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## **Economy & Efficiency Commission Presentation**

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*Editorial Note: Although every effort has been made to insure the accuracy of the material in this presentation, the scope of the material covered and the discussions undertaken lends itself to the possibility of minor transcription misinterpretations.*

**PRESENTATION BY  
Christopher Thornberg  
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**Topic: Economic Forecast for Los Angeles Region**

**April 3, 2003**

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Chairman Philibosian introduced Christopher Thornberg and welcomed him to the Commission meeting. Dr. Thornberg opened his presentation with the observation that the economy of Los Angeles is not as bad as some would have us believe, as a means of defining where the Los Angeles Region is today. His thoughts during this presentation on the long run economic development in Los Angeles County would focus on economics and policy, historical perspective and potential future issues.

### **Employment Trends**

Dr. Thornberg explained that a new benchmark is established every 2 years to facilitate State Employment Development Department employment estimates. Just released figures reflect the difficulties of the San Francisco Bay area, 15% job loss in San Jose alone. Commissioner Lewis asked if the dot com bust was the reason. Dr. Thornberg agreed that was most definitely the reason. By contrast, Los Angeles experienced a 2% job loss, in part due to the dot com bust, but just as significantly the entertainment industry labor strife in mid 2001. The Los Angeles economy is driven by external, rather than internal demand and since the rest of the United States is the biggest client of Los Angeles, many of the economic problems are due to weak external demand - global exports are off, domestic passengers in LAX are down and hotel occupancy is reduced. Not surprisingly, as internal demands decline, so does office vacancy, investment, movie production and taxable sales. As these fundamentals stabilize, it is matter of the rest of US catching up, which contributes to a positive forecast. Commissioner Petak asked for a clarification of the state government job growth forecast in light of current fiscal conditions. Dr. Thornberg agreed that while some of the numbers should be revised downward, the category also includes jobs in education and the state has little control over the needs in education. Commissioner Lewis inquired if the job growth projected for the Sacramento region is attributable to government hiring. Dr. Thornberg responded that was true to some degree but the diversity and strength of the economies of the East Bay counties helped those figures. A base for new growth exists in areas that still have space available, most notably - Solano, Contra Costa, Riverside and San Bernardino counties.

## **Economics & Policy**

As an economist, Dr. Thornberg holds the view that just letting the market work is the best means of promoting economic development. Public policy should facilitate the market, protecting public interest and most importantly, choosing the right benchmark. When Commissioner Sylva asked for clarification of how public economic policy could facilitate the market, Dr. Thornberg replied that reducing bureaucracy, streamlining the rules and eliminating distortionary taxes would be a start.

Reflecting on year to year changes in employment, Dr. Thornberg pointed out that while Los Angeles County was adding jobs at 6% per year in the 1970's, the rate has now slowed to less 2% per year. This trend reflects the increase in the density of the area over the past 30 years and the transition from a suburban to an urban region. The Los Angeles Region will not be growing jobs at 4-6% annual rate and therefore the benchmark should be what kind of jobs, not overall job growth. Dr. Thornberg disputes the call for more industrial policy and manufacturing jobs. In the last 30 years, manufacturing in Los Angeles has dropped significantly just as it has across the United States. This is due to technology that enables fewer workers to meet production objectives and an increase in demand for services.

## **Future Problems**

### Housing

A survey taken this past December indicated that a majority of people view housing costs as California's #1 impediment when competing with other states for jobs. Dr. Thornberg noted that high housing costs are not a cause but an effect of high demand. Many people want to live here.

Commissioner Stitzenberger, with the Local Government Services Commission, asked if manufacturing is a driver of middle class wealth and if that wealth provides the ability to buy a house? As those jobs give way to a service economy are they replaced with comparable salaries or better? Dr. Thornberg responded that low pay is not so much a function of fewer manufacturing jobs as it is the influx of large numbers of unskilled immigrants from all over the world.

Property values are driven by rental rates, mortgage rates, depreciation and taxes. Dr. Thornberg found when charting the theoretical value versus the actual property value that they overlap indicating that - unlike the 1980's prices which were a bubble - home prices are up and legitimately so. Thus, high prices are here to stay. He noted there will be no more 20% per year appreciation, but neither will we see the 35% depreciation that occurred between 1989 and 1993.

The Los Angeles region has a crowded housing problem even though high density housing is available. Because Los Angeles is in the peculiar position of serving as the gateway for low skilled immigrants from around the world, conditions such as a high poverty level and low median income contribute to overcrowded housing. This situation has created a dual economy that is the hidden element - about 9% of the working poor don't get counted in employment numbers. This number far exceeds other major cities and represents an enormous problem for the region. Manufacturing jobs would not fix this predicament as these unskilled workers would not qualify for those jobs. Dr. Thornberg cautioned that a housing shortage is fast approaching and suggested possible remedies could be reducing regulatory barriers, infilling and revising local zoning laws. These remedies will present challenges of their own as communities try to balance development and resistance to development.

### Traffic

Commuting patterns are shifting as more people living in Los Angeles commute to Ventura or Riverside/San Bernardino for work. Dr. Thornberg does not consider traffic a serious threat to the development of Los Angeles County.

### Taxes

Excessive optimism, cyclical expenditures and failure to curtail state government hiring when the warning signs appeared are reasons for the current state budget crisis. Unlike the state, local counties curbed spending, but will suffer nonetheless as funding from the state is severely reduced. Dr. Thornberg acknowledged that lack of state funding poses quite a challenge for Los Angeles in the areas of education and other programs.

Dr. Thornberg concluded his presentation by reminding the Commission that context is king.

With the absence of the Chairman, Co-Chairman Lucente thanked Dr. Thornberg for his insightful analysis of the economy of Los Angeles County, stating that such information will prove valuable to the efforts of the Commission.

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