Planning Economic Growth: Los Angeles Coming of Age

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As with individuals, communities that have come of age are able to make decisions that shape their own future and safeguard their own well-being. One critical measure of Los Angeles' standing in 2007 is whether it is yet capable of taking actions that influence the economy in ways that help residents earn sustaining livelihoods. There are at least three reasons why it has become important for LA to exert purposeful influence on its own economic trajectory:

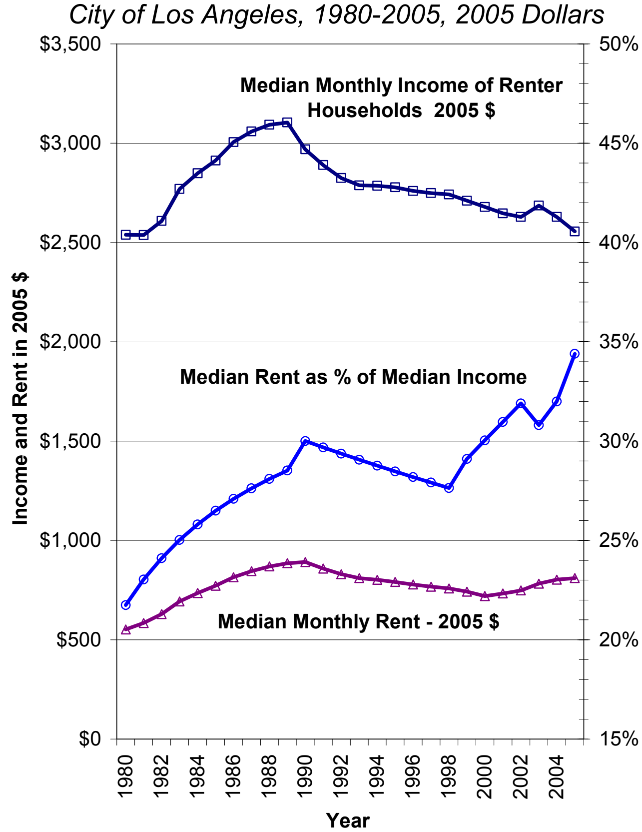
1. The population has grown steadily but the number of jobs in the formal economy, where employers comply with labor law, is still below the level of 1990.
2. The underground economy, operating outside the reach of government regulation, has become LA's growth engine.
3. Incomes are deeply polarized - a quarter of the labor force are working poor.

The difficulty that many residents have earning sustaining livelihoods is illustrated by the fact that the typical Los Angeles renter is precariously housed. This has citywide impacts because nearly two thirds (61 percent) of LA households live in rental housing. In 2005, LA renters paid more of their income for rent than at any time in the past 25 years (Figure 1). This is because:

- Income in constant dollars has declined since 1989
- Rents have increased since 2000

As a result, the typical (median) LA renter is precariously housed, paying over 30 percent of income for rent.

Figure 1
Income and Rent of Renter Households
City of Los Angeles, 1980-2005, 2005 Dollars



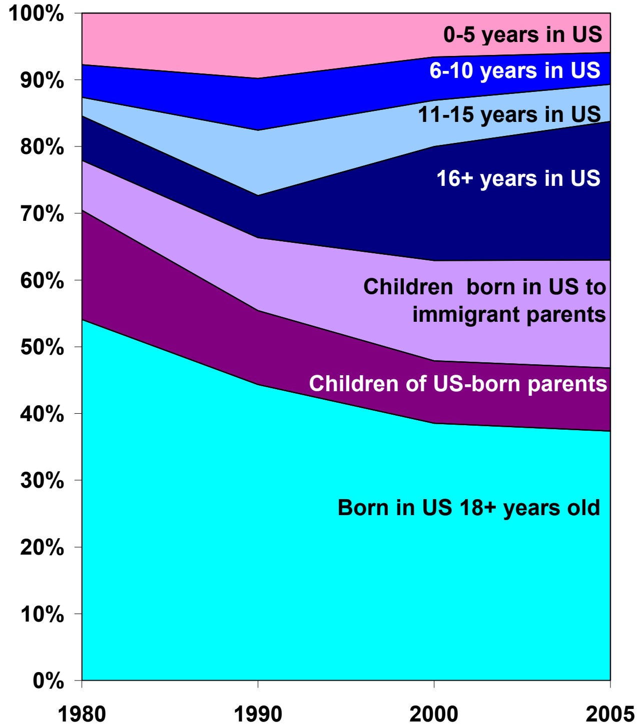
US Census Bureau 1980, 1990, 2000; American Community Survey 2002-2005: Economic Roundtable

Many of the workers whose energy and hope is driving LA's economic growth are surviving at the margins of the economy, struggling to pay rent, and trying to build better lives for their children. Most of these workers are immigrants,

Figure 2

LA County Residents' Tenure in US

Data for Four Time Periods: 1980, 1990, 2000, 2005



US Census Bureau PUMS 1980, 1990, 2000 and ACS PUMS 2005

who together with their children make up over half of LA's residents (Figure 2).

Los Angeles is being transformed by immigrants, who have saved it from the downward economic spiral that would otherwise have resulted from the aging and out-migration of LA's native-born labor force. Most of LA's immigrant workers (53 percent) have been in the US over fifteen years, sinking deep roots into the community and making long-term contributions to building LA's economy. Yet, over a third of immigrants (34 percent) are working poor, with incomes under 150 percent of the poverty threshold.

One of the reasons for these low incomes is the proliferation of low-wage, routine service jobs in Los Angeles. Nearly two thirds (63 percent) of all children in Los Angeles have immigrant parents. The future of Los Angeles rides on the success of immigrant parents in providing adequate nurturing, health care and education for their children, and the abilities and aspirations of these children as they enter the labor market and become taxpayers and voters.

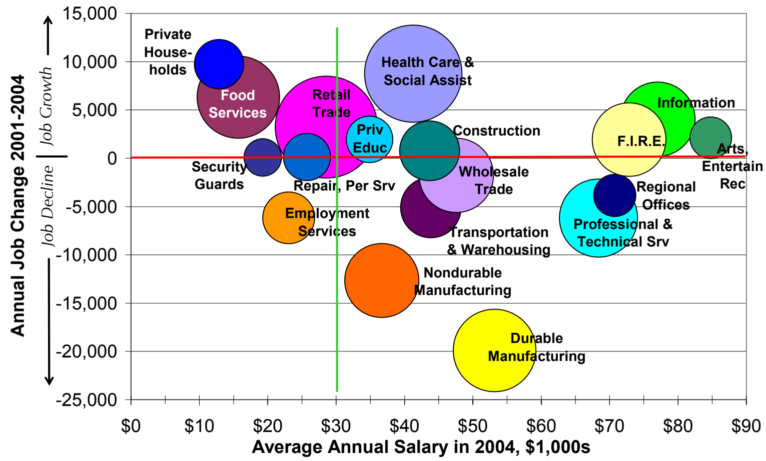
The public objective and legal justification for most economic development programs is to increase employment and earnings among low and moderate-income residents. The industrial context in which LA's yet-to-emerge economic strategy will pursue this objective is a business base with growth concentrated in the service sector and polarized between high- and low-wage jobs. Growing industries paying living wages are in the upper right quadrant of Figure 3, where we see an absence of growing industries with average salaries in the $45,000 to $65,000 range. The durable manufacturing sector used to fill this middle ground between high-wage jobs in the finance, entertainment and information sectors and low-wage jobs in the food service and retail sectors, providing middle-class jobs for people with average levels of education, but this sector is in long-term decline. Much of LA's economic growth is occurring in the upper left quadrant occupied by growing low-wage industries, notably the retail and food service sectors. LA does not have enough growing industries that pay living wages.

One-hundred-fifty-seven years after its municipal incorporation in 1850, Los Angeles needs, but does not have, an economic strategy. Nor is there a clear

Figure 3

Industry Context for LA's Economic Strategy

Number of Jobs Represented by Size of Circle



BLS *Quarterly Census of Employment and Wages - LA County 2004, Economic Roundtable*

idea of what a strategy should look like, or even complete agreement that local government should be trusted to develop a strategy. The reality is that when we say that Los Angeles needs an economic strategy we are referring to something that nobody has seen. Much of what passes for economic development is merely boosterism aimed at perpetuating an optimistic climate for real estate development. A substantive economic strategy can be thought of as:

- A comprehensive plan to provide sustainable employment for residents
- A long-term, fact-based plan for community and regional industry growth
- Not just project-specific development, although this is important

Ten types of action that Los Angeles might take as part of an economic strategy include:

1. Understanding industry strengths and monitoring trends in key industries.
2. Making land use decisions that support growth of key industries.
3. Fostering attentive, informed interaction with key industries.
4. Preserving a stable and competitive environment for key industries.
5. Intervening in measured ways to avert decline in key industries.
6. Using government purchasing power to support growth in key industries.
7. Prioritizing infrastructure improvements to help key industries.
8. Using strategic assets such as the ports to leverage local value-added activity and jobs.
9. Taking measured, efficient steps to make business capital available to targeted industries in targeted communities.
10. Helping residents get good jobs through training and employment initiatives.

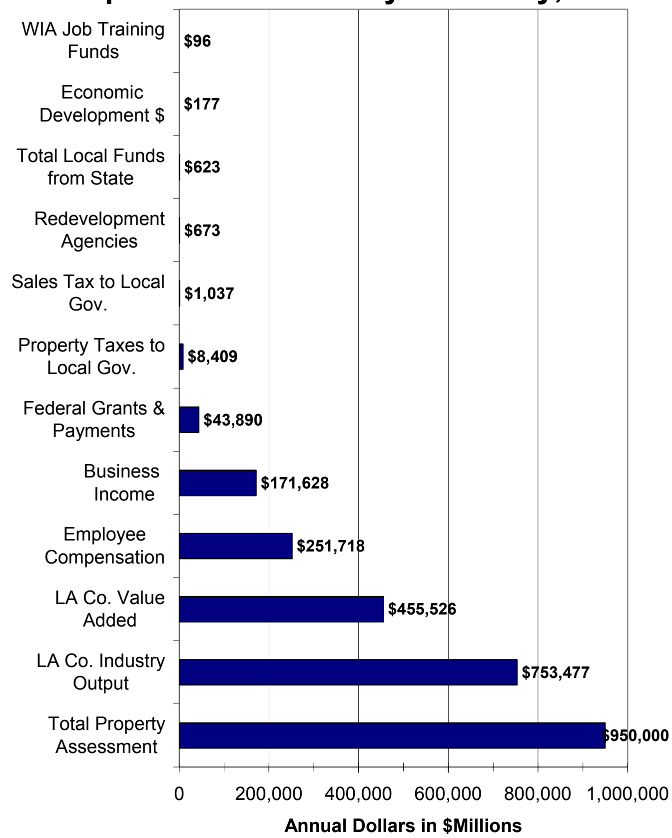
When we examine economic development programs across the United States we find very few success stories. Why is this? How much impact can Los Angeles hope to have on its economy through the ten types of action just listed? Will local government be picking losers and winners? The short answers are that at best Los Angeles will give gentle nudges to its economy. If these nudges are judiciously targeted and consistent, they can have a modest long-term effect in helping steer the economy in the right direction. Los Angeles is not in a position to pick industry winners and losers. Its challenge is to achieve a discernable and constructive impact on the economy.

The resources of local government are not large enough to control or even have a near-term influence on LA's economy (Figure 4). Los Angeles County has roughly:

- $1 trillion in assessed property
- $750 billion in annual industry output
- $450 billion in local value created annually
- $250 billion in annual compensation to workers
- $170 billion in annual business income

Figure 4

Snapshot of LA County Economy, 2006



IMPLAN input-output model for Los Angeles County; Public budget data 2002-2006 adjusted to 2006 dollars; Economic Roundtable

In contrast, less than $1 billion is spent annually by all local governments in Los Angeles County for activities typically associated with economic development – job training, economic development and redevelopment. These direct outlays for economic development and revitalization are less than one tenth of one percent of LA's economic output. They are too small to be discernable in the overall economy. The most important tools of local government for shaping the economy are indirect but potentially powerful. Local government's authority over land use, education and the labor market can have a powerful long-term influence in shaping the largest components of the economy:

- Land value ($1 trillion in assessed property)
- Worker productivity ($450 billion in value added)
- Worker compensation ($250,000 billion in wages and benefits)

A second factor constraining the ability of local government to intervene in the economy is the amount of time it takes to make public decisions and the probability that those decisions will be ambiguous and subject to revision. Five constraints that are likely to impact public economic planning initiatives include:[1]

[1] This list of constraints draws on Andreas Faludi's distinctions between blueprint and process planning in *Planning Theory*, Pergamon Press, Oxford, 1973, pp. 138, 143.

1. A continuously changing vision of the goals for and assumptions underlying an economic strategy
2. Incomplete and continuously changing information about the economy
3. Incomplete control over legal, administrative and financial decisions that impact economic planning
4. Long internal time lags for developing and approving economic strategies
5. Long external time lags before the impacts of economic strategies become evident

These constraints are inherent in economic planning, whether for LA or any other region. Any strategic economic planning initiative is at best likely to achieve incremental rather than definitive change and plans will probably need to be revised frequently to adapt to shifting information and goals. Local economic planning is a humbling prospect because the problem is big, the tools are small, information is fragmentary and continuously changing, and even with very good work there is a long wait before results become apparent.

Given this chastened view of public sector capabilities to influence the economy and yet the urgent need to improve LA's economic trajectory, what are the next steps? What tools are at LA's disposal to improve its economy? What types of risks create hazards for public investments in workers and the economy? How can those risks be weighed against potential benefits that might result from public investments? What are the guidelines for identifying reasonable public strategies that are appropriate for different industries? We explore these questions in the following sections.

INDUSTRY RISK

All industries are not equal. Seven critical questions can be asked to assess the level of risk for public funds if they are invested to support job growth in a particular industry. Data is available to answer all of these questions, both at a regional level and at a community level. The questions are:

1. *Multipliers* – Does growth in the industry create strong economic output, employment and tax multipliers in the regional economy?
2. *Cost of Job Creation* – How much does it cost to create a job in the industry?
3. *Job Requirements* - What proportion of jobs created in the industry might be accessible to workers with modest levels of education if they receive 6-12 months of training?
4. *Wages* - What is the average wage level in the industry?
5. *Industry Concentration* – Does the industry show evidence of being attracted to the target community based on an above-average concentration of jobs in the community?
6. *Recent Employment Change* - Has the industry grown or declined in the past two years?

7. *Long-term Employment Change* - What overall trend of growth or decline has the industry shown over the past twenty years?

Any job training or economic development program involves risks to both funders and workers. The risk to funders is that improvements in employment outcomes will not be commensurate with the funds that are expended. The risk to workers is that they will invest their time, effort and hopes in trying to become self-sufficient but remain in poverty. Given what is at stake, prudent risks are well worth taking, but everyone benefits if these risks are understood and minimized.

PUBLIC TOOLS FOR STRENGTHENING THE LABOR MARKET

Public tools for increasing employment and worker earnings fall into four categories:

- *Worker training* focuses directly on helping individuals become competitive in the labor market and obtaining fair compensation for their skills.
- *Business expansion* among existing employers is often the most feasible and effective strategy for job creation.
- *Business creation* is important in communities where there is a scarcity of employers providing sustaining jobs.
- *Business attraction* is a tool for enabling existing businesses to expand or relocate on under-utilized sites that offer locational advantages for them.

Fifteen public tools within these four categories are listed below, beginning with the most cautious forms of public engagement and progressing to the most aggressive.

Worker Training

1. *Upgrade training to support mobility to other industries* - for workers with bleak job prospects in their current industry.
2. *Occupation-based training* – generic skill training for stable or growing occupations that pay sustaining wages.
3. *Upgrade training to support advancement within an industry* - equip workers who have low-paid but stable employment to advance to better-paid jobs within their industry.
4. *Employer- based customized recruitment and training* - classroom or on-the-job training designed to meet the needs of a specific employer.

Business Expansion

5. *Targeting public services to improve the business environment* – improve the quality or availability of existing public services, for example public safety or transportation, to make a community more efficient and attractive for businesses.

6. *Assistance with regulatory issues* - provide timely, coherent and reliable resolutions for regulatory issues, thereby improving the stability and efficiency of the business environment.
7. *Publicly owned land* - provide fully entitled, developer-ready sites for businesses in targeted industries, thereby reducing development time and cost.
8. *Infrastructure improvements* – use public sector financing of roads, parking, drainage, utility improvements, or other infrastructure to make a location more attractive to businesses in targeted industries.
9. *Public sector loans, grants or investments* - provide financial capital to businesses in targeted industries.
10. *Public sector purchasing power* – use goods or services procured by public agencies as a tool for negotiating agreements to hire targeted workers.

Business Creation

11. *Micro-enterprise loans or grants* - support individuals in undertaking entrepreneurial initiatives.
12. *Worker-owned cooperatives* - support the income-generating efforts of a group of workers who are committed, energized, and prepared to invest extra effort when needed.
13. *New business start-ups* - use any of the tools described above to support growth of businesses in targeted industries.

Business Attraction

14. *Businesses recruitment* - advertise the locational advantages of a site or community to prospective employers.
15. *Relocation incentives* – use any of the tools described above as incentives to encourage businesses to locate at a targeted site or community.

MATCHING RISK LEVELS WITH PUBLIC STRATEGIES

The seven categories of industry risk and fifteen public tools for affecting the labor market listed above have been combined to create an industry-screening matrix, shown in Table 1. The matrix shows how risk factors can be layered to identify public strategies that may be appropriate for an industry given the risks and opportunities it presents for producing labor market benefits. This approach is based on the concept that there is a hierarchy of risks in job creation and economic development and that industry data can be used to identify, rank, and manage these risks. Higher levels of risk suggest a need for more cautious public sector engagement. Every industry should receive effective public services, but social venture capital for training workers or creating jobs should be invested judiciously. The top axis of the matrix shows an array of increasingly aggressive public strategies for influencing the labor market, beginning at the most cautious end of the spectrum with giving workers training that will equip them to move to more sustainable industries and progressing to direct investment in business creation and expansion at the most aggressive end of the spectrum. The side axis of the matrix shows six tiers, with lowest risk industries in the first tier and highest risk industries in the sixth tier.

Industries with the Fewest Risks and the Greatest Benefits – Tier 1

These industries do not demonstrate any of the risks shown in the matrix and are the most promising targets for all forms of economic development assistance, including job creation investments, and job training. Approximately 15 percent of LA's labor force is employed in tier 1 industries.

Industries with Uncertain Pay-offs for Economic Development Investments – Tier 2

These industries have weak economic multipliers or high job creation costs. Many forms of public support other than direct job creation subsidies are indicated.

Industries that Provide Few Jobs for Low or Moderate Income Residents – Tier 3

These are strong industries with well-paid jobs but they provide few jobs that are accessible to low- and moderate-income residents - less than one-third of their workforce is in entry-level jobs. However, to the extent that entry-level jobs are available in these industries they are likely to pay above-poverty wages. Many forms of public support other than direct job creation subsidies are indicated.

Industries of the Working Poor – Tier 4

Often these are strong industries but they fail to provide sustaining employment for most workers. The average wage for the entire workforce, including managers, supervisors and line workers is at or below an average of $2,500 a month. These industries account for over a quarter of the jobs in Los Angeles. Workers should not be trained for these industries and workers already employed in them should be helped to move to better paying jobs. Job creation investments do not appear justifiable.

Industries with Tenuous Stability – Tier 5

Depending on their wage level these industries may warrant special public sector efforts to help avert decline. Many durable manufacturing industries are in this tier or tier 6. Generic job training providing skills that are marketable in multiple industries may be indicated as well as carefully evaluated business support.

Highest Risk – Industries in Permanent Decline – Tier 6

The most serious risk for workers is that they will become unemployed and sidelined from the workforce. This risk is foremost in industries that are in irreversible decline, where economic forces beyond the control of local government are causing an industry to shrink. Only about 5 percent of LA's jobs are in tier 6 industries. Many of these industries provide living-wage jobs for their

Table 1

Hierarchy of Risks for Job Creation and Employment Strategies

Lower Tiers Have the Most Severe Risks; Risks in Lower Tiers are Assumed to be Absent in Higher Tiers

Hierarchy of Industry Risks for Providing Sustaining Entry-Level Jobs	**Train**				**Expand**					**Create**			**Attract**	
	1	2	3	4	5	6	7& 8	9	10	11	12	13	14	15
	Upgrade Training to Support Mobility to Other Industries	Occupation-based Training for Essential Skills & Competencies	Upgrade Training to Support Advancement within Industry	Employer- Based Customized Recruitment & Training	Public Services Targeted on Business Environment Issues	Assist with Regulatory Issues	Provide Sites and/or Infra-structure Improvements	Public Sector Loans, Grants or Investments	Public Sector Contracts in Exchange for Preferred Hiring	Micro-Enterprise Loans or Grants for HACLA Residents	Worker-owned Cooperative	Expansion-type Assistance for New Start Up	Recruit Businesses Based on Locational Advantages	Recruit Businesses by Offering Expansion-type Assistance
Industries with the Fewest Risks and the Greatest Benefits – Tier 1														
0 Industries without risks 1-8		+	+	+	+	+	+	+	+	+	+	+	+	+
Industries with Uncertain Pay-offs for Economic Development Investments – Tier 2														
1 Weak effect on the regional economy-low economic, employment, tax multipliers		+	+	+	+	+			+			-	+	-
2 High cost to create jobs – <13 created per $1 million output		+	+	+	+	+			+			-	+	-
Industries that Provide Few Jobs for Low or Moderate Income Residents – Tier 3														
3 Inaccessible jobs – less than 1/3 are at the entry level		+	+	+	+	+	-	-	+			-	+	-
Industries of the Working Poor – Tier 4														
4 Low-wage industry – average wages <$2,500/month	+						-	-	-			-	-	-
Industries with Tenuous Stability – Tier 5														
5 Industry future uncertain – long- and short-term trajecto-ries diverge, but positive trends predominant		+	+		+	+	-	-	+			-		-
6 Weak industry concentration: low location quotient		+	+		+	+			+					-
Industries in Permanent Decline – Tier 6														
7 Industry future doubtful – long- and short-term trajecto-ries diverge, but negative trends predominate	+				+	+	-	-	-	-	-	-	-	-
8 Industry is in decline – both short- and long-term trajectories show job loss	+				+	+	-	-	-	-	-	-	-	-

Plus or minus signs in the table show whether or not different strategy options for job training and economic development are indicated when a risk factor is present.

+ **STRATEGY MAY BE PRUDENT**
- **STRATEGY UNLIKELY TO BE PRUDENT**

workers but in the long-term, economic development or job training investments in these industries are likely to yield poor dividends.

We can use the objectives and relative cost of each employment-related strategy to deduce the type of circumstances in which the strategy is appropriate. Plus or minus signs in Table 1 indicate whether or not different strategy options for job training and economic development are likely to be prudent when a risk factor is present. The industry screening process starts at the bottom with the most severe risk (permanent employment decline, tier 6), and industries that pass that filter are screened progressively for each of the following lesser risks. Industries are assigned to a tier based on their most severe risk. They may in addition have some of the lesser risks associated with higher tiers.

The resources available for improving labor market outcomes are very small in comparison to market forces. The strategies recommended in this paper are based on understanding LA's strengths and working in harmony with market forces to build on those strengths. It is not realistic to expect that public resources will reverse or fundamentally alter LA's economic trajectory. It is realistic, however, to expect that thoughtful program strategies can provide slight but consistent nudges toward retaining and expanding industries that strengthen the economy and provide sustaining employment for residents.

An economic strategy will not be a panacea, but without it Los Angeles will faced increased risks of economic stagnation and growing poverty. One of the next steps for Los Angeles is to identify an institutional hub for collecting and analyzing economic information, integrating public authority and resources, and implementing long-term goals for shaping the economy. Another step is to begin a broadly inclusive civic dialogue about long-term economic goals for Los Angeles. A successful strategy will require a continuing flow of reliable local economic information, a broad-based public decision-making processes, a coherent long-term vision, and perseverance.

**The analysis in the second part of this paper of methods for matching public strategies to the level of risk found in industries reproduces material from Chapter 6, "Industry Strategies for Training, Job Placement, and Economic Development," of "Los Angeles Labor Market Action Plan," prepared for the City of Los Angeles in 2001.*