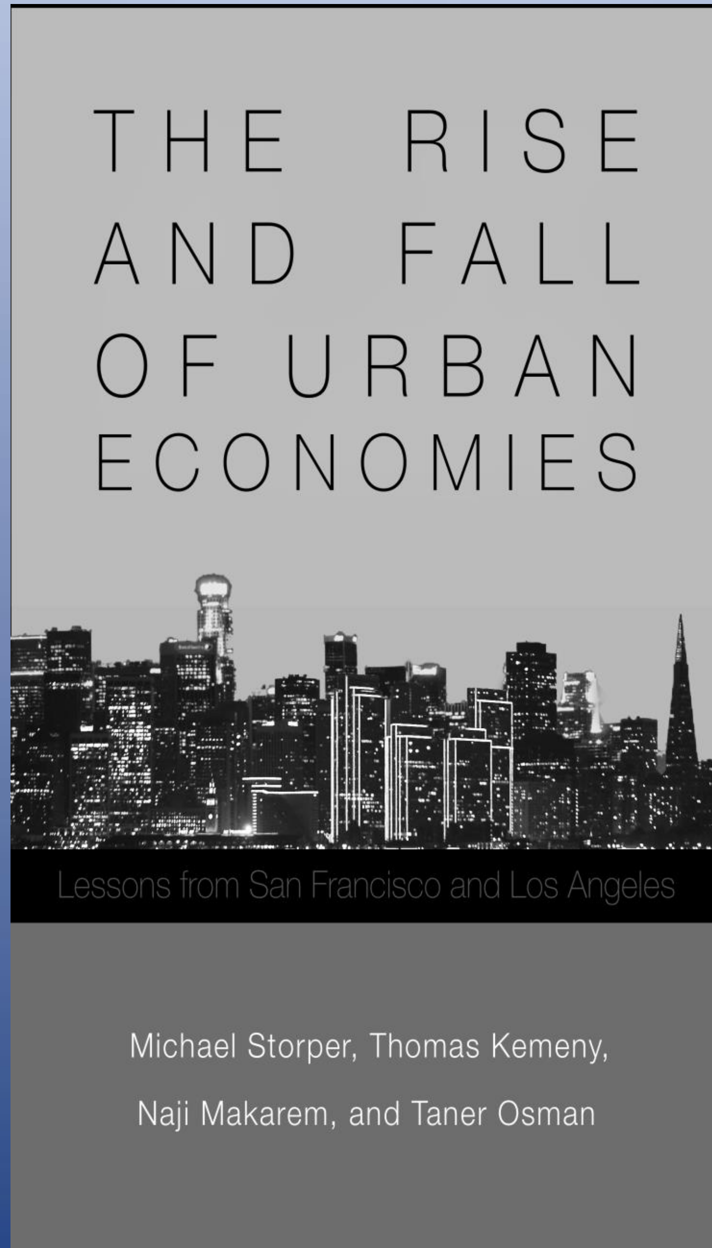
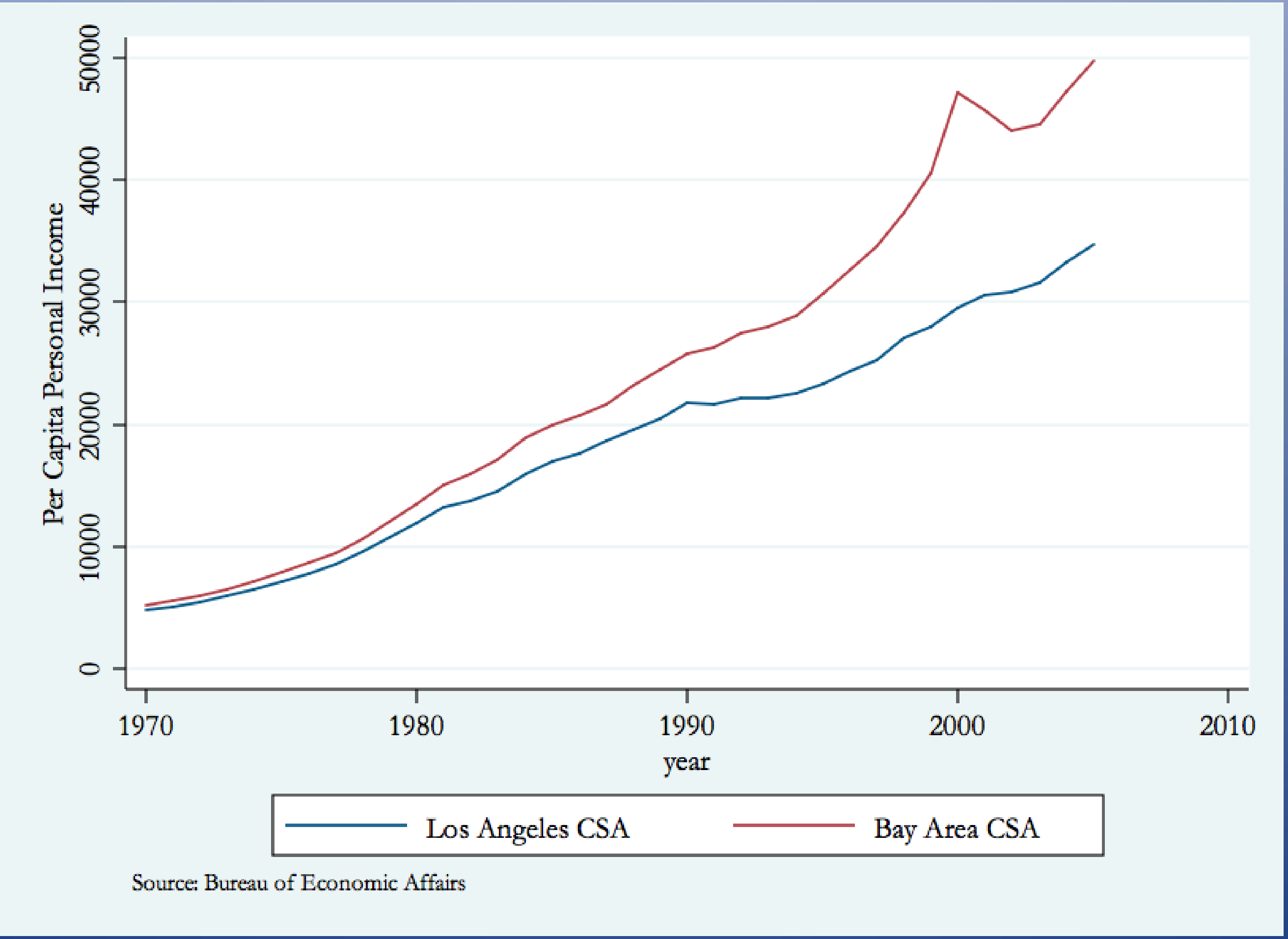

THE RISE
AND FALL
OF URBAN
ECONOMIES
Lessons from San Francisco and Los Angeles
Michael Storper, Thomas Kemeny,
Naji Makarem, and Taner Osman

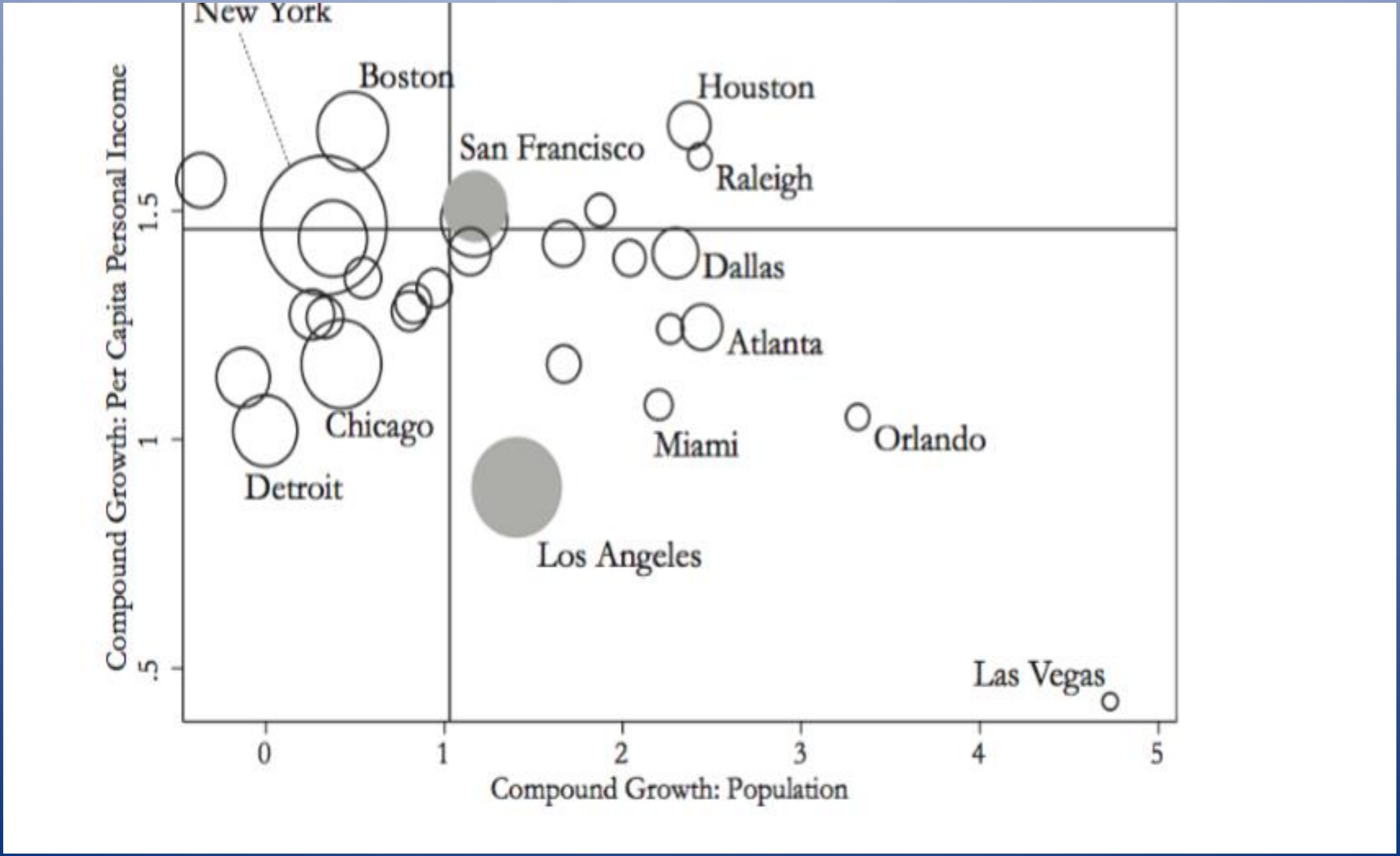
Two metro regions: two pathways



SF 1st-1st. LA 4-25th!

Area Name	Income Rank 1970	Income Rank 2009	Pop Growth 1970-2009
San Jose-San Francisco-Oakland, CA	1	1	55.3%
New York-Newark-Bridgeport, NY-NJ-CT-PA	2	3	13.0
Chicago-Naperville-Michigan City, IL-IN-WI	3	12	21.1
Los Angeles-Long Beach-Riverside, CA	4	25	78.2
Washington-Baltimore-Northern Virginia, DC-MD-VA-WV	5	2	57.2
Detroit-Warren-Flint, MI	6	52	1.7
Minneapolis-St. Paul-St. Cloud, MN-WI	7	11	60.0
Seattle-Tacoma-Olympia, WA	8	6	96.6
Cleveland-Akron-Elyria, OH	9	36	-6.6
Philadelphia-Camden-Vineland, PA-NJ-DE-MD	10	10	13.6

Pop versus income change: LA/SF are comparable in pop



Definitional issues (methodology)

1. These differences survive very detailed calculations that take into account differences in housing and cost of living between No Cal and So Cal (too long to go into here) – so both nominal and *real* (after housing cost) income
2. Not due to differences in inequality: the two regions' gini coeffs are similar and track one another. At every point in distribution, therefore, Bay higher than So Cal
3. Geographical scale: 10 county Bay Area, 5 county So Cal: these are the equivalent *Functional Urban Regions*
4. Border issues are important: we corrected for them (added commuting populations from low-income regions across the SF border in San Joaquin Valley, thus matching the Riverside-San Bernardino low-wage laborshed of SoCal)
5. Difference is not because one region is bigger than another: Bay Area has 75% of its population in counties whose PCPI is above that of the richest Greater LA County (Orange)….so not an illusion of scale– there are some high-income neighborhoods in LA that rival those of the Bay Area, but only two high-income sub-regions (West LA and Newport Beach/Irvine/Laguna Beach)– compared to at least 9 such subregions in the Bay Area

Obvious starting point: changes in specialization (labor demand)

- Bay Area
  - Grows Silicon Valley
  - Refocus in finance sector at high end
  - Growth of IT-related corporate HQs
- So Cal
  - Lost much aerospace/ defense
  - Loses corporate HQs
  - Grows in light manufacturing
  - Entertainment sector grows
  - Gains in transportation & logistics
  - Currently losing out in biotech

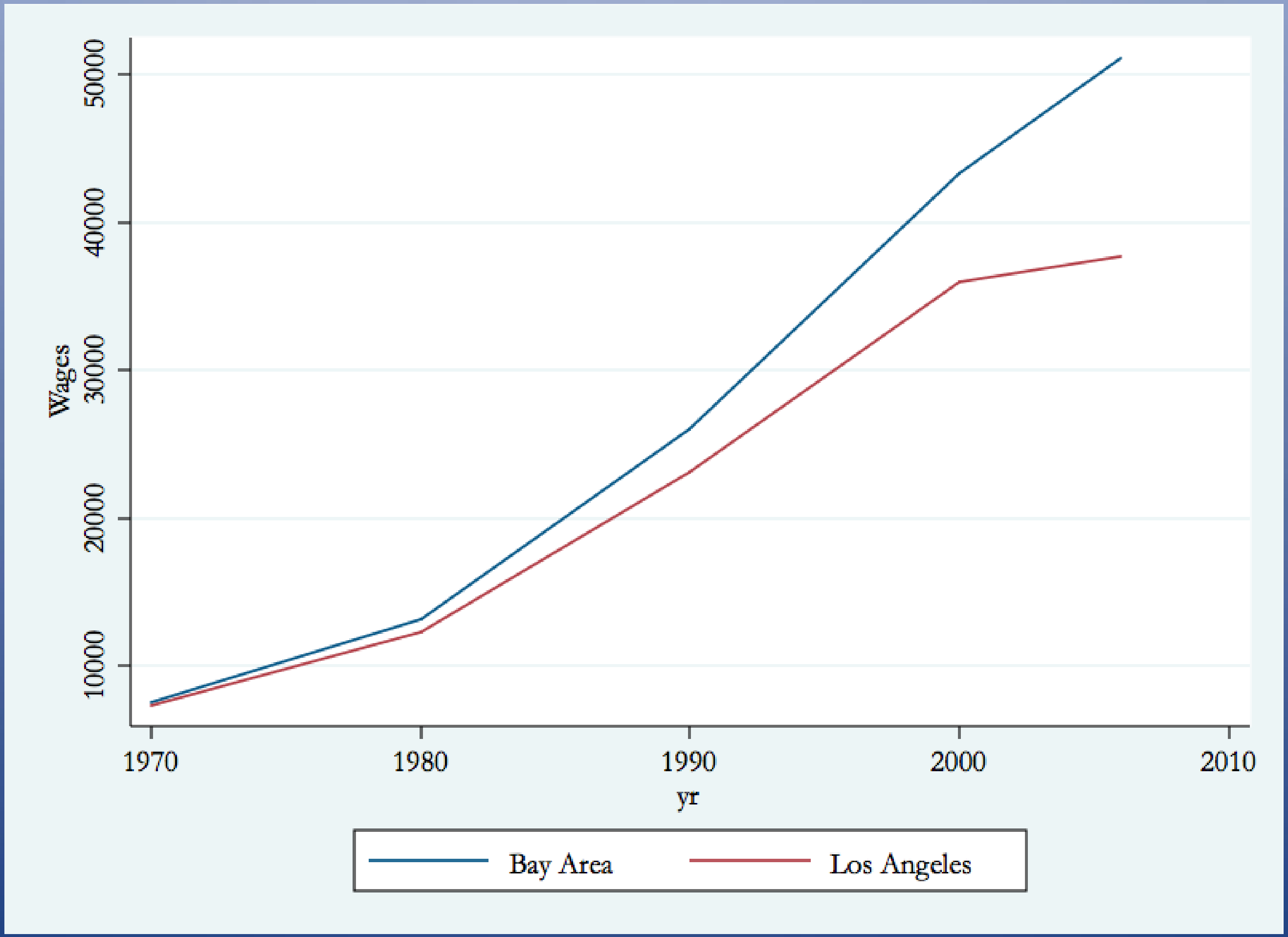
Specialization

TRADABLE INDUSTRIES 1970 & 2010

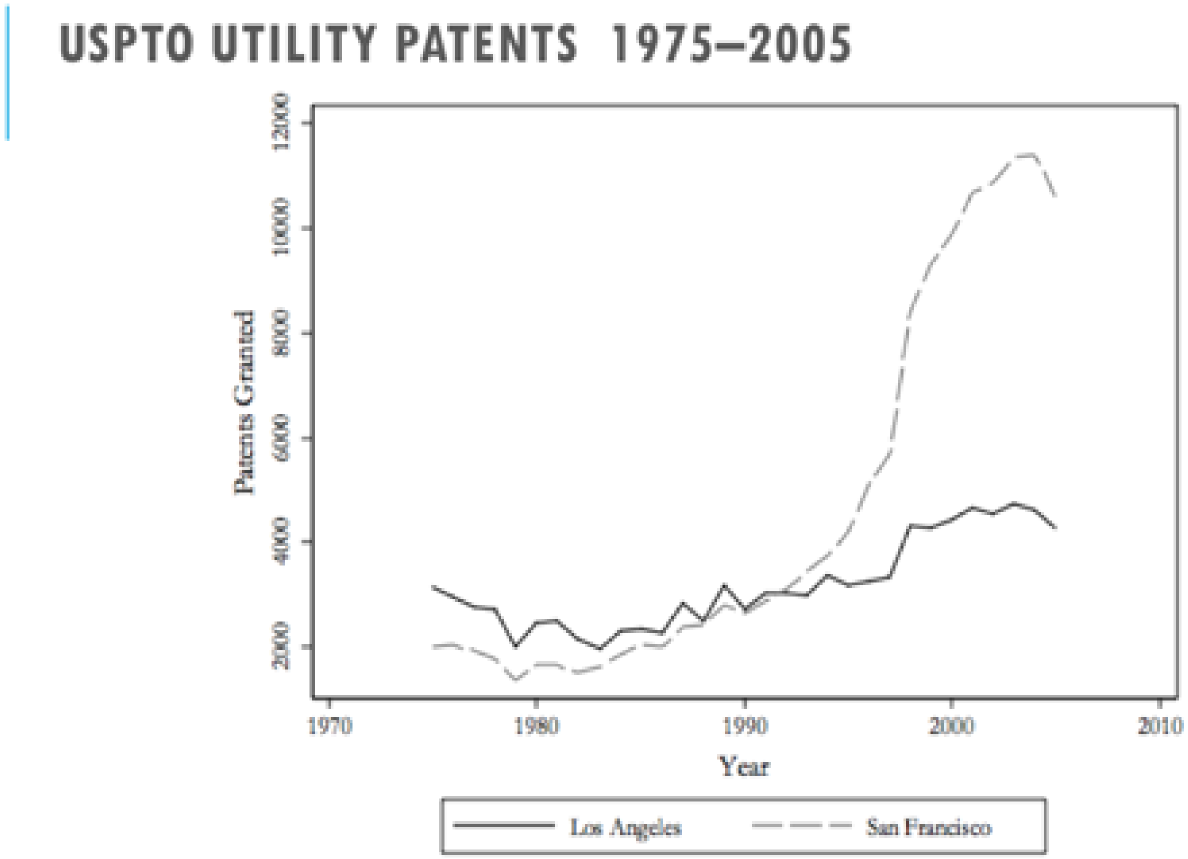
	Los Angeles, 1970		*San Francisco, 1970*	
	Employees	*%*	*Employees*	*%*
IT	81,872	2.6	38,621	2.7
Aerospace & defense	108,083	3.4	455	0.03
Logistics	39,851	1.3	21.313	1.5
Entertainment	22,978	0.7	2,171	0.15
Apparel	56,965	1.8	7,806	0.06

	Los Angeles, 2010		*San Francisco, 2010*	
	Employees	*%*	*Employees*	*%*
IT	153,524	2.7	255,334	10.2
Aerospace & defense	47,960	0.9	735	0.02
Logistics	129.651	2.3	23,505	0.9
Entertainment	141,025	2.5	14,686	0.5
Apparel	50,788	0.9	819	0.03

Annual wages in the economic core of each region



LA is no longer highly innovative



Wages for *same* occupations are much higher in Bay Area

2000

NAICS	Industry	LA Wages	SF Wages
541511	Custom Computer Programming Services	$78,616	$109,355
541512	Computer Systems Design Services	65,115	140,137
511210	Reproduction of Software	96,074	176,476
334413	Semiconductor manufacturing	87,776	158,120

2006

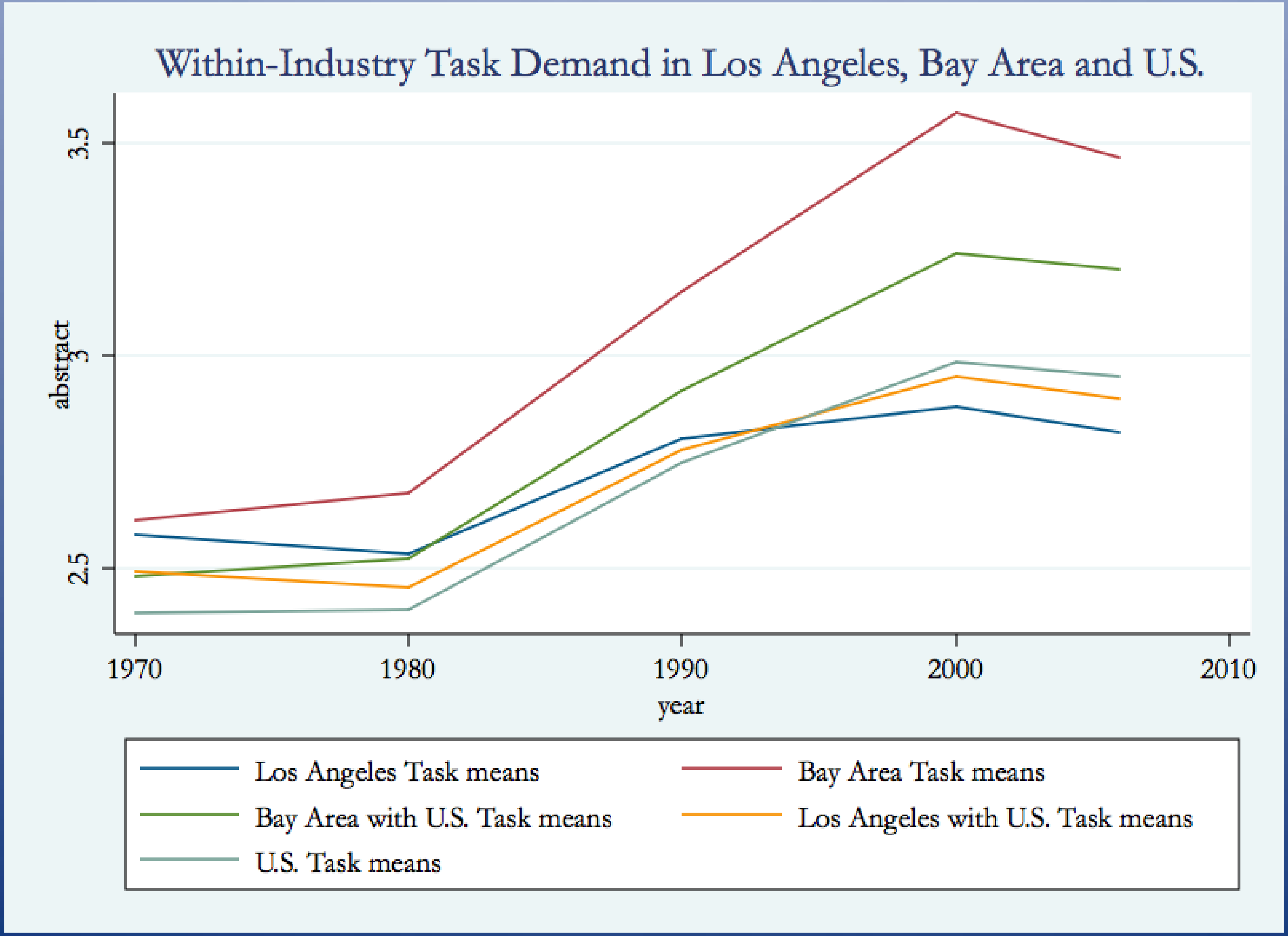
NAICS	Industry	LA Wages	SF Wages
541511	Custom Computer Programming Services	$81,247	$95,792
541512	Computer Systems Design Services	76,051	106,855
511210	Reproduction of Software	96,074	150,091

SF has more high-level cognitive work

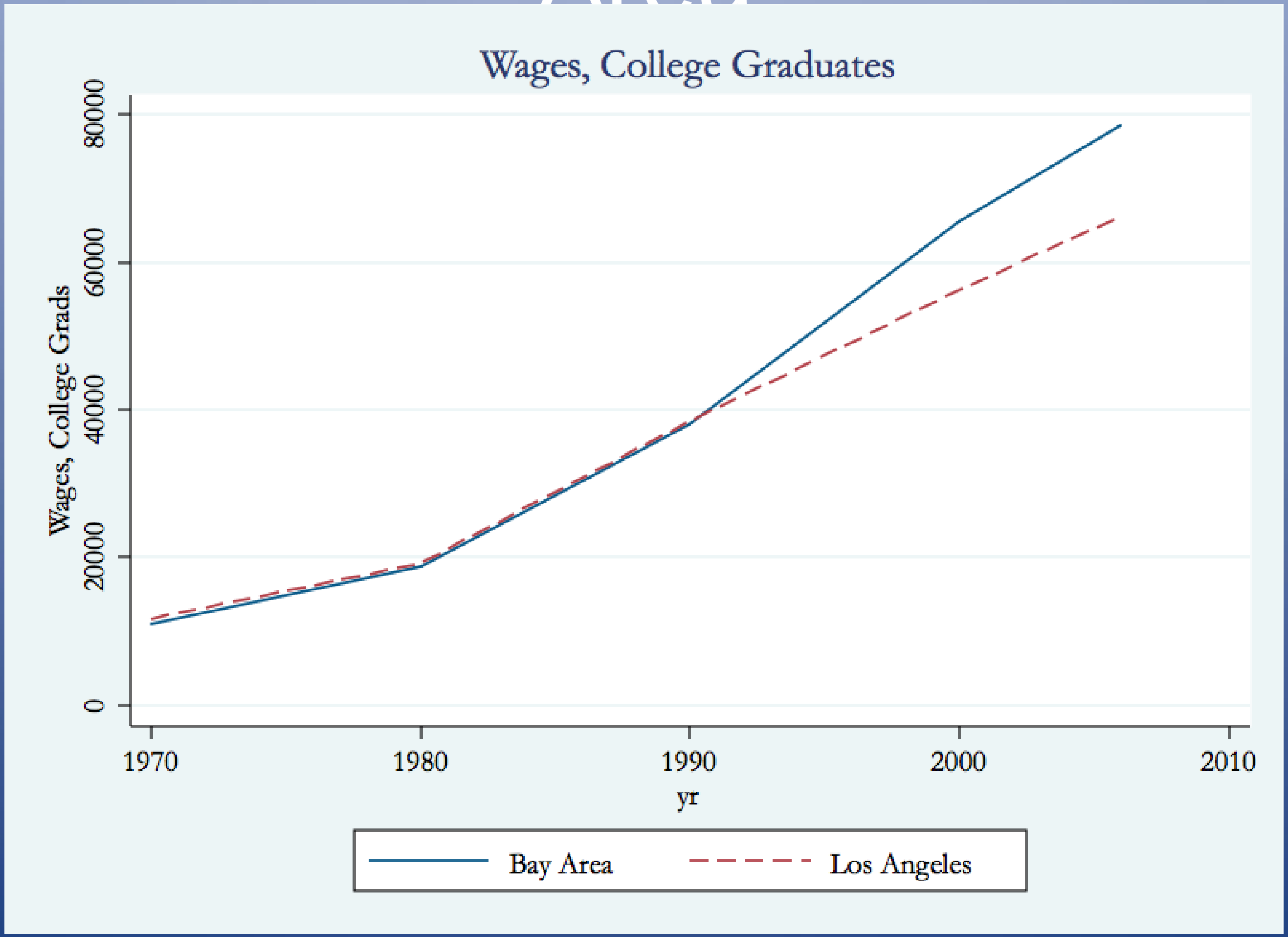
AGGREGATE REGIONAL NON-ROUTINE COGNITIVE TASK INDICES

Region	*1970*	*2006–08*
Los Angeles	2.58	2.82
San Francisco	2.61	3.47
United States	2.40	2.95

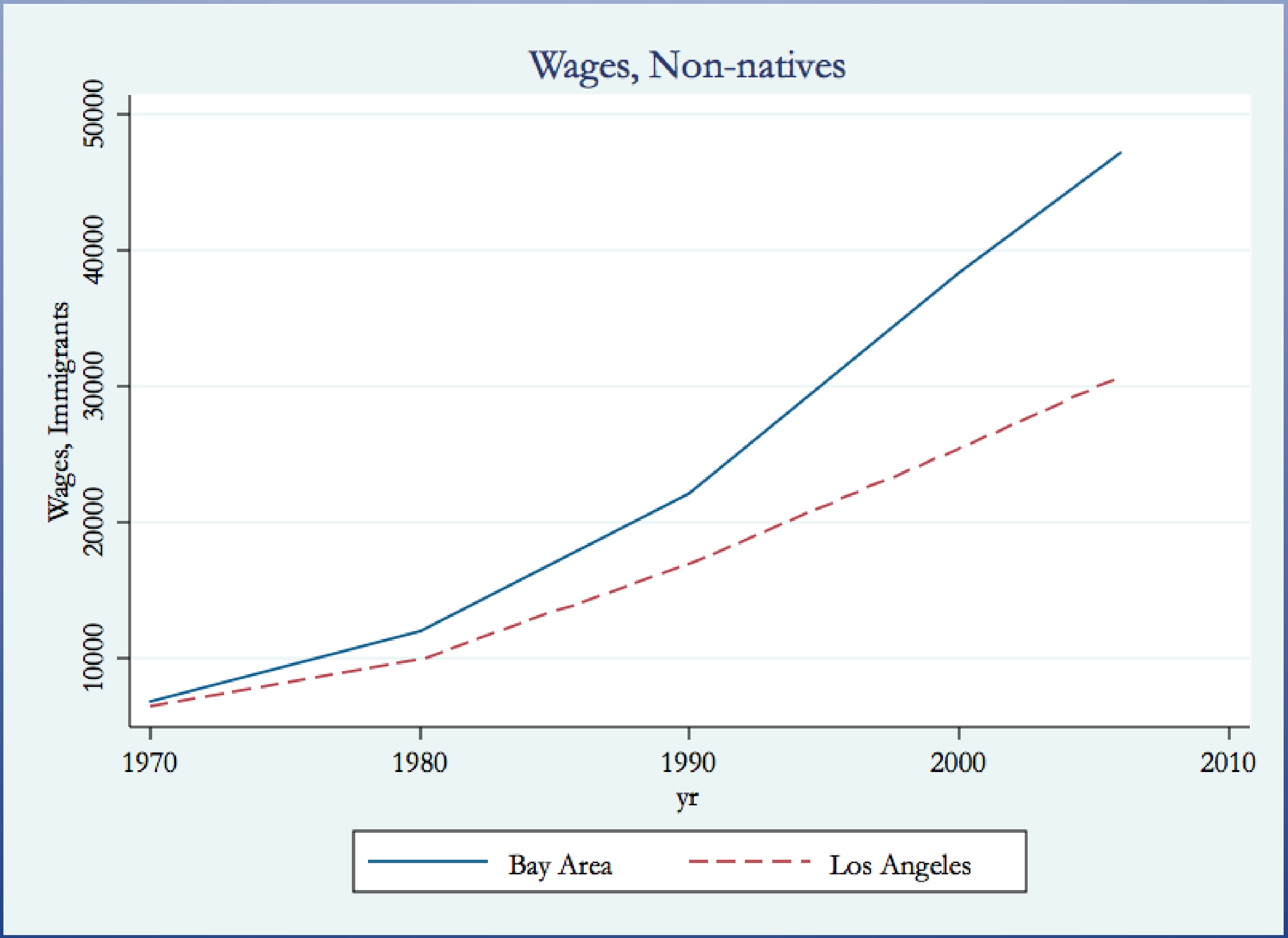
Even within the same industry, LA has less complex work/task/skills than in Bay Area



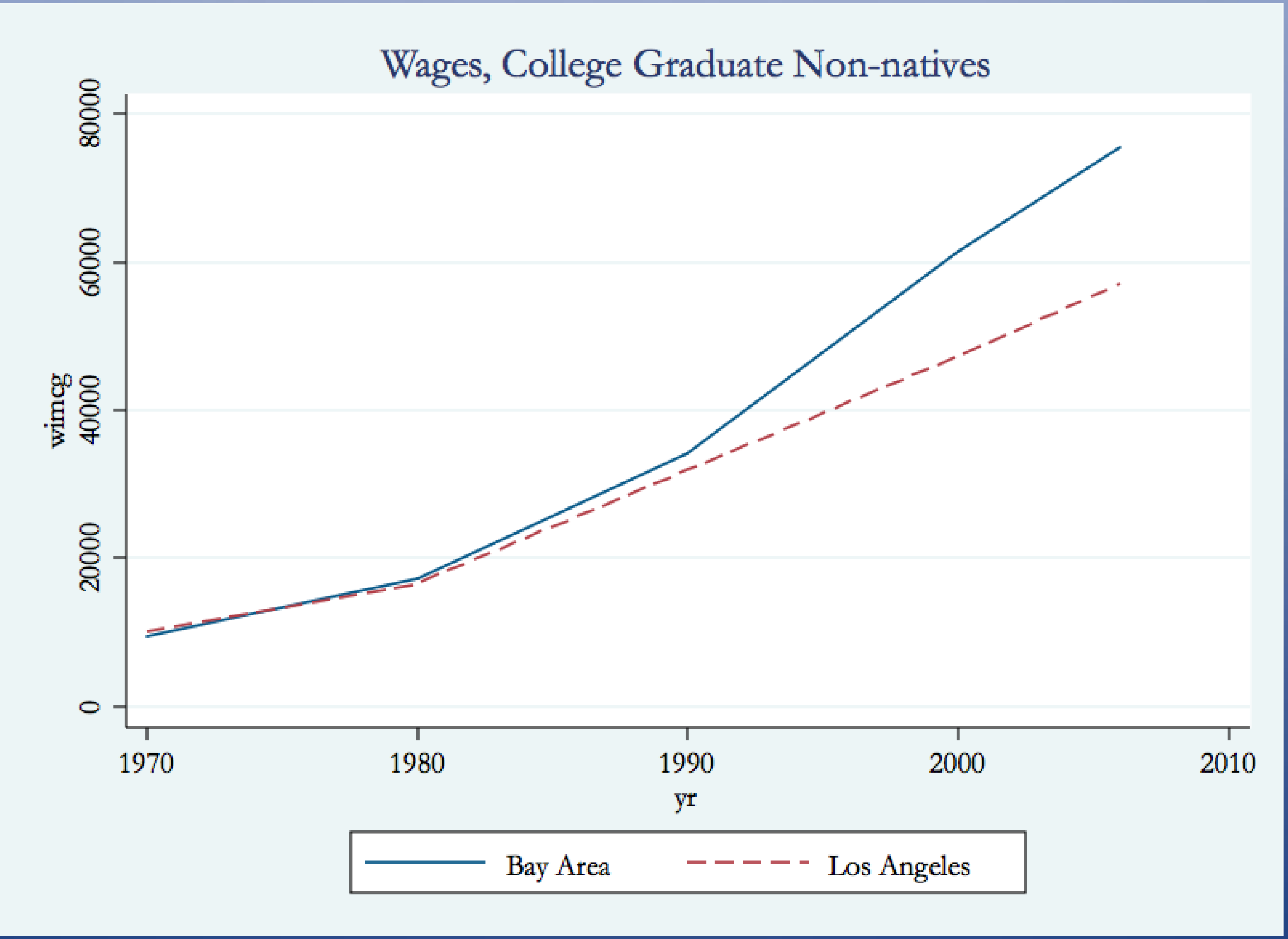
Even for the same level of education, higher wages in Bay Area



Immigrants make more in Bay Area



highly-educated immigrants make more in Bay Area



Low-skilled immigrants make more in Bay Area

Table 3.12. Wages among Hispanic Immigrant Workers

	1970	1980	1990	2000	2005-10
Los Angeles	$5,085	$9,005	$14,493	$20,231	$26,465
San Francisco	5,960	11,102	17,383	24,252	31,669

Notes: Authors' calculations using IPUMS data.

It's not because of aerospace

- Aerospace: LA's slide begins well before the end of the Cold War (indeed, during the Reagan aerospace buildup).
- And aerospace causes only 2.37% of the actual 30% gap in per capita personal income

The port strategy….

- was a success in building the port
- But a failure in economic development terms
- It is a low-medium wage industry
- It doesn't have innovation spinoffs
- It took attention away from the more important tasks of the new economy: a distraction
- It generates the wrong kind of entrepreneurship

Pathways of transition: clues to an alternative explanation

- In the book, we constructed detailed histories of the evolution of core industries in the two regions: aerospace; information technology; entertainment; finance; logistics/trade; biotechnology.
- In the key New Economy sectors of IT and biotech, we found strongly diverging ways that firms, business leaders, leadership groups, and public agencies used their technology factor endowments, in creating the practices of the New Economy.
- Our conclusion is that LA's failure is that its firms, leadership groups (especially SCAG and other groups) did not "get" the New Economy and develop ways to succeed in it: stayed conservative and old-fashioned

Getting it right: SF

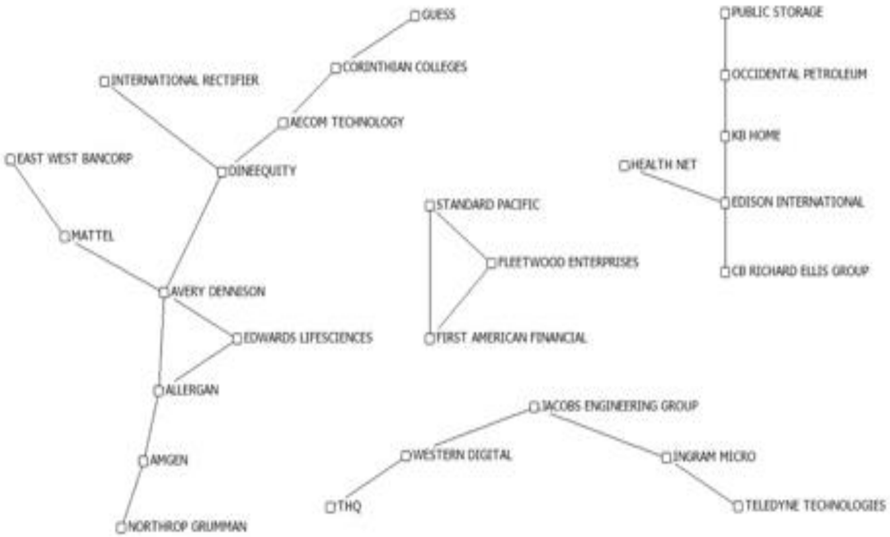
- Bay Area Council recognizes, in early 1980s, Bay Area as center of a new economy
- Calls attention to cost issues (housing, transportation), but in context of becoming the world's premier high-tech region, resolutely high-wage and high-skill
- Equity through opportunity, not against it : a "high road" vision

Leadership

- Becomes less fragmented in Bay Area, more fragmented in So Cal
- Next slide shows networks of directors of major firms in the two regions

San Francisco 2010

Los Angeles 2010



Centrality of business leadership organizations

Business leadership organization (BLO)	*nBetweenness %*
Los Angeles	
Los Angeles Chamber of Commerce	5.9
Los Angeles Economic Development Corp	1.7
Valley Industry and Commerce Association	0.6
Orange County Business Council	0.0
CALSTART	0.0

Bay Area	
Bay Area Council	18.0
Silicon Valley Manufacturing Leadership Group	6.0
San Francisco Chamber of Commerce	5.8
Semiconductor Industry Association	5.0
Joint Venture Silicon Valley (JVSV)	0.0

An economic and social emergency for So Cal

- If So Cal doesn't solve its problem of failing in the New Economy, it will continue to slide down the ranks of metro regions in terms of incomes
- This will handicap our ability to invest in infrastructure, schools, health, education
- Detroit slipped from 6 to 52nd place, but LA is on its way down.

No simple solution

- We must change the conversation
- LA’s leadership – public and private, community and corporate – must make a clear decision to enter the new economy of high wages and high skills
- This will have extensive beneficial effects on the less skilled (as it has in the Bay Area)
- Business as usual is sure further decline