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Op-Ed: Why San Francisco's way of doing business beat Los Angeles'

A crew works outside the Bill Graham Civic Auditorium in San Francisco in preparation for a new Apple product announcement on Sept. 8. (Eric Risberg / Associated Press)

By Michael Storper

For most of the 20th century, Los Angeles was one of America's top economic success stories. From 1910 to 1970, as greater L.A. multiplied its population 21 times, it fostered high-quality growth, zooming up the ranks of income per inhabitant to become America's fourth-ranked metropolitan area. It was at the center of the core technology industries of the moment: movies and aerospace.

Its regional rival was its northern neighbor, San Francisco, where trucking and transportation, communications equipment and corporate and banking headquarters put Bay Area residents even higher on the income scale: No. 1 in 1970.

For decades, though, the differences between No. 1 and No. 4 were minor. California's two big-city regions were a pair of economic miracles.

Not anymore.

Today, the five-county Los Angeles region is ranked 25th on the income scale, while the 10-county Bay Area region remains No. 1. Per capita, workers in the Bay Area make 30% more than those in greater Los Angeles. That's almost as great a difference as divides high-income and middle-income countries.

To succeed in the new economy ... Southern California has to face its mistakes over the last 30 years. -

In Los Angeles, the average household income is about $40,000. In the Bay Area, it's $62,000. Both regions have fabulously wealthy people and neighborhoods, and areas and populations of severe poverty. Even after taking into account higher housing costs, those at the bottom of the ladder in San Francisco are, on average, better off, and higher incomes there also mean greater public spending on schools, transportation and healthcare, without higher taxes.

What happened to Southern California?

Put simply, Los Angeles' business class, its movers and shakers, were too conservative, too backward looking in their goals and their style to recognize and nurture what would become the new economy. To the world at large, Southern California seems like the least stodgy of metropolitan areas. But when it came to what counts now — a highly interconnected "ecosystem" of entrepreneurs and investors, technologists and innovators — Los Angeles stumbled.

There are plenty of examples of lost opportunities.

In 1960s and early '70s, L.A.'s high-tech companies made more sophisticated semiconductors than firms in the Bay Area did. Computer Science Corp. in L.A. was the largest software company on the New York Stock Exchange, and the first to be listed. Los Angeles had its share of computer geniuses as well: The first Internet message was sent from Leonard Kleinrock's computer at UCLA in 1969; Kleinrock invented the digital packet switch, one of the keys to the Internet.

But L.A.'s information technology companies — TRW, Rockwell and Lockheed Martin — were content to focus on lucrative but ultimately limited government contracts. Up north, Fairchild, Xerox, Hewlett-Packard and Schockley Semiconductors, which also worked as government contractors, saw the future and branched out into the consumer market. Ultimately, Steve Jobs and Apple would come to symbolize just how revolutionary that shift would be.

The difference in regional consequences are stark. In 1970, IT's share of the economy in greater Los Angeles and in the Bay Area was about the same (in absolute terms it was much bigger in L.A.). By 2010, IT was four times bigger in the north than in the south.

L.A.'s inability to capitalize on another new industry, biotech, mirrors the IT story in many ways. However, in this instance, the problem was less a matter of being blind to a new market than being blind to a whole new way of doing business.

Again, both regions started with the requisite talent. In 1976, Art Riggs and Keiichi Itakura showed how to synthesize DNA at City of Hope in Duarte. Simultaneously, Stanley Cohen at Stanford and Herbert Boyer at UC San Francisco were working on recombinant DNA, which they patented in 1980.

In L.A., the first big biotech firm, Amgen, was established as the brainchild of a Silicon Valley venture capitalist, Bill Bowes, and a UCLA scientist, Winston Salser. Genentech, established around the same time in the Bay Area, was the creation of Robert A. Swanson, another venture capitalist, and biochemist Boyer.

But Amgen was far away from major universities, in Thousand Oaks, while Genentech, practically next door to UC San Francisco, stayed in easy and casual contact with cutting-edge academic research. Amgen's IPO in 1983 followed the model of pharmaceutical companies. It kept scientists out of management, cloistered in R&D. Genentech, by contrast, put its scientists on the board of directors, and these scientist-managers, over time, would spin one idea after another into new ventures.

Genentech was managed for innovation, Amgen for commercialization. New firm, old firm. Amgen became a giant in the field, but it mostly did well for itself. The connections and networks fostered at Genentech, on the other hand, created a powerhouse biotech cluster in the Bay Area.

Again, the comparisons are stark. By 2010, there were 214 biotech start-ups in the Bay Area versus 55 in greater L.A.; 64 biotech IPOs versus three in greater L.A.; $8 billion in biotech venture capital financing versus $551 million in greater L.A. Compared with the Bay Area, Southern California universities generated just one-sixth the rate of patents with a link to a regional biotech firm.

L.A.'s networking deficits show up in other ways as well. In Northern California, there's a single dominant business leadership group, the 70-year-old Bay Area Council, advocating for the region's economic future. In Southern California, smaller organizations compete with one another, and regionwide strategic efforts — such as Rebuild L.A., organized to respond to the 1992 riots — come and go with little impact. There are three times as many long-term connections — shared board members — among the Bay Area Council and major Northern California corporations as any leadership organization and companies in Southern California.

L.A.'s regional strategies, perhaps not surprisingly, have come up short compared with the Bay Area. In 30 years of economic reports issued by the Southern California Assn. of Governments, there is hardly a mention of new-economy industries and technologies. Yet in similar reports in Northern California, those businesses are the central focus from the 1980s onward.

In general, while the regional leadership in San Francisco concentrated on attracting and supporting new high-cost, high-wage industries, greater L.A. tried to reinvigorate the mainstay of the old economy: manufacturing. Among other things, the city upgraded its port, bolstering the "logistics" industry, and it succeeded in capturing the China shipping trade. But the logistics industry still yields only low- and medium-wage jobs.

In the end, there is no single explanation for L.A.'s long fall from economic grace. It is a story of good intentions and mistaken beliefs, of fragmented business relationships and out-of-date ideas. Los Angeles hasn't lacked for skills or genius, but it has lost the vision it had in abundance before 1970.

To succeed in the new economy — to regain its vision and the benefits of higher income for all its residents — Southern California has to face its mistakes over the last 30 years. It must replace isolation and fragmentation with networking and connectivity. It has to turn away, once and for all, from low-cost, low-wage manufacturing. It has to once again live up to its potential as anything but stodgy.

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