



MILKEN INSTITUTE

# Los Angeles Economy Project

## Executive Summary and Recommendations

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## Executive Summary

Over the past century, Los Angeles has developed into one of the premier centers of economic and cultural activity in the world. The city's size, demographic diversity and history of innovation have provided a strong foundation for the economy.

Los Angeles is a city of tremendous resilience. The city and region have bounced back with vigor (more than is commonly acknowledged) since the decimation of the defense industry and the credit crunch of the early 1990s. In the process, the local economy has become nimbler and less vulnerable to external shocks. A healthy mix of retailing and diversified small-business development has helped to revive areas of the city hit hardest by recession. Small-business growth, urban revival and redevelopment helped stabilize the city's employment base. Los Angeles' resident employment (that is, the number of its residents who are employed) grew more than 4 percent from 1990 through 2004, surpassing the last employment peak in 1990. Many of these added jobs were created and fortified by an influx of immigrants and the creation of small, ethnic-based firms that more than offset the loss of large-scale industry jobs.

Indeed, increases in the immigrant population have been critical to the city's economic revival. Cultural diversity, global trade, renewed urbanism and neighborhood development in the last 10 years have provided a platform capable of hosting and promoting ethnic and small-business growth. The City of Los Angeles is best described as an economy with a core in large business and a future in small business.

At the same time, the city also remains polarized between high-end and low-end jobs. It suffers from a labor force that is disproportionately unskilled.

Opportunity, optimism and entrepreneurship define the character of the second-largest city in the United States. Improving the city's ability to compete globally, however, will only be possible if its firms have access to advanced technology and a well-educated, flexible workforce. Encouraging the development of high-tech business and nurturing the ongoing growth of smaller enterprises remain significant challenges that we address in this project.

**The City of Los Angeles is best described as an economy with a core in large business and a future in small business.**

## Scope and Purpose of the Project

The Los Angeles Economy Project provides an important opportunity to build consensus and offer the basis of a blueprint for such a development strategy. It identifies sources of underutilized labor within the metropolitan area – notably workers lacking marketable skills and those marooned in the informal (sometimes called “underground”) sector – and suggests ways to integrate them into the city economy. It also explains why access to affordable capital has become a key issue in local small-business development, particularly for ethnic and women entrepreneurs, who represent a significant number of small-business owners in Los Angeles.

Put another way, the project confronted two problems that hobble the city's economy: 1) the gap between the skills of the local labor force and the expertise needed by the city's knowledge-based industries, which must grow for the city to thrive, and 2) the difficulty of creating a business environment that would enable Los Angeles to compete better with regions of the country where land and labor are cheaper and regulations are less restrictive.



This analysis of the Los Angeles economy is based on data drawn from multiple government and proprietary sources that allowed us to examine the city's economic landscape in considerable detail and map the trends underlying its economy over the past decade. The supporting statistical information is contained in the main body of the report.

In some cases, the information confirmed widely held perceptions of the Los Angeles economy, such as a continued decline of large-scale manufacturing and the increasing dominance of the entertainment industry. In other cases, it provided new insights, such as:

- The emerging industries that contribute the most establishments to the city's local economy have been in lower-end service and retail trade industries that have had limited impact on building a strong local employment base. One clear illustration of this is the strong growth in service businesses and community-based organizations in South Los Angeles, most of which employ fewer than five people.
- The city's larger corporations remain the foundation of Los Angeles' labor market, despite lackluster growth in payroll.

These findings should provide policy makers and concerned citizens with information that will better enable them to deal with issues relating to the development and future of the city's economy.

## The City's Evolving Economic Landscape

Two broad factors – the changing mix of industries and shifting demographic patterns – have widened the divide in Los Angeles between low-tech firms utilizing unskilled labor and high-tech enterprises that depend on a highly skilled workforce. Los Angeles' changing business landscape, with its receding manufacturing base that once provided tens of thousands of mid-level blue- and white-collar jobs, has made the region ever more dependent on the services sector. Many small service enterprises, particularly those started in low-income communities, offer entry-level jobs. But increasingly, the regional economy's ability to thrive depends on the emergence of technologically sophisticated firms that depend on highly productive, well-paid professionals. Thus, as in much of the rest of the country, technological change and the demand for skilled labor have widened the income divide in Los Angeles, producing the familiar “barbell” pattern with bulges at the high and low ends of the economic spectrum.

### Key Points

**Two of the three sectors that defined the Los Angeles economy just two decades ago have significantly declined: manufacturing and financial services.**

In 1982, Los Angeles County was a hub of manufacturing, entertainment and financial services. By 2000, only the entertainment industry remained an economic force. Moreover, manufacturing not only downsized, but shifted from aerospace, with its complement of highly paid workers, to apparel manufacturing, which had to compete with low-cost Asian and Latin American imports.

**The changing mix of industries and shifting demographic patterns have widened the divide between low-tech firms and high-tech enterprises.**



The emerging industries that contributed most significantly to Los Angeles' employment gains since the early 1990s have been in services that offer limited opportunities for social mobility. Contrary to the belief that Los Angeles' export-oriented economy has blossomed, net job growth took place primarily in the local consumption industries – real estate, retailing, restaurants and other neighborhood services. Logistical operations – principally benefiting from surging inbound cargo – have been a source of expansion, but did not create the stimulus that locally produced manufacturing exports provide.

**The city's diverse business base is severely constrained from participating in the knowledge-based industries that are the key to the region's long-term prosperity.**

The tremendous cultural diversity that is responsible for producing many of the city's key growing businesses also carries with it the burden of an under-skilled labor force that limits the abilities of these same businesses to grow and diversify. Issues such as limited English proficiency and low skill levels prevent workers from being employed in knowledge-based industries and often restrict businesses from capitalizing on their strong cultural and international linkages.

Los Angeles' growing dependence on small and medium-sized businesses – particularly those with roots in ethnic communities – points to another economic vulnerability. Capital access is a major issue for all small businesses, but one that is doubly important for ethnic-based businesses. Lack of credit history hampers their chances of obtaining necessary credit from commercial banks, while funding through the sale of stock or debt securities is far out of reach. Without effective capital access, large numbers of these firms have been unable to grow effectively.

The disparity in tech startups among Ventura, Orange and Los Angeles counties is also evidence of the problems faced by local business. Pharmaceutical and medicine manufacturing emerged as an important economic driver in Ventura County, while Orange County is home to a variety of high-tech instrument and electro-medical device makers that have seen dramatic growth over the past decade. Los Angeles County, by contrast, has not been able to capitalize fully on its tremendous research and development resources in local universities, colleges, government labs and teaching hospitals. This is largely a result of restrictive business regulations such as inefficient zoning, a historical lack of well-coordinated development policies, universities' lack of commitment to regional economic development and the allure of established high-tech clusters in nearby Orange and Ventura counties.

**City government efforts to assist business have created resources that need to be better focused and coordinated in order to achieve lasting results.**

On the business front, city leadership has made efforts to retain film production through incentives and streamlined permitting. On the business-development front, the Los Angeles City Council has taken steps to begin reform of the complex business-license rules that have contributed to the growth of the city's informal economy. Additionally, the council has started to examine and reform the city's gross receipts collection in an effort to reduce bureaucratic hurdles for businesses and promote growth. The Department of Water and Power has provided incentives and assistance to small businesses in the city, with special emphasis on federally designated Empowerment Zones. These business-oriented programs and policies have one element in common: to improve the city's competitiveness and business retention. As will be discussed in the Recommendations section, these efforts help provide resources and momentum that can be harnessed into even more significant changes within the economic framework of the city, provided they receive the proper coordination and direction.



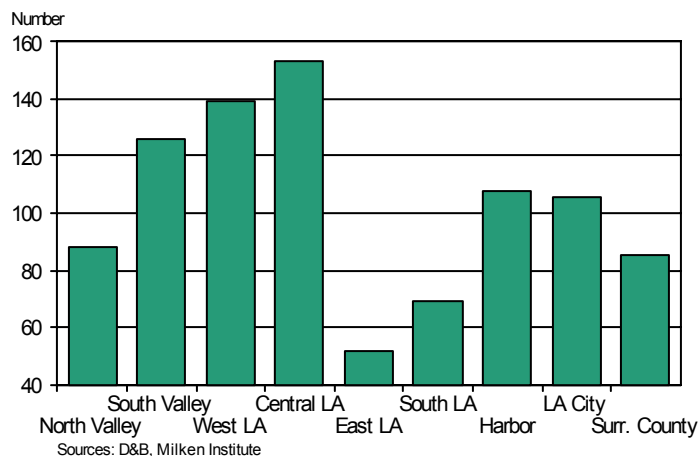
Despite the effort put forth, the city – with its rapidly expanding population – must garner its political and financial resources to expedite the pace of economic development. The goal is to enhance the regional economy in a way that is conducive to competitiveness and innovation in a global marketplace and to promote business growth to secure future prosperity among the city’s diverse population.

## The Economy as Seen from the City’s Seven Planning Areas

Viewed in aggregate, the Los Angeles city economy seems diverse and relatively well protected from external shocks. But seen from ground level, it is apparent that the city’s economic performance varies greatly from area to area. While all seven local planning areas have witnessed declines in manufacturing and growth in services, some have adapted to change much better than others. In analyzing the seven planning areas, it is important to keep in mind that both the creation of jobs that employ workers who live in each of these areas but are located elsewhere and jobs that are located within each planning area but employ people from other planning areas are beneficial to the city economy as a whole.

**While all seven local planning areas have witnessed declines in manufacturing and growth in services, some have adapted to change much better than others.**

**Business Startups per 100,000 People**  
2002





## The North and South Valley

Though the geographic division of the San Fernando Valley into the North and South Valley planning districts is somewhat arbitrary, the economic division is plainly not. The stronger concentration of large employers and retail in the South Valley combined with the lower costs and increased entrepreneurialism of the North Valley create stronger links between the two areas than with other areas of the city. The South Valley's economy is largely dominated by the entertainment industry. Indeed, while the world thinks of Hollywood as the center of the entertainment universe, the South Valley is where most of the action occurs. The North Valley, once home to a number of major defense and aerospace manufacturers, has emerged as a center for research and testing supported by the presence of a highly educated workforce

## West Los Angeles

West Los Angeles is the city's most diverse planning district, as well as the one with the fastest growth and deepest base in skilled labor, academic institutions and research centers. The availability of skilled workers and the high quality of daily life – better schools, less polluted air, lower crime rates and lower population density – have permitted businesses to flourish here despite relatively high costs of living and conducting business.

## Central Los Angeles

The 1990s marked a major transition for the Central Los Angeles planning district. It shared the pain of defense cutbacks with the North Valley and South Los Angeles, but was largely alone in the city in suffering from the wave of banking consolidations of the decade. Until recently, overall business and job growth have stagnated as the departure of key local employers has counterbalanced the growth of existing firms.

## East Los Angeles

Densely populated and primarily residential, East Los Angeles has a high concentration of businesses that serve low- and middle-income households. These businesses mainly employ low-skilled workers, many of whom lack English proficiency, and cater mostly to the needs of local ethnic communities. East Los Angeles' businesses have minimal linkages to the city's other areas. Indeed, the growth of small ethnic firms is one of the few positive economic signs in these often-neglected neighborhoods.

**The growth of small ethnic firms is one of the few positive economic signs.**

## South Los Angeles

Industrialized-turned-residential South Los Angeles faces different economic challenges. Manufacturing and warehousing, which once formed a solid base for the local economy, have been hit hard by import competition and defense cutbacks. South Los Angeles is the only planning area in the city to experience net job losses between 1992 and 2002. The legacies of the factory closures and the Los Angeles riots of 1992 have overshadowed the rise of numerous small businesses in the area.

## Harbor

Despite its heavy concentration of transportation and logistics services, the Harbor planning area's economy has not attracted high-tech businesses to serve Los Angeles' most revenue-producing infrastructure: the cargo port. It remains a stronghold of the "old" economy, with automobile and fabricated-metal industries generating a good portion of the jobs held by the area's mainly low-skilled immigrant workforce. The Harbor area's position in the hub of Pacific Rim trade flow gives it the potential to capitalize on international trade in today's global economy. The ability to develop and expand businesses that can capitalize on these trade linkages is vital to the area's economic future.



## Women- and Minority-Owned Businesses

Large corporations such as Paramount, ARCO and McDonnell Douglas anchored the city's industry and employment base in the latter half of the 20th century. Today, women- and minority-owned businesses are driving forces of the city's economic future. The demographic make-up of Los Angeles, as well as the vibrant nature of many of these businesses, suggests that efforts spent nurturing them are well worth it. Furthermore, the presence of immigrant workers with innovative ideas and ties to overseas economies can potentially create business opportunities for the region as whole. The talents of these multi-lingual individuals should be tapped to enhance the city's competitive edge.

## Comparison of Los Angeles, Orange and Ventura Counties

**Los Angeles County** has historical advantages over neighboring counties in its location as the economic center of Southern California, better transportation infrastructure and stronger financial services sector. But there is clear evidence of growing job polarization within Los Angeles, with the creation of jobs on the upper and lower ends of the wage and salary scale but relatively few in the middle, whereas in Orange and Ventura counties, this situation is not as prevalent. A principal factor is the greater number of immigrants settling in Los Angeles County rather than Orange County or Ventura County. Many have limited education and limited English proficiency. Furthermore, the differing orientations in industry base dictate the types of workforce and skill levels being sought by the three counties.

**There is clear evidence of growing job polarization within Los Angeles.**

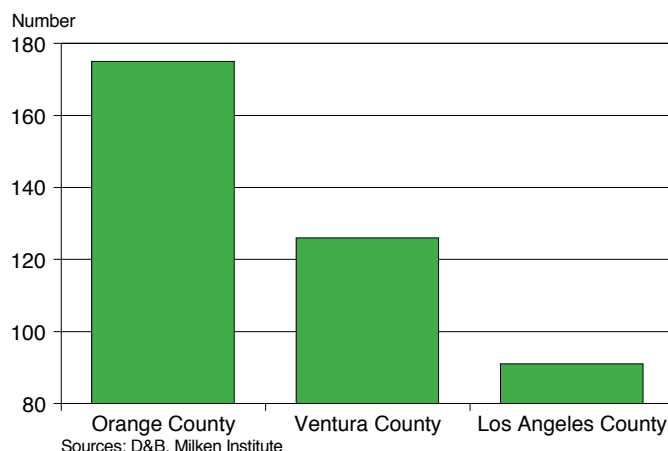
**Orange County** has a strong economy built on the success of expanding technology clusters. As a small metropolitan area sandwiched between San Diego and Los Angeles, Orange County successfully attracts a variety of high-tech industries. Its success is due in large part to the quality of its labor force, attracted to the county by a host of amenities. However, the county is not invulnerable to the winds of economic change. Orange County was deeply affected by defense cutbacks in the early 1990s. The high cost of housing, in large part a product of directed land-use policies, makes it harder to keep its elite labor force, as compared to other parts of the country. By the same token, the high cost of doing business may lead some high-tech companies to outsource jobs to other states and countries. It seems that the region has begun to adjust its industry base to high-value production, such as biotech and medical devices, to counter the rising cost, enabling it to become one of the top five medical-device clusters in the country. Los Angeles has not managed its changes as effectively as Orange County.

**Ventura County**, too, has outperformed Los Angeles County in attracting high-tech business in the last several years. Availability of building space and less traffic congestion has facilitated the expansion of high-tech industries in Ventura County, which is now as competitive to Los Angeles as Orange County was in the late 1970s and 1980s. Recently, Ventura-based technology companies have successfully lured workers from Silicon Valley and Seattle, where housing costs and traffic congestion are high compared to Ventura County.





### Business Startups per 100,000 Population 2002



Utilizing technology to develop the local infrastructure, providing incentives for technology-based clusters and facilitating entrepreneurship are key sources of strong economic performance in both Orange and Ventura counties. Providing a friendly business environment, including structured zoning and land use, drives entrepreneurship and attracts companies looking to relocate. This strategy was particularly effective in allowing Orange County to compete successfully against Los Angeles County in the 1990s. The potential holds true for Ventura County to have the same success over the coming decade.

## Labor Market Strengths and Weaknesses

### Resident Workers

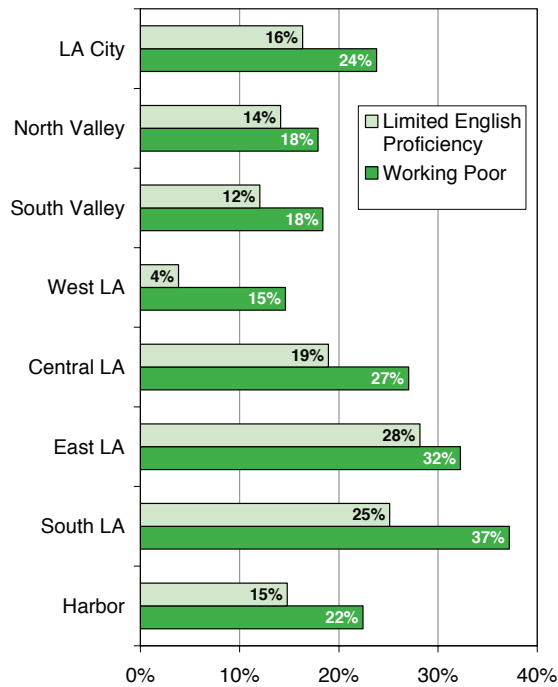
The City of Los Angeles has undergone broad changes in its labor force, mainly due to immigration. This study focused on four subgroups of particular interest: workers who are city residents; workers who earned less than a living wage in 1999 – the last full year of available data; workers who report limited English proficiency; and workers who are recent immigrants.

The distribution of these groups is far from even among the seven planning areas. The North and South Valley districts have disproportionately large numbers of city residents who are employed versus the other planning areas. Harbor, South Los Angeles and East Los Angeles have disproportionately large numbers of poor and limited-English-proficiency workers. Nearly one quarter of Los Angeles' resident workers had jobs that paid less than a living wages in 1999. In the same year, limited-English-proficiency workers made up 16 percent of the city's working residents.

**Nearly one quarter of Los Angeles' resident workers had jobs that paid less than a living wage in 1999.**



**Percent of LA City Working Residents Who Report Limited-English Proficiency or are Working Poor**



Source: 2000 US Census PUMS 5% Sample

Not surprisingly, there are significant variations in industries and occupations of resident workers among Los Angeles' planning areas. The North and South Valley's resident workers are disproportionately employed in insurance, landscaping and construction-related occupations. Resident workers in West Los Angeles are disproportionately engaged in white-collar jobs in finance and consulting. High concentrations of Central Los Angeles' resident workers are occupied in entertainment-related industries, and a large number of East and South Los Angeles resident workers are employed in blue-collar manufacturing and service industries. The Harbor has a high concentration of workers in the transportation and aerospace industries.

Entrepreneurial activity was strongest in Central Los Angeles, South Valley and West Los Angeles, with the largest numbers of startups emerging in these planning areas. Harbor had the smallest number of startups. Although start-up rates varied across planning areas, there were not many differences among the survival rates of new establishments. Multi-site employer startups (branches of companies with multiple locations, such as fast-food franchises and auto-repair shops) exhibited higher one-year survival rates than single-site startups across all planning areas.

Resident aliens (new legal immigrants) and the working poor often compete for the same low-paying service and manufacturing jobs. Industries that employ the largest number of immigrants and working poor include restaurants, construction, domestic service and apparel. These are also industries that employ the most workers and pay the lowest salaries.

**Resident aliens and the working poor often compete for the same low-paying service and manufacturing jobs.**

### Resident Employers and Government Employment

Private-sector job growth in the City of Los Angeles has been modest compared to growth in Los Angeles County and California as a whole from 1996 to 2002. Broken down by sector, manufacturing has lost the most jobs, and services has emerged as the leading employment sector. While losing ground on the share of jobs, establishments with 100 or more employees still employ 55 percent of the city's workforce. There have also been major shifts in government employment. Cuts in defense have slashed federal employment by 21 percent from 1992 to 2002. By contrast, local government employment increased by 15 percent during the same period, largely as a result of California ballot initiatives that mandated smaller class sizes in lower grades in public schools.



## Target Industries and Promising Occupations

Workforce development is a critical component of the Los Angeles Economy Project. This study highlights industries that will aid the city's workforce development efforts, create higher-paying occupations and elevate workers' skill levels.

To identify industries that offer the best prospects for sustained job development and growth, researchers developed a five-tier screening method using a range of criteria, including employment stability, wage rates, industry average salary and length of training required. Applying this screening method produces several matches that indicate promising job development and training for each of the planning areas. Each of these targeted industries is large, stable or growing, with an employment concentration similar to or greater than the national average, and offers a significant number of entry-level jobs. A list of these industries is included in the Recommendations section of this report.

Although the manufacturing sector experienced widespread job losses in the North Valley from 1996 to 2002, medical equipment manufacturing is among the targeted industries. In the South Valley, there are two wholesale industries among the top five industry targets. Offices of physicians and dentists are at the top of the list in West Los Angeles. General medical and surgical hospitals rank as the number-one target industry in Central and East Los Angeles. South Los Angeles has two wholesale industries, along with one non-durable manufacturing industry on its list. In the Harbor area, the employment services industry ranks first among the large target industries.

## The Informal Economy

The fastest-growing segment of the Los Angeles economy is the informal sector, sometimes known as the “underground” economy. Although undocumented immigrants who lack the legal right to work comprise a majority of the informal labor force, they do not account for all of it. Some legal immigrants, too, are hindered by language, educational and cultural barriers to information and opportunities, limiting their ability to participate in the formal labor force. Additional participants in the informal economy are people who work in it part time as a way of earning additional, tax-free income to supplement their wages.

**The fastest-growing segment of the Los Angeles economy is the informal sector.**

We used several methods to estimate the number of informal jobs in Los Angeles and to identify the industries with the greatest number of unreported jobs. In 2000, informal jobs accounted for 14 percent of all jobs in Los Angeles County and 16 percent in the City of Los Angeles. Industries with the greatest number of informal employment included domestic labor, restaurants, construction, independent artists, landscaping and apparel manufacturing.

One could argue that jobs in the informal economy are better than no jobs at all. Note, however, that the informal economy sometimes competes with the formal economy, driving down wages and reinforcing social and economic polarization. Moreover, the rapid growth of the informal economy is narrowing the tax base and increasing the burden on legal businesses and workers.



## Workforce Development Initiatives

The region’s long-term prosperity depends on the quality of its labor force. Los Angeles suffers from a labor force that is disproportionately unskilled. As economic activity becomes ever more closely linked to technology, the problem becomes increasingly important to solve.

**The region’s long-term prosperity depends on the quality of its labor force.**

The city government, the Los Angeles community college system, the Los Angeles Workforce Investment Board and the Joint Labor-Management trust funds all provide a variety of workforce development programs, ranging from ESL literacy programs to on-the-job training. The City of Los Angeles has, over the past several years, established a series of programs to help facilitate workforce training, functional literacy, mentoring and business retention.

However, these training programs have only reached a small fraction of the low-wage workers who could benefit most from them. To improve the quality of the labor force, policymakers need to build on Los Angeles’ existing job-training systems, with an emphasis on providing workers with skills required for long-term career advancement, particularly in the key targeted industries listed in the Recommendations section.

In the short run, we encourage the city and other local agencies involved in workforce training to re-examine the sorts of occupations and industries for which they are training workers to discover how they might utilize our target industries list and career ladders – occupations with the potential for advancement – to better prepare workers for stable, better-paying jobs. Workforce policies need to be constantly adjusted to reflect local labor demand and supply. By keeping a watchful eye on the evolution of industries and occupations in demand, policymakers can remain prepared to respond with new workforce training initiatives. Thus, our target industries and career ladders should be considered points of departure for workforce training initiatives rather than final destinations.

## Capital Access Initiatives

If a well-trained labor force is one key to the city’s future prosperity, another is an environment that attracts and sustains small and medium-sized businesses. Here, the critical factor is access to reasonably priced capital appropriate to a given firm’s size and stage of growth.

One of the key problems facing most growing businesses in the city is the inability to secure financing at a reasonable cost, which would allow them to keep expanding and not stagnate. Because key investors and lending institutions are often unwilling or unable to provide this financing due to perceived risk and a lack of sufficient information about a business, the city’s economic growth is being limited. In the main section of this report, we examine several potential solutions for providing effective capital access; and in the recommendations, we offer three specific initiatives that are best suited to the circumstances in Los Angeles. All have successful track records in other localities, and each offers a relatively economical way for the city to direct capital to small businesses.



## Recommendations

In today's rapidly evolving economic landscape, resources and markets are constantly changing and moving across the globe to areas and locations where the highest values and returns can be created. Natural resources and geographic advantage are no longer the sole determinants for a region's economic success. Rather, regions and cities must create their own competitive advantages by building strong social, human and financial capital.

Los Angeles is at the forefront of powerful globalization forces that affect it long before they affect other major metropolises in the U.S. The city's history, culture, industry base and trade port have created a unique locale to which few others in the world can be compared. Indeed, Los Angeles' economy is increasingly intertwined with global economic forces, which have brought waves of trade and immigration to the region.

**Los Angeles is at the  
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Yet the city's infrastructure, both physically and socially, is falling behind the needs of its population, limiting its capacity to compete effectively with other locations. Like other, older major metropolises around the world, the successes of the past have contributed to the development problems of today. Rising real estate costs, a shortage of housing and open land, and an aging manufacturing base, to name a few, hamper the city from moving forward quickly. Throughout the last decade, city government and other official agencies have proposed and implemented policies to deal with manifold challenging issues, aiming to improve the city's housing condition, workforce quality and economic development.

The recommendations in this report are based on detailed and thorough analyses of Los Angeles' industry base and labor-market conditions. They are limited to the three key areas that constitute the fundamental building blocks of a stronger local economy and prosperity: entrepreneurial growth, capital access and workforce training.

Other areas, though, are also critical to the city's long-term growth. These include reforming and simplifying the process for obtaining a business license, reforming the city tax code, making continued improvements in public safety, developing stronger transportation linkages and further improving the city's K-12 educational system. Though critical, these areas are beyond the scope of the project and, hence, are not included in the recommendations.

The recommendations focus on intermediate solutions to improve some of city's most urgent needs, such as fostering quality small-business growth, creating jobs to accommodate a growing labor force and building a strong industry base for future prosperity. More importantly, they focus on solutions that can be initiated and executed directly by city government, local public institutions and private business. For example, public transportation and highways, though critical to the city's allocation of human resources and transportation needs, cannot be addressed effectively by the city government alone and, hence, are not included in our recommendations.

The recommendations revolve around the most urgent action item that the city has to address and effectively tackle: building a regional economy that fosters faster business growth to create enough jobs, particularly high-quality ones, for the people who are in need of work. The three key objectives outlined below will help guide the city toward its stated goal of achieving a high-value-added economy competitive in the 21st century. They are firmly grounded in the city's current industry base and locally available assets.



## Key Objectives

- Enhance the business environment for entrepreneurs such that small firms can thrive and grow into larger businesses, and that sustainable jobs can be created for local residents. Assistance and limited resources need to be made available to those industries and firms that can sustain a great number of jobs for the local labor market.
- Enhance and supplement the city's workforce training to promote high-value production, such as high-tech and knowledge-based industries, and build regional competitiveness – for example, introduce policies that can specifically attract technology startups and high-end manufacturing firms.
- Apply public policy in a manner that creates and encourages private investment, both financial and social. Public and private educational institutions are the key players in leveraging their tremendous resources in building social capital.

## Key Recommendations

### I. Foster Entrepreneurial Growth

Los Angeles is a composite of multiple economies. Some districts are prospering, building clusters of high-end service firms that are capable of accessing markets on a national or global scale. Very often, these industries and firms utilize new technologies and capture the brightest professionals from around the world. Some districts, however, have been struggling since the declines of their respective industrial bases. The business establishments in these districts tend to serve a local market and have a very limited scope of operation beyond areas they serve, limiting their opportunities. As a leading entrepreneurial region, the city's small-business growth was instrumental to its economic recovery in the 1990s. Nonetheless, the small-business sector has yet to produce as large an impact on employment in the region as larger businesses have. Thus, the city has the opportunity to tap the growth potential of these smaller businesses to leverage employment growth and improve labor conditions.

**The small-business sector has yet to produce as large an impact on employment in the region as larger businesses have.**

This highly uneven development reflects divisions by knowledge level, ethnicity and often available capital among the city's industries and seven planning districts. Improving capital access for small to medium-sized firms in economically lagging districts will be an important fundamental step in addressing the region's market deficiencies.

We recommend a series of citywide initiatives to lower informational and cultural barriers, promote understanding and enhance the exchange of market information and business opportunities among industry groups and ethnic businesses in the city's seven planning districts. These proactive initiatives will enable small businesses citywide to tap into larger markets and, hence, opportunities. With more available information and intensified exchanges among small to medium-sized businesses, firms will be able to take advantage of the increased opportunities.



## Specific Recommendations

- *Place high priority on fostering faster, higher-quality entrepreneurial activity and growth, while promoting increasing numbers of small businesses and entrepreneurial activities.* This will help revive economic growth in districts where older industries need to be rebuilt or enhanced and allow smaller businesses to grow to a size where they can provide larger numbers of stable jobs.
- *Utilize the city's main institutions of research and learning, such as UCLA, USC and others, to promote entrepreneurial skills and education.* The city should form partnerships with these institutions to promote regional growth. It needs to explore the Stanford University-Bay Area and UCSD-San Diego models, which became catalysts for regional development.
- *Leverage the city's assets for faster technology-driven growth.* Los Angeles has well-known science and technology research and development institutions. The city needs to leverage them more effectively, making them the engines of high-quality job creation. The city should match up its existing workforce training programs with the strengths of these institutions' technology research and development programs. The city needs to build strong relationships between research institutions, local technology companies and the city's workforce training board. This model is similar to other successful programs, such as those implemented in the health-care industry, which were effective in utilizing federal and state funding to match local industrial job demand at the right skill levels. The state's life science/nanotechnology grants for UCLA and private endowments to USC will be a catalyst for the revival of the city's technology production base. The economic value of these technology developments for the city can only be realized, however, if the city has the development plan and quality workforce to sustain it. To fully utilize the key local research institutions, the city must develop a clear policy for encouraging the development of commercially utilizable technology through these institutions and the transfer of this technology to entrepreneurs who can apply it for the economic benefit of both the universities and the local economy. The economy in the city lags well behind those of Boston, San Jose and even Pasadena in this regard, and technology transfer is essential if Los Angeles is to continue to develop as a high-tech center.
- *Develop an initiative to promote regular and frequent meetings and seminars among the city's ethnic business chambers and trade groups.* The city can utilize the Small Business Administration's funding and existing infrastructure to institute these topical and theme-based gatherings. The target participants are small and ethnic businesses that normally lack access to information and forums for relationship building. This periodic business networking, formal and informal, enables these businesses to share their experiences, bridge business needs and share market opportunities.

**The city must develop a clear policy for encouraging the development of commercially utilizable technology.**



- *Create a broader agenda to leverage some of the region's best minds and institutions.* In addition to providing information on market access, the city needs to draw upon some of the region's best minds and institutions to form a joint public-private center dedicated to helping small and ethnic businesses. The center's mission would be to seek practical means for helping these firms. The center's chief purpose would be to form strategies that help small businesses achieve faster growth in the region and to develop curricula for training and counseling entrepreneurs in all aspects of business operations.
- *Link young talent to aid the city's entrepreneurs.* The city should also form a working relationship with the city's business schools to promote MBA candidates' involvement in the city's small and ethnic businesses. These students tend to have some work experience and broader, up-to-date knowledge on planning, strategizing, marketing and other vital operational areas critical for firm growth. This win-win partnership would provide entrepreneurs with new knowledge and ideas at relatively low cost, while the students gain real-world experience about small businesses and industry.
- *Offer entrepreneurial, MBA-type education for the city's nontraditional students.* With the guidance of the city's educational institutions, the city can create an infrastructure that would enable local business schools to offer entrepreneurial MBA programs and entrepreneurial skills training for small-business owners. This infrastructure would offer "educational products" to ambitious small-business owners, which normally only a few large corporations can afford. The program would focus on broadening both the skill sets and horizons of the attendees, elevating and improving their operational skills while providing in-depth understanding of the global business environment. This program should help small-business owners develop and build a clear vision for their own companies. The secondary goal of this program would be to form business partnerships and alliances between this culturally diverse city and its businesses.
- *Link zoning and land-use regulation to aid promising industries that can build the regional economy's future and offer sustainable employment opportunities.* As Los Angeles is one of the most densely populated cities in America, providing affordable space to promising businesses and industries here is no less important than fostering entrepreneurial activities and high-tech industries. The city can achieve faster economic growth through its administrative power by providing:
  - a streamlined permit review process for the target industries;
  - coordinated infrastructure improvement and development for areas with high concentrations of targeted industries; and
  - forums for industries to identify and act on regulatory, administrative and service-delivery issues under the city's control that can be improved to create a friendlier climate for businesses.

## II. Improve Small-Business Access to Capital

Of the several capital access innovations outlined in this report, we recommend the following as most valuable to the Los Angeles city economy and most appropriate for the city to pilot. All have successful track records in other localities, and each offers a relatively economical way for the city to direct capital to small businesses.





- *Create a Los Angeles Capital Access Program that, in conjunction with lenders and borrowers, would let the city provide loan loss guarantees for loans to small and medium-sized businesses.* This program would leverage city funds, using existing, market-tested institutions to allocate the financial resources, and be comparable to the structure of other successful programs, such as the California Capital Access Program (CalCAP). The key to this program is that it would provide the risk mitigation necessary to encourage lenders to loan to businesses in markets where they have less experience doing so.
- *Establish a loan securitization program that would package diverse, targeted loans to small and medium-sized businesses, reselling them as rated securities in the secondary market, much the way Fannie Mae securitizes home mortgages.* This would lower the cost of borrowing for Los Angeles' small-to-medium-sized businesses, allow lenders to increase their lending to target communities and provide the security of earning interest on their investments to institutional investors. Since the level of risk is harder to assess for most mid-sized lenders in less economically advantaged sections of the city, the normal rates for loans are often unaffordable even when the businesses qualify. This program would allow businesses that are at critical stages of growth a chance to evolve into the large employers the city so clearly needs.
- *Create a Los Angeles Community Investment Note that would direct capital to the smaller city businesses that could not make use of the loan-guarantee or the loan-securitization approach.* Such a note would pool investments from individuals, foundations and institutions (e.g., banks meeting Community Reinvestment Act requirements) and make loans to funds lending to smaller firms. The Calvert Foundation regularly structures and administers specialized notes for other entities and, in discussions with Milken Institute staff, has expressed its willingness to partner with the city on such a project. This approach would provide a means for businesses too small to qualify for the other approaches to still have access to the necessary capital for growth. Because of the experience of the Calvert Foundation in handling similar notes, the funds will have the advantage of being utilized through proven methods rather than untried means.

### III. Train and Develop the City's Workforce to Meet Future Needs

Los Angeles is a rapidly expanding metropolis where in-migration and immigration have created a dynamic city. However, while the arrival of new residents with different cultural backgrounds, languages and job skills injects new market forces and entrepreneurial activity into the region, those workers who lack higher education and English-language skills pose a challenge in meeting new economic and industry needs.

Los Angeles needs to have a faster-growing economy that creates jobs at all levels, not just at the lower end. The long-term workforce training and education objectives, however, should emphasize elevating resident skill levels so as to attract and sustain the city's high-value-producing industries. Given the complexity of its labor-force needs, the city's labor-force training and skill-enhancement programs should be multi-faceted and cater to different industry groups, along the lines specified in the body of this report. A measured approach is needed for workforce training and education that balances the needs of businesses with those of the individual workers. It is important for Los Angeles to put the creation of sustainable jobs at the top of its civic agenda.

**Workforce training and education objectives should emphasize elevating resident skill levels.**



Additionally, the city has to recognize the role of the informal economy in the Los Angeles economic system. City leaders should build political consensus on addressing this un-captured economic value and focus on achieving productivity gains and protection of the workers in this segment of the economy.

The following are our recommendations on labor-force training and education that will increase job mobility, aid industry growth and attract relocation firms to the region:

- Focus training efforts on industries with the greatest prospects for growth, stability and decent wages.* The Los Angeles economy is built on a large and diverse array of industries. Many of these industries provide stable jobs and offer promising and sustainable job-development prospects. These industries should be targeted for consistent, effective support to help them expand and create new jobs. The region’s health-care, medical and financial services industries, and video/movie post-production digitization firms, are among those that demonstrate good potential and opportunity for job creation, and they should be targeted. The city, working with the Workforce Investment Board, will need to address workforce training resource allocation. We recommend that the city put the highest priority on funding the targeted industries, which promise employment opportunities and the potential for career advancement across the entire Los Angeles region. The table below highlights the key industries for each planning area.

| Tier 4 and 5 Industries by Planning Area for Los Angeles, 2002 |                            |   |  |                 |
|--|----------------------------|---|--|-----------------|
| Planning Area  | Num. Tier 4 & 5 Industries | Five Largest Tier 5 Industries by Planning Area |  |                 |
|  |                            | NAICS Code                                      | Industry Title                           | 2002 Employment |
| North Valley   | 26                         | 5221  | Depository Credit Intermediation         | 5,826           |
|  |                            | 3391  | Medical Equip. & Supplies Mfg.           | 2,156           |
|  |                            | 3399  | Other Miscellaneous Manufacturing        | 1,885           |
|  |                            | 3261  | Plastics Product Manufacturing           | 1,747           |
|  |                            | 4234  | Whsl. Prof. & Commerical Eqp. & Supplies | 1,659           |
| South Valley   | 17                         | 5511  | Mgt., of Companies & Enterprises         | 7,661           |
|  |                            | 4244  | Whsl. Grocery & Related                  | 3,437           |
|  |                            | 4243  | Whsl. Apparel, Piece Goods, Notions      | 3,267           |
|  |                            | 6211  | Offices of Physicians                    | 1,963           |
|  |                            | 6241  | Individual & Family Services             | 1,561           |
| West LA  | 16                         | 6211  | Offices of Physicians                    | 2,320           |
|  |                            | 6212  | Offices of Dentists                      | 1,494           |
|  |                            | 2361  | Residential Building Construction        | 1,292           |
|  |                            | 5419  | Other Prof., Sci., Tech., Services       | 1,017           |
|  |                            | 6213  | Office of Other Health Practitioners     | 894             |
| Central LA   | 34                         | 6221  | General Medical & Surgical Hospitals     | 39,572          |
|  |                            | 5511  | Mgt., of Companies & Enterprises         | 12,429          |
|  |                            | 6211  | Offices of Physicians                    | 8,358           |
|  |                            | 5412  | Accout., Tax Prep., Bookkeeping, Payroll | 6,424           |
|  |                            | 4243  | Whsl. Apparel, Piece Goods, Notions      | 6,071           |
| East LA  | 10                         | 6221  | General Medical & Surgical Hospitals     | 4,703           |
|  |                            | 5221  | Depository Credit Intermediation         | 2,829           |
|  |                            | 3231  | Printing & Related Support Act.          | 2,511           |
|  |                            | 5511  | Mgt., of Companies & Enterprises         | 2,350           |
|  |                            | 6211  | Offices of Physicians                    | 1,944           |
| South LA   | 19                         | 5511  | Mgt., of Companies & Enterprises         | 7,661           |
|  |                            | 4244  | Whsl. Grocery & Related                  | 3,437           |
|  |                            | 4243  | Whsl. Apparel, Piece Goods, Notions      | 3,267           |
|  |                            | 6211  | Offices of Physicians                    | 1,963           |
|  |                            | 3118  | Bakeries & Tortilla Mfg.                 | 1,793           |
| Harbor   | 7                          | 5613  | Employment Services                      | 2,231           |
|  |                            | 4244  | Whsl. Grocery & Related                  | 820             |
|  |                            | 3231  | Printing & Related Support Act.          | 655             |
|  |                            | 4239  | Whsl. Durable Goods                      | 602             |

Sources: Economic Roundtable, ES-202



- *Implement community-specific economic growth strategies.* There is great strength in the industry and worker diversity found in Los Angeles' different communities. Economic-growth strategies should build on these distinctive strengths and opportunities to support the creation and expansion of industries that offer the best prospects for growth and for providing local residents with opportunities for sustainable employment. Most importantly, the city must pair local conditions with labor-force training and economic development objectives. Community-based job-creation strategies ought to be linked with job-training and placement programs for workers living in each district. However, it is still important for workers to be able to find stable employment, even when the job is located in a different community. Other social and transportation benefits can be easily derived from custom-made development strategies, such as reducing traffic times.
- *Train City of Los Angeles' staff and service providers to use strategic labor market data.* Key to helping workers find and maintain sustainable jobs is to steer them toward living-wage occupations in stable or growing industries, and to help them acquire the skills to obtain and keep those jobs. Therefore, it is important to train city staff and service providers to use the rich array of labor-market information about Los Angeles' industries and occupations as they plan job-training and economic-development programs, as well as when they assess the needs of individual workers and employers.
- *Create workforce-training initiatives for small business.* Small business is the most vibrant segment of the city economy. Employment conditions and quality of workforce among these high-energy enterprises are not well-monitored or well-understood. Traditionally, workforce training and education tend to focus on larger companies and center on industry groupings. Since Los Angeles has experienced tremendous growth in the number of its small enterprises in the last decade, it needs to focus on these firms, setting initiatives and training programs to fit their needs. This would include allocating resources for general business and technical skill training, as well as job-specific training. City colleges and technical schools can be active participants in shaping these programs and providing training in areas such as bookkeeping, vocational skills and other general technical skills.
- *Provide Los Angeles residents with expanded opportunities for improved educational attainment and English-language proficiency.* Many city residents do not have the knowledge, skills or English-language proficiency required to obtain living-wage employment. It is important for the city to invest in its human capital to improve skills and help workers achieve significant gains. These needs are particularly acute in the Central, East and South planning areas. There is a rough northwest-southeast divide in the skill levels and prosperity of Los Angeles' resident workers. The majority of private-sector jobs and high-paying growth industries are located in the North Valley, South Valley and West Los Angeles planning areas. Alternatively, many working-poor residents are concentrated in East Los Angeles and South Los Angeles. These two planning areas also have high concentrations of limited-English-proficient workers and adults without high-school diplomas. Broad educational initiatives targeted at adult learners to improve educational attainment and expand English-language proficiency will be particularly important in these areas.

**Community-based job-creation strategies ought to be linked with job-training and placement programs for workers living in each district.**



- *Induce employers in the informal economy to move into the formal economy.* The city should provide an effective combination of incentives, technical assistance and sanctions that will induce informal employers to move into the formal economy. Provide for systematic enforcement of existing labor regulations and sales-tax requirements, particularly for businesses with annual revenues greater than \$100,000 that are subject to business license taxes. Offer low-interest loans, targeted worker training and small-business assistance for immigrant entrepreneurs seeking to move into the formal economy. Offer technical and legal assistance to informal employers seeking to bring themselves into compliance with labor laws and tax-reporting requirements. Most importantly, streamline the process for business tax amnesties and the issuing of city licenses so that employers who wish to move out of the informal economy can readily do so.

**Streamline the process for business tax amnesties and the issuing of city licenses.**

- *Assist informal workers in finding jobs in the formal economy.* Bringing the informal economy within the bounds of Los Angeles' legitimate social and economic structure is a critical yet long-term task for the city. It is a complex political and cultural issue, yet an open and effective solution can help solve the city's multiple economic and labor issues. This issue, which also encompasses U.S. immigration policy and the city's labor laws, can be addressed by providing an effective combination of skill development, education, citizenship assistance and enforcement of labor laws to enable informal workers to move into the formal economy and become self-sufficient. With sufficient policy and funding support from the federal government, actions would include:
  - Fostering an inclusive dialogue with federal and local officials, immigrant organizations and all other stakeholders about identifying fair and reasonable eligibility criteria for citizenship. Advocating immigration-law reform that provides fair and reasonable eligibility criteria for legal-resident status is the most important task. Legitimate work permits would help establish the standing of immigrant workers with long-term employment histories.
  - Advocating strengthening immigration controls to prevent continued large-scale immigration of undocumented workers.
  - Increasing the availability of English-language and basic literacy classes.
  - Providing broad access to regional education and vocation training programs for immigrants through local and regional city colleges, other educational institutions and the Workforce Investment Board.
  - Supporting efforts to protect and develop the career prospects of low-wage workers. Organizing campaigns among low-wage workers may serve to formalize the employment conditions of legal-resident workers who are informally employed and raise the wage floor to bring workers above the poverty threshold. Recognizing that the most important way to protect workers' rights and economic future is to help them acquire skill sets that are marketable and can lead to both job and economic opportunities.



## Conclusion: Transforming the Los Angeles Economy

Los Angeles is encountering many challenging forces: an influx of foreign immigration, increased movement of production and goods internationally, and advances in science and technology that have a significant economic impact. To ensure that the city's economy will be able to compete at both a regional and global level, it is essential that its workforce and businesses are up to the challenges and can seize the opportunities. The city will be able to compete successfully in the increasingly competitive globalized economy when its resources are better leveraged and utilized.

The city's current economy is not as competitive as those of many of its surrounding communities in terms of the quality of its workforce, development of a knowledge-based economy and entrepreneurship. An effective public policy to address the gap in skills between high-wage and low-wage workers, underutilization of regional intellectual capabilities and a lack of affordable capital to fund entrepreneur growth will be critical to the city's economic future.

We recommend that the city not only provide basic skill training to the low-skilled workforce, but establish better and more focused training programs driven by industry needs to elevate and enhance workers' skills for the specific jobs in demand. In respect to entrepreneurial growth, active public and private organizations must make capital more accessible to growing ethnic-owned and small businesses. Equally important is the sharing of information among the city's population and its ethnic groups. City officials will need to help companies cross cultural and ethnic business boundaries. This will help ambitious entrepreneurs grow their firms, expand operations, exchange best practices and enable the city to revitalize its industry base.

Greater focus on targeting and nurturing emerging 21st-century industries as part of a broader development strategy is imperative. Utilizing the research institutions and innovations presented in the region, the city must be proactive to assist the growth of key science- and knowledge-based industries that will define the long-term economic prospect of the region. Leveraging local educational and research centers is a critical component of the city's economic development plan.

Finally, it is essential that city leaders engage key stakeholders and build consensus to develop and execute a shared vision for the future economy of the city. To ensure that the Los Angeles economy continues to grow and adapt, the city needs to continue as a leading center where public policy addresses critical issues such as business growth, entrepreneurship and labor-force improvement as a systematic and integral set of challenges and opportunities.

**The city needs to continue as a leading center where public policy addresses critical issues.**





## About the Authors

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