



ECONOMIC
ROUNDTABLE

🐦 @EconomicRT

📘 /EconomicRT

🌐 economicrt.org

315 West Ninth Street, Suite 502
Los Angeles, CA 90015

Lessons from Past (failed) Job Creation Initiatives in Los Angeles

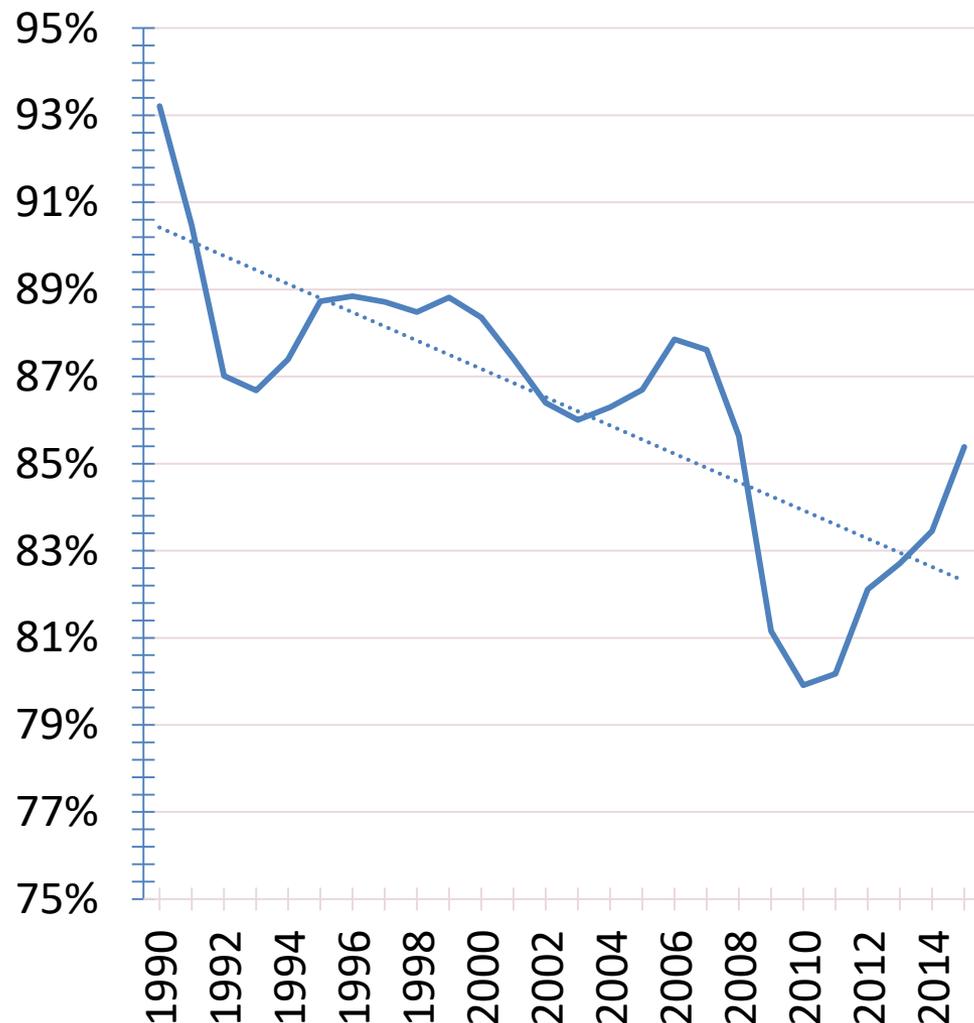
Economic Sustainability Roundtable
September 21, 2016

Why LA needs more jobs

1. The share of workers with jobs in the formal economy was much smaller in 2015 than in 1990
2. The informal economy has been LA's growth engine
3. Many informal jobs are under-paid, unstable and lack protections mandated by labor law



LA County Wage & Salary Employment as Percent of Civilian Labor Force



Does this definition of job creation make sense?

AN INCREASE IN THE TOTAL NUMBER OF JOBS AS A RESULT OF AN INCREASE THE AMOUNT OF MONEY SPENT ON WAGES IN THE REGIONAL ECONOMY

The payroll increase can come from:

- Exporting more goods and services to markets outside of LA and bringing back revenue to pay workers' salaries, for example, exporting manufactured goods, movies, music, etc.
- Bringing people to LA for specialized services such as health care, education or tourist experiences.
- Increased consumption – consumers spending more and saving less.

Sometimes job relocation is mistaken for job creation:

- Example: a new restaurant opens and older restaurants where patrons used to eat shrink and lose jobs.

What programs in Los Angeles are creating jobs?



Defense Conversion

Collapse of L.A. aerospace industry



ERT's projected loss of 420,000 jobs was prophetic

Los Angeles Times

TUESDAY, MARCH 17, 1992
 COPYRIGHT 1992 / THE TIMES MIRROR COMPANY / CC / 96 PAGES

DAILY 35c
 DESIGNATED AREAS HIGHER

Adding Up the Losses

A long-awaited analysis by the Los Angeles County Aerospace Task Force says the impact of the deep downturn in the aerospace and defense industries will be far more devastating for the county than previously expected.

THE 10 HARDEST-HIT COMMUNITIES

Communities were ranked according to the number of unemployment claims filed by ZIP code.



RECOMMENDATIONS

The task force made several recommendations to help the county compensate for the contraction of the aerospace industry. Highlights include:

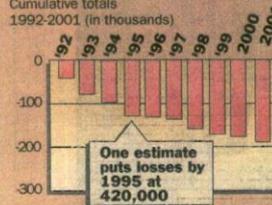
- Divert defense resources into making Los Angeles County a center for clean-energy transportation.
- Create an alliance among the area's universities to support new technologies and help bring them to market.
- Revamp and increase current job training programs to accommodate displaced aerospace workers.

Sources: Los Angeles County Aerospace Task Force; the Economic Roundtable

JOB LOSSES

By 2001, more than 180,000 jobs will be lost; less conservative projections go much higher. Many are blue-collar or clerical positions filled largely by women and minorities.

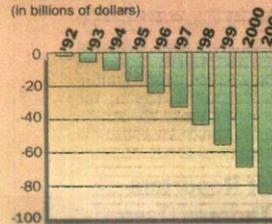
Cumulative totals 1992-2001 (in thousands)



LOST INCOME

Lost jobs translate into lost income, with the result that total personal income for Los Angeles County is expected to be reduced by nearly \$85 billion by 2001.

Cumulative totals 1992-2001 (in billions of dollars)



JAMES OWENS / Los Angeles Times

Aerospace Cuts to Devastate Area, County Study Says

■ **Economy:** Defense reductions could cost up to 420,000 jobs and \$84.6 billion in personal income, the task force reports. Federal, state assistance urged.

By RALPH VARTABEDIAN, TIMES STAFF WRITER

The aerospace bust in Los Angeles County will deliver a devastating blow reaching into every sector of society and the economy, resulting in the loss of as many as 420,000 jobs by 1995, according to a comprehensive new report to be released today.

The nation's most defense-dependent region by a wide margin, Los Angeles County will have to come to terms with the loss of \$84.6 billion in personal income over the next nine years, as Pentagon spending winds down in the aftermath of the Cold War, the report by the county's Aerospace Task Force found.

The report—which has yet to face scrutiny by independent economists and other experts—projects dramatic ripple effects for the county's economy, which by 2001 would result in:

- The construction of 122,000 fewer homes.

- A reduction in retail sales of \$23.8 billion.

- A drop-off in local tax collections of \$2.27 billion.

The most sobering projection foresees the loss of 210,000 to 420,000 jobs by 1995 in the county, a far higher estimate than prior studies have made for the entire state. A separate estimate in the report suggests fewer job losses, but still finds that the county would be down 184,000 jobs by 2001.

The estimated decline—which comes on top of the 71,000 aero-



Problem

1. L.A. was the center of U.S. aerospace manufacturing and the Cold War ended
2. Non-commercial industry culture shaped by Defense Department
3. Loss of up to \$9 billion a year in federal defense procurement
 - a. 1,283 L.A. firms
 - b. 4,184 DoD contracts
4. Well-paid jobs for workers with high school diplomas
 - a. 226,000 aerospace jobs
 - b. 452,000 supply chain jobs
 - c. \$42,000 average annual pay



What happened?

ERt economic adjustment strategy

1. Government-led industrial development strategy for diversifying into mass transportation, environmental quality, alternative energy vehicles
2. Clean energy and power consortium for sources with USC, UCLA, Caltech
3. Seed funding and technical assistance high tech start-ups
4. Retrofit defense manufacturing facilities
5. Information clearinghouse for export assistance
6. Job training for laid off workers



Aerospace task force plan

1. Council of executives to work on improving business climate
2. Business incubator
3. Loan fund and technical assistance for high-tech firms
4. Use local Section 8 to subsidize housing for Air Force Space Systems Base personnel in El Segundo
5. Coordinate job training
6. Reform Workers Compensation
7. Streamline permit processing
8. Cut back on environmental regulation

Lessons

What worked

1. The problem got peoples' attention
2. Money became available
 1. Department of Commerce grant of \$5.6 million
 2. Matched by \$1 million in local funds

What didn't work

1. No faith that any agency of local government was capable of carrying out an industry development strategy
2. Neither Bush administration nor Congress wanted to use defense saving to offset the impacts of defense cutbacks
3. Miniscule funding compared to size of problem
4. Funding went to laissez faire business-oriented group
 - a. Boosterism rather than intervention
5. Department of Commerce audit found that funds were not used in accordance with the economic adjustment strategy and asked for repayment



Advanced Transit Vehicle Consortium

Clean energy transportation

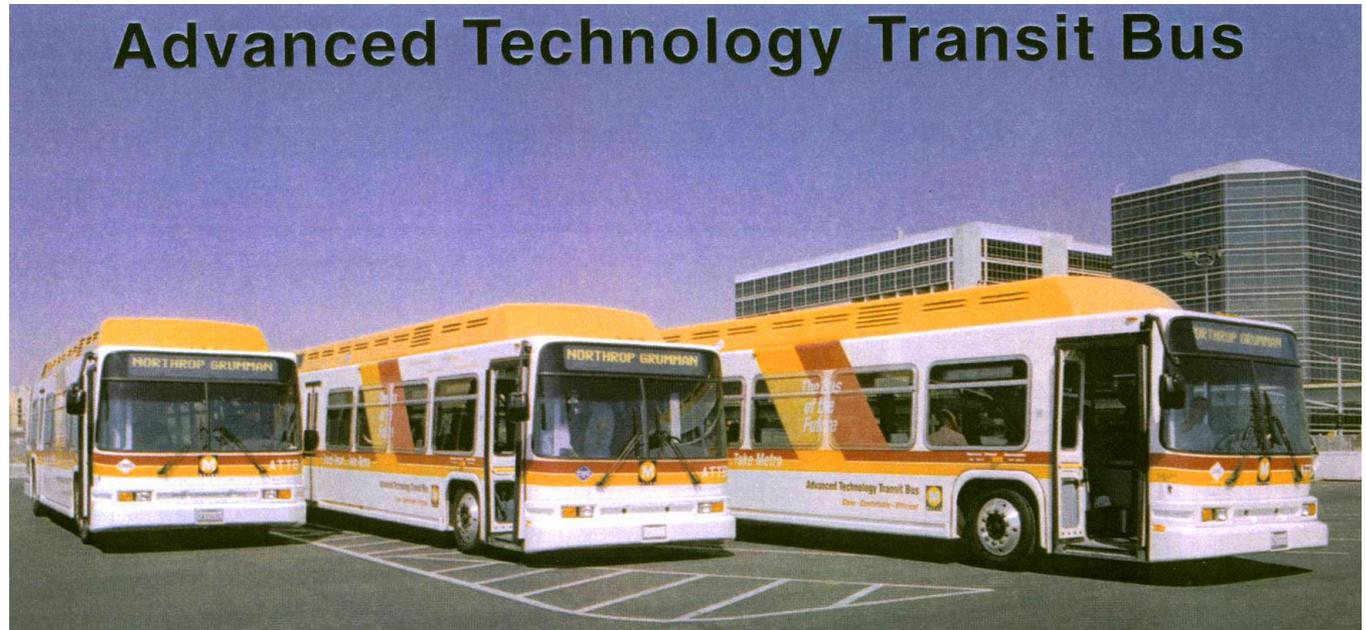


\$54 Million to MTA from 1992 to 1999 to redesign the transit bus with a 'clean sheet of paper' - \$40+ million FTA*, \$10+ million local

The largest public-run bus research program in history.

Contract to design and build the bus awarded to Northrup.

"If we can win the Cold War, we can build the world's most advanced bus."
(Senator Boxer)



Advanced Technology Transit Bus

Goals for "next generation" bus:

1. Lighter weight using aerospace composite materials
2. Ultra-low/zero emissions using hybrid propulsion and then fuel cells for electric propulsion
3. Lower, level floor, <15" throughout by eliminating the drive train
4. User-friendly with independent front and rear suspension to improve the ride for passengers

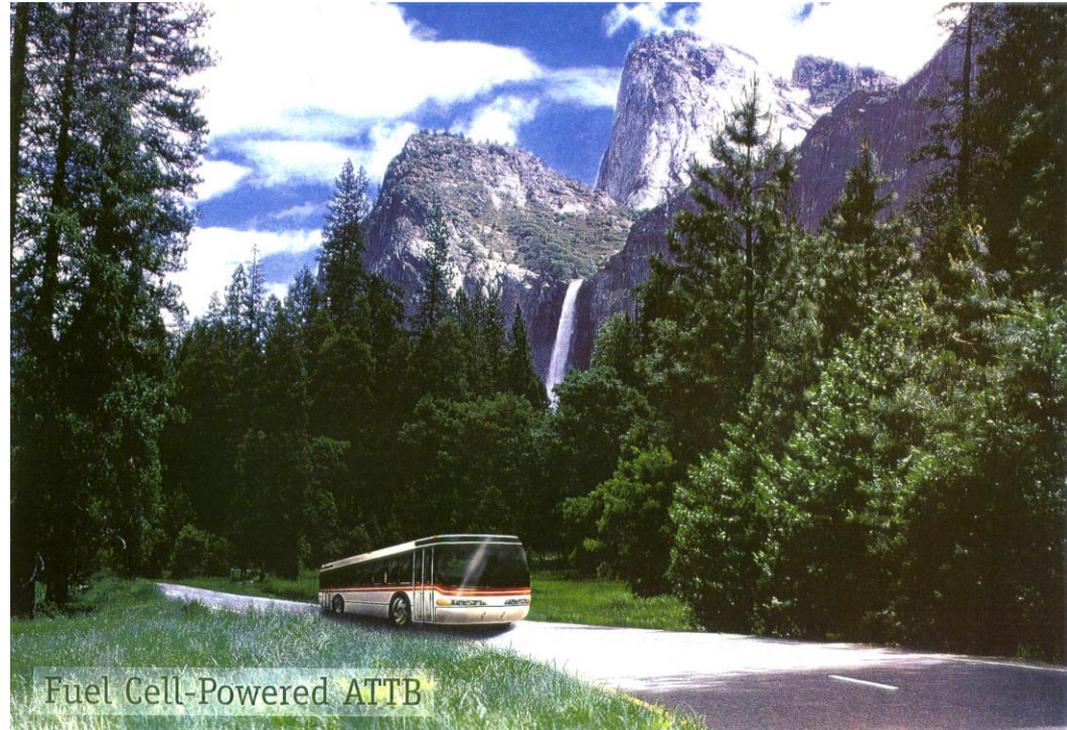
*Federal Transportation Administration



Fuel Cell Buyers Consortium formed in 1994 by motion of L.A. County Bd. of Sup. based on ERt economic adjustment strategy

Purpose:

1. Build on local industry strengths and the clean air market L.A. was creating to get first mover advantage in an emerging industry.
2. Harness public sector buying power to support defense conversion and new high technology jobs in L.A.
3. Use the Advanced Technology Transit Bus as the point of entry for bringing fuel cells into the transportation market.
4. Consortium members to purchase the fuel cell bus for the fleet of 5,000+ buses in the South Coast Basin.



Consortium:

30 government entities, utilities and transit agencies, with L.A. city and county, SCAQMD and MTA giving \$4 million

Staff:

ERt, MTA, JPL, NASA, USC Loker Hydrocarbon Institute, Aerovironment, AC Propulsion, Coval Engineering



What happened?

- **1994-1998:** Fuel Cell Buyers Consortium (FCBC) raised money, enlisted transit agencies, and engaged JPL and UC Davis to do systems modelling to integrate fuel cell into ATTB.
- **1998:** Northrup rolls out prototype ATTB and tells assembled dignitaries that they will not build the bus but will find another company to take it over.
- **1999:** ATTB completes testing and the results show: insufficient power, inadequate reliability, electric drive system over heats, rough ride, poor fuel economy, and no regenerative braking.
- **1999:** MTA hands off the ATTB program to FCBC, which hires three companies to develop plans for fixing the ATTB.
- **2000:** FCBC staff determine that fuel cell technology is not sufficiently developed to use in the ATTB, switches plan to hybrid electric power plant and changes name to Advance Transit Vehicle Consortium (ATVC).
- **2000:** ATVC staff prepare RFP to select contractor to build the redesigned ATTB.
- **2001:** ATVC board alternate chair hires Northrup's manager of the ATTB program, board travels to Europe to inspect buses, recommends NABI (Hungarian company), which MTA purchases, ERT steps away from project.

Lessons

What worked

1. A public sector buyers consortium is a powerful, workable idea. It is feasible to get multiple government agencies to buy the same product and help the local economy, if the product is good.
2. It is possible to get exceptional collaboration from technical experts to work on a project that addresses important public interests.

What didn't work

1. It's hard to predict the future of technology. Fuel cells were a bad bet. The best technical experts in the U.S. were wrong about near-term feasibility.
2. It's a mistake to rely too much on technical experts who are committed to a particular technology.
3. Hiring a noncommercial company that doesn't have skin in the game to develop a commercial product is a bad idea.
4. It's hard to make a course correction and keep decision-makers patient when there is money waiting to be spent.
5. The project had a low profile so there was no public fuss when it derailed.



Rebuild L.A.

Investments to create jobs in South Los Angeles



What happened?

- **1992:** following the not guilty verdicts of 4 LAPD officers accused of beating motorist Rodney King excessively, violence erupted at the intersection of Florence and Normandie in South L.A.
- **1992:** Peter Ueberroth accepted Mayor Tom Bradley's appointment to head the newly formed non-profit organization dubbed Rebuild L.A. to revitalize South L.A. He vowed to create sustainable jobs by getting corporations to make long term commitments to the damaged areas. He said that the city's reconstruction effort would serve as "a blueprint for revitalizing inner cities across the nation."
- **1992:** McKinsey & Company, Inc. released an analysis showing:
 - Shortfall of 75,000 to 94,000 jobs in South L.A.
 - \$6 billion in private sector investments needed to create jobs
- **1992:** Ueberroth said 500 companies would invest \$1 billion in South L.A. and that "we've got to get the government leg into place."
- **1992:** Ueberroth said that Rebuild L.A. had spent only \$800,000 to operate during its first six months.



More of what happened?

- **1993:** Ueberroth said he had become a lightning rod for controversy by those who regarded him as a "white Republican from Laguna Beach."
- **1993:** Mayor Bradley said that RLA's claim of \$500 million in new investment was "neither imaginary nor fictitious."
- **1993:** Ueberroth resigns to "devote more time to my family and other commitments." He calls for change at city hall, "Business as usual just won't work."
- **1993:** RLA (new name) refocuses to stimulate development of small businesses by establishing loan and equity investment funds.
- **1994:** RLA said \$280 in corporate commitments had been targeted (but only part actually spent) for business development.
- **1994:** Sixteen RLA board members resigned.
- **1995:** RLA identified 250 vacant lots it hoped to develop. This didn't happen.
- **1996:** RLA closed and transferred its assets and databases to the Community Development Technologies Center, part of the Los Angeles Community College District.



Lessons

What worked

1. The size of the job deficit was realistically identified and very ambitious goals were set.
2. The business community showed significant interest.
3. Large investments were pledged.
4. Significant investments were made.

What didn't work

1. It was a top-down initiative with appearances of elitism and obtuseness to the felt needs of the community.
2. Government at all levels avoided becoming involved. It was unrealistic to expect the private sector to solve the problem without government reshaping the playing field.
3. In many cases, the good intentions of corporate investors dwindled.
4. Less than 10% of the needed amount of investment identified by McKinsey & Co. was actually made.

Discussion

1. Must L.A. have job growth in order to reduce poverty?
2. What is the role of government in ensuring that there are jobs for people who must support themselves through work?
3. What tools does government have for creating jobs?
4. What outcomes from job creation initiatives justify public sector involvement?
5. How can the massive resources of the private sector be engaged?
6. Are there feasible opportunities to create jobs in L.A.?
7. What public agencies in L.A. have the capabilities to lead job creation initiatives?

