015–2025 (projected) for advanced industries, manufacturing, and accessible service industries, Philadelphia metro area



Source: PolicyLink/PERE analysis of Detailed Estimates of County Employment and Output from Moody’s Analytics.

Note: Data in each year are from the month of December.

Philadelphia Is Transitioning from a Manufacturing Powerhouse to an Innovation Hub

Fifty years ago, one in every three workers in Philadelphia were employed in the manufacturing sector. These workers made textiles, tools, ships, and steel, and earned the region the nickname “the workshop of the world.”⁶ The strength of these industries has historically undergirded the region’s economy and provided a source of good jobs for many workers without formal education. Yet this situation made Philadelphia especially susceptible to the eventual decline of manufacturing across the United States in the face of deindustrialization, automation, and offshoring.

Today, the remnants of Philadelphia’s industrial past serve as the backdrop for a dramatically different regional economy driven by the knowledge-based sectors of education, health care, and social services, which collectively represent about 30 percent of jobs in Philadelphia.

But the story of manufacturing in Philadelphia is not yet finished. In recent years the region has seen some signs of growth in advanced manufacturing operations, and industry is actively partnering with community colleges and training providers to help prepare workers to succeed in related occupations. Further upstream, the Manufacturing Alliance of Philadelphia works with K–12 schools to introduce students to innovative manufacturing practices, such as 3D printing, as early as fourth grade.⁷

Advanced Industries Are Recovering, Lifted by Cross-Sector Collaborations

Anchored by the region’s “eds and meds” (educational and medical institutions), Philadelphia has reinvented itself as a hub of innovation. At the heart of the central city, the University City–Center City innovation district brings large universities and health systems together with major corporations, start-up ventures, accelerators, and financial institutions in an “innovation ecosystem.”⁸

Some of these institutions—including Drexel University, the University of Pennsylvania, the Children’s Hospital of Philadelphia, PECO, Comcast, and Vanguard, among others—have begun to deliberate and develop strategies to leverage the resources and expertise in this ecosystem to position Philadelphia as a leader in the global shift to a host of new

technological advancements including “the Internet of Things, automation and robotics, [and] genomics and personalized medicine.”⁹

Nearly four in 10 workers in Philadelphia are employed in the city’s universities and hospitals, and the innovation district represents a range of opportunities to connect this workforce, and these institutions’ considerable research and resources, to the growing tech sector. How and whether the region’s economically insecure residents will benefit remains to be seen.

Accessible Employment Opportunities Are Concentrated in Low-Wage Service Jobs

Still, Philadelphia faces deep challenges that reveal how the geography of opportunity and prosperity in the region is distinctly racialized. More than 50 percent of jobs in the city of Philadelphia are considered “low skill,” meaning they may or may not require a high school diploma and require no long-term training. Furthermore, 11 of the 15 occupations that employ the most workers in the city are low-skill occupations, almost exclusively in the service sector. The median hourly wage for White workers in low-skill jobs is \$15.58, compared to \$11.01 for people of color.¹⁰

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A lot of people are doing well here if they have capital, if they have special skill sets and knowledge. But [the region] is still not doing as well as we could be because a lot of other people are hurting, and falling behind.

S. (focus group participant)

Given that three out of four working people who live in the city of Philadelphia also work in the city, it is important to understand these labor market dynamics in relation to the spatial logic of racial segregation. The city of Philadelphia is just 36 percent White, while the broader Philadelphia region is about 64 percent White with a poverty rate about half that of the central city. Many residents, including half of all economically insecure Black households and a third of economically insecure Latinx households, do not own a vehicle. In and around the central city of Philadelphia, the Southeastern Pennsylvania Transportation Authority serves five Pennsylvania counties with bus and rail transit. But as the region’s job and housing markets have become increasingly intertwined across its sprawling 4,600 square miles in four states and 11 counties,¹¹ many residents who rely on public transportation

may not be able to benefit from opportunities elsewhere in the region. For residents traveling from certain neighborhoods or workers on nontraditional schedules who do not own a vehicle, it can be difficult to access job, schools, and other amenities.

While the regional shift to a knowledge-based economy has created significant wealth and opportunities for highly educated workers in tech, medicine, and other related sectors, it has also exacerbated economic pressures on low-wage working people and communities of color. Since 2000, median rents in Philadelphia have risen by 14 percent, contributing to a 41 percent increase in rent-burdened households. The sharpest increases have impacted people of color, who were already disproportionately burdened. Our data analysis shows that 671,000 residents in the Philadelphia metro area are renters, and nearly six in 10 of them spend more than 30 percent of their income on housing costs.¹² According to the National Low-Income Housing Coalition, a worker earning the minimum wage of \$7.25 an hour in the Philadelphia metro would need to work 94 hours per week to afford fair-market rent on a studio apartment or 134 hours per week for a two-bedroom apartment.¹³

Philadelphia's Regional Economy Is Gaining Momentum, Yet Racial Economic Inclusion Remains a Central Challenge

From 2016 to 2018, Philadelphia has enjoyed an uptick in economic growth, outpacing national job growth for three years in a row, but without any notable decline in racial inequities and economic inequality. “Philadelphia must be intentional about the need for inclusive growth so that all residents are able to be part of the city’s positive momentum,” said Mayor Kenney,¹⁴ noting the need for greater collaboration between the private sector and public officials to improve outcomes for vulnerable residents.

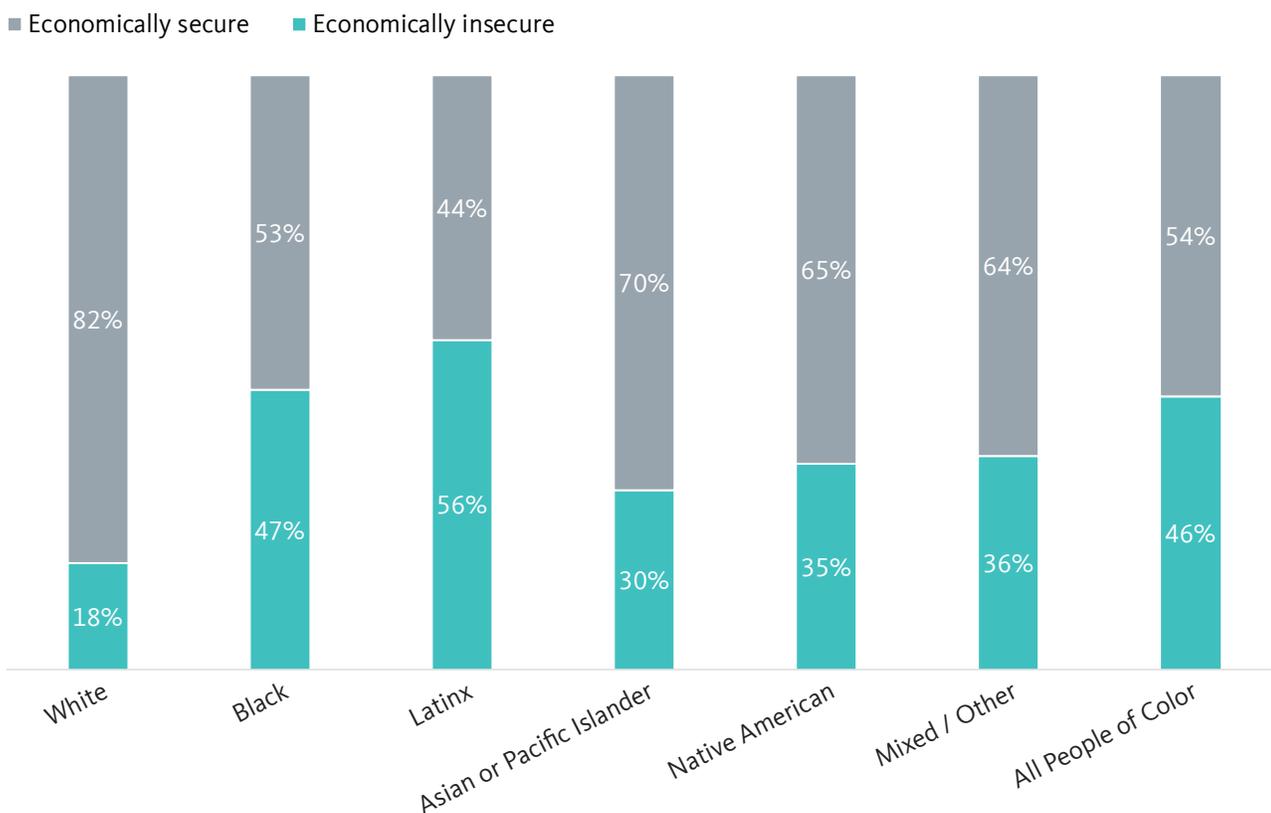
Despite the relative strength of the region’s growing sectors and the promise they hold for its global competitiveness and economic prosperity, Philadelphia lagged behind the nation

in both job growth and GDP growth in the first six years following the Great Recession. The number of jobs in the region increased by 1.2 percent, compared with 1.5 percent nationally. The region’s GDP grew by about 1.8 percent, compared with 2.1 percent for the nation as a whole.¹⁵

A 2019 report from the Federal Reserve Bank of Philadelphia revealed some encouraging findings: one-fifth of the jobs in the region are in so-called “opportunity occupations,” which are accessible to workers without a bachelor’s degree and pay median wages above the national average (adjusted for cost of living).¹⁶ However, the long-term outlook for these occupations is mixed. Some opportunity jobs, such as those in skilled trades and the health-care field, are projected to enjoy strong growth in the next decade and are considered relatively safe from automation; others, especially in the service sector, may be more vulnerable to technological change and offer fewer opportunities for career advancement.¹⁷

Latinx residents are more than three times as likely as White residents to be economically insecure.

Population by economic security status and race/ethnicity: Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area, 2015



Source: Integrated Public Use Microdata Series.

Note: Data for 2015 represent a 2011 through 2015 average.

About 28 percent of residents in the Philadelphia metro region—1.6 million people—are economically insecure, up from 24 percent in 2000. As the region’s demographics continue to change, economic insecurity is experienced unevenly by race/ethnicity. Just 18 percent of White residents have household incomes below 200 percent of the federal poverty level, compared with 56 percent of Latinx residents and 47 percent of Black residents. Overall, people of color in Philadelphia are two-and-a-half times as likely as their White counterparts to be economically insecure.

In Philadelphia, as in many other regions, growth in economic insecurity is driven by the intersection of shifting demographics, changes in the structure of the regional economy, and deep-rooted racial inequities in the region’s economy, institutions, and systems. The region has struggled over the past few decades to grow enough of the kinds of jobs that can provide workers and families with a firm foundation to build lasting economic security. While low-wage jobs have grown by 24 percent since 1990, neither middle- nor high-

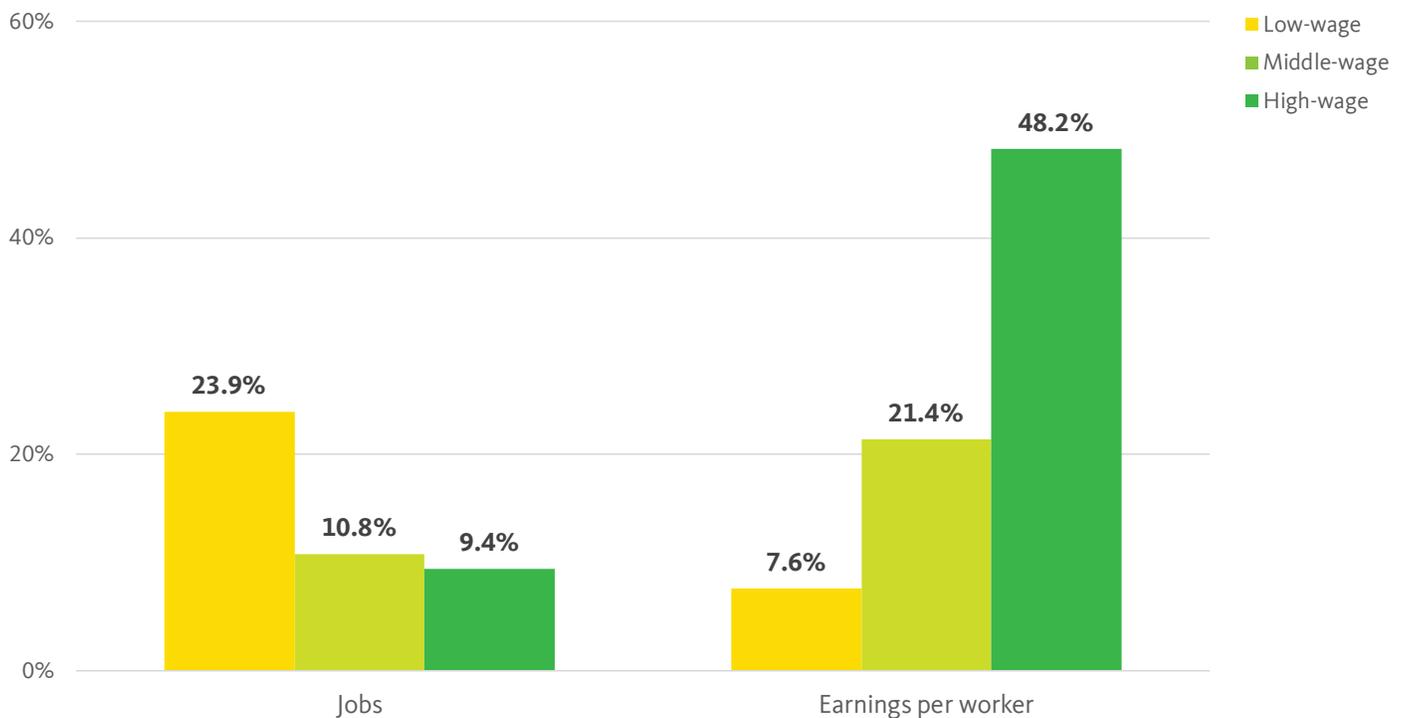
wage jobs have kept pace with population growth. As a result, a larger share of full-time workers are now economically insecure—especially people of color.

In 1990, about 16 percent of full-time working people of color were economically insecure; by 2015, the share had risen to 19 percent.¹⁸ By comparison, just over 5 percent of White full-time workers are economically insecure. Such racial gaps are due in part to inequities in employment, but also to the region’s persistent racial wage gaps. White workers are paid an average of \$7 more per hour than their Black counterparts, and \$10 more per hour than Latinx workers.

Over the same period, earnings per worker in high-wage jobs have grown more than six times as fast as those in low-wage jobs. While gaps in educational attainment may be one factor contributing to wage disparities in the Philadelphia region, data also show that Black workers in Philadelphia are likely to see a significantly lower “wage premium” from higher education than other racial/ethnic groups.

Low-wage jobs have grown more than twice as fast as middle- or high-wage jobs since 1990, but earnings growth has been dramatically concentrated among high-wage earners.

Growth in jobs and earnings by wage level: Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area, 1990–2016



Source: U.S. Bureau of Labor Statistics; Woods & Poole Economics, Inc. Universe includes all jobs covered by the federal Unemployment Insurance (UI) program.

Note: See the National Equity Atlas for more detail on the analysis of growth in jobs and earnings by wage level, at https://nationalequityatlas.org/indicators/job_and_wage_growth.

In the context of Philadelphia’s polarized job growth, the region’s racial gaps in education could deepen income inequality. Philadelphia’s world-class universities attract top talent from around the world, but many local residents are unable to take advantage of post-secondary education. By 2020, more than four in 10 jobs in Pennsylvania will require at least an associate’s degree. More than 60 percent of Asian or Pacific Islander adults and about half of White adults have attained that level of education, but far fewer Black, Latinx, and Native American residents have college degrees.

While the job skills, knowledge, and experience that workers need to succeed are not exclusively gained through college degree programs, many employers rely on educational requirements to narrow the pool of qualified applicants. In some cases, such requirements amount to a bias on the part of



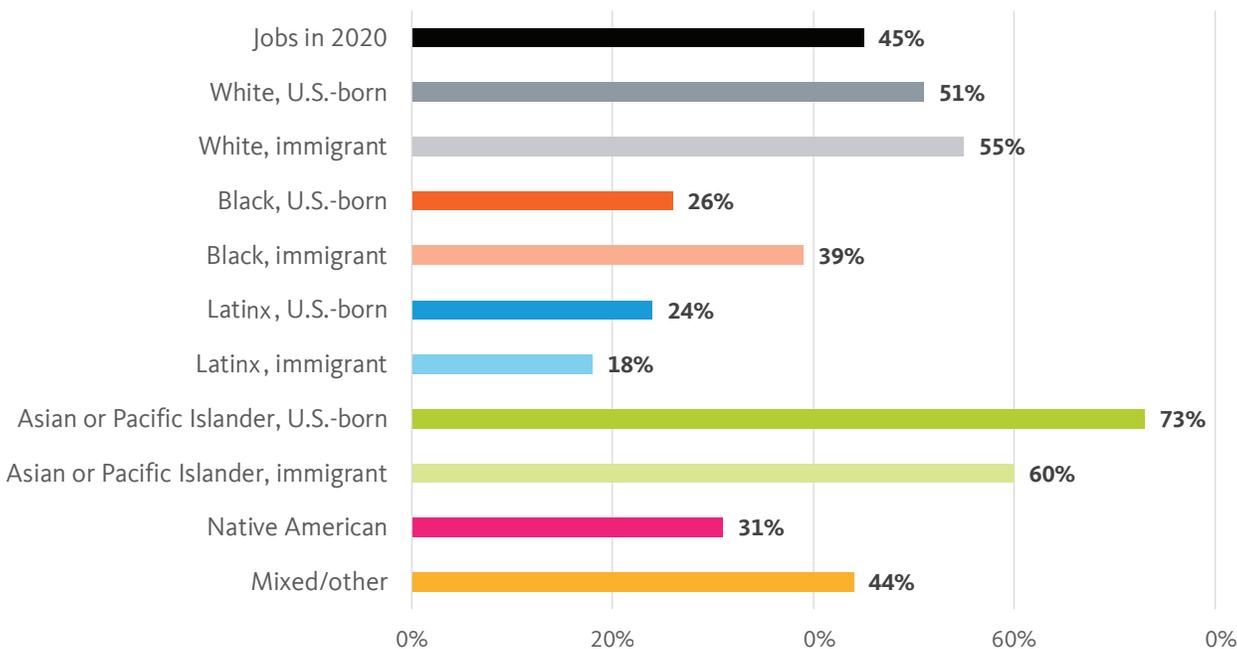
When I first got into the security field, it was pretty basic—you didn’t need any licenses or certificates or anything like that. Now it’s changing. You have to go to classes, you have to get certificates and stuff. I have 10 years of experience, and it’s still hard for me to find a job in that field without the right credentials.

G. (focus group participant)

employers who are unable or unwilling to invest in direct worker training and skills development. As traditional pathways to the middle class without a college degree decline, post-secondary education remains a powerful proxy for a worker’s economic mobility and lifetime earnings potential.¹⁹

Gaps in higher educational attainment create a significant barrier to employment for Black, Latinx, and Native American residents.

Current educational attainment and projected state-/national-level job education requirements by race/ethnicity and nativity: Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area, associate’s degree or higher, 2015



Source: Georgetown Center for Education and the Workforce; Integrated Public Use Microdata Series. Universe for education levels of working-age population includes all persons ages 25 through 64.

Note: Data on education levels by race/ethnicity and nativity represent a 2011 through 2015 average for Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area while data on educational requirements for jobs in 2020 are based on job-weighted average of projections for the states of Pennsylvania, New Jersey, Delaware, and Maryland.

Getting to Equitable Growth for All in the Philadelphia Region

In *Regional Economies in Transition: Analyzing Trends in Advanced Industries, Manufacturing, and the Service Sector to Inform Inclusive Growth Strategies*, we describe priority solutions to advance equitable growth for regions based on where they fall within our typology. The boxed text suggests how the typology can be used to help identify and prioritize strategies to advance inclusive prosperity in Steady-Average metros such as Philadelphia. With a large core of educational and health-care institutions clustered in the region, Philadelphia is well positioned to engage those anchors to develop inclusive contracting and procurement processes and targeted career pathways for disadvantaged workers and people of color.

In the context of Philadelphia's recent economic upturn and the power of its anchor institutions, leaders in the Philadelphia region have an opportunity to lay the foundation for a thriving, equitable region that remains competitive in the decades to come by increasing economic security and building pathways to the middle class for low-income residents and people of color. By pairing business development strategies to maximize the region's emerging identity as an innovation hub with upstream educational investments and equity-driven workforce development systems, leaders in the region can foster inclusive growth and shared prosperity throughout the Philadelphia metro. Some key strategies to achieve these results are described below.

Leverage the power of anchor institutions to advance equitable growth. Philadelphia's anchor institutions can take a leading role to spur inclusive growth throughout the region. By adopting local hiring benchmarks, targeting contracting and procurement dollars toward entrepreneurs of color and triple-bottom-line businesses, and establishing high standards for job quality and worker protections, the region's largest employers can expand access to opportunity and economic security for people of color and low-income residents. Businesses owned by people of color are more likely to hire people of color but are at a disadvantage when competing with larger companies that are better positioned to access capital and navigate institutional contracting processes. By establishing strong contracting and procurement policies for businesses owned by people of color, women, and other underrepresented groups, anchor institutions can support inclusive prosperity throughout the region. According to

Key Strategies to Build an Equitable Economy in Steady-Average Regions

To grow good jobs, Steady-Average regions should:

Adopt equitable contracting and procurement processes. City and regional governments and school districts can foster economic equity by establishing diversity targets and helping businesses owned by people of color access public contracting and procurement dollars. This is a win-win proposition, as these businesses are more likely to hire people of color than other firms and generate increased economic activity in communities of color.

To create accessible career pathways for economically insecure workers, Steady-Average regions should:

Design wraparound supports for disadvantaged workers. Aligning job training efforts with career coaching and social service supports can foster strong career pathways for economically insecure workers.

Remove barriers for the most impacted workers. Pairing core skills training with policies to remove barriers for workers facing systemic barriers (such as those with criminal records) supports inclusive prosperity.

To support an equitable entrepreneurial ecosystem, Steady-Average regions should:

Invest in the growth of small businesses and worker cooperatives owned by women and people of color. Policymakers and business leaders can provide small-business supports including training, grants, affordable loans and banking, and access to contracting and subcontracting opportunities, all of which support a strong and racially equitable entrepreneurial ecosystem.

Philadelphia Anchors for Growth and Equity (PAGE)—a partnership between the Economy League, the City of Philadelphia, and about a dozen anchor institutions in the area—the 34 universities and hospitals located in Philadelphia collectively spend \$5.3 billion on goods and services every year, but nearly half of this money is currently spent outside of Philadelphia. Their analysis of the local business landscape suggests that at least \$530 million of anchor spending, which is currently being spent outside of the region, aligns with local market supply. By redirecting just 25 percent of this spending to local businesses, these anchors could effectively create 1,250 new manufacturing jobs and 4,000 indirect jobs in the Philadelphia region.²⁰

Align workforce development strategies and supports for returning community members, people of color, and other workers facing systemic barriers to success in the workplace. Developing strong career pathways that connect economically insecure workers to growing middle- and high-wage sectors is an essential strategy for putting the region on the path to equitable growth. In 2018, the City of Philadelphia released a citywide strategy to align agencies and partners involved in workforce development, economic development, and education around comprehensive goals. The plan is designed to create a career pathway system that “pairs progressive levels of education and training with career coaching and social service supports to help individuals with diverse skills and needs advance to increasingly higher levels of employment.”²¹ The plan, *Fueling Philadelphia’s Talent Engine*, identifies seven target sectors, including health care, technology services, and early childhood education, and calls for population-specific supports to meet the particular needs of disconnected youth, returning community members, and immigrants. For many formerly incarcerated residents, the challenge of securing a job is immediately followed by the challenge of maintaining employment if they lack particular skills required to navigate and thrive in the workplace. Public officials, advocates, and business leaders in the Philadelphia region can help to meet this need by expanding and multiplying community-based efforts to support re-entry, such as the Center for Employment Opportunities. The Center operates in 22 cities, including Philadelphia, and offers job readiness and skills training, transitional employment with daily pay, and ongoing career support for returning community members.²² Policymakers can build on the success of programs like this by increasing their capacity and working with employers to adopt equitable hiring practices that do not unfairly disadvantage people with criminal records.

Support worker organizing in growing service sectors. *Black Work Matters: Race, Poverty and the Future of Work in Philadelphia*, a report from OIC of America and POWER, directly links the need for worker organizing in Philadelphia’s growing service sector—and the hospitality industry in particular—to structural changes in the region’s economy. The authors note that the service workforce in Philadelphia, which comprises 40 percent of all jobs, is nearly as large as the manufacturing sector was in its heyday (45 percent of all jobs).²³ Local policymakers can support the development of innovative organizing models, such as worker centers, to empower working people to advocate for improvements in pay and other measures of job quality, and work with employers to develop and implement high standards across service-sector jobs. Racial disparities and sub-living wages in this massive sector could be costing the Philadelphia economy approximately \$4 billion per year.²⁴ However, unionized workers in the hospitality industry have seen significant gains in wages and improved working conditions, showing the potential of organized labor to revitalize Philadelphia’s middle class, lift workers and families out of economic insecurity, and boost the region’s bottom line at the same time.

Conclusion

As globalization and technological advancement continue to transform the U.S. economy, accelerating the decline of traditional manufacturing and the growth of service-sector employment, equitable development planning in the Philadelphia region should focus on aligning business and workforce development strategies, infrastructure investments, and public policy priorities to ensure all residents have access to good jobs and good schools close to stable and affordable homes. To increase economic security, foster racial equity, and advance inclusive growth, local and regional leaders can leverage the economic power of public and private anchor institutions, support worker organizing to improve job quality, and build durable career pathways accessible to people of color and other workers facing systemic barriers to inclusion.

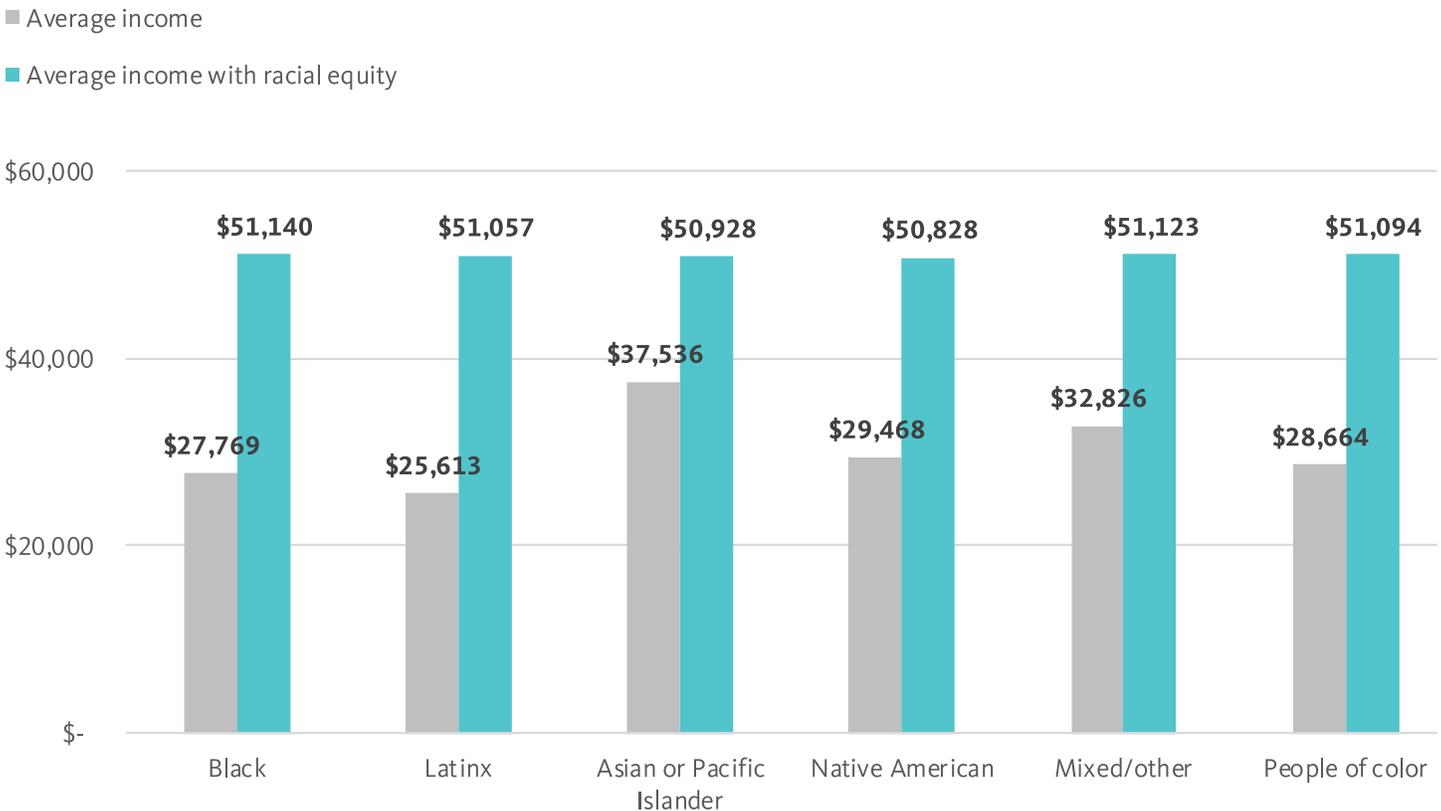
For the Philadelphia region as for the rest of the nation, racial equity is both a moral imperative and an economic imperative, and is essential to increasing the region's prosperity and

sustaining its competitive edge. In 2017, the region's economy would have been nearly **\$76 billion** larger if racial gaps in income and employment had been eliminated. Latinx and Black residents stand to make the greatest gains in income—99 percent and 84 percent, respectively—with racial equity. On average, incomes for people of color would increase by more than \$22,000 to \$51,000, enough to provide economic security for a family of four.²⁵

Philadelphia is at an inflection point. Given the region's ongoing demographic changes, addressing racial inequities while growing good jobs and preparing the workforce for tomorrow's economy should be a central priority for all of the region's leaders. By coordinating efforts to advance racial equity, public officials, residents, and the business community can put Philadelphia on the path to sustainable, prosperous, inclusive growth.

Racial equity in income and employment would strengthen the Philadelphia regional economy.

Income by race/ethnicity: Philadelphia-Camden-Wilmington, PA-NJ-MD Metro Area, 2017



Source: Integrated Public Use Microdata Series.

Note: Data represent a 2013 through 2017 average.

Notes

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