I Hate Politics Episode 163: Brooke Lierman on Maryland's Slow Economy

Introduction

[00:00:00] Sunil Dasgupta: I Hate Politics is a podcast about a human activity we love to hate, I'm Sunil Dasgupta. One of the features of the US federal system is that states compete with and are compared to each other. In the Washington metropolitan area, Maryland and Virginia are a constant comparative pair and for several years now, Virginia has been outpacing Maryland in economic growth, why? The problem has vexed politicians and businesses. We've done episodes on government incentives to attract businesses and talk to businesses who say that it's harder to work in Maryland than it is to work in Virginia. Look right now at the debate in the Maryland legislature over making it easier to build data centers in the state, Virginia already has many. Brooke Lierman, Maryland's comptroller, went further she commissioned a study called the State of the Economy Report. Which came out in January this year 2024, and in this episode she explains the findings. Why is it that the state of Maryland has really low unemployment but also slow economic growth? What is the difference between unemployment rate and labor participation rate? How does housing cost matter? Stay with us.

[00:02:00] Sunil Dasgupta: I Hate Politics is a podcast about our neighborhoods, workplaces, schools and streets, and our local governments as they function in diverse and democratic societies. This means our politics are dirty, messy, sometimes corrupt with often self-serving politicians. But no matter how much we may hate politics, we are never exempt from it. Music for this episode comes from the Fugazi inspired Washington D.C. garage punk band Apollo 66. Travis Hodges on guitars and vocals, Alex Morse on bass and vocals, Sean Henderson on drums, and Chris Morse on the tambourine, you can find them at Apollo 66.

Interview with Brooke Lierman

[00:03:24] Sunil Dasgupta: Brooke Lierman, welcome back to I Hate Politics.

[00:03:28] Brooke Lierman: It's great to be here, thanks for having me.

[00:03:31] Sunil Dasgupta: What is the central conclusion of the state of the economy report that your office put out?

[00:03:37] Brooke Lierman: In a couple sentences, all, you know, 100 plus pages, um, I'd say that the state of the economy of Maryland is strong. And we have a unique portfolio of companies and opportunities, but we face some challenges that we need to address and if left unaddressed, will continue to hinder our economic growth and development.

[00:04:07] Sunil Dasgupta: What specific challenges are you seeing?

[00:04:09] Brooke Lierman: A lot of it comes down to workforce. Economic growth, um, really began stagnating in around 2017, before the pandemic, when Maryland started falling behind our surrounding states in terms of economic growth. But it's interesting because the sluggish growth is actually constant concentrated in the private sector. Um, so the private sector is

really primed for growth, but we don't have enough people working to support that growth. We have a labor shortage in Maryland currently we have roughly 3 job openings for every 1 job seeker, um, and our low unemployment rate really signals that tight job market. Um, and so the question then, right, is why are we here? And, and then after that, what do we do about it? Diving into the report, we start looking at what are some of the reasons for this tight job market, um, and for this, um, lower labor for participation.

[00:05:05] Sunil Dasgupta: Can you distinguish between the labor participation rate and the unemployment rate? What is the difference? Why does it matter?

[00:05:14] Brooke Lierman: An unemployed person is someone who is not employed and actively looking for work. The labor participation rates, the labor participation rate in Maryland fell 4% points between 2020 and 2023. Pre-pandemic, our labor participation rate was 69.3% that was January 2020. Our current labor participation rate as of um quarter two in 2023, at least, was 65.2% so the difference is about 181,000 people who are no longer employed or looking for work. So the decline in the labor participation the rate also was most prominent among men and women between the ages of 25 and 44.

[00:06:03] Sunil Dasgupta: So, what is your analysis for why?

[00:06:05] Brooke Lierman: So we pose a couple of hypotheses Um, first, um, we started looking at, um, gender differences because actually women have had an outsized departure from the labor force in Maryland. Women in the workforce faced steeper job losses and slower job recovery than men, um, because they were heavily represented in sectors that saw those heavy job losses, health care, education, accommodations, food services. Maryland women aged 16 to 34 saw a 2% decline in labor participation from 2019 to 2021 and by comparison though, only 1% of women ages 16 to 24 and 0.4% of women ages 25 to 34 dropped out of the labor force nationally. One of the reasons that they might stay out of the labor force, um, is access to. quality childcare. Um, there was a decline in childcare spots, um, uh, through COVID Um, Maryland is also one of the costliest states in the nation for childcare.

[00:07:16] Sunil Dasgupta: So the difficult part for me to understand this labor participation rate argument is also that despite this fall, Maryland has the highest median household income in the country. So on the one hand, the household income is high on the other hand, you're saying that, you know, women in particular not participating in the labor force, you know, it could be voluntary.

[00:07:45] Brooke Lierman: Yeah no, they don't need to Oh, I absolutely, I don't, I don't think, I don't think anywhere in the report we say, and I would certainly never say that women are a monolith. And the reason that women are participating less is because of access to childcare. That is absolutely false Um, some women have access, you know, are having childcare access problems, and that is a reason. And I believe that some women are, are, cannot re-enter the workforce. But I also know, and part of this is because we have the highest median income, that there are some women who probably during COVID said, Wow, we can make it work on one income, and I'm not going back. I have kids at home that I'm just gonna take care of, or there are other things I want to do there's also a third, um, a 3rd, you know, sort of possibility,

um, and that is women as entrepreneurs themselves. Um, so, you know, the data for this isn't available yet, um, but we do know that women are, have made, um, big strides in becoming entrepreneurs and starting businesses themselves. Um, you know, maybe it's that they turned was a side gig into their full-time gig, um, and they're selling online now. Those women should count as participating in the labor force, but if they are not to the point yet, either where they're employing people, or it just hasn't percolated up yet, we might not have that data.

[00:09:13] Sunil Dasgupta: So on balance then, how worried should we be about this labor participation rate?

[00:09:20] Brooke Lierman: You know, one of the other factors that is affecting our labor participation rate, um, and just the labor force generally is our population growth, right, or lack thereof, um, and, um, so I think, you know, digging into that a little bit, Maryland is really mirroring a national trend, um, that's taken off since the pandemic. Where people are moving from high cost of living areas to low cost of living areas and that is not what used to happen. Um, you know, it used to be that, um, growth, you moved from often lower cost of living areas to higher cost of living areas because that was where the jobs were, right? And that was where the economic activity was, um, and, but that is not what is happening now. Um, and for the last 10 years, Maryland has really experienced Maryland residents moving to other states in greater numbers than those moving to Maryland. Um, in fact, for the first time since World War II during COVID, we lost population, right? Um, so people are moving to Maryland from states like New York and New Jersey because it costs less to live here, but then people are moving from Maryland to lower cost of living states like Florida or the Carolinas. Um, we looked a little bit about at who is coming and who is leaving, so people leaving Maryland tend to be under age 26 or over age 55 and make either less than $50,000 or more than $100,000. People coming to Maryland tend to be between the ages of 26 and 44, which is interesting because that's really the age group where you're likely, you know, in your early career, you're starting a family, so maybe you are attracted to our high wage job market, quality public schools, um, strong government services, you know, things like that. And so, but it's, that's really who's coming and going.

[00:11:19] Sunil Dasgupta: But that's where also you found the lowest um labor participation rate, right? 26-44?

[00:11:25] Brooke Lierman: Yes I will say though, one of the most interesting things to me that we found and we write about this in the report, um, is that the number one factor that came up around, um, around affordability with housing. Um, and it came up as the number one issue, I think in every round table that we held. Um, employers concerned that they were trying to attract people to work with them, and there was no place for those people to live, um, and, uh, that was at least in anywhere close to where their, their, um, their headquarter. was or their jobs would be. So really, housing affordability is a big issue that's identified in the reports.

[00:12:11] Sunil Dasgupta: But I went and checked housing costs in Virginia, like county by county, right there.

[00:12:19] Sunil Dasgupta: It is more actually in Northern Virginia versus suburban Maryland, right? Northern Virginia is more expensive almost up to Richmond everything is more expensive in Virginia than in suburban Maryland, but it seems Virginia is growing, but we are not. Why is Maryland unique that housing cost is such a drag, but it is not a drag in Virginia?

[00:12:46] Brooke Lierman: It's a good question, and I don't know that our um report necessarily gets into that level of comparison with Virginia. Um, home prices, of course, have risen nationally since 2019, um, but in Maryland, they have risen much more quickly, um, than they have nationally.

[00:13:04] Sunil Dasgupta: The median home price in Fairfax County in Virginia it's almost $700,000. The median home price in Montgomery County is, I believe, $577,000. There's a huge $100,000 difference there you can compare Prince George's to Prince William. You can compare Howard to Loudon I mean, Loudon again is the median home price there is 700,000. So I'm just curious why Virginia can continue to have high housing costs and continue to grow, while Maryland has housing cost problems clearly, right, but can't find a way to growth.

[00:13:44] Brooke Lierman: Sounds like a good topic for our next report Um, to really delve into that, but, you know, I mean, it's a good question. I think there's, there's certainly a number of items that cause people to move one place or another, um, but housing certainly came up in every conversation that we had around, um, around affordability.

[00:14:05] Sunil Dasgupta: If you do another report, I'd be very interested in learning, learning about what you, uh, what you find. You know, you mentioned at the start sluggish revenue growth right, and it is true that now revenue growth is, I mean, the budget is in deficit, but nearly 2 years ago the state was in windfall. What is our projection mechanism such that we go from this large windfall. To deficit in 2 years. What is it about our projections that give us these kinds of variation?

[00:14:41] Brooke Lierman: I want to push back a little bit because that windfall was from the federal government, right? It was, it was ARPA dollars, it was one time dollars that we all knew were one time dollars. So the reason Um, that we had those huge surpluses had very little to do with the functioning of our economy, and everything to do with the federal dollars coming into the state.

[00:15:09] Sunil Dasgupta: When I did interviews on this 2 years ago, there were two parts of it. There was federal dollars, but income tax was up sales taxes were up significantly.

[00:15:21] Brooke Lierman: So sales taxes were up during COVID Um, if you look at sales tax revenue prior to the pandemic, you will see that it was going down, um, because people had started spending more money on services and less money on goods, and then during COVID that flipped on its cause you couldn't spend any money on services because you couldn't do anything. So that is the answer about our sales tax revenue, um, and I think when you talk about structural deficits, right, you're talking about both revenues and expenditures. And the numbers used as part of the state budget, of course, come from the Department of Legislative Services and the Department of Budget and Management. Um, revenue calculations are also a part of the calculation or a part a part of that equation changes come from changes in revenue

estimates, changes in budgeted expenditures, and the fiscal impact of the most recent legislative session, whatever it was, we have known for several years, you know, since, for instance, we passed the blueprint for Maryland's future, that we needed to find a revenue source, um, to make sure that we could pay for it. That is not, that is not surprising to people I think every, we have all known, you know, we've known this, the General Assembly knows it we know. On the revenue estimate side, um, there's the board of revenue estimates, and they produce an economic forecast and revenue forecast 3 times a year, utilizing the information that we generate in the office of the Comptroller using information that they get from, uh, you know, federal partners. Um, it includes year to date revenue data, it includes projections from national economic consulting firms, um, econometric models. So, And Maryland is interesting. We're really a best practice state when it comes to revenue forecasting, the Bureau of Revenue Estimates presents forecasts to and reaches a consensus with a group called the Revenue Monitoring Committee, the RMC. And that committee is comprised of, um, it's a multi-agency committee, and it's got fiscal officers with, you know, many years of experience and different viewpoints, right? It's not just our agency, it's DBM DLS. DBM is the Department of Budget and Management, um, and, um, that's appointed, the secretary there is appointed by the governor, and DLS is the Department of Legislative Services, whose leader is appointed by the General Assembly. So we have all different people with different viewpoints coming together to adopt a, um, and they, they have to work to reach consensus on what our revenue, uh, forecasts will be. That is then presented to the board of revenue estimates, and we vote on whether to approve that forecast or not and of course, look, forecasting is difficult, it's not precise, um, you know, specifically with the state's economic forecast, there are certainly factors that No, can never be forecasted accurately with consistency, um, particularly challenging is the personal income tax, right, which includes, well, because it includes both business income and capital gains, and, and it is challenging to know what capital and capital gains income is going to look like. On a, on an annual basis Um, I would say especially the past 5 years or 4 years, um, it has swung fairly wildly from lows to highs, and, um, in FY 22, 1 out of every $5 deposited in the state's general fund. Was from non-wage personal income, meaning capital gains and so we just have a large percentage of our income, um, that is generated by high income folks who are making it from non-wage income. Um, and that's just not as steady and it doesn't grow as steadily as, you know, when you have the withholding income tax.

[00:19:28] Sunil Dasgupta: Um, so can we use the Dow Jones to predict?

[00:19:33] Brooke Lierman: I mean, you, we have to look at it, right? It matters, you know, it matters looking at um the trends of the market really matters to how our state what our state's income, uh, is going to be, what our state's revenue is gonna be.

[00:19:48] Sunil Dasgupta: You said something very interesting, which is that the people that make up the various abbreviations that you use that make up the Bureau of Revenue estimates that need to come to a consensus. That means there is no natural consensus. There's a there's a natural agreement that they have to make an agreement. In personal finance, you can have a consensus number about income and expense or whatever it is, right? But you in public finance very hard to do.

[00:20:17] Brooke Lierman: No state and certainly nor the federal government can be sure. With certainty, you know, with absolute 100% certainty what our economy is going to do.

[00:20:27] Sunil Dasgupta: What is Maryland's level of confidence? What is the level of confidence that other states might have? What is practically possible?

[00:20:35] Brooke Lierman: I'm not sure that I can say what our, you know, give a numerical estimate to our level of confidence in our data. In FY 23, we were, our estimate was within 0.2% of um actual growth yeah. So, um no, but I think, well, look, you know, I know economic head and tailwinds, they change based on current events, shocks to our local, state, regional and national economy. Um, I mean, you know, current example, high vacancy rates for commercial real estate in our city centers, the preference for remote work for some, rising housing prices and traditionally affording affordable parts of the country, those are sort of aftershocks of the COVID-19 pandemic, and we're still trying to determine what that will mean, um, over the long term for our revenue. Um, and I would even argue that you know, looking at how we need to also understand how we as Marylanders spend money to see if how we spend money now is the same as when the as how we spent money 20 years ago when we established most of, um, you know, how we bring income into the state. So there's lots of things to look at.

[00:21:52] Sunil Dasgupta: So is there going to be a state of spending report now?

[00:21:56] Brooke Lierman: I mean, not a bad idea.

[00:21:59] Sunil Dasgupta: OK. I do want to talk about one spending category, childcare the blueprint in particular had a plan to bring universal pre-K to a lot of the state and it has been difficult in part because private providers have not wanted to join the state network um and therefore there's a shortage there is a, you know. This, I think last year the state paid 1300 or $14,000 this year they're going to pay a little bit more but you know, Maryland providers get paid $200 and $25,000. That's a huge difference. Moreover, they have to take on the added expense of training up their, um, people and then paying them the same wage as their local education agency, you know, so this is a huge burden. It is and there doesn't seem to be a pathway forward, especially given that we are now in a budget deficit.

[00:23:06] Brooke Lierman: Yeah yeah.

[00:23:07] Sunil Dasgupta: How are we going to, what are we gonna do? How are we gonna get more, more women in the labor force if we can get that blueprint, uh, you know, pre-K system working.

[00:23:18] Brooke Lierman: Yeah, it's a great question, um, you know, and I know that the folks at the AIB as well as MSD are You know, they have their work cut out for them, as you said, um, we need private providers to be partnering with our LEAs, our local education um associations, and, um, and our, you know, local school boards to really work on this um issue. But I think it's gonna take a wholesale sort of reimagining of the child care system. It's a really challenging model, um, from a private perspective. And so it really does cry out, I think, for more state involvement and more public involvement in figuring out how to make the numbers work.

[00:24:02] Sunil Dasgupta: Well, so, you know, you said it's MSD problem, it's the accountability board issue, but really it's a revenue issue in the end, right?

[00:24:10] Brooke Lierman: Yes, it's a revenue issue, but it's more than that. It's also an organizational issue. How do we organize so that it's an easier regulatory process to make sure that private care providers are interested in working with their local school boards, right, to do this work. Um, what makes it worthwhile for them to do that? Um, I mean, I, there are a number of private companies who, you know, could be involved in government work, but they just choose not to because they think for whatever reason, oh, red tape, you know, headaches, blah blah. I'm not saying that's true or not, but if there's that perception or that reality, we need to figure out how to make it better and work better for the private companies so that we can do this work.

[00:24:54] Sunil Dasgupta: Brooke Lierman, thank you for taking the time. Please come back.

[00:24:58] Brooke Lierman: My pleasure great to see you Um, keep in touch.

[00:25:06] Sunil Dasgupta: You're listening to I Hate Politics I'm Sunil Dasgupta, I'll be back with the wrap up and lessons from my conversation with Maryland Comptroller Brooke Lierman.

Conclusions

[00:25:37] Sunil Dasgupta: What lessons should we draw from my conversation with Maryland Comptroller Brooke Lierman? As a state, Maryland's economic growth has slowed not just due to the pandemic, but going back to 2017. What is remarkable about Maryland's current condition is that the state has 3 openings for every person available to work. The private sector is particularly short of employees, but the state is losing instead of gaining population the state of the economy report identifies two primary reasons. First, a low labor participation rate and second, high housing costs. The labor participation rate and the unemployment rate are different things, as Comptroller Lierman explains. Whether a low participation rate is a good or bad thing depends on why it is happening. It isn't absolutely clear from the state of the economy report, but for those Maryland families well off enough to be able to live on one income, a low labor participation rate is a voluntary choice for leisure, parenting, taking care of elders. It is less welcome when forced, such as due to high child care costs but even that calculation is not entirely one sided. If childcare costs are indeed so high that it is better for one person to stay at home, it may mean that Maryland has high wage costs, and the market is simply allocating labor to the most efficient uses. But if the cost of childcare is high due to regulatory cost, not wages, then that's producing inefficiency by keeping people out of work. This is most certainly a problem for low income families, the blueprint for Maryland's future promised universal pre-K for low income families and has not delivered in part because of the state's high cost of child care. Now with the state in deficit dramatic reimagination of child care is well, hard to imagine. Let's consider housing costs and economic performance, the state of the economy report posits a negative relationship. High housing costs means slower economic

growth but the comparative data is noteworthy. The Commonwealth of Virginia, which is part of the same regional economy as Maryland, also has high housing costs, in fact, more than Maryland's, but nevertheless continues to grow at a clip even prior to the pandemic. Clearly there is something more going on, and the 2024 version of the state of the economy report does not have a clear answer. Comptroller Lierman has said that she will look into it for the future. If you have thoughts of how to bring Maryland out of its era of slow growth, talk back to us. Record yourself on the phone, and email us the file at producer@ihppod.org. You can use the same email if you want to share your music on the show, we welcome all genres.

Credits

[00:28:58] Sunil Dasgupta: That's all for this episode of I Hate Politics where we aim to stem the decline in local news by working with community voices, don't forget to tune in to our Tuesday morning news analysis. I Hate Politics is produced by me, Sunil Dasgupta and assistant producers Daniel Gao, Katerina Gassek, and Catherine Amaya Escobar with support from University of Maryland Baltimore County. I direct UMBC's political science program at the universities at Shady Grove in Montgomery County, where among other things, we explore and learn about politics, government, and society close to home. Music for this episode comes from the Fugazi inspired Washington D.C. garage punk band Apollo 66, Travis Hodges on guitars and vocals, Alex Morse on bass and vocals, Sean Henderson on drums, and Chris Morse on the tambourine, you can find them at Apollo 66. I hope you will subscribe and share the podcast as we bring you stories about politics close to you and to your home, see you next time.

Music.