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Silicon Valley Index warns of impact as mid-wage jobs decline MIDDLE-WAGE JOBS BASE ERODING AS SOCIAL ILLS GAIN, ANNUAL INDEX WARNS

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Silicon Valley is uncommonly resistant to America's broader economic troubles but is feeling the strain of uncertainty and financial turbulence.

Those are the good news/bad news findings of the 2008 Index of Silicon Valley, an annual report billed as measuring "the strength of the region's economy and the health of the community." This year, it took a strikingly introspective turn, emphasizing the "volatility" felt by the region's middle class.

The valley's tech economy has minted many thousands of millionaires and also has led to a relatively high cost of living. Yet the eroding public schools system and rising social ills, the report found, raise questions about whether the valley is nurturing a "home-grown" workforce capable of replacing retiring baby boomers.

The index contains an array of data concerning economics, demographics, education, crime, drug abuse and aspects of society. It has been produced since 1995 by Joint Venture: Silicon Valley Network, a non-profit community group that combines representatives of industry, government, education and social service non-profits.

Russell Hancock, Joint Venture's president and chief executive, likened the report to "Silicon Valley's physical exam." Its purpose, he said, is to stimulate discussion and community initiatives.

The index spotlights some of the region's stark and widening dichotomies in education and income distribution.

"The research is a wake-up call," said Emmett D.

Carson, chief executive of the non-profit Silicon Valley Community Foundation, which for the first time collaborated with Joint Venture on the report. He characterized its findings as "good news for some, rough patches for others and heart-wrenching choices for many."

An uptick in drug abuse and juvenile crime, Carson suggested, may reflect stress that many families are feeling.

Among the disparities:

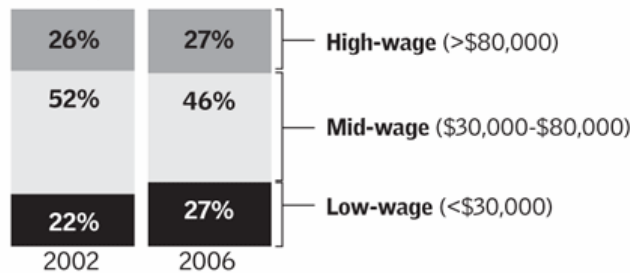
- Average household income in the valley is rising and outpacing the national average. Yet from 2000 to 2006, the proportion of workers earning in the middle range of \$30,000 to \$80,000

declined from 52 percent to 46 percent. The portion earning more than \$80,000 rose by only 1 percentage point, while the group earning less than \$30,000 rose by 5 percentage points.

- As a magnet for high-tech workers, the valley has a highly educated population, with 44 percent of adults holding a bachelor's degree, compared with 27 percent nationwide. Yet the valley's high school graduation rates slipped 3 percentage points to 84 percent in 2006-07. Roughly 1 in every 4 Hispanic students drops out, as does 1 in 5 African-American students. Dropout rates of white and Asian students, while lower than other groups, rose sharply in 2006-07. "We're not sure what to make of that," Hancock said.
- The valley is recognized as the world's leader in biotech and medical device innovation, yet is falling short in training health professionals. Valley community colleges are not coming close to meeting the demand from students seeking training in nursing, radiology, pharmacology and respiratory therapy. Applicants for nursing classes outnumbered available seats by roughly 7 to 1.

Middle-wage jobs decline

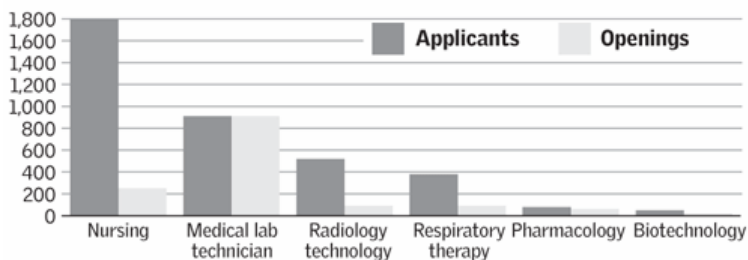
The number of mid-wage jobs in Silicon Valley has been shrinking in recent years, while the number of low-wage jobs has increased. High-paid jobs remained roughly the same



Health care training scarce

The number of applicants for some critical training programs at Silicon Valley community colleges greatly exceeds the number of seats available.

Number of applicants to openings in Silicon Valley colleges, 2006-2007



Source: JointVenture: Silicon Valley Network, Silicon Valley Community Foundation
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In a joint introduction to the report, Hancock and Carson underscored the valley's dissonance: "We're encouraged that boomer retirements are creating thousands of mid-wage jobs for the region, but it's not at all clear if those jobs will be filled by a home-grown workforce."

In addition to troubling high school dropout rates, they wrote, "the reading proficiency of our region's third-graders is decreasing; large achievement gaps persist by race and ethnicity; and juvenile felony offenses rose for a fourth consecutive year."

Such conditions exist in contrast to a thriving technology sector, the report found. Venture capital investments were up 10.8 percent as the valley added 28,000 jobs - a 1.7 percent gain over 2006. Compared with the nation as whole, the valley is affluent, with an average wage of \$73,300 and per capita income 57 percent higher than the national average.

The 2008 report included a special analysis of a long-recognized trend: How the restructuring economy has created greater flux in employment, encouraging people to change jobs, companies and even careers more frequently - a hallmark of what economists call "creative destruction" wrought by advancing technology.

As a result, people have to adjust to uncertain incomes and spend more on health care, as "paternal" practices of employers wither, Hancock said.

To illustrate the challenges, the report's cover depicts a graphical image of human silhouettes who require a ladder to climb the steps of an over-size staircase. The 2007 report, in contrast, emphasized how the region had "re-booted" from the tech crash early in the decade, prospering as a driving force of expanding global markets.

The valley needs to develop "ladders of opportunity" to help people move from low-wage to mid-wage jobs, said Doug Henton, president of Mountain View-based Collaborative Economics, which has conducted the index research since its inception. In addition to improved secondary education, better occupational training is a critical component of social needs, he said.

"We need to be thinking about social innovation, about how to build career ladders," Henton said.

The Silicon Valley Index is largely based on data collected prior to the subprime mortgage collapse and its ripple effects through the economy. Even so, Henton and other economists say the valley's distinctive economy should enable it to weather a downturn more than most regions.

The valley, Henton said, is buoyed by two factors: its strong connection to expanding global markets, and a continuing demand for housing as the region creates more jobs.

Still, fear of recession "dims the glow" for many valley residents, Hancock said.

The 2008 Index expanded its definition of "Silicon Valley," which had previously excluded northern San Mateo County. Now it includes all of Santa Clara and San Mateo counties, as well as southern Alameda County and Scotts Valley in Santa Cruz County. The region has a population of 2.49 million.