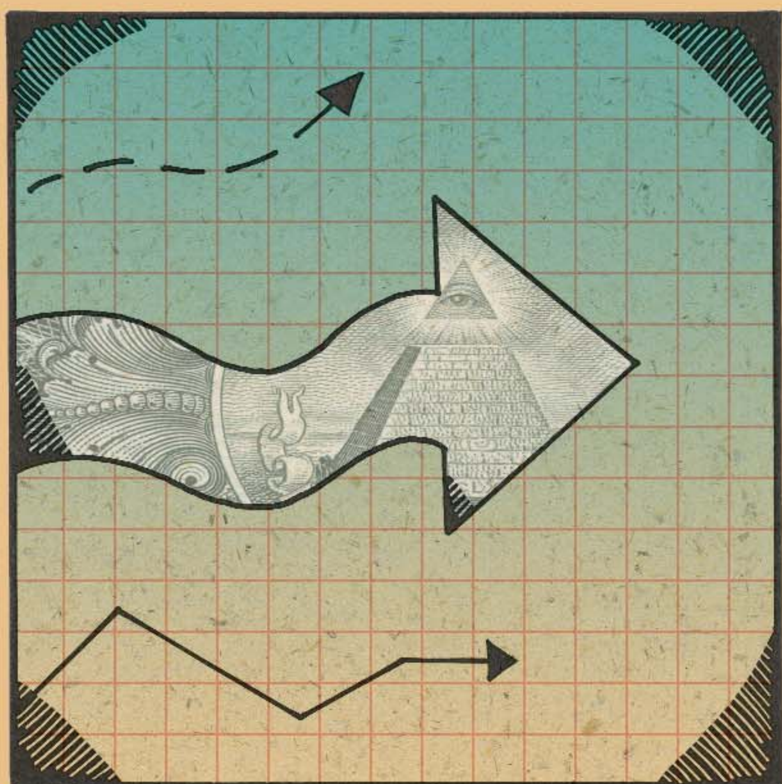
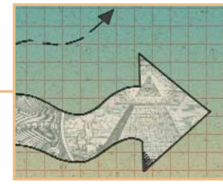
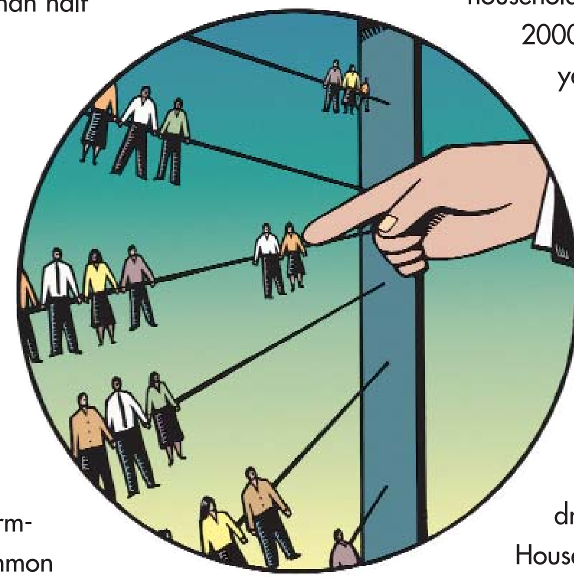


THE economy



THE economy

At the end of 2000, economists were expressing concerns that the nation was heading for a recession, ending a record 10 years of uninterrupted economic growth. The rate of unemployment at year-end held steady at a near three-decade low of four percent. However, the 49,000 new jobs created in December were less than half the number the previous month, and factory employment had declined for the fifth straight month. The construction industry also ended the year with job losses, due to bad weather and a slowdown in building. In contrast to midyear, when economic growth in June 2000 for the previous 12 months stood at 6.1 percent, economic growth in the nation in the fourth quarter of 2000 was only 1.4 percent. This was the weakest performance in more than five years. A common rule of thumb for defining a recession is two consecutive quarters of decline in the overall economy.



Economic analysts expected the slowdown in economic growth to continue into 2001 for several reasons—particularly, slowing investment, increasing fuel prices, and consumer debt burdens. Consumers were facing sharp increases in fuel costs—both heating oil and natural gas—on top of high gasoline prices. It was anticipated that the price increases would result in reduced spending on other goods and services.

For the first time since the Federal Reserve began tracking the net worth of Americans in 1945, the net worth of U.S. households declined from one year to the next in 2000, hurt by a falling stock market. At year-end, the net worth of Americans was $41.42 trillion, a drop of $841.5 billion from their net worth at the end of 1999. Household ownership of stocks fell by 17.6 percent last year, although that decline was partly offset by gains in other assets held by households, including homes and other real estate. Last year's decline followed five straight years of strong increases driven by the booming stock market. Household net worth rose by 12.6 percent in 1997, 10 percent in 1998, and over 14 percent in 1999. Last year's two percent decline in the net worth of Americans was the first annual decline in 55 years.

The U.S. economy was sending mixed signals at year-end 2000, with mounting uncertainty as to whether the fall in financial markets would translate to an economic recession with rising unemployment and falling output.

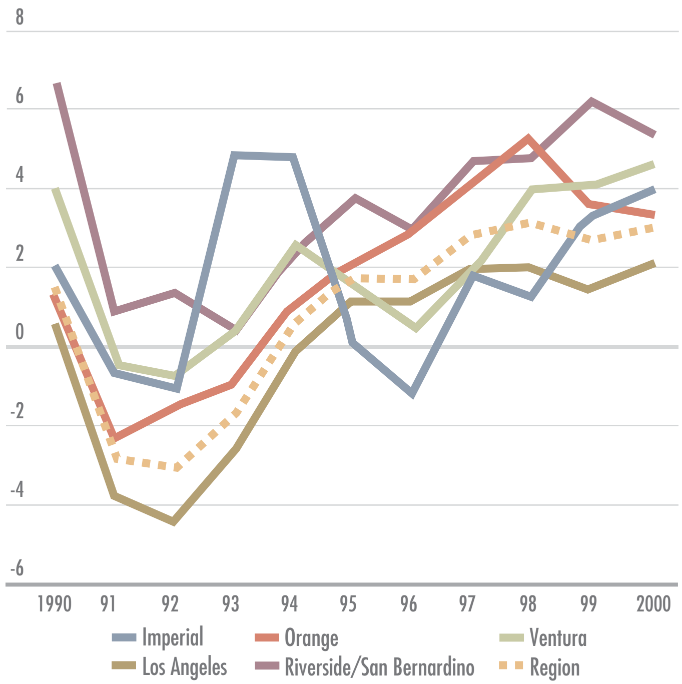
Employment

>> Job growth is one of the most important indicators of a healthy economy. <<

Figure 1

Wage and Salary Employment

Percent Change from Previous Year



Source: California Employment Development Department and SCAG

California, which was hit harder than the rest of the nation by the recession in the early 1990s, continued to catch up in 2000. The state accounts for 12 percent of the U.S. population and created 23 percent of the nation's new jobs last year, an average of almost 37,000 jobs per month.

According to analysts, 2000 could be the biggest year on record for job growth in the state. The current record is 1984, with a gain of 478,500 jobs.

The six counties in the region experienced job growth continuously since 1994, after the 1991-1993 recession. Preliminary employment data indicate there were approximately 200,000 new jobs in the SCAG region in 2000, a three percent growth over the previous year.

Table 6

Wage and Salary Employment by County (000)

County	1990	1999	2000	% Change 1990-2000	% Change 1999-2000
Imperial	45	51	53	13	4
Los Angeles	4147	4010	4092	-3	2
Orange	1179	1352	1399	15	3
Riverside/San Bernardino	735	960	1013	31	6
Ventura	247	281	294	14	5
SCAG Region	6353	6655	6850	5	3

Source: California Employment Development Department and SCAG

In the essay following this section, David Friedman, a Markle Senior Fellow in the New America Foundation, discusses the Southern California economy in recent years and the decisions that confront the region's leadership in order to address the critical needs of the six counties.

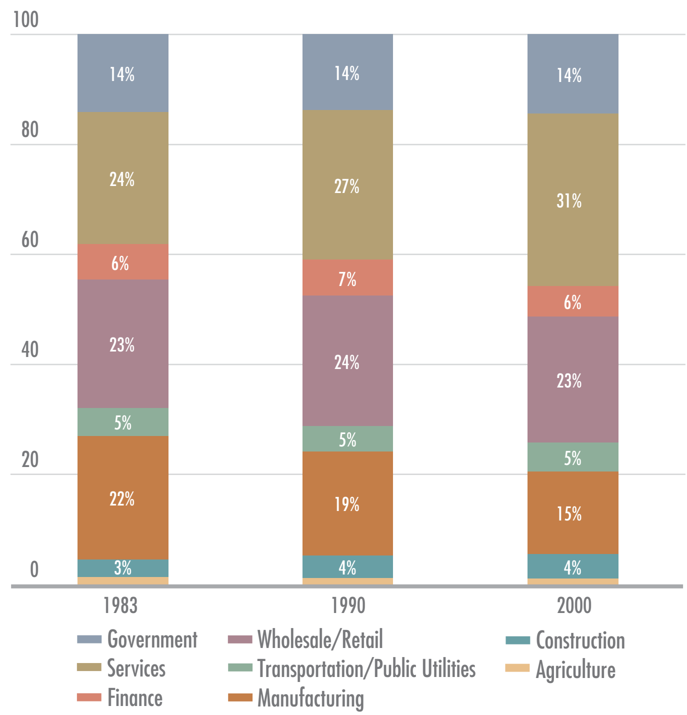
Sectors

>> Concentration of employment is important as a measure of economic diversity. If too many jobs are concentrated in one sector, a downturn in that sector could have serious repercussions throughout the regional economy. <<

Figure 2

Employment by Sector

Percent of Total Jobs



Source: California Employment Development Department and SCAG

Except for three years (from 1994 to 1996) Los Angeles was the biggest manufacturing center in the nation in total jobs every year in the 1990s. Orange, Riverside, San Bernardino, and Ventura counties have continued to attract factory jobs. Riverside and San Bernardino counties can accommodate growth in manufacturing because there is land available for new facilities in the Inland Empire. Ventura County has experienced manufacturing growth since 1996, with aerospace and high technology accounting for over one-fourth of these jobs. Southern California has been the nation's leading manufacturing center, but higher interest rates, foreign competition, and rising gas and power costs have hurt manufacturers in the region.

Local aircraft manufacturing dropped sharply during the 1990s, but the region continues to dominate aircraft research and design. While Southern California no longer plays a major role in the commercial aircraft business, many of the airplanes currently operated by the US Air Force were designed in the region. Aerospace companies have kept their research-and-development departments in Southern California because this is where the nation's top engineering talent is found. The region's network of prestigious universities and research centers such as the California Institute of Technology (Caltech) and the Jet Propulsion Laboratory (JPL) in Pasadena are major factors in the region's long dominance of aerospace research. And because Southern California has the nation's best weather for flight testing, all new military aircraft are tested at Edwards Air Force Base near Palmdale.

The region's construction sector enjoyed a 7.7 percent growth last year. According to the California Association of Realtors, 2000 was one of the best years for residential real estate in California. The median home price hit a record high in 2000, and sales posted their second best year on record. (For a more detailed discussion, see the *Housing* section in this report starting on page 41.)

Energy has become one of the chief components of the region's economy. California's businesses and residents paid $10.9 billion more for electricity in the summer of 2000 than in 1999, and more rate hikes were anticipated in 2001 as wholesale electricity prices continue to climb. And it is not just the higher power costs that threaten the economy. Businesses are being forced to shut down or face heavy fines when power supplies get very low. Some local manufacturers have been forced to schedule overnight shifts to make up for lost hours, yet they are not able to pass along the costs of overtime pay and remain competitive with less expensive foreign imports.

An essay included in *The Environment* section of this report, "The Energy Crisis Hits Southern California," (page 77) examines the impact of the energy crisis and suggests how to resolve matters to ensure the region's energy future.

The increased cost of electricity and natural gas is being felt in different sectors of the economy. As Californians are faced with higher electricity rates, they must also pay the highest rates in the nation for natural gas. The impact of these price hikes is resulting in temporary and even permanent plant shutdowns. Businesses such as textile plants that rely on natural gas to fire boilers, dryers, and kilns are particularly vulnerable. Trouble in the textile sector impacts the apparel sector, which already has been losing jobs to low-wage foreign competitors. The apparel industry is the largest manufacturing employer in Los Angeles County, and a traditional entry point for unskilled immigrants.

The motion picture industry experienced strong job increases as a result of a rush to finish projects before anticipated strikes in mid-2001 by Hollywood writers and actors. While there are no accurate statistics on the number of jobs directly and indirectly linked to the film industry, a

Commerce Department report issued in early 2001 claims that the shift in the production of feature films and television programs from Southern California to Canada and other countries is costing the U.S. economy as much as $10 billion a year. The study notes that losses have been particularly acute in the production of movies made for television and miniseries, and that runaway film production has affected thousands of workers in industries ranging from computer graphics to construction workers, carpenters, drivers, caterers, and janitors. U.S. film and television productions are drawn to foreign countries by tax breaks, weak currencies, and comparatively low wages.

Unemployment

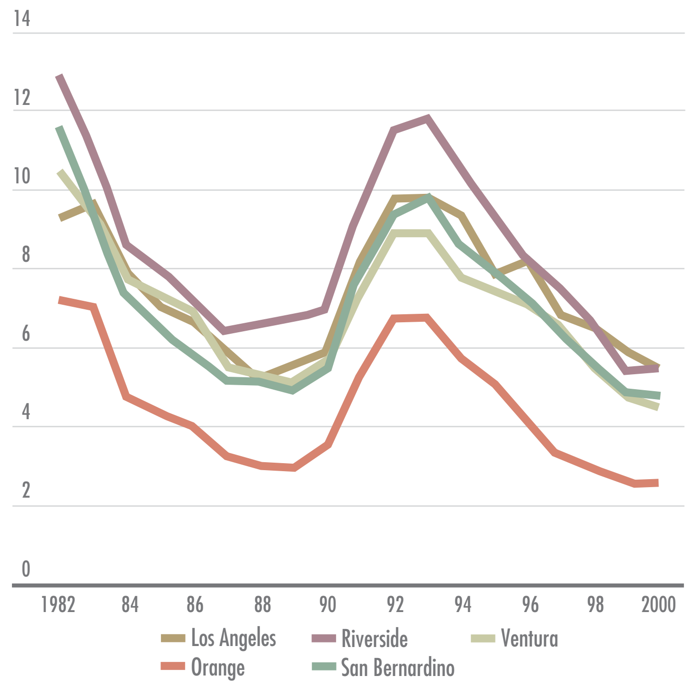
>> The unemployment rate is a measure of the current loss of productive potential in the region. A reduction in the unemployment rate raises both production and employment in the region, stimulating income growth among its residents. >>

As in the rest of the country, unemployment in the region has been on the decline since the recession of the early 1990s. In spite of the fact that Los Angeles County experienced job losses in aircraft manufacturing last year, its unemployment rate fell to 5.4 percent in 2000, down from 5.9 percent in 1999. Unemployment rates for Orange and Ventura counties also fell in 2000 compared to the previous year. Orange County experienced 2.5 percent unemployment and Ventura County 4.5 percent, compared to 2.6 percent and 4.8 percent respectively in 1999. Orange County's unemployment rate was the lowest since World War II. The 2000 jobless rate in San Bernardino County remained at the 4.8 percent 1999 level, while Riverside County's rate rose slightly, from 5.4 percent in 1999 to

Figure 3

Unemployment Rate

Percent Change from Previous Year



Source: California Employment Development Department and SCAG

Figure 3a

Unemployment Rate – Imperial County

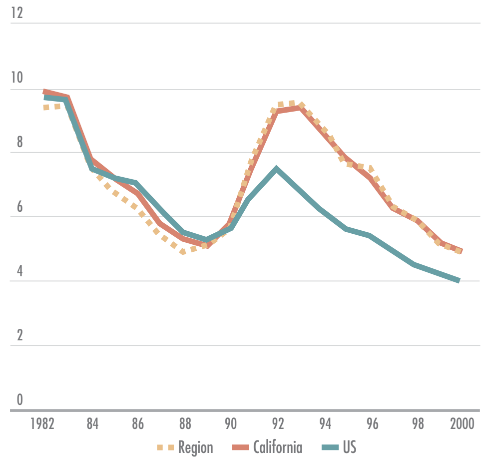
Percent Change from Previous Year

Source: California Employment Development Department and SCAG

Figure 3b

Unemployment Rate

Percent Change from Previous Year



Source: California Employment Development Department and SCAG

5.5 percent in 2000. Imperial County endured a 26 percent unemployment rate in 2000, the highest in the state. Even as California's urban areas added thousands of jobs and most counties in Southern California experienced near-record low unemployment, the state's rural areas are enduring some of the worst unemployment in the nation.

California

California's recession in the early 1990s was deeper and lasted longer than the nation's. However, the state's economy grew vigorously in 2000 through December, despite the state's energy crisis and the national slowdown. California gained more than half a million jobs last year, the best performance since 1978, and ended the year with 4.7 percent unemployment. The last time California's unemployment rate was lower was in December 1969, at the height of the Vietnam War, when the rate was 4.4 percent. The Bay Area counties reported the lowest unemployment rates in the state during 2000, while Imperial County had the highest jobless rate.

The average employment level in 2000 among non-farm workers was 526,700, up from the gain of 395,800 in 1999 and the biggest increase since 1978. At year-end the non-farm job total was more than 14.7 million. The state experienced last year one of the tightest job markets in decades, with employers at all levels (large and small firms with low-skill and high-skill jobs) having difficulty finding workers. While the economy produced a large number of jobs in 2000, many analysts warn that the income gap continues to grow between the state's wealthy, high-tech entrepreneurs, and the large number of low-wage workers, particularly immigrant workers.

Analysts predict some moderation of growth in the state's economy during 2001 and point out some signs of weakness. In December of 2000, manufacturing lost 2,200 jobs. Construction experienced a big gain in employment in December, but this was due to an unusually dry month. High natural gas prices and the state's overburdened power grid were threatening rolling blackouts, soaring prices, and a possible slowdown in the economy.

The Nation

At year-end, there was four percent unemployment in the nation, a near three-decade low. The U.S. unemployment rate hit 3.9 percent in April, September, and October 2000, the lowest level of unemployment since December 1969, an economic boom time during the Vietnam War military buildup when the unemployment rate fell to 3.5 percent. The strong job market touched all segments of the population. Unemployment for African Americans fell to seven percent in September 2000, the lowest figure since the government began collecting unemployment data by ethnicity 28 years ago. The jobless rate for Latinos fell to an all-time low of 5.4 percent in April 2000. The rate for workers with less than a high school degree also reached an all-time low in August 2000.

As the nation's unemployment began to rise at year-end, there were concerns that minorities, the young, and the less educated would be hurt first. The unemployment rate at year-end was 5.7 percent for Latinos, the highest level in more than one year. The unemployment rates for African Americans and for workers with less than a high school degree climbed about half a point, while the rate for college graduates fell to 1.5 percent. African Americans at year-end experienced 7.6 percent unemployment.

Approximately 30 percent of the nation's labor force, roughly 30 million workers, are in alternative work patterns ranging from independent contracting to part time employment. While many temporary workers are highly paid contractors, the General Accounting Office estimates that over five million part time workers and six million full time workers make less than $15,000 per year, with few benefits. According to analysts, these workers need an increase in the minimum wage, extension of health coverage, and training so they can move up the economic ladder.

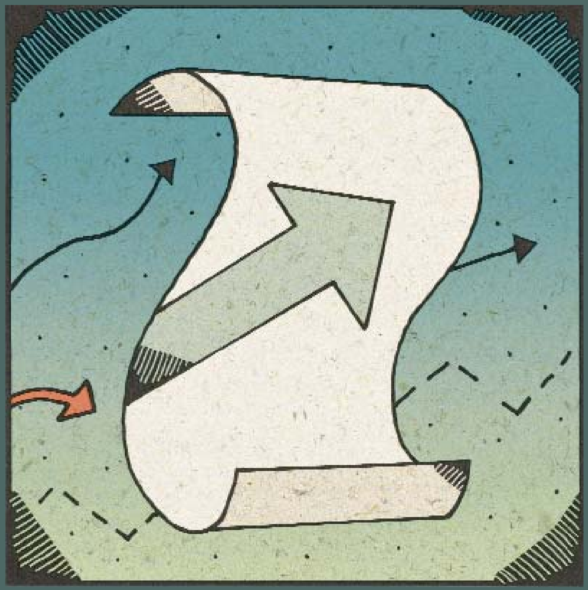
DAVID FRIEDMAN

Southern California's Divergent Growth Patterns and Future Prospects

essay

Background: The Regional Recovery

Southern California's SCAG region, including Los Angeles, Orange, San Bernardino, Riverside, Ventura and Imperial counties, is entering its most unsettled economic period in years. The region made dramatic strides from the depths of the early 1990s' recession. Its success, however, spawned troubling regional and social disparities and anti-growth sentiments just as statewide, national and global economic conditions turned markedly for the worse.



Despite well-publicized predictions to the contrary, Southern California registered impressive gains during 1996-2001. The six county regional employment, the most comprehensive indicator of economic vitality, rose by nearly 3% per year after falling by an annual average of -0.7% in the first half of the decade. Excluding Los Angeles County, five county area job growth averaged about 4.6% over the last five years, one of the fastest expansions in the country (see Table 1).

Table 1
SCAG Region Average Annual Employment Growth

Region	2001-1996	1996-1991
Riverside/San Bernardino Counties	5.47%	2.01%
Five County Area	4.58%	0.81%
Orange County	4.24%	0.11%
Ventura County	3.46%	0.34%
California	3.31%	0.17%
Imperial County	3.14%	2.28%
Six County Area	2.94%	-0.68%
USA	2.34%	1.70%
Los Angeles County	1.97%	-1.47%

Source: California Employment Development Department monthly unadjusted labor market statistics, March 2000 benchmark, February to February four month rolling averages. Five County area includes Orange, Riverside-San Bernardino, Imperial and Ventura Counties.

After lagging behind most of the rest of the state, by the later part of the 1990s every Southern California county except Los Angeles was performing as well as, or in most cases better than, other California regions, including the state's "new economy" hotbed in the Bay Area (see Table 2).

Table 2

California Regional Performance, 1998-2001 (Employment in 1,000s)

Region	2001 Employment	2000-2001 Growth	2000-2001 Growth Rate	Prev. 3 Year Job Growth	Prev. 3 Year Job Growth Rate (annual average)
Riverside/San Bernardino Counties	**1,017**	**43**	**4.4%**	**158**	**5.8%**
Sacramento County	728	32	4.6%	93	4.6%
Ventura County	**278**	**8**	**3.0%**	**31**	**4.2%**
Orange County	**1,416**	**52**	**3.8%**	**149**	**3.8%**
Imperial County	**39**	**2**	**5.2%**	**4**	**3.7%**
San Francisco MSA	1,107	52	4.9%	108	3.5%
Oakland MSA	1,065	41	4.0%	103	3.4%
California	14,756	529	3.7%	1,413	3.4%
San Jose MSA	1,047	58	5.9%	99	3.4%
Los Angeles County	**4,137**	**84**	**2.1%**	**228**	**1.9%**

Source: California Employment Development Department monthly unadjusted labor market statistics, March 2000 benchmark, February to February three month rolling averages.

Since 1998, in fact, Southern California has enjoyed one of the world's stellar economies. The five county area collectively grew faster than every state in the U.S. save Nevada and more than 250% faster than the country as a whole. In the last three years, the six counties performed about the same as both Texas and Georgia and fostered over 570,000 new jobs, comparable with Illinois, Ohio and Michigan combined. In 1998, the six counties had just over 5% of the total U.S. job base, yet accounted for 7% of all new national employment over the next three years (see Table 3).

Table 3
Southern California's Comparative National Performance, 1998-2001 (Employment in 1,000s)

Region	2001 Employment	2000-2001 Growth	2000-2001 Growth Rate	Prev. 3 Year Job Growth	Prev. 3 Year Job Growth Rate (annual average)
Riverside/San Bernardino Counties	**1,017**	**43**	**4.4%**	**158**	**5.8%**
Nevada	1,054	48	4.8%	149	5.2%
Five County Area	**2,750**	**105**	**4.0%**	**343**	**4.7%**
Ventura County	**278**	**8**	**3.0%**	**31**	**4.2%**
Orange County	**1,416**	**52**	**3.8%**	**149**	**3.8%**
Arizona	2,290	75	3.4%	241	3.8%
Colorado	2,258	97	4.5%	237	3.8%
California	**14,756**	**529**	**3.7%**	**1,413**	**3.4%**
Florida	7,229	253	3.6%	669	3.3%
Georgia	4,032	92	2.3%	349	3.1%
Six County Area	**6,888**	**189**	**2.8%**	**570**	**3.0%**
Texas	9,571	287	3.1%	793	2.9%
New York City	3,773	86	2.3%	273	2.5%
Washington	2,739	61	2.3%	185	2.4%
New Jersey	4,029	84	2.1%	268	2.3%
Massachusetts	3,360	86	2.6%	213	2.2%
New York	8,713	150	1.8%	545	2.2%
USA	131,903	1,863	1.4%	7,695	2.0%
Los Angeles County	**4,137**	**84**	**2.1%**	**228**	**1.9%**
Pennsylvania	5,742	105	1.9%	277	1.7%
Michigan	4,707	70	1.5%	216	1.6%
Ohio	5,660	39	0.7%	218	1.3%
Illinois	6,025	29	0.5%	196	1.1%

Sources: California Employment Development Department and U.S. Bureau of Labor Statistics, monthly unadjusted labor market statistics, February to February three month rolling averages.

Southern California's economic turnaround pushed unemployment to historic lows, re-inflated the region's once-struggling real estate market, reduced social unrest and helped drive down the region's once burgeoning crime rate. By spring 2001, the six counties employed almost 6.9 million people, more than all but three states (including California). Rising tax revenues driven by higher personal incomes and a larger employed workforce helped Orange County brush aside its bankruptcy in the early 1990s and eased the Los Angeles area's chronic municipal and county budgetary crises.

At the same time, however, growth widened already sharp wealth disparities. As the economy heated up, roadways, schools and other public amenities became more crowded. Growth became increasingly more troubling to many area residents, especially the relatively secure and affluent. By mid-2001, the stock market boom feeding the region's windfall tax revenues was in serious jeopardy. National and worldwide economic conditions were eroding at the same time as political support for development was waning.

As it confronts these challenges, the six county region can no longer take growth for granted. Buffeted by conflicting political demands and an uncertain global economy, the region's leaders will almost certainly now be forced to choose their economic future. Some of the factors affecting their options, like interest rates or trade policy, are beyond their control. Critical local issues include the following:

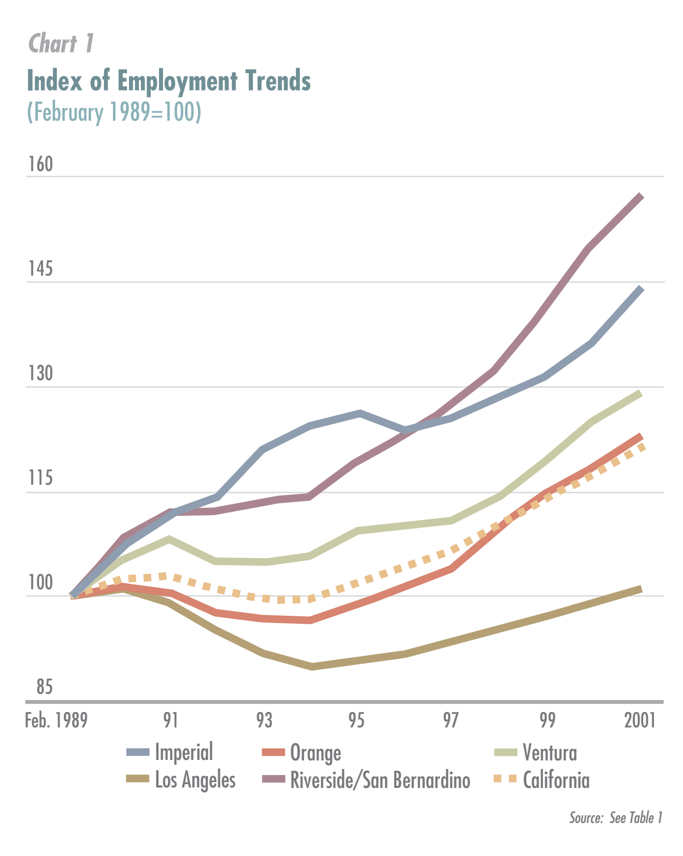
>1 Addressing the political and social consequences of Los Angeles County's relative economic under-performance and divergent development pattern;

>2 Assuring urban economic vitality amid sharply divided communities with different appetites for growth; and

>3 Effectively assessing the costs and benefits of economic development compared with other, often more passionately advocated public policy concerns.

Los Angeles County's Divergent Performance

There is a deep and growing disparity between Los Angeles County, which accounts for more than 60% of the six county workforce, and its neighboring regions. Despite considerable population expansion, however, as of early 2001 Los Angeles County still had not regained its pre-recession employment base. By mid-1996, by contrast, each of the five counties had recovered all of the jobs it had lost in the recession (see Chart 1). By 1999, every county in the region except Los Angeles was outperforming the state and the nation as a whole.



More troubling still, Los Angeles County grew in ways that exacerbated wealth disparities by reducing working and middle class employment opportunities despite considerable demand for such positions. Blue-collar construction and manufacturing employment accounted for just 4% of the county's job growth since 1996 compared with over 18%

in the rest of the region. Construction, manufacturing and wholesale trade sectors combined, which sustain generally well-paying working and middle class jobs, generated only 9% of Los Angeles area job growth but 23% of all new jobs in the other five counties. Conversely, 44% of Los Angeles County's growth since the recession was attributable to low-paying retail work and public and quasi-public, often subsidized sectors like transportation and public utilities. These industrial groups accounted for just 35% of the employment gains in the five county area (see Table 4).

Table 4

Percent of Total Growth By Major Industrial (SIC) Category 1996-2001

Region	Construct. & Man.	Goods Producting & Wholesale	Retail & Gov't	Retail, Gov't & Trans. Public Utilities
Los Angeles County	4%	9%	32%	44%
Imperial County	7%	14%	72%	72%
Five County Area	**18%**	**23%**	**27%**	**35%**
California	**18%**	**24%**	**24%**	**30%**
Orange County	23%	30%	21%	25%
Riverside/ San Bernardino Counties	30%	36%	26%	31%
Ventura County	39%	42%	19%	23%

Source: California Employment Development Department monthly unadjusted labor market statistics, March 2000 benchmark, February to February four month rolling averages. Five County area includes Orange, Riverside-San Bernardino, Imperial and Ventura Counties.

The five-county region exhibits strikingly balanced economic development, particularly in the expansion of manufacturing despite nationwide trends to the contrary. Los Angeles County, however, is moving in the opposite direction. Its bellwether manufacturing jobs are continuing to evaporate while comparable employment expanded by a remarkable 4% in the rest of the SCAG region. Even the County's once robust motion picture industry, which added tens of thousands of jobs in the recession, is currently in decline.

Los Angeles County's disjunctive development pattern raises several regional concerns. Its heavy reliance on tertiary, distribution-oriented businesses like retail and emphasis on government and related quasi-public enterprises means that its political objectives are less affected by the needs of goods- and wealth-producing private sector enterprises. This magnifies the policy differences between the County and economically more balanced, neighboring jurisdictions.

Intra-regional political differentials of this sort result in undesirable social and economic fragmentation. Middle and working class manufacturing or wholesale sectors which do not enjoy political support in Los Angeles will tend to move to places like Riverside-San Bernardino or eastern Orange counties. Those locations afford ready access to Los Angeles-area retail outlets and labor resources, but also offer a more conducive business environment. Driven by these considerations, over time, entire classes of workers and industries are becoming geographically and politically isolated within the Six County region.

Overreliance on public and quasi-public development also reduces Los Angeles' capacity for improving troubled institutions like the Los Angeles Unified School District. Already politically potent, these sectors' growing economic power can additionally thwart reform.

Unfortunately, The County's perceived educational and similar public amenity shortcomings stimulate movement of the upwardly mobile middle and working classes—especially people who are gainfully employed but cannot afford private education—into other areas. This further heightens the divide between the rich and poor bifurcating the County into highly affluent households that insulate themselves from adverse social conditions, and a relatively poor population willing to accept or unable to avoid such conditions.

Los Angeles' relative underperformance also affects fast-growth areas like Riverside-San Bernardino. Many may seem to welcome the economic boost provided by middle and working class relocations from less hospitable areas, but they tend to grow in ways that preclude additional high-end retail, entertainment, and educational development. Fast-growing peripheral areas are often trapped by courting lower wage and skill sectors because cost considerations, not technology or quality of life, become the primary reasons why businesses are willing to invest within their jurisdictions. Over time, they inadvertently truncate their ultimate level of advancement at an undesirably low level.

As Los Angeles County becomes more heavily dependent on government transfer payments to sustain its economy and public fiscal integrity, it also is vulnerable to tax revenue downturns. Inevitably, pressures on neighboring areas for assistance arise, including proposals for regional taxation or for environmental regulations designed to force development back into urbanized regions. These sentiments are amplified by the fact that a fast-growing periphery usually consumes the region's most environmentally significant open space in lieu of urban reuse. Yet, limiting or taxing eastern county development without also addressing the economic constraints adversely affecting already urbanized areas would almost certainly drive investment and jobs to other states.

Los Angeles County's economic fate will crucially affect the entire six county area. If present trends persist, the County will increasingly diverge from the industrial and political path taken by the rest of Southern California. This will greatly widen social divisions and stimulate intra-regional political conflict. In contrast, assuring more balanced Los Angeles County growth akin to five county area development patterns would help reduce the region's fragmentation, diversify its tax and industrial base, and bring more cohesion to regional leadership priorities.

Urban Growth and its Discontents

The SCAG region's growth has produced dramatically different class-based perceptions of urban development. Wealthier residents, particularly those that derive their livelihoods from extra-regional sources like the stock market or inheritance are increasingly hostile to future expansion. They recoil from the traffic jams, construction delays, environmental challenges, and population increases prompting expensive unsightly new industrial, housing, and school construction that growth generates. Less fortunate households depend on and generally support regional economic vitality to boost local employment demand, fund public services, and allow for the upward mobility they seek.

The gap between such viewpoints is heightened during good economic times in socially diverse areas. Wealthier groups become even more affluent and less inclined to tolerate development's disruptive effects. A hot economy also attracts a steady stream of socially aspiring workers, such as unskilled, but highly motivated immigrants, who do not mind growth's inconvenience if they can find work and improve their lives.

In general, interest groups reflecting the more affluent anti-growth perspectives tend to increasingly dominate regional politics over time. They push for increased regulatory controls, environmental constraints, more restrictive zoning, higher development offsets, and organize community opposition to economic proposals. Development costs rise, which skews housing and business activity towards high-end, high-return development. Middle and working class businesses are squeezed out. The divide between politically influential, more affluent anti-growth interests, and those of lower skill and wealth who would foster development, becomes more significant.

The inevitable rise of anti-growth politics shapes how and where development can occur. Recent reports that the Los Angeles area has depleted its developable land, for example, are predicated on the belief that presently underutilized and substandard areas within the County's existing development footprints are effectively "used up." As officials of the post-riot recovery agency Rebuild Los Angeles ("RLA") learned when they strove to encourage development in neglected areas of Los Angeles County, however, urban growth opportunities are more constrained by restrictive local zoning ordinances, poorly defined environmental cleanup standards, or community opposition to change which do not allow for new land assemblage or use permits. These are political, not "natural" urban growth limitations.

Managing anti-growth politics is a critical regional priority. In the short term, it shifts economic activity from areas where affluent anti-growth sentiments are at their peak to generally poorer, pro-growth areas. This is one reason why the more easterly of the six counties are growing much rapidly than, and attracting population and business from, the region's core urban areas. It may be that such development is actually preferred by the majority of the region's populace. Such an outcome should be debated and chosen, however, rather than simply emerge as the region's future by default.

Prioritizing Development

In contrast with many other regions of California and the U.S., the SCAG region has been remarkably unable to prioritize its development needs relative to other public policy demands. Fast-growing Intermountain and Southwestern states, for example, tend to value the positive health, social stability, and public wealth benefits generated by a robust economy as highly as environmental or other interest group priorities. When they consider various policy options affecting land, water, and energy, developmental priorities are given substantial weight and balanced against competing agendas.

After decades of similar focus, this region largely lost its capacity for economic prioritization. In part this reflects its unprecedented social diversity. Political messages are divided and those advanced with the most energy tend to be elevated above other, often more critical needs. The as-yet unproven possibility that urban runoff generates widespread health risks (apart from those associated with swimming directly in a storm drain's out fall) for instance, has spawned regulatory initiatives like San Diego's new storm water permit which will severely truncate development. Similarly, the six counties have failed to effectively define and advocate on behalf of issues with overwhelming significance for their welfare, including state and federal Delta and Colorado River water, energy, inner city school and urban land clean-up standards.

Irrespective of what decisions it may ultimately make, the six-county leadership must better value development relative to other social objectives. Are the purported health benefits of even the most passionately advanced environmental constraints, for example, worth economic losses that severely affect public health? What kinds of impacts justify curtailing industrial activity, and when are such risks comparatively insignificant? Until now, the six counties have largely made such choices in an ad-hoc manner on the basis of interest group pressure. As resource, public revenue, infrastructure, trade and immigration issues become more acute, however, the region must consider development tradeoffs in a more systematic, risk-based, comparative fashion.

Conclusion: Future Scenarios

Given currently unsettled national and global conditions, there are two broad possibilities for future six-county development. One is to allow present trends to continue. Los Angeles County will become increasingly more dependent on the public sector and reliant on government funding from outside the region. Neighboring areas will grow more rapidly, in large part at Los Angeles' expense. Wealth disparities will increase, particularly within Los Angeles County. Conflict between Los Angeles County and its neighbors may intensify, as might debates among anti- and pro-growth advocates. If so, the region's priorities will continue to be ineffectively articulated to state and national decisionmakers.

The alternative is to revive Los Angeles County's economic diversity by unlocking political barriers to redevelopment of its underutilized land and generating a much more balanced economy. The region as a whole would more clearly and explicitly prioritize the importance of development in the context of other, competing agendas and clarify the circumstances in which economic consideration outweighs other concerns. Rather than allow its influence to be reduced by chronic indecision, its leadership would unite to assure that crucial water, energy and educational issues are addressed in Sacramento and Washington as favorably as possible.

Neither scenario guarantees the six counties' future success or failure. Each has its advocates and detractors. But as regional, state and global volatility appears to deepen, it is increasingly incumbent on its leadership to choose among them. The region's paralyzing economic crisis of the early 1990s has long been over. It is time for the six counties to consolidate and protect their gains by building and pursuing a consensus about the proper pace, shape and nature of economic development.

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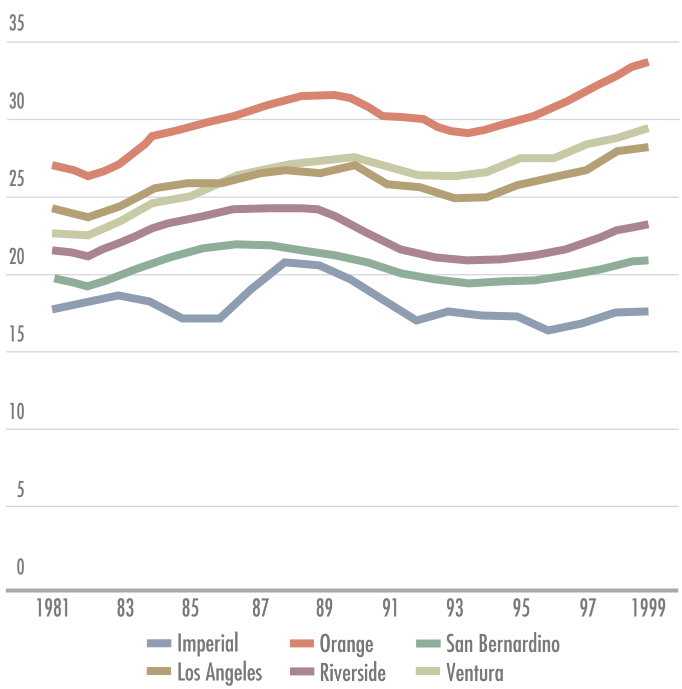
Income

>> Real personal income per capita is the broadest single statistical measure of well being or standard of living. Growth in real per capita income is more important as a regional target than growth of jobs alone. <<

Figure 4

Real Personal Income Per Capita

1999 Dollars (000)

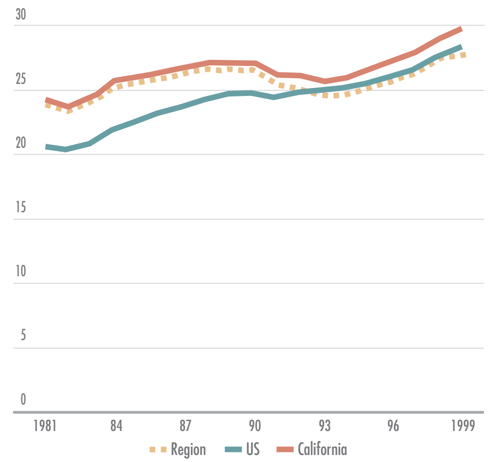


Source: California Department of Finance and SCAG Database

Figure 4a

Real Personal Income Per Capita

1999 Dollars (000)



Source: California Department of Finance and SCAG Database

According to a recent study by the Public Policy Institute of California, income inequality was substantially higher in California in 1999 than in the previous two decades. While recent data show that California's economic growth has helped narrow the gap between families in the top and the bottom of the income distribution, income inequality in California remained high compared to the rest of the nation. The study concludes that international immigration can account for approximately one-third of the growth in family income inequality between 1969 and 1999 and more than one-half of the higher inequality in the state compared to the rest of the nation in the late 1990s.

(Please refer to *The State of the Region 2000* page 37 for a discussion by Paul Ong on inequality in the labor market.)

The region's per capita income ($27,956) remains below the nation's ($28,546), unlike the 1970s and 1980s, when the region's income was consistently above the nation's. Every county in the region, except Imperial, experienced a higher per capita income in 1999 compared to the previous year. Imperial County's 1999 per capita income was $17,550, compared to Orange County's $33,805, which was higher than the national average. Ventura County's income ($29,639) was also higher than the nation's. Personal income in the other counties was below the national average, $28,276 in Los Angeles, $23,271 in Riverside, and $20,949 in San Bernardino. (Final income data for 2000 were not available at the time this report was published.)

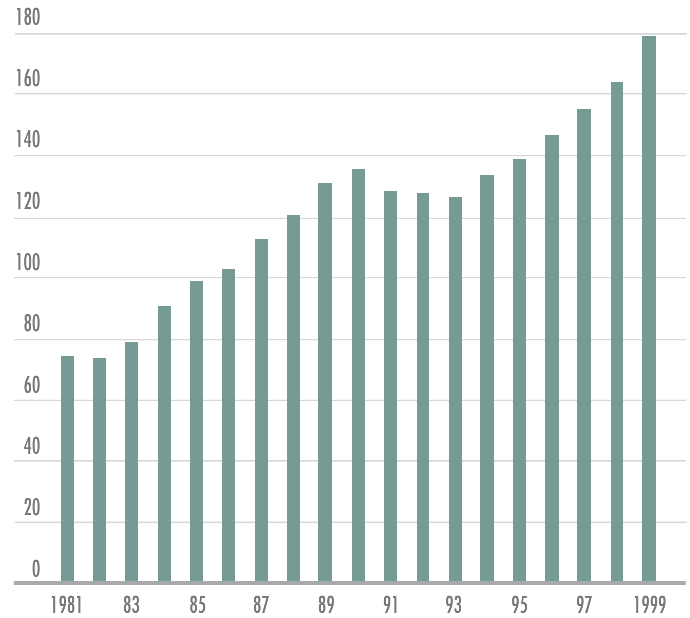
Taxable Sales

<< Changes in taxable sales are a measure of both changes in local government revenues and changes in the economic health of the consumer sector. >>

Figure 5

Taxable Sales – All Outlets

Current Dollars (Billions)

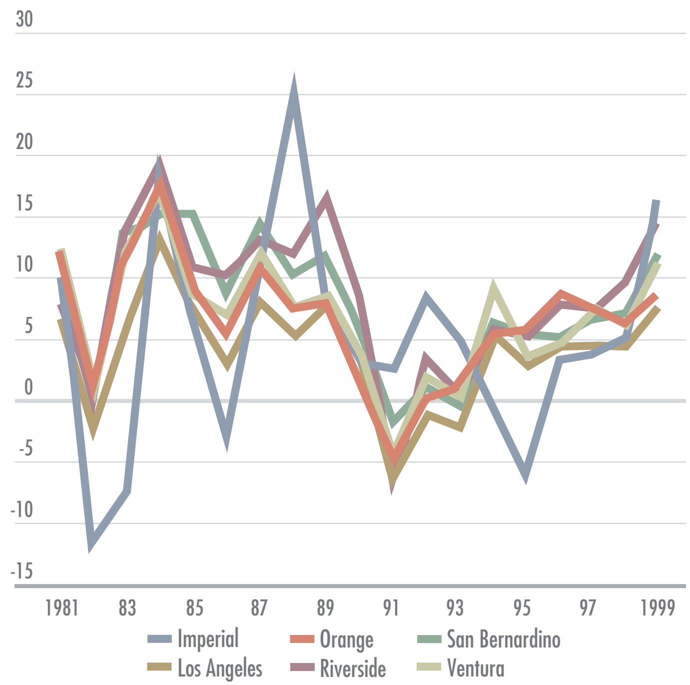


Source: California Board of Equalization

Figure 6

Taxable Sales

Percent Change from Previous Year



Source: California Board of Equalization

Taxable transactions in California in 1999 (the latest data available), totaled $395 billion, a 10 percent increase over 1998. Retail stores reported a total increase of 11 percent in sales. New car dealers reported a second year of robust sales growth with total transactions resulting in a 16.5 percent increase over 1998, while used car dealers experienced a 22 percent increase. There were strong sales in the construction industry, with building material stores reporting a 16 percent higher volume. Service stations' sales were also significantly higher in 1999, showing a 17 percent increase.

Taxable transactions in the region have increased steadily every year since 1992. There was a double-digit growth in taxable sales in 1999, compared to the previous year in four counties: Imperial (17 percent), Riverside (15 percent), San Bernardino (12 percent), and Ventura (12 percent). Los Angeles and Orange counties experienced an eight percent and nine percent growth respectively. Taxable sales are important revenue generators for local and state governments.

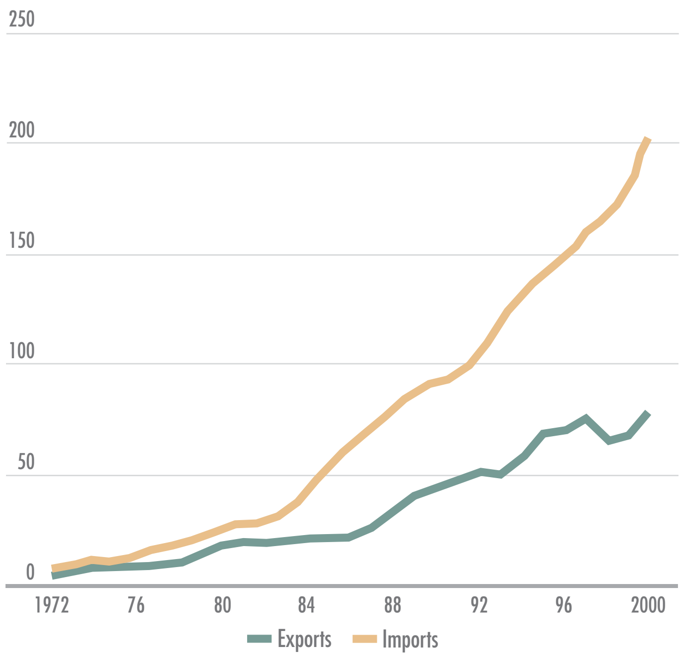
Trade

<< Both exports and imports generate jobs. Exports also generate income and are important indicators of global competitiveness. >>

Figure 7

Growth in Exports and Imports – LA Customs District

Current Dollars (Billions)

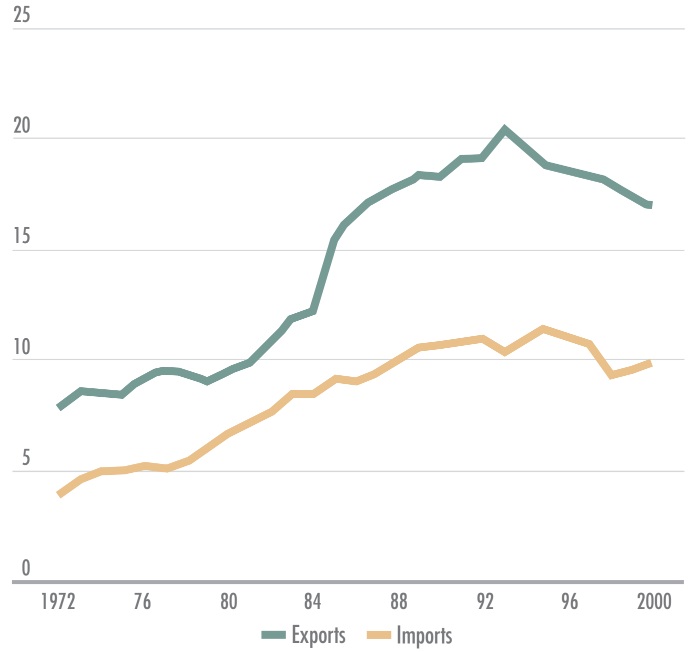


Source: US Bureau of the Census

Figure 8

Exports and Imports – LA Customs District

As Percent of US



Source: US Bureau of the Census

Exports through the Los Angeles Customs District increased by over 16 percent in 2000 from the previous year. Imports unloaded in the region also experienced a 16 percent increase in 2000, the largest growth since 1985.

Exports passing through the Los Angeles Customs District total almost 10 percent of all US exports, while imports account for 17 percent of the nation's total.

US exports had been weak because the strength of the US dollar made US made products more expensive abroad. Exports picked up in the latter half of 2000, thanks in large part to rebounding Asian economies. The total export growth in the nation was $780.4 billion in 2000, up 12.6 percent from the previous year.

California exports jumped to a record $129.7 billion in 2000, surging 21 percent above 1999. California's export growth strongly outpaced US export growth. In each quarter of 2000, the state set new historical quarterly records. California's 2000 exports represented 16.6 percent of total US exports, and California maintained its position as the largest exporting state, outstripping second place Texas by $17.3 billion. State exports have more than doubled from $63 billion in 1991. This growth has been led by increasing exports to Mexico, Asia, and Europe. Exports to Mexico, the state's top export market, grew by 28 percent for 2000 to total $19 billion, which sets a record for California's exports to a single country.

Japan continued to rank as California's second largest export market with exports rising 26 percent to total $17.3 billion. Other key Asian markets showing strong gains in 2000 were Korea (up 36 percent), China (up 44 percent), and Taiwan (up 24 percent). Canada remained the state's third largest export market, with exports increasing 13.8 percent in 2000 to total nearly $15.1 billion. California's exports to the Asian 10 (Japan, Korea, China, Taiwan, Hong Kong, Singapore, Thailand, Indonesia, the Philippines, and Malaysia) increased 27 percent in 2000 to total $55.2 billion, accounting for 42.6 percent of the total. This follows a comparatively weak six percent growth for all of 1999.

The increase in the state's exports in 2000 was driven by significant growth in the top three sectors, which account for nearly 88 percent of export growth ($19.5 billion) and 67 percent of the total California exports last year. Electronics and electrical equipment totaled $38 billion (up 22 percent), industrial machinery and computer equipment totaled $38 billion (up 36 percent), and instruments and related products totaled $12 billion (up 29 percent).

Table 7

Leading California Export Markets in Billions of US Dollars

Country	1999	2000	% Change
Mexico	14.916	19.030	28
Japan	13.753	17.270	26
Canada	13.236	15.062	14
South Korea	6.676	9.077	36
Taiwan	6.469	8.018	24
State Total	**107.449**	**129.721**	**21**

Source: California Technology, Trade and Commerce Agency

State imports in 2000 fell 1.4 percent in October and 1.1 percent in November, the biggest two-month drop on record, as a result of slowing business investment and a decline in demand for automobiles. Before October, imports had risen for 19 out of 21 months. Higher oil prices and growing consumer demand in the first half of 2000 resulted in a rise in imports and an increased trade deficit. As consumer spending slowed, the trade deficit narrowed.

Any slowdown in the U.S. economy is felt in countries around the world, particularly in those countries in the global network of suppliers that depend on American manufacturers of airplanes, automobiles, and other capital-intensive products most likely to be deferred in a tight economy. Canada and Mexico, as the biggest U.S. trade partners, are particularly vulnerable, with the auto industry in each country hit fast in a U.S. slowdown. A downturn in the U.S. economy also has a big impact on Japan, because 40 percent of its exports are to the U.S. Technology firms throughout Asia were beginning to feel the effects of a weaker U.S. economy, while other firms were bracing for an anticipated slowdown.