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# About the Authors

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## Joel Kotkin

Joel Kotkin is an Irvine Senior Fellow with the New America Foundation, which is based in Washington, DC. He is the author of five books, including the *New Geography: How the Digital Revolution is Reshaping the American Landscape*.

Mr. Kotkin is a frequent contributor to the *Washington Post*, the *Wall Street Journal*, *Inc. Magazine*, the *American Enterprise* and the *Los Angeles Times*. Over the past two years Mr. Kotkin has written major reports on the future of New York, the Inland-Empire Region of Southern California, and greater St. Louis.

He is a research fellow with the Newman Institute at Baruch College in New York City and a visiting lecturer at the Southern California Institute of Architecture.

His next book, *The City: A Global History* will be published by Modern Library (a division of Random House) early next year. He lives in Los Angeles with his wife Mandy and daughters Ariel and Hannah.

## Jack Kyser

Jack Kyser is Senior Vice President and Chief Economist at the Los Angeles County Economic Development Corporation (LAEDC), a private, not-for-profit membership organization whose mission is leadership in the retention and creation of jobs and economic base in the Los Angeles area. Called the "guru of the Los Angeles economy" by the *Los Angeles Business Journal*, Mr. Kyser is responsible for interpreting and forecasting economic trends in the Los Angeles five-county area (Los Angeles, Orange, Riverside, San Bernardino and Ventura counties), and for analyzing the major industries of the area. Utilizing this information, he helps develop job retention and creation strategies for Los Angeles County.

Mr. Kyser's analytical research work and insightful knowledge of the regional economy has helped to elevate the LAEDC to recognition as the pre-eminent source of economic information and forecasts on Southern California. Mr. Kyser's advice is frequently sought by business, government and the media.

Mr. Kyser serves on the economic advisors panel for the California Chamber of Commerce and on the Council of Economic Advisor's for Mayor James Hahn, City of Los Angeles. He is also a past president of the Los Angeles Chapter of the National Association of Business Economists; a member of Lambda Alpha--a land economics fraternity; and on the board of directors of the South Park Economic Development Corporation, and the Building Owners & Managers Association of Greater Los Angeles. He is also a fellow at the Lewis Center for Regional studios at UCLA.

## La Jolla Institute

The La Jolla Institute is an independent, nonprofit, nonpartisan institution for policy research, education, and economic development. The focus of the Institute is to advance a better understanding of the impact of the new economy and new ways of working on organizations and communities alike.

La Jolla Institute research and activities are designed to educate government, business, civic, and educational institutions on the unique opportunities and challenges of the information age.

The goal of the Institute is to create a dynamic dialog and impact the thinking among leaders for the next century.

## Los Angeles County Economic Development Corporation

As the region's premier business leadership organization, the mission of the LAEDC is to attract, retain and grow business and jobs in Los Angeles County.

**Regional Leadership** – The members of the LAEDC Board of Directors are civic leaders and ranking executives of the region's leading public and private organizations. Through financial support and direct participation in the mission, programs and initiatives of the LAEDC, the Board is committed to playing a decisive role in shaping the region's economic future.

**Business Assistance** – LAEDC's Business Assistance team works one-on-one with companies throughout LA County to promote regional business expansion. Since 1995, the LAEDC has helped create or retain more than 93,000 jobs from over 670 projects, with an annual economic impact of \$3.1 billion in wages and salaries, and more than \$161 million in tax revenues for local government, communities and schools.

**Economic Information** – Through our public information and for-fee research, LAEDC provides critical economic analysis to business decision-makers, media and government. We publish a wide variety of industry-focused and regional analyses, and our Economic Forecast has been recognized by the Wall Street Journal.

**Global Connections** – In conjunction with our World Trade Center Association Los Angeles-Long Beach subsidiary, the LAEDC facilitates international trade and investment in the region through a variety of strategic partnerships and initiatives. These activities include facilitating trade transactions and conducting regular international missions for business opportunity development and external promotion of the region.

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# Executive Summary

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**F**or a century, Los Angeles stood as the ultimate expression of expansive American capitalism. From a small Mexican pueblo and cow town, it emerged by the end of the 20th Century as the world's 10th largest economy, North America's largest industrial region, its primary port of trade and the leading creator of the global popular culture.

Today Los Angeles stands, along with New York, as the only metropolitan area in the western industrialized world to rank among the world's ten largest cities. As a mega-city, Los Angeles enjoys many critical advantages—a large, expanding, and diverse population, infrastructural links with both Mexico and the Pacific Rim, and numerous world-class cultural assets.

Yet, Los Angeles also suffers from many of the problems associated with giant urban areas. Traffic, pollution, a growing gap between rich and poor, often dysfunctional educational and political systems, and soaring housing costs all among the severe challenges facing the region as it competes for investment,

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***Los Angeles emerged as the world's 10<sup>th</sup> largest economy and North America's largest industrial region, its primary port of trade and the leading creator of the global popular culture.***

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jobs and economic resources with other domestic and foreign communities. The expected addition of another five million people over the next twenty years will place new strains on the region's resources and its ability to create sufficient jobs.

Recent experience shows that the region has the resiliency to meet difficult challenges. In the early 1990s the massive downsizing of the defense industry, a devastating riot and a major earthquake led to the wholesale loss of major businesses, jobs and middle class residents. The

*county suffered some 70 percent of all job losses in the state while property values dropped by 40%. Many observers in the media and academia believed Los Angeles had become a hopeless dystopia.*

*Southern California then staged a remarkable recovery. Losing many of its traditional larger employers, particularly in aerospace and finance, the region remade itself by expanding in other fields, such as entertainment, trade and specialized manufacturing, and through the rapid growth of largely immigrant-led enterprises. A uniquely more diverse economy emerged.*

*By the end of 1990s, Los Angeles' increasingly varied small to medium-sized business oriented economy was better prepared to withstand the post-bubble recession than many of its other urban competitors such as New York, Seattle and San Francisco. Yet, even as the economy has recovered, the region's overall performance has remained lackluster amid increasingly strong domestic and global competition. More troubling still, many of the "replacement" jobs being generated by the economy are at lower wages, and provide fewer benefits, to workers.*

*One crucial reason for the economic problems afflicting greater Los Angeles lies in the increasingly ambivalent attitudes among local leadership about economic growth. In many instances, concerns about the environment or social justice are considered far more important than sustaining job growth and business creation. At present, there is an unprecedented disconnect between the priorities and perceptions motivating much of the public sector, media and intellectual elites and the business community.*

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***As a result of a disconnect between priorities and perceptions of the public sector, media, intellectual elites and business communities, the policy-making community no longer perceives the connection between fostering economic growth and enhancing the social well being of the citizenry.***

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*As a result, much of the regional policy-making community no longer perceives the fundamental connection between fostering economic growth and enhancing the social well being of the citizenry. Los Angeles area leadership, especially the city of Los Angeles, is indifferent, if not hostile to business activity.*

*These attitudes have, in turn, generated adverse circumstances in such regulatory and policy areas as workers compensation, inclusionary zoning, and business litigiousness. Rather than encouraging the job growth necessary to elevate the social conditions of the poor and working class, regional leaders have focused on initiatives that reduce incentives for new employment and cause the economy to substantially under-perform.*

*This has all taken place within an environment increasingly dominated by the emergence of faster growing economies, both within the Western states, and, most portentously, in China and other emerging Asian countries. Increasingly these countries are challenging Southern California—and other advanced industrial regions—not only in lower wage jobs but also in higher end employment ranging from business services and technology to precision manufacturing and aerospace.*

*Yet, despite these obstacles, surveys and focus groups indicate that there remains a core of entrepreneurs in the Los Angeles region still disposed to remain in the area. Climate, cultural attractions, pockets of skilled, specialized labor and the immigrant community's work ethic are all viewed as important economic assets.*

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***Leadership from the business sector is essential to help the larger community understand and support a vibrant economic base as the enabler of the quality of life we all seek. This is the key to a winning regional strategy.***

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*Regional businesses, however, cannot be expected to thrive or expand in a community whose leadership remains fundamentally indifferent if not actively resistant to their endeavors. Los Angeles must reclaim its historic commitment to broad-based economic growth, and job creation as the single most effective way to lift people from poverty and achieve upward mobility. This in turn means rededicating Los Angeles to what remains the most important role of any great metropolis: creating and nurturing a middle class.*

*Leadership from the business sector on the other hand, is essential to help the larger community understand and support a vibrant economic base as the enabler of the quality of life we all seek. This is the key to a winning regional strategy.*

# “The Virtuous Cycle”

Crafting a “winning regional strategy” begins by recognizing that our primary goal should be to attract and create new wealth within our economy. This can occur through the investment of capital from outside of the region, increased revenues from the export of locally produced goods and services outside the region, and money obtained by increasing the region’s share of state and federal funding for programs, services, and infrastructure.

We need to understand that private sector job creation (new well-paying jobs) remains the fundamental task before this region. This requires healthy business growth. Public sector job growth, unless funded from outside the region (a risky proposition), does not product the same overall benefits since it drains funds from the system.

Indeed, even the health of the public sector fundamentally rests on the creation of new private sector jobs which alone adds to the tax base (primarily through income, sales, and business taxes). This permits the public sector to provide critical services and infrastructure for improving the region’s quality of life.

The “economic food chain” is “business growth = job growth = tax revenue growth = public sector funding/services growth.” As long as the region operates within the context of a global and national capitalist economy, this represents the fundamental “virtuous cycle” that we need to engage. This is the essence of a winning regional strategy.



## *Section Two.*

# Evolution of the Los Angeles Economy

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## The Promise of Los Angeles

Modern Los Angeles emerged from obscurity on the wings of great dreams. Even when it was a city of less than 100,000, the city's largely Northeastern and Midwestern Anglo leadership, like railroad magnate Henry Huntington, believed Los Angeles was "destined to become the most important city in this country, if not the world."<sup>1</sup>

Unlike other cities that sought to be the "next" New York or Chicago, from the start Los Angeles tried to create a new metropolitan model. Many, like Dana Bartlett, a civic leader from St. Louis, were repulsed by America's crowded slums and belching factories. Blessed with a mild climate, clear vistas, ample land and a lightly industrialized economy, Bartlett and his contemporaries hoped that their adopted community would become "a place of inspiration for nobler living."<sup>2</sup>

The key to their vision was a sprawling notion of urbanism. Manufacturing plants would be "transferred" to the city's periphery. The working class would live in neat, single family homes rather than crowded tenements.<sup>3</sup> To realize this novel vision, in 1908 Los Angeles enacted the nation's first comprehensive urban zoning ordinance, one that encouraged decentralization, single family homes and dispersed industrial development.<sup>4</sup>

By the 1930s, much of the groundwork for modern Los Angeles had been laid. Single-family residences accounted for 93 percent of the city's residential buildings, almost twice the rate in older areas, like Chicago. Urban planning and tract development had extended Los Angeles' borders to include the largest urban area in the world.<sup>5</sup>

## Constructing the Economic Base

Los Angeles' natural attractions, and the willingness of its political and business leadership to develop critical infrastructure, fostered the growth of new, future-oriented industries.

The first was filmed entertainment, a sector initially derided as relatively trivial. By the Second World War, however, film making had grown to one of America's eleven largest businesses, a perplexing industry, as historian Carey McWilliams noted in 1946, which "required no raw materials, for which discriminatory freight rates were meaningless, and which, at the same time, possessed an enormous payroll."<sup>6</sup>

Science-based development formed the second component of the emerging Los Angeles economy. Lacking natural ports, navigable rivers, sources of iron ore or proximity to the nation's established population centers, visionaries like Robert Milliken, the president of Caltech, in 1921 argued that the new city must "use more resourcefulness, more intelligence, more scientific and engineering brains than she would otherwise be called upon to use."<sup>7</sup>

Milliken and other technology promoters exploited Los Angeles' nearly perfect flying weather to build one of the world's densest concentrations of technical skill around aerospace development. They were aided by World War II, which boosted aircraft employment from 33,000 in 1941 to an employed base of over 120,000 workers.<sup>8</sup> By the early 1960s, 70% of the Air Force's space program budget was spent in Southern California and nearly half of the City's total manufacturing base was related to defense or space technology.<sup>9</sup>

The region's novel industries generated explosive growth. Between 1900 and 1940, the population of both the city of Los Angeles and the surrounding area rose by a phenomenal 1500 percent.<sup>10</sup> From 1940 to the mid 1970s, the number of technical and professional workers jumped 200 percent, five times the rate along the East Coast.<sup>11</sup> "Technologies exploded," recalled Tex Thornton, a former aide to Howard Hughes and founder of Litton Industries. "Technologies that went first to the military would then spill into new products like computers, calculators, and other devices."<sup>12</sup> New communities arose from nowhere to house the machinists, scientists, and other new Southern California residents. Today, the world thinks of Los Angeles not just as a city, but as a region, extending even beyond the boundaries of the county of Los Angeles to all of Southern California. The modern economy must be viewed in these greater regional terms.

## The Era of Hyper-Growth and the Roots of Decline

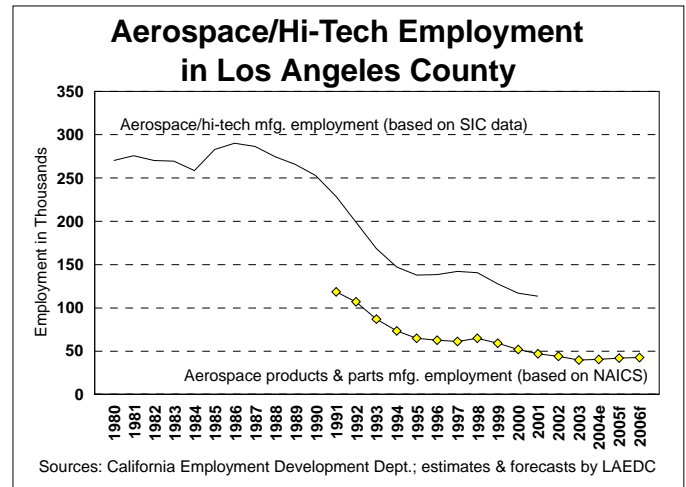
Postwar growth had a price. Rather than construct a "better city" as envisioned by idealists like Bartlett, Los Angeles became a sprawling region with limited open and public spaces.<sup>13</sup> The region continued to build its water, power, freeway, port, airport and related infrastructure, but much of the newer expansion was occurring along the urban periphery. The San Fernando Valley's population quintupled between 1944 and 1960.<sup>14</sup> Neighboring Orange County grew even more quickly during this period.<sup>15</sup>

By the mid 1960s, the Los Angeles economy was noticeably shifting away from unique sectors based on creativity and technology and moved towards servicing the housing, transportation, entertainment and similar demands of its booming population. Many of the region's post-war fortunes, such as Mark Taper, Howard Ahmanson, Eli Broad and Nathan Shappel were built from what urban planner Bill Fulton has called a "growth machine,"<sup>16</sup> the successive construction of new housing tracts, the provision of home financing, and other development related activities.

Although vibrant, the period of population-fed growth tended to bypass inner city areas like Watts, which exploded in the 1965 riots. During the 1970s, aerospace industry's employment dropped 25 percent, net immigration fell to the lowest level in 30 years, and Lockheed, one of the Los Angeles area's proudest employers, flirted with bankruptcy.<sup>17</sup>

Many of these nascent problems were obscured by promising political trends, such as four-term reign of Mayor Tom Bradley, which extended the city's power structure to include such traditional outsiders as Jews and African-Americans. International trade and business service development, particularly in downtown and the rapidly growing Westside, also generated new employment.<sup>18</sup>

Consequently, in the early 1980s, Angelinos could justifiably imagine that their region's downtown office towers, San Fernando Valley studios, South Bay aerospace factories fulfilled a century-old dream. Southern California had become one of the most important urban regions in the world, boasting a major port, the country's largest industrial base and greatest concentration of scientists and engineers, a larger financial sector than San Francisco, a rising roster of major corporate headquarters, and a dominant role in the creation of mass culture.



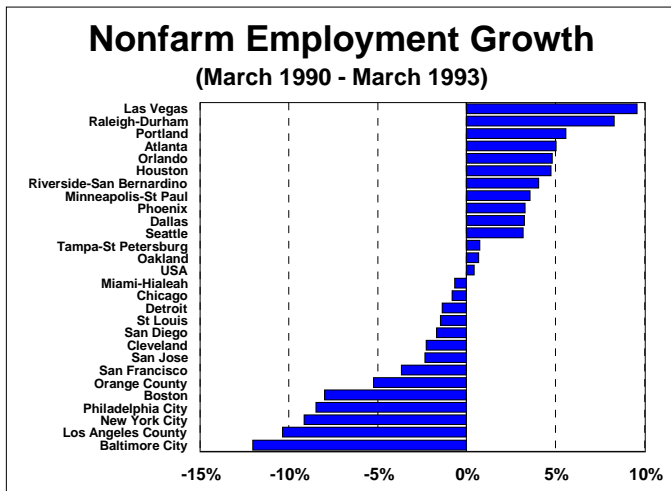
## The Deconstruction of Southern California

In the late 1980s, the fortunes of Los Angeles began to change. Angelinos were becoming concerned about overcrowding, crime, pollution, and the lack of an urban center.<sup>19</sup> Politicians and community groups successfully challenged the premises of the region's "growth machine," and the resulting ethos that had driven the city since the early 1900s.<sup>20</sup> By the 1990s, new regulations and rising home prices made Los Angeles the seventh most expensive city of one hundred communities in America for business. Only the Inland Empire had costs near or below the national average.<sup>21</sup>

Worse still, between 1989 and 1993 the five county region lost over 500,000 jobs, roughly 208,000 directly attributable to defense cutbacks.

These job losses dampened construction activity, a once perennial source of growth, and consumer spending fell by 15%. In 1995 the Los Angeles basin produced only 5.1% of the nation's jobs, its lowest share since 1972.<sup>22</sup> In the first half of the 1990s, the Los Angeles economy was among the worst in the country.

Finally, the region suffered a series of devastating social and natural disasters. A riot in 1992 resulted in 59 deaths, destroyed 4,000 businesses, led to fifteen thousand arrests<sup>23</sup> and caused \$370 million worth of damage, mostly in heavily Latino or African-American communities.<sup>24</sup> To make



matters worse, fires and a major earthquake struck greater Los Angeles. Local confidence fell. Neighboring areas like Phoenix were quick to portray Los Angeles as a "simmering stew of despair," a hopelessly divided city from which most of the middle class was desperately trying to escape.<sup>25</sup>

Between 1990 and 1994, domestic out-migration from the five-county area increased. For the first time in decades Los Angeles County was exporting rather than attracting aspiring residents.<sup>26</sup> A struggling economy, poor schools, and an apparent social breakdown coupled with diverse demographics, led many to deride Los

Angeles as the ultimate "post-modern metropolis", the harbinger of failed urbanism on a massive scale.<sup>27</sup>

Amid such despair, greater Los Angeles fared worse than other areas in protecting important economic assets. From 1989 to 1994, the region lost 50% of its defense and aerospace jobs compared with a 33% drop in the rest of California and a 20% decline in the nation as a whole.<sup>28</sup> Post-riot, inner city relief efforts coordinated by Peter Ueberroth and a newly formed organization, Rebuild Los Angeles, were also initially ineffective. This was largely because the companies most deeply involved in Los Angeles' rapid rise to global prominence—Broadway Stores, Lockheed, Hughes Aircraft, First Interstate Bank, Security Pacific Bank, Great Western Savings, Thrifty Drugs, Vons, Hughes Markets and H.F. Ahmanson—had or were about to disappear through mergers.<sup>29</sup>

Reacting to the region's loss of confidence, large public firms relocated to places like Houston, Atlanta, Philadelphia, San Francisco, Minneapolis and even hard-pressed St. Louis.<sup>30</sup> Between 1968 and 1998, the number of Fortune 500 firms in greater Los Angeles dropped from 12 to 7. From 1991 to 1996, the number of commercial banks based in Los Angeles County dropped from 130 to barely 100 and financial institution employment fell from nearly 100,000 to under 70,000.<sup>31</sup> Such trends prompted the Los Angeles Business Journal to warn that Southern California was becoming "the largest repository of subsidiaries in the world."<sup>32</sup>

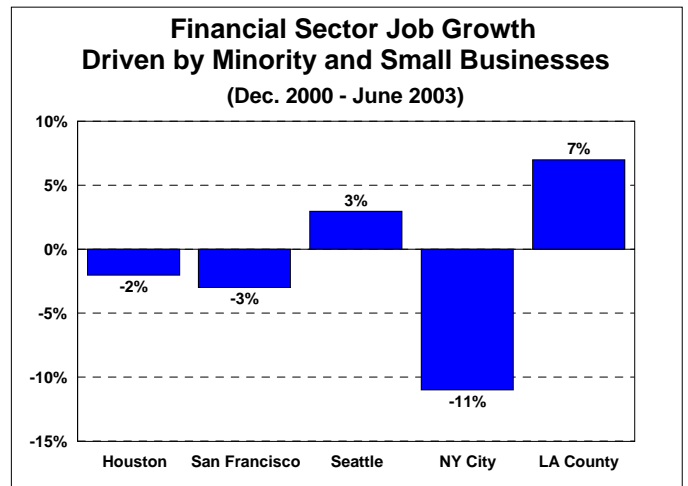
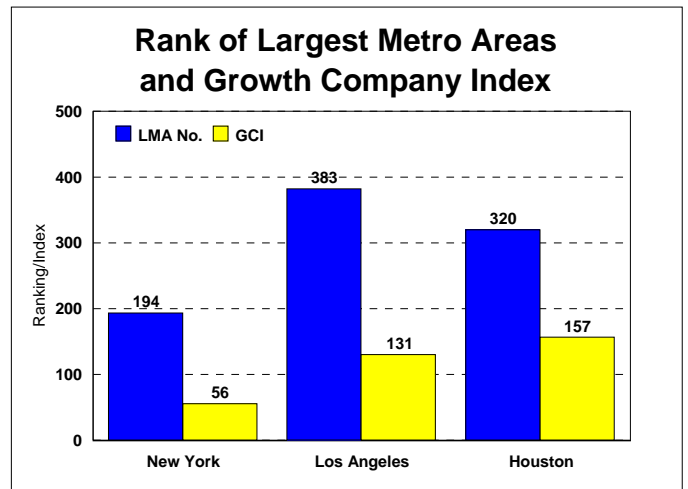
## The Remaking of the L.A. Economy

Eventually, Los Angeles' disenchanted elites retired and were replaced by new leaders, such as entrepreneur and former Deputy Mayor Linda Griego, who realized that the region's future lay with small, often immigrant-owned businesses rather than larger corporations. The result was a surprising, unique recovery.<sup>33</sup> In the past, Los Angeles growth was spurred by large-scale trends, such as wartime defense spending and later by real estate speculation. During the 1990s, however, the region's economy was rebuilt by smaller, diverse, "no name" companies.

By 1996 Los Angeles and Orange counties had some of the highest rates of new business formation of any large urban areas in the United States, far higher than in New York, Chicago, Detroit, or Philadelphia.<sup>34</sup> Firms with fewer than 500 employees accounted for almost two thirds of all jobs created between 1994 and 1996 in Los Angeles County.<sup>35</sup> Among the nation's ten largest metropolitan areas, Los Angeles ranked first in the percentage of people working in firms with less than 100 employees and annual sales under \$5 million.

By early 1997, Los Angeles was creating jobs at twice the rate of New York. The regional unemployment rate fell by nearly half from its 11.1% peak in 1994.<sup>36</sup> Home prices began to rise as sales of new and existing homes grew by double-digit rates.<sup>37</sup> Most impressive was the region's ability to retain a substantial manufacturing sector, including the nation's largest apparel, food processing, and cosmetics industry. Unlike previous recoveries, by 2000 Los Angeles had developed what the Milken Institute described as a "well-balanced, multi-faceted economy."<sup>38</sup>

These trends were bolstered by the increasing importance of immigrant and minority dominated sectors, such as garments, food processing, textiles, toys, and electronics. Los Angeles led the nation in the number of Asian, Latino and African-American owned businesses.<sup>39</sup> By the early 1990s, nearly one-third of Los Angeles County's businesses were minority owned, a fact that contributed to the 1990s' recovery because the region's ethnic businesses tended to be larger and more successful than their counterparts in other American cities.<sup>40</sup> Financial and business services job growth has followed.



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# Section Three.

## Looking Forward

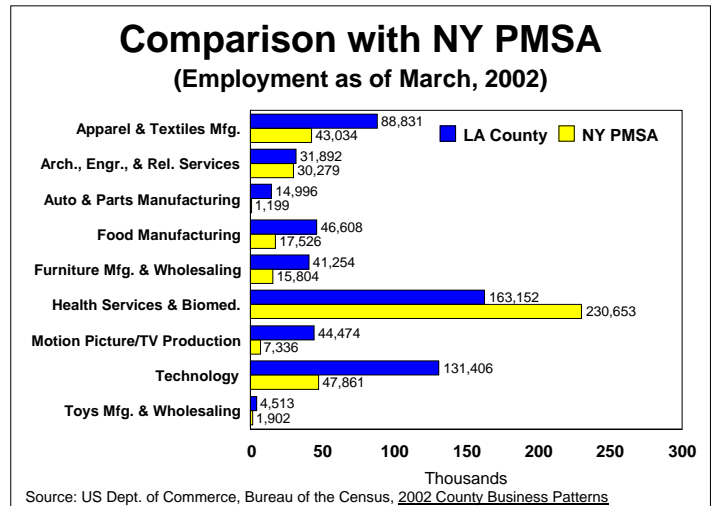
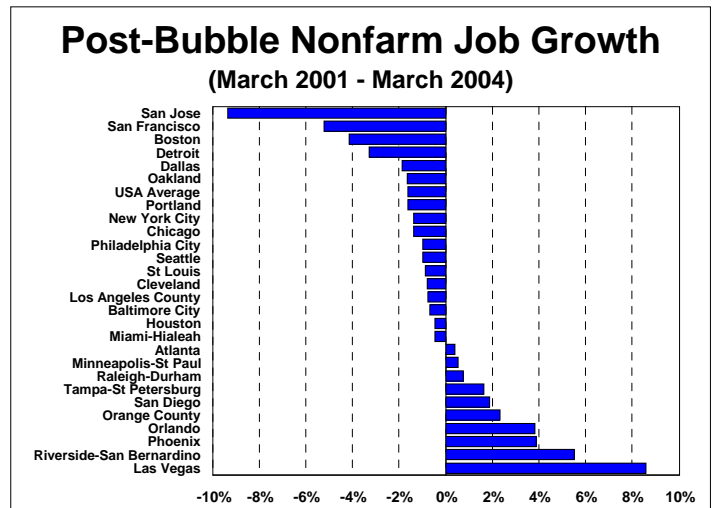
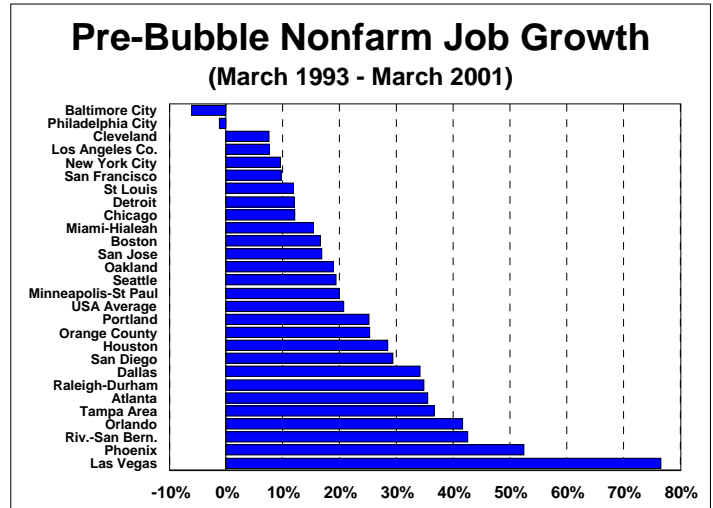
### Economic Assessment: the Bubble, the Recession and Beyond

Greater Los Angeles was both hurt and helped by the late 1990s "bubble economy." Unlike San Francisco or New York, the financial wealth driven largely by stock market speculation bypassed much of the region. Despite its size, in 1997 only 110 qualified brokerages resided in greater Los Angeles compared with 200 in San Francisco and 1,600 in New York.<sup>41</sup>

The financial community's indifference, however, also insulated Los Angeles from the spectacular collapse of the tech stock bubble after 2001. Sustained by a quietly dynamic, diverse and grassroots-oriented economy, Los Angeles weathered the last recession in much better shape than areas more heavily linked with the technology and financial bubbles such as the Bay Area, Boston, New York or Seattle.<sup>42</sup>

Los Angeles also has managed to retain more industrial jobs in fields like food processing, garments and diversified metal manufacturing than other major U.S. regions, such as New York.<sup>43</sup>

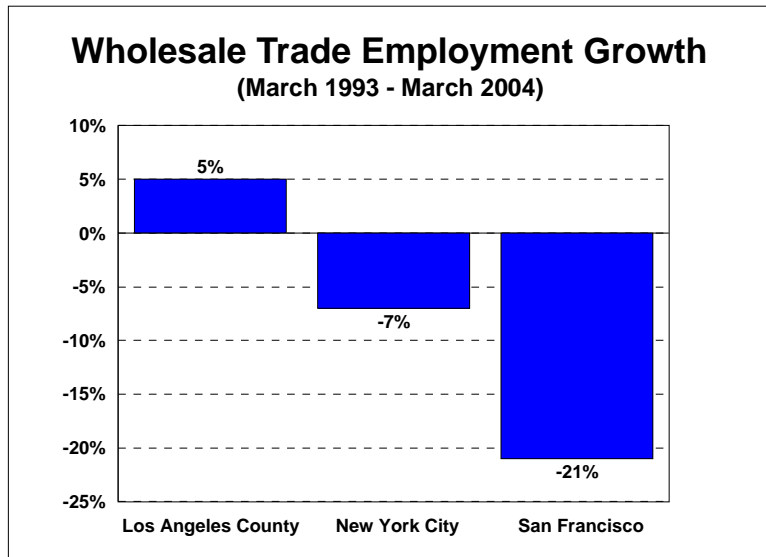
As the recession has receded, Los Angeles retains many intrinsic advantages that could propel its future growth. The region's diversified industrial base, construction and business service sectors, and locally oriented industries appear to provide a sound basis for expansion. These strengths may be further enhanced by developments in five key areas of the economy:



### 1. Trade

Since the 1950s, world trade has consistently grown faster than overall global GDP. Southern California is well situated as the port

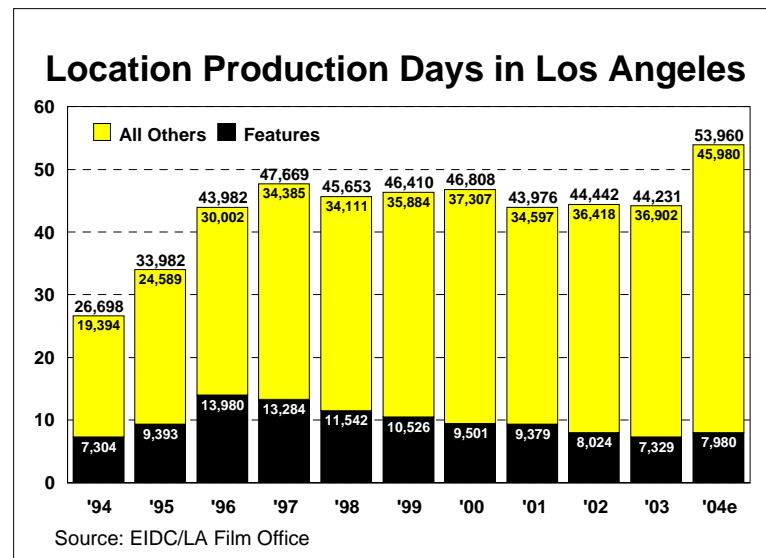
of egress and entry for goods to and from China and East Asia.<sup>44</sup> Goods and service exports account for as much as 15 to 20 percent of the region's total employment and may add as many as 50,000 new jobs in 2004.<sup>45</sup> Los Angeles and Long Beach comprise the world's third largest port, behind only Hong Kong and Singapore, and handle more than twice the total trade value as New York. A recent study by Inland Empire's John Husing shows that trade-related jobs in wholesale trade and distribution are replacing jobs lost in the manufacturing sector and provide a middle class wage opportunity.



### 2. Entertainment

After declining in the early 2000s, entertainment related employment—including movies and television, video games and advertising,<sup>46</sup> and location shooting—are regaining momentum in greater Los Angeles.

An upsurge in entertainment activities could boost major studio employment in Los Angeles and demand for the independent workers that service the industry. However, the industry faces some significant challenges. A strong entertainment sector also supports tourism and attracts bright, young professionals.



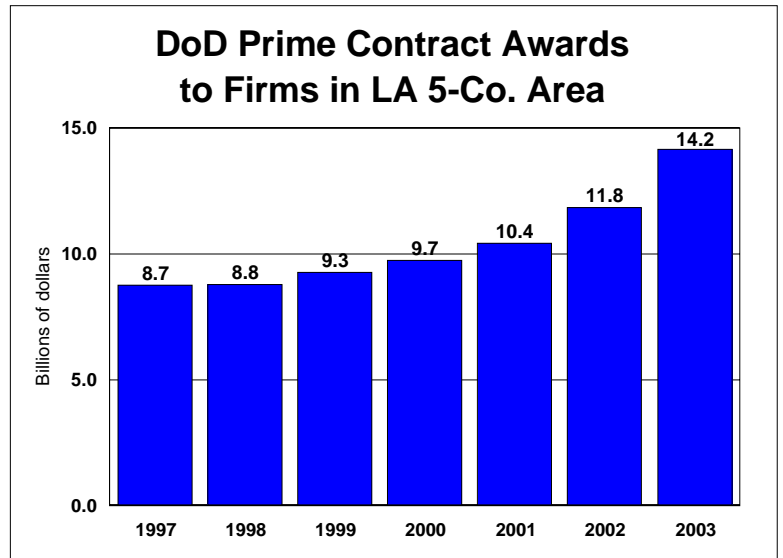
### 3. Defense

Following the painful cutbacks of the last decade, increased anti-terrorism and wartime spending is boosting high-wage defense employment in Los Angeles. Since 2001, defense procurement in the region has risen from 7.6 billion to over 10.6 billion.<sup>47</sup> This

increase is helping to offset continued commercial aviation sector weakness and is bolstering Los Angeles' overall high-tech infrastructure.<sup>48</sup> However, the L.A. Air Force Base and Aerospace Corporation are again at risk in the BRAC process and account for \$8 billion annually in research and defense job activity in Southern California.

#### 4. Finance

The Los Angeles financial sector is beginning to enjoy considerable growth. Since 2001, Los Angeles has generated substantially more financial activity employment than either San Francisco or New York.

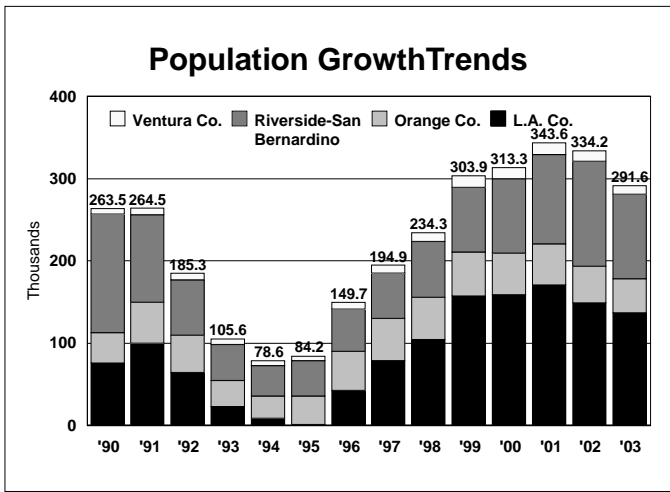


One factor in this resurgence is the desire of out of state banks to be near the region's large pool of small and mid-sized business. A top executive at Minneapolis-based U.S. Bank explained: "We wanted to be in the epicenter because Los Angeles is the middle-market capital of the world."<sup>49</sup> A second factor is the growth of ethnic business and banks. There are 45 Asian owned banks in Southern California compared with only 13 in San Francisco. No other city has as many ethnic banks, while some, like East-West and Cathay, are growing into prominent mainstream financial institutions.<sup>50</sup> Literally, hundreds of small community banks have been created to serve small to mid-size business over the past decade.

#### 5. Diversity

Los Angeles leads the nation in the number of new ethnic businesses and is also the primary generator of larger ethnic firms. In 2002, 43 of the top 500 largest Latino firms were in Los Angeles County compared with 12 in New York City.<sup>51</sup> Many of these firms—such as View Sonic, East West Bank, Panda Express and El Pollo Loco—are expanding beyond "enclave" markets and becoming national and international players.<sup>52</sup> This trend could significantly enhance the regional economy in the future.

## Demographic Assessment: Positive Trends and the Challenges of Poverty

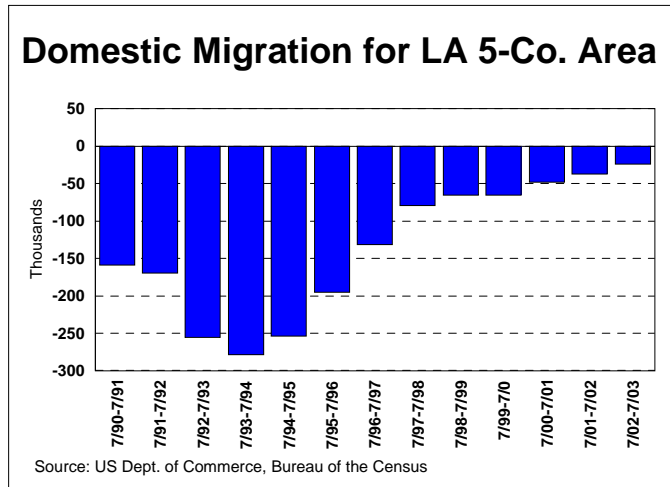


Los Angeles remains attractive to foreign immigrants and talented young people but, like many urban areas, is increasingly seen as inhospitable to young families and the middle class. Several demographic developments could significantly affect the region:

### 1. Slowing Out-Migration

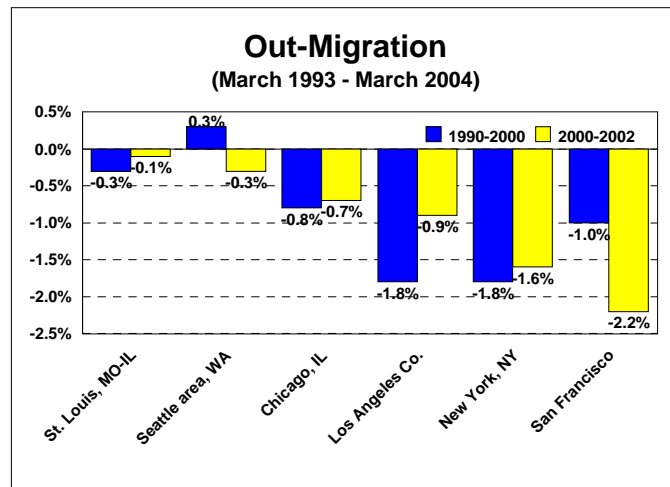
In sharp contrast to the early 1990s, the rate of out-migration from greater Los Angeles has slowed.

Since 2002, in and out migration to and from the region—including the surrounding counties—is essentially in balance. Other large metropolitan areas, such as New York and San Francisco have higher rates of out-migration, particularly after 2000.<sup>53</sup> Southern California is expected to grow by 5 million people in the next 20 years – essentially two new Chicago's. Over half the growth is natural growth from the existing population.



### 2. Young and Education Population

In the late 1990s, Los Angeles attracted many young educated people. Like other large metropolitan areas, however, many left Los Angeles the region as they approached childbearing age due to "quality of life," educational or affordability concerns.



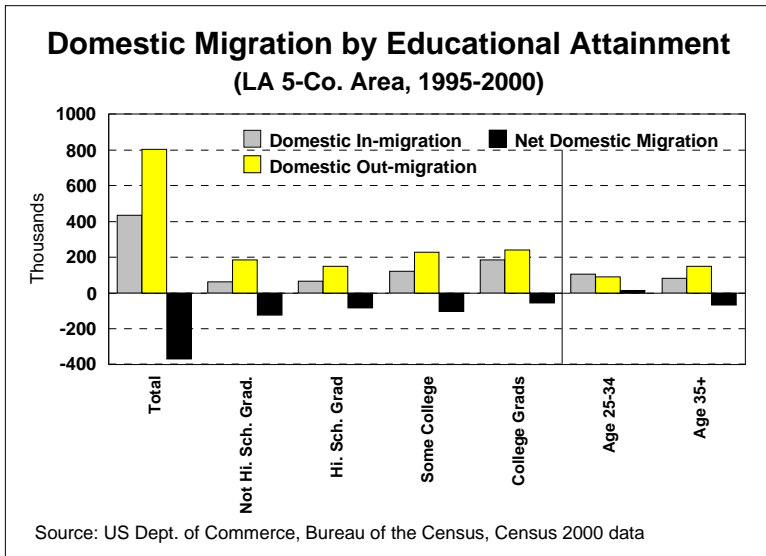
The retention of young families is important because this demographic group typically experiences rapid income growth and will generate new companies and employment opportunities in the future.

### 3. Poverty

Over the past 30 years, Los Angeles has become an almost irresistible immigrant magnet, but immigration has greatly expanded the number of lesser or unskilled poor families in the region.

As a result, Los Angeles is among the few areas in the nation in which per capita incomes declined during the 1990s.

By 2000, the region had the highest rate of poverty and the highest percentage of people with less than a 9th grade education among the nation's eleven largest metro regions. Recent population growth in Los Angeles has been bifurcated between educated younger residents and the very poor.<sup>54</sup> One of the most serious problems facing the community is a near 50% drop out rate in the L.A. Unified School District, particularly in immigrant dominant neighborhood

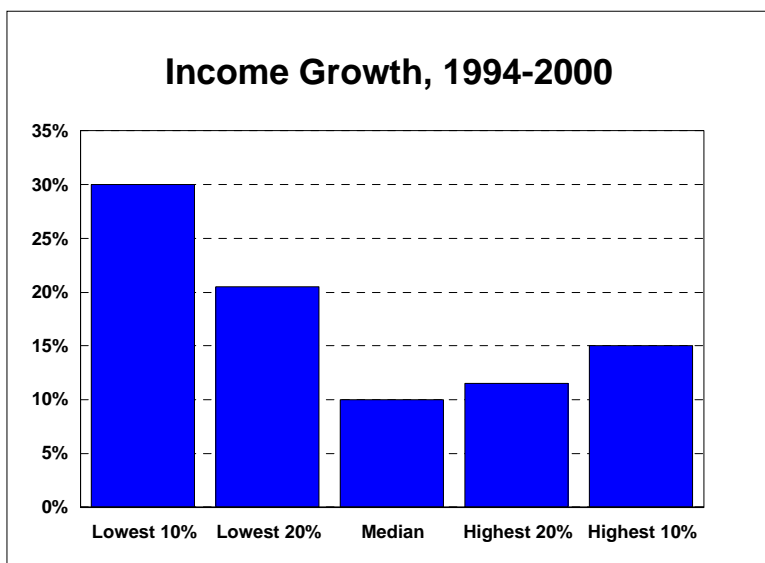


## Re-establishing the Connection: Economic Growth, Poverty and Social Justice

Demographics and post-bubble economic trends show that the most significant challenge facing greater Los Angeles is to retain, expand and nurture the middle class, to promote upward mobility and reduce the incidence of poverty. Unfortunately, the region has developed two conflicting approaches to this problem.

The first is to build the necessary physical and human infrastructure for sustained growth, the traditional Los Angeles response to creating widespread opportunity. The second is to use laws and regulations to mandate social outcomes, including living wage ordinances, mandatory health insurance and family leave requirements, inclusionary zoning and expanded legal claims against employers.

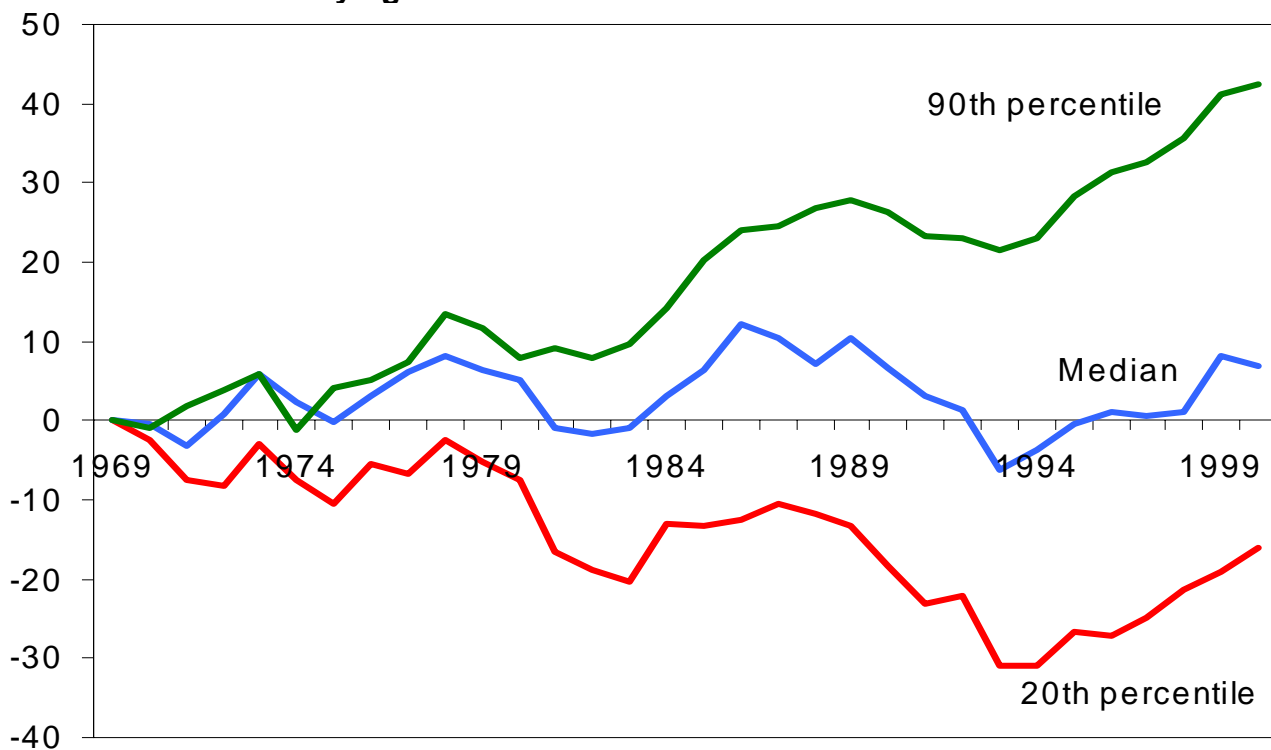
In recent years, legislating outcomes, rather than improving human and physical capital, has become increasingly popular throughout the region. In turn, the business environment has become more confrontational, particularly compared with other parts of the country. Many business owners have considered moving their operations elsewhere or, more often, not expanding in greater Los Angeles. As a result, even though the region has been able to retain significant economic strengths, it has not been able to realize the level of job growth and balanced industrial expansion that generates upward mobility for the broadest range of residents.



There is a clear relationship between sustained economic growth and widespread upward mobility. In the recession of the early 1990s, the gap between the poorest workers and the more affluent grew and the statewide poverty rate rose from 13% to 17%. During the subsequent recovery, the gap narrowed and poverty rates fell back to the 13% level despite continued, heavy immigration from poorer countries.<sup>55</sup> As blue-collar manufacturing and middle-tier service jobs expanded, the percentage of workers in middle-income ranges surged.<sup>56</sup>

More significantly, during both the 1980 and 1990 recoveries, the bottom quintiles of the workforce benefited most from rapid growth. Child poverty in particular is directly related to an expanding economy. During periods of strong growth, as labor markets tighten, child poverty falls. During slow growth periods, the rate of child poverty tends to rise.<sup>57</sup>

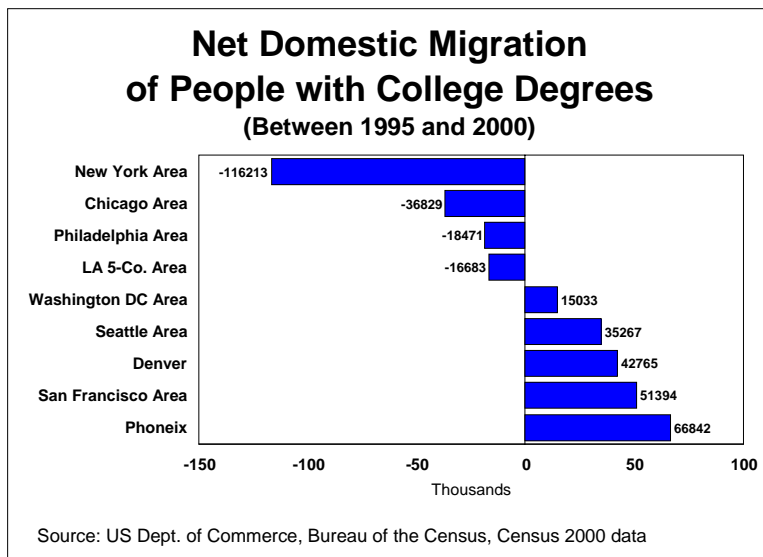
**The Economics Belying Class Warfare: Little Growth for Middle-Income Families**



Growth is also crucial for attracting and retaining a college-educated middle class, the workforce demographic that is generally considered to be essential for long-term economic stability. During the last several years, the number of college-educated people has not increased in slower growing areas like Massachusetts or New York despite the proximity of major universities and favorable media attention. Instead, the parts of the country that attracted the greatest concentrations of college educated people were fast-growing Texas, Florida and Colorado.

These statistics show that greater Los Angeles cannot expect to alleviate poverty and uplift significant numbers of people without a vibrant economy. Part of the motivation behind the legislative approach to social outcomes, however, is disenchantment with economic development in favor of now- fashionable "slow growth," or "growth without growth" policies, most of which believe that a regional economy can be sustained just by expanding a few high-wage sectors in lieu of overall job or population growth.

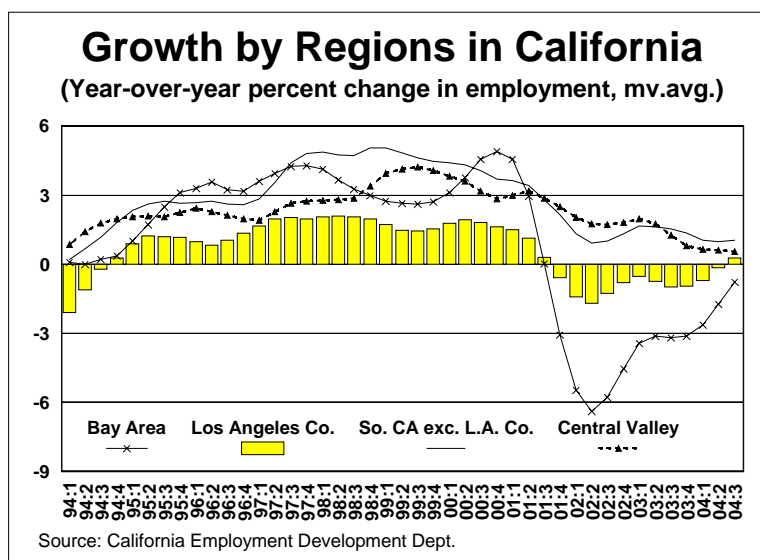
These policies were severely tested by the post-bubble economic collapse of cities like Portland, San Francisco or Boston; places commonly touted as slow growth exemplars. Even if the slow-growth approach is sustainable in some circumstances, it is substantially ill suited for areas with a rapidly growing, relatively young population like Los Angeles.<sup>58</sup> To make real social progress, Los Angeles must re-establish the connection between economic growth and social equity.



## Prospects for Job Growth

Post-bubble California has become an unpopular place to do business. Major media, citing issues like workmen's compensation insurance costs, high-energy costs, and regulatory abuses, are once again hailing an "exodus" of businesses from Southern California, particularly Los Angeles.<sup>59</sup> Without question, statewide business owners viewed the final years of the Davis Administration with extreme negativity. California's business climate was ranked poorly in most surveys and the economy often portrayed as chronically crippled.<sup>60</sup>

Unlike the last recession, the Bay Area, not Southern California, has been the weakest link in the economy. Nevertheless, greater Los Angeles still has some of the highest business expenses in the state, and is considerably more expensive than other areas in the country. Utility costs and excessive regulation remain among the factors cited by business owners that reduce their inclination to increase employment in the Los Angeles area.<sup>61</sup>



As a result, the Los Angeles economy has not grown as fast as it could during the most recent recoveries and has underperformed other parts of the region.<sup>62</sup>

According to a recent study by the Keystone Group and prepared by the Kosmont Partners and the Rose Institute of State and Local Government, California is losing manufacturing firms and high-paying jobs to both expensive and less expensive states, disproving that all our manufacturing jobs are going overseas.

Between July, 1999 and October, 2002:

Loss of manufacturing establishments to other states:

Nevada	39
Texas	35
Arizona	30
Oregon	27

Employment losses to other states:

New York	4,971
Texas	2,220
Florida	1,978
Oregon	1,122
Tennessee	849

The loss of manufacturing jobs in California has a disproportionately negative impact on Latinos. For example, in 1990:

- Over half of the machine operators, assemblers, and inspectors were Latinos.
- Over half of the fabricators and assemblers were Latinos.
- Over half of the metal working and plastic working machine operators were Latinos.

In 2000, of the 50 Census blocks in California where at least half the jobs held by residents of those Census blocks were in manufacturing, 27 of them were over 75% Latino. 33 of them were over 50% Latino. Many of these Census blocks are in Los Angeles County from areas such as East L.A., Santa Fe Springs, Willowbrook, and Downey.

Nevertheless, with the exception of the manufacturing sector, which is in decline nationwide, Los Angeles County business enterprises exhibit significant signs of optimism. According to the Los Angeles County Economic Development Corporation's (LAEDC's) most recent business survey (2003), firms in almost every industry report that they are still

adding more employees than they are losing. Small and medium sized firms, the most significant job creators in the current U.S. economy, are more optimistic than pessimistic about boosting job growth. Most firms state that they are profitable and expecting higher revenues. More are considering expansion rather than relocation, downsizing or closing their operations. Faced with an unattractive “employment cost package” manufacturers are opting to invest in plant, equipment and technology to meet their competitive challenges. And while manufacturing jobs continue in decline, trade related jobs, with similar wage opportunities continue to grow.

### The Views from Individual Job Creators

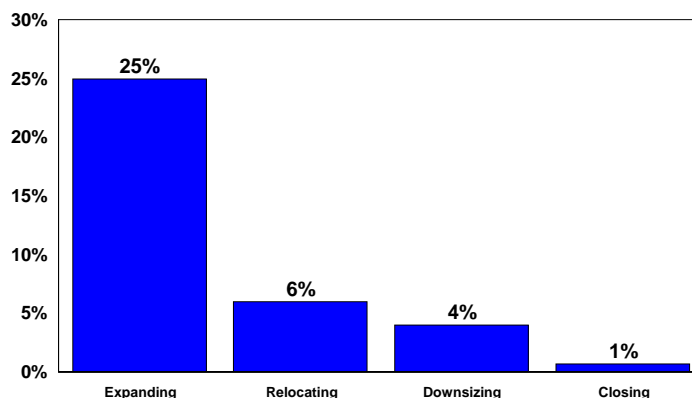
The LAEDC survey results show that Los Angeles retains the potential for the sustained economic and job growth that is necessary to significantly improve social conditions for the local population. To understand how the region's latent business optimism might be further encouraged to spur employment and economic development, a series of meetings were held in 2004 with executives throughout Los Angeles County. Representative companies included a range of large, small and minority-owned firms engaged in industries ranging from entertainment to manufacturing. The following themes emerged from these business interviews:

#### 1. The Great Disconnect

There is a pervasive sense that state and local political leaders are indifferent, or even hostile, to the very existence of business. In Vernon, for example, an industrial city where the majority of workers are Latino most business representatives were generally positive about the local environment, particularly compared with the neighboring City of Los Angeles. Vernon was said to provide good access to markets and employees.

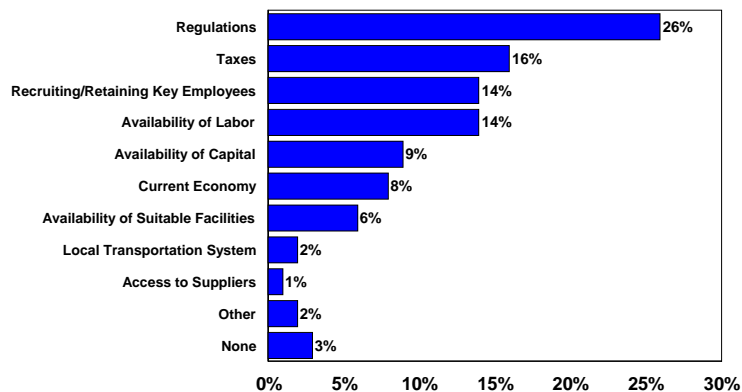
The business leaders were much more negative, however, in their assessment of local politicians and their local state representative.

### General Plans of L.A.'s Companies



Source: LAEDC survey of businesses conducted by NCBER

### Barriers to Future Expansion



Source: LAEDC survey of businesses conducted by NCBER

Most found that these leaders had no understanding, or desire to understand, such issues as spiraling workers' compensation costs. Certain leaders, would for instance, erroneously insist that workers compensation costs were rising due only to company safety records not the well-documented legal and medical fraud that has afflicted the state program. As a Latino-owned dessert manufacturer summarized the problem:

*"I am surprised how indifferent these people are. This is a Latino-owned company with Latino employees in [their] own district. [Our representative] doesn't get it—I don't think he understands small business and that has to change."*

The business interviews demonstrated that Los Angeles area businesses believe that the region's political leadership is deeply motivated by an anti-business ideology and is unaware of the competitive pressures facing their economy. "We constantly hear from our legislators about the family leave act that 'well they do that in Europe'," one manufacturing executive observed. But the problem with this perspective, the executive pointed out, is that most California firms are not competing with Europe but rather against other states that impose far fewer regulatory mandates on regional businesses.

Company representatives believe that the Los Angeles governing class comes largely from or is most closely associated with public employee unions. The majority of political representatives has little experience with the private economy and often appears disinterested, if not repulsed by how the economy actually operates.

"There are a number of our legislators who don't have a basic understanding of basic economics," a private developer in the San Gabriel Valley observed. "They just have a focus on social justice."

The critical issue many business leaders identified is whether they can have an honest hearing with their political representatives. Some share the view of a senior executive in a major South Bay electronics firm who feels that it is "hopeless" to try and provide legislators with information that might affect their ideological perspectives. Others felt encouraged by the election of Governor Schwarzenegger, who is widely perceived as more pro-business and yet retains an appeal to rank and file union members. "There is more optimism across the board," one executive suggested, since the election of Schwarzenegger. "At a grassroots level you can feel it."

Finally, some of the company leaders believe that business shares some blame for not being directly involved in the political and legislative process. "I don't think the business community is in the conversation early enough," a divisional vice-president at a major

media firm observed. "It is purely reactive, it is almost knee jerk reactive. We have to go beyond that."

## 2. Problems with Labor Force, Housing and Basic Infrastructure

Industrial companies believe that the Los Angeles area workforce suffers from a lack of training opportunities for machinists and other skilled professionals.<sup>63</sup> "The problem is no one even thinks about raw materials, no one makes things anymore," a South Bay power equipment manufacturer stated. "The industrial arts are gone from our schools and the appeal of [white collar] technology draws people away from manufacturing." While true, this trend may reflect a national movement away from manufacturing and industry towards more service-oriented employment.

Many employers are concerned with the increasing difficulty of attracting talent to the Los Angeles area due to high housing costs. Younger recruits in particular are concerned with long commutes or being forced to remain renters for long periods of time. "[One reason] we do not have enough talented people to service our clients is that most of our employees spend an hour driving each way to and from work," a CEO of a Santa Monica accounting firm said. "We pay our people very well, we put money, golden handcuffs on them, and still they can't afford to live here on the Westside. It is a harder sell now than ten years ago to recruit from out of state."

Educational opportunities, particularly for people with children, are also a major deterrent to recruitment. "The first thing they ask when I talk to a new research Ph.D. candidate about coming to work for us," said a City of Hope executive, "is about schools and housing. It's hard for them to afford a home near a good school. Sometimes it takes us a year to recruit people for open positions."

These concerns are consistent with the problem of nurturing a middle class in Los Angeles. High-level executives or assembly workers are often less difficult to locate than middle tier employees with a young family. Just as Los Angeles itself is increasingly bifurcated between the wealthy and the very poor, companies are finding it difficult to sustain a workforce that is neither top management nor entry-level or unskilled. This problem critically affects the region's future growth prospects.

## 3. Why They Stay—and how they might be persuaded to expand

Despite the many challenges of doing business in greater Los Angeles, many executives are surprisingly reluctant to consider relocating from Southern California or expanding somewhere else.

"I stay here because I love the San Fernando Valley," said the head of a struggling industrial firm, one that has been forced to lay-off half of

its one hundred employees due to rising workers compensation fees. "My lease is going up and I hope to save the business here."

There are many reasons executives cite for remaining in the region. Some, like a major South Bay printing firm, need to stay close to the Los Angeles airport. Others value proximity to world-class educational institutions such as Caltech.

A major factor is the people on which area businesses depend. The level of skills in the Los Angeles region is still generally higher than in most other parts of the country. "It would be extremely costly for me to move my operation to another state," explained the CEO of a South Bay electronics firm.

"I have a labor force here that is very well trained. The workforce is readily available. We just don't have any difficulty. We draw from all the colleges and universities in California."

Nevertheless, even firms that prefer Los Angeles are often forced to expand elsewhere. A canning manufacturer in the Los Angeles harbor, for example, likes its location but is precluded due to regulatory constraints from modernizing its plant and adding employees. Other businesses cite the relative paucity of incentives to expand business in the region compared with other locations. Motion picture and entertainment has been hit hard by the shift of production to other states and countries. "Local officials," suggests one movie executive, "need to look at economic development incentives" that are industry specific.

For the most part, entrepreneurs seem to desire nothing more than to be listened to and valued by local leaders. Many feel they are making a contribution to the region by adding jobs and creating wealth. They are waiting for the public sector to come to a similar realization.

## Going Forward: Toward a New Economic Agenda

"Every city," Plato wrote in the 4th Century BC, "is in a natural state of war with every other, not indeed proclaimed by heralds, but everlasting."<sup>64</sup> Plato's prescient observation is today more true than ever. All debate about growth and political governance must recognize that there are hundreds of other communities competing for the economic resources Los Angeles so crucially requires.

Despite its advantages, Los Angeles is in danger of losing this competition. The region's economic growth and job creation rates have been generally below those of most of its neighbors and other major urban areas despite slightly better performance in the post-bubble period. Its ability to sustain key sectors such as entertainment, business services, aerospace, and

diversified manufacturing is constantly being undermined by national and global and forces

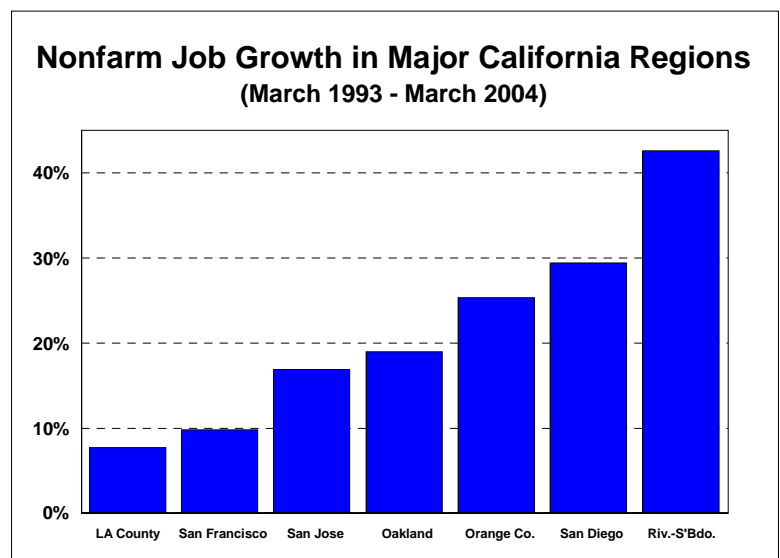
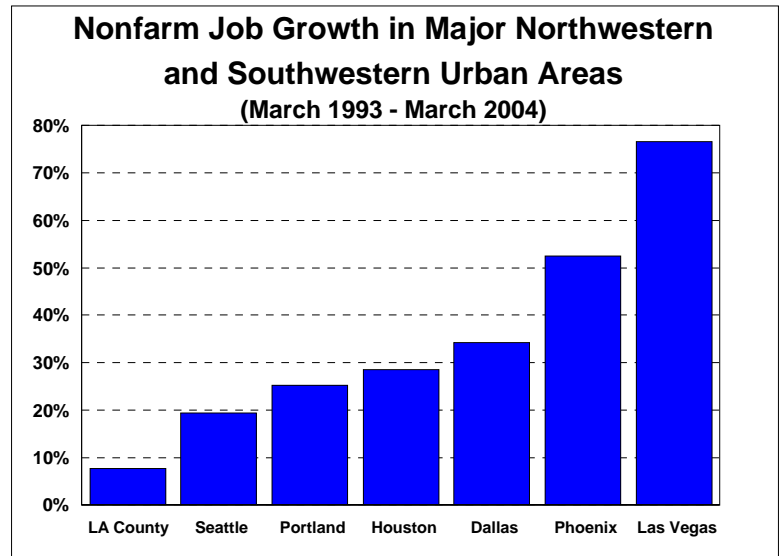
Southern California is comparatively new as an urban civilization, yet it faces many of the same challenges that have affected cities in the past. It was built as a kind of new city in which an idyllic climate and geographic dispersal was thought to provide an alternative to the crowded, aesthetically displeasing cities of the past. Today, however, it displays similar problems—crime, class conflict and a decaying structure of governance—that were typical of the communities its founders wanted to move beyond.

In most of history, only a small number of cities have been able to successfully recreate their former promise. "Innovation and technical change are not universal phenomena" the historian Jon Elster has noted, "but are restricted in time and place to a very small subset of historical societies."<sup>65</sup> It is not clear whether Los Angeles can achieve this objective.

Still, the region's young, diverse and growing population, concentration of unique education institutions, massive port infrastructure and its unparalleled natural endowments makes it an attractive place to live and offers the promise of renewed economic development. Los Angeles can still be "the better city" and a world leader that its founders so fervently hoped it would become.

Indeed, it will be impossible for greater Los Angeles to maintain and enhance its global position and improve social conditions without reclaiming its growth economy. Economic development remains the single most significant engine of investment in both people and critical infrastructure. Only by expanding opportunities can the region generate hope among the poor and working class that the next generation will have a better future.

To realize this goal, the public and private sector must jointly recommit to foster economic growth in greater Los Angeles. Employers need motivated and skilled workers who can afford to live reasonably near where they work. Schools need tax dollars to expand and improve their services to children. Employers must be treated cordially and with encouraging attitudes from



local public agencies. Regulatory and political bullying and excessive delays must be minimized. And, most particularly, Los Angeles must redirect its regulatory and investment priorities towards quality middle-tier employment in such sectors as construction, freight handling and manufacturing as well as the creative arts or other white-collar pursuits.<sup>66</sup>

More than a half century ago, the great progressive journalist Carey McWilliams wrote that Los Angeles, despite many imperfections and bizarre collections of "migratory creatures," the region was unique because a visitor could "somehow feel, and sense and see" that future was being made within its borders. It was in Southern California, McWilliams predicted, that "America will build its great city on the Pacific, the most fantastic in the world."<sup>67</sup>

We are, today, part of the way towards fulfilling that vision. Yet, in many respects, Los Angeles also lags far behind where it should be as an economy and a society given its resources and aspirations. To reclaim the future, the region requires a bold agenda that is again focused on the growth and wealth creation necessary to meet the needs of 17.5 million (soon to be 20.5 million) citizens. For just as it was in McWilliam's time, the fate of our region ultimately depends on the health and vitality of its economy.

## *Section Four.*

# Economic Development Environment for Los Angeles County

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A variety of major trends will impact efforts to devise a "winning economic development strategy" for Los Angeles County:

## Globalization

Globalization of demand and production has had and will continue to have a major impact on Los Angeles County. The manufacturing sector has been especially hard hit by offshore production. On the other hand, because of its transportation infrastructure, the County is a vital access point from/to South and East Asia—one of the world's fastest growing regions—to the rest of the United States. The dynamics of this situation are not well understood by many people, who see only the problems, such as congestion and air pollution, created by this hub status and not the new job creation that is occurring.

Japan used the Los Angeles area as their primary beachhead in the United States, and so did firms from Taiwan. Now Chinese firms are following this example. Investment has been made in facilities, and new jobs have been created. One sub-text to this phenomenon is Southern California's leading role in the U.S. activities of the Japanese auto industry.

On the other hand, globalization is a challenge for goods actually produced in the U.S. or Los Angeles. While a variety of trade agreements have been signed, there are still many subtle hurdles to actually selling locally produced items to major world markets. Nevertheless, the 2003 LAEDC business survey found 39% of our companies doing business globally.

In the past, the negative effects of globalization lay in lower paying manufacturing jobs. Allied to this is deflation in the prices of manufactured goods. But in recent years, countries such as Mexico, China and India have moved aggressively up the "value added" scale. India, in particular, has siphoned off considerable numbers of white-collar service positions, particularly in information technology.

These countries present an interesting challenge. They are competitors but their growing wealth also represents huge potential markets for goods and services produced from the Los Angeles area. This may require Los Angeles to focus on key questions involving intellectual property rights. Protecting "brands" may prove every bit as important as safeguarding patents.

## Mega-Mergers

Over the past decade, L.A. County's economy has been hurt by mergers/acquisitions of large locally-based firms. Not only have jobs been lost, but also the cadre of top executives able to make commitments to the L.A. community has been reduced.

Since the early 2000s, this trend seems to have slowed, particularly with the end of the financial bubble, which tended to concentrate resources in regions such as New York and San Francisco. Indeed some Los Angeles-based firms such as Hilton Hotels and Northrop Grumman have emerged as active acquirers.

## Technological Change

Technological advances have to be watched, as they can create new industries, eclipse an old industry, or change industry dynamics. The most obvious local candidate for change appears to be entertainment, with digitalization as well as the threat of piracy. The film industry has watched the havoc wrought on the music industry from illegal file sharing. This has severely reduced employment in the local music industry. A similar decline in television and video production would be highly detrimental to the local economy.

A more auspicious development has been the massive amounts of federal money that have recently come into the County's aerospace/high-tech industry, reflecting its still powerful R&D capabilities. If past patterns hold true, some of the new technology developed will be commercialized in about five years. A challenge will be to keep production resulting from these technologies in the County.

New industries will develop as a result of the "X factor," or the convergence of ideas, technologies and applications between industries. A good example is the video game industry, which has been expanding in the County, because of the motion picture/TV production industry, which is a rich source of ideas and even music.

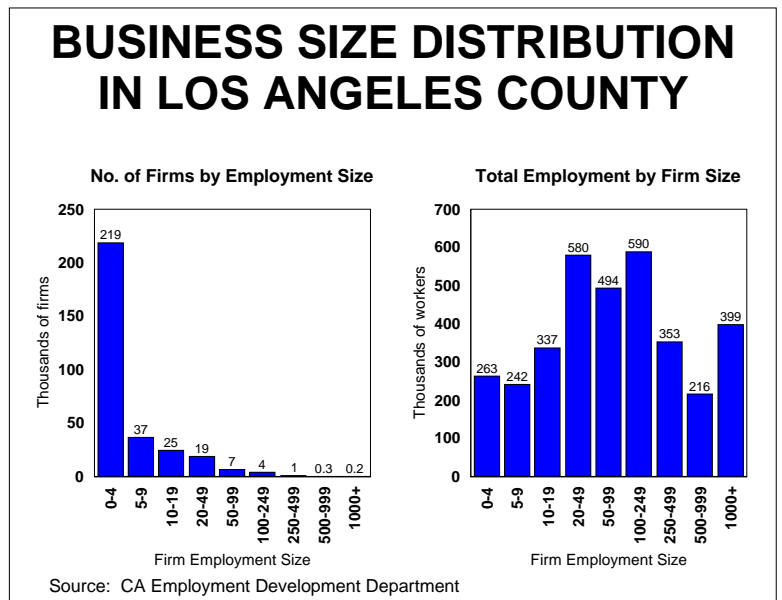
## State and Local Trends

As demonstrated above, the state of California has developed a hostile business environment that will be difficult to remedy, despite the election of Governor Schwarzenegger. Trial lawyers and public sector unions exert significant influence on the Legislature. Much of the legislation is passed to curb abuses by "big companies," notwithstanding that the vast majority of local employment comes from small-to-medium sized firms. Any legislation that drives up the cost of doing business is particularly harmful to entrepreneurial companies, since they do not have the resources of larger firms to weather the "storms" and cope with the regulations.

These regulatory problems have a lot to do with the growth of L.A. County's expanding underground or "cash" economy. And today, more companies are entering it to save costs. If these activities could be brought into the "main stream," these entrepreneurs would add even more vitality (and tax revenue) to the community.

Some specific state issues on the business environment include:

- **Costs of workmen's compensation insurance:** While reform was passed in early 2004, significant reductions in the cost of insurance are not expected until late in the year. In addition, regulations still have to be written, and some could be a burden on businesses for years to come.
- **High electric power costs:** These were the result of a botched de-regulation scheme, and will continue for several years. Worse yet, there are fears that the state's electric power requirements will soon outstrip supply again.
- **Overtime hours:** The state's overtime hours law (figured on a daily basis instead of weekly) limits operational flexibility in many industries, especially in apparel manufacturing which has seasonal surges in business.
- **Other hostile legislation:** A prime example is SB 796, which allows the filing of frivolous lawsuits by employees/trial lawyers against business. For the state's business base, this is yet another cost item. Passage of Proposition 64 in the November 2004 elections may remedy this problem.



- **Environmental concerns:** This is another issue that has impacted and will continue to impact the local cost of doing business. Currently, international trade is in the cross hairs due to its heavy use of diesel power, but any manufacturing process that uses chemicals or solvents also is at risk. Use of liquefied natural gas as a substitute for diesel fuel in trucks and buses would be a solution for this if adequate supplies were available (there is currently a debate about importing LNG, but there is opposition to local terminal sites).

- **Minimum wage:** Recently, the Legislature discussed increasing the minimum wage in the state. While well intended, this would have been another cost disadvantage for business in California. Governor Schwarzenegger vetoed this bill, but it could be re-introduced in 2005.
- **Term limits:** A similar type of issue is term limits for state and local elected officials. While these limits were viewed as the solution to a problem, they have become a new problem. Due to term limits, elected officials are less interested in taking a longer-term view, since they are often considering what office they will run for next, and do not want to take any actions that could hurt them in future elections.

## Education

K-12 is another problem area. There continues to be a high dropout rate, especially among the immigrant Latino population. As the economy globalizes, the jobs of workers with marginal educations will be most at risk. Unfortunately, this problem of disadvantaged workers creates a "rescue" mentality on the part of electeds. It would be better to focus on creating an array of jobs and access to training, rather than unsustainable "band-aid" remedies. Lack of a well-educated workforce will also hurt the future competitiveness of both the state and County, especially in technology and related industries.

Higher education is also under pressure because of the State's budget problems. Community college funding has been cut back, and both the CSU and UC systems could see limits on enrollment, which could limit capacity to educate the state's future workforce. However, higher education is also an "export" industry capable of attracting "customers" from other states and nations. Once here, these students may want to stay.

## Preparing for Population Growth and Our Infrastructure Deficit

Regardless of what local residents may want, the County's population will continue to grow by significant amounts, due to "natural increase" (the excess of births over deaths). For example, between 2000 and July 2003, natural increase accounted for 280,411 new residents while immigration (from both abroad and domestically) accounted for 207,289 persons. Some experts feel that both the Census Bureau and the California Department of Finance underestimate the County's population.

Infrastructure deficit: The state and the County both have an "infrastructure deficit" to overcome. There has been continued growth in population and business base, but such basics as road and rail capacity, waste disposal, and

water supply have not kept up with this growth. This deficit will start to have significant cost impacts on business efficiency in the next few years. "Congestion" is fast becoming the real "Achilles Heel" of a Southern California economy dependent on time to market. This challenge also directly threatens our mobility and basic quality of life.

## Housing Affordability

Given the growth in population, the County has an overall shortage of housing, most especially affordable housing. Economic cycles as well as opposition to development have created this problem. The result? Between 1991 and 2003, the population increase was 7.1 times the growth in the County's housing stock. Denser, in-fill housing would help solve this problem, but construction defects liability, especially for condominiums and townhouses, as well as outdated zoning regimes and strong NIMBY opposition serve to inhibit this type of construction. New proposed regulations, such as "inclusionary zoning," may serve to further slow the production of housing units.

## Lack of Industrial Land

Fifty percent of Los Angeles County's existing industrial base is over 30 years old and obsolete by modern industrial standards. Worse yet, there is a shortage of large blocks of developable land south of the San Gabriel Mountains. When significant amounts of land do become available, there may be brown field issues. Moreover, the natural tendency of cities is to do retail development because of the tax revenue implications. Industrial and residential are considered net "users" of tax revenue by cities. But industrial revitalization is essential for the County. A study by the LAEDC concluded that a modern industrial redevelopment creates four times as many jobs, six times the wage base, with greater overall tax base than a retail center alternative.

For the County, future industrial development will support "light" manufacturing, with attractive architecture and good landscaping. The prime hurdles will be truck access, and parking for employees. Innovative thinking for recycling old industrial sites, redundant malls and other facilities for new ones—perhaps mixed with housing and retail—could prove a big winner for the region.

## "Balkanized" Thinking

Due to its physical size, as well as natural and man-made boundaries, Los Angeles County's residents tend to view issues in a highly parochial fashion. They do not consider the impact that their actions might have on adjacent areas of the County, and vice versa. In addition, cities along the coast have different agendas from those inland. It has been said that Los Angeles County is really a state masquerading as a county, and the analogy does

work. Each area of the County (San Fernando Valley, San Gabriel Valley, etc.) could be a county in the "state of Los Angeles."

## No Dominant Media Voice

Finally, the County has no dominant media voice that identifies with the long-term interests of the region. Media is either owned by outside interests, with few organic links to the region, or by local firms concerned with only a narrow regional or occupational niche.

## Role of Local Government

In the case of the County's largest city, Los Angeles, it is pursuing "social" legislation (inclusionary zoning, livable wages, opposition to big box retailers, no smoking on beaches), as opposed to what a local government should do, which is to provide a quality infrastructure and improve education and training. The city has also lagged in reforming the business tax, much to the dismay of the business community. The recently adopted tax reductions, while directionally positive, leave Los Angeles with a continuing competitive deficit.

Moreover, state and federal elected officials have not been effective in dealing with issues in their districts. They tend to put on "forums" with little in the way of follow through. Worse yet, their staffs are generally poor at responding to valid requests from community and economic development groups. This leaves business feeling they are just not wanted.

## Weak Business Role in Public Debate

The overall influence of businesses in Los Angeles—once powerful, even dominant—has been reduced considerably. Other sectors, notably trial lawyers, the environmental community and organized labor, particularly public employee unions, have proven far more effective in driving both public opinion and legislative action. There are few recognizable business leaders who talk about county-wide issues, or who act as "champions" for major industries. Many express the view that such exposure just makes them "targets" and it is just not worth it.

## The Bottom Line

Los Angeles County is in a rapidly changing, ultra-competitive economic environment. Visionary and action-oriented leadership is required to deal with current challenges, and to help guide the economy on a track that will create good quality jobs and generate tax revenues in the future.

The Los Angeles region needs to understand its business "portfolio," and determine which industries have the most potential, as well as to be alert to the development of new industries.

Essentially, we still have the ingredients for success, but can we capitalize on them?

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## *Section Five.*

# Potential Economic Development Strategies for Los Angeles County

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To an extent that is rather unique, Los Angeles County's economy generates new "export" industries (an industry that sells its goods/services outside of the County, thus bringing in new money) in ways that are often unanticipated. This has occurred with the entertainment, aerospace and design industries over the past fifty years, and could well happen again.

New and rapidly evolving industries, particularly those that emphasize either creative content or global connections, are those that possess the greatest potential. This is in contrast to chasing after traditional, mature "commodity" industries or Fortune 500 headquarters that do not offer much real percentage growth.

Large firms, such as out of town banks, are interested in investing in Los Angeles due to the rapidly expanding ranks of smaller firms. They are the first to acknowledge Southern California as their best profit and growth market in the country even if their headquarters are out of state. Clearly, the most effective strategy for Los Angeles County lies in supporting such already existing small-to-medium sized businesses. Another key opportunity lies in attracting fast growth businesses from emerging global economies for whom Los Angeles' cultural diversity, business services and immense international logistics capacity hold particular lure.

A recurring strategy to attract firms to the region has been the "image" advertising campaign. This would have only limited benefit for Los Angeles County. In addition, such an effort would be very expensive, and have to be a multi-year process. Moreover, it would not be able to overcome ingrained attitudes toward Los Angeles that, for better or for worse, are transmitted daily around the world.

A more effective strategy would be to provide accurate economic/business information about the County, coupled with a steady flow of local company "success" stories. (This is where our dominant media players could help the community and themselves.) Perhaps even more important, there needs to be a better sense among business leaders themselves about both the opportunities and challenges facing this community.

The business community has to take the lead in developing positive growth strategies for Los Angeles County. The government sector is not only disorganized, but recent surveys by the Public Policy Institute of California indicated that the public has very little confidence that government can plan for future growth.

## Recommended Steps

- 1) Undertake a program of educating elected officials about the current economic realities. Encourage them to prepare and understand cost/benefit analyses of any laws/regulations involving business. This will be difficult given the power wielded by certain interests—environmentalists, some community activists, public employees—whose agendas are antithetical to business and often shape the attitudes of many local government officials. Nevertheless, such an effort is necessary to at least provide some alternative to the current dominant anti-business, anti-growth agenda.
- 2) Identify local "export" industries that have the best future prospects, based on existing competitive industry clusters, and potential growth in both sales and quality jobs. Some target industries for Los Angeles County are identified in the following section.
- 3) Identify industry "thought leaders," and work with them to craft a specific support and growth strategy. This could be difficult due to the competitive nature of many local industries but has been successfully undertaken in other regions of the country and, to a limited extent, in the entertainment business here in Southern California
- 4) Survey training programs for key local industries to find ways local firms can locate employable candidates for new jobs. This should be focused not only on our major Universities, but also at community colleges, high schools and even local institutions such as inner city churches.
- 5) Once a year, we need to review the business environment of targeted industries to determine if changes in strategy are necessary. The Los Angeles economy is highly dynamic in nature; it is always expanding, contracting, shifting, and throwing off some industries while developing new ones.

## Suggested Target Industries

On-going analysis of the County's economy, plus work done for the Business Tax Advisory Committee of the City of Los Angeles yields the following list of positive opportunities:

### 1. Professional Business Services

This group of industries includes accounting, business consulting, design, engineering/ architecture, legal, and R&D. Los Angeles is especially strong in design and engineering/architecture, but there is a low level of awareness of this capacity.

New industry potential: environmental services. The County's major engineering firms already have extensive capability in this area, while there are major opportunities both domestically and internationally.

## 2. Tourism

Development is moving along on a convention center hotel and retail/entertainment center in downtown Los Angeles, which will make Los Angeles more competitive for major business shows. However, promotional efforts for tourism in Los Angeles are fractured; there are few efforts to introduce visitors to the amazing variety interesting places that are unique to Southern California.

New industry potential: Efforts are underway to develop "cultural" tourism, focusing not only on "high art and entertainment" venues, but also on the varied ethnic and culturally significant neighborhoods of Los Angeles.

## 3. Financial Services

Los Angeles has no major bank headquarters, but it does have several large "community" bank operations. A risk is that these banks would be prized acquisition targets for larger financial firms. The County is also the focus of several large national banking organizations, due to its growing population and small- to medium-sized business base. The commercial and investment sectors of the banking industry have recognized what an attractive market these smaller firms are.

The County also has a surprising number of money management firms, angel investors and a growing number of venture capital firms. However, there certainly could be more of the latter.

New industry potential: Development of Los Angeles' expertise and reputation as a center for "middle market" banking. This could prove our key financial niche.

## 4. Direct International Trade

The Los Angeles area is already a leader in this activity, but there are some major challenges due to the activity's fractured nature and rapid growth. Of particular concern is "land-side" congestion. Foreign investment is continuing to be made in the County because of the international trade capacity.

New industry potential: Become a major "port of entry" (to the United States) for Chinese and Mexican firms not only for goods shipment, but for associated business service functions, from engineering to legal services.

## 5. Apparel/Textiles Design & Manufacturing

While total industry employment is declining, there is a shift underway that actually works to the advantage of Los Angeles. Lower wage jobs in manufacturing are moving abroad, while the removal of apparel quotas represents a major shift for the industry. However, high-wage jobs in design and logistics will stay. The

interest in "L.A. Style" offers a major opportunity to stress the fashion content and quality of items made in Los Angeles.

However, the industry faces a major image problem (sweatshops). Another problem is a lack of high profile fashion events that would call further national/international attention to the local capabilities. Few people outside of L.A. know that major fashion brands—Guess, BCBG, K-Swiss, and Karen Kane, among many others—are based here.

New industry potential: Apparel design and branding for firms in international markets, with a particular emphasis on the "L.A. look".

## 6. Motion Picture/TV Production

"Run-away" production is a major challenge for this industry, and incentives will be needed. While the focus is on production going offshore, there is significant competition from other states for filming. The state could offer some incentives starting in 2005, but this is uncertain due to budget problems.

This industry is also not well understood – the image is of the few high salary stars, rather than the many journeymen actors and production talent who are struggling to stay employed throughout the year.

New industry potential: There is a growing linkage with the video game industry, with firms moving/expanding in Los Angeles. Digital technology and effects have application for other industries. Technology is also changing the methods of delivering product, so this needs to be closely monitored. Cable networks are doing more original programming, which provides major areas for expansion.

## 7. Health Sciences/Bio-medical

While Los Angeles County has significant resources in this industry, there are four specific challenges. One is a lack of a visible cluster that would help build recognition of the local capabilities. The second is the lack of a bio-med industrial park adjacent to a medical school that would reinforce the cluster. The third is that while there is a large industry base in the County, it is not recognized due to its spread out nature. The fourth challenge is that as promising small firms become successful, out-of-state companies often purchase them.

New industry potential: The highest potential is in new drugs, instruments, and implants. There is also the potential for developing a bio-medical industrial park near County USC Hospital/USC Medical School. Los Angeles needs to develop its presence as a major Pacific Rim medical services hub, much like what has been done by the Texas Medical Center in Houston for the Caribbean

basin. Los Angeles needs to actively pursue the \$3 billion bioscience funding created by the state.

## 8. Specialized Manufacturing

Los Angeles County has a unique combination of design and manufacturing skills. This could help further develop niche industries in food products and furniture/home furnishings. The County also has a huge aerospace R & D capability, which could see further growth as defense and homeland security demands grow. To a large extent, it will be prototype design and production that will constitute our key function, since many long production runs would probably be done outside of California due to cost issues. Many of the new technologies do enter the commercial market, but would production be done in Los Angeles County due to the cost burden?

New industry potential: Selling globally, using the "L.A." brand as the entrée. Also, "quick-turnaround" production, and items where quality control is vital.

There is discussion in Sacramento about bringing back the "manufacturing investment credit" in 2005. This credit was phased out at the end of 2004, because its success was measured on job creation. Given the current push by manufacturers on productivity, a better measure would be jobs "retained" and the additional jobs that they would support.

## Acknowledging an "Export" Industry

As noted above, both higher education and special education are unrecognized "export" industries for Los Angeles County. The colleges and universities already attract students from both other states and nations. A lingering obstacle is the issuing of visas, "post-9/11." Once in Southern California, these students often choose to stay after graduation, becoming new members of the County's skilled labor force. The University of Southern California should be commended and supported in its efforts to become a truly "International University."

Higher education delivers multiple benefits to the County's economy, besides student fees and living expenses. Universities purchase considerable amounts of goods and services (in the billions) from local vendors. In addition, faculty members bring in grants, and perform cutting edge research, raising the potential for the commercialization of discoveries.

New industry potential: High value job growth potential can be realized if the new discoveries can be coupled with start-up funding, and locations for production are available. Stronger market orientation needs to be developed at major Universities, particularly at UCLA. Caltech has made this a key focus of their future success.

## Timetable

Which one of the above should be tackled first? The best strategy would be to start working on the first seven all at once. There will not be uniform progress, so the best opportunities will become visible over time (self-selection as it were).

## Conclusion

With all its challenges, the Los Angeles region, on balance, has the requisites and potential to be a winner in a competitive global economy. More than anything else, its creativity and leading edge, entrepreneurial spirit, driven largely by its growing diversity, are its greatest strengths.

The key, however, is community alignment around a winning regional strategy. Today, there is a disconnect between the public and private sectors. This disconnect will not be bridged without private sector leadership.

We offer the following as the critical elements in the future success of the Los Angeles Region.

### **Community buy-in to the “winning regional strategy” philosophy.**

- **Situation:** The community’s growing negativity towards business and growth threaten the region’s future vitality.
- **Solution:** Challenge and educate the media and public with the perspective that business and jobs are the key to our economic success and quality of life. This message needs to be coupled with an appreciation for planned growth and economically rational environmental solutions rather than polarization around growth vs. no growth positions.

### **Engaged business leadership to solve critical threats facing the region.**

- **Situation:** Few business leaders participate in regional policy development or the political process, except for narrow, industry-specific issues. Community building and leadership suffer.
- **Solution:** The business community needs to build its capacity to analyze the issues, develop solution paths and create implementation support mechanisms to address regional threats and opportunities. It should begin by selecting a project that can be accomplished in a reasonable time frame with a realistic probability of success and clear measurable goals and milestones. Issues can range from unplanned growth and congestion to making K-12 education more relevant to the region’s workforce needs.

### Local government focused on their primary mission of infrastructure and public services.

- **Situation:** Many local governments are trying to solve social and workforce issues without a clear understanding of the economic consequences of these actions. This coupled with the “fiscalization” of land use emphasizing retail sales tax generators over true job generators lead many local governments to neglect critical community initiatives.
- **Solution:** Engage local elected officials and governmental leaders in meaningful dialogues with business leaders that can lead to better overall prioritization and decision making. Economic development training and education programs for candidates and newly-elected officials can facilitate better partnerships with business.

### The region needs more effective engagement in the policies and actions of State Government.

- **Situation:** Sacramento has created a business climate and cost of doing business that negatively affects job growth and our overall economy. In addition, the current structure of government finance promotes local government decisions that are based on the quest for sales tax dollars not the building of a sustainable economy.
- **Solution:** Creating a local government/business partnership that can effectively advocate necessary change in Sacramento. These policies must positively affect the basic business climate and the fiscalization of local government’s decisions and also lead to better regional cooperation among local governmental agencies for meeting critical regional needs such as infrastructure.

### Continued attraction and investment in higher education.

- **Situation:** The higher education infrastructure of the region is among the best in the world. Higher education is the key to creating a professional workforce for industry; business linkages in a global economy; research commercialization; and support infrastructure for industries of the future like life science and nanotechnology.
- **Solution:** We need to support a combination of community college programs focused on technical and skilled workforce careers along with college and graduate programs relevant to our growth industries. International and entrepreneurial programs are particularly well-suited to our region’s business base.

### Maximize land reuse in urban areas.

- **Situation:** The Region has and will continue to grow. Although the availability of land has been a significant factor in the region’s ability to accommodate its growing population and business base, it can also lead to marginal use or underutilization of land in the older urban

areas. Half of our industrial space is obsolete to support modern industries with higher wages.

- **Solution:** We need to treat land as a scarce resource that must be optimized as the region grows. This will support high tech industry and higher density housing near job centers and transit. Maximizing the utilization of land and existing infrastructure is a critical regional development priority. Communication with the community to obtain “buy-in” will be critical.

# Endnotes

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