

Research Department
Federal Reserve
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San Francisco

August 29, 1980

City of the Angels

The year-long bicentennial celebration will begin, appropriately, with a program of Mexican music in Olvera Plaza next Thursday. The program will celebrate the arrival of 44 Mexican peasants (on September 4, 1781) at a planned community called "El Pueblo de Nuestra Senora la Reina de Los Angeles de Porciuncula"—L.A. to a more succinct modern generation. Those early settlers would be surprised to see what the pueblo has accomplished, in somewhat unplanned fashion, over the next two centuries.

In the interim, L.A. has been called many things—"Iowa with palm trees," "77 suburbs in search of a city," "the world's largest off-ramp," etc. In fact, several years ago Mayor Bradley felt the need to organize a committee—the Ad Hoc Subcommittee on Image Enhancement—to spruce up the city's image. But the committee need only have pointed out that L.A., among other things, is one of the world's great cities—indeed, the pattern setter for late 20th-century civilization.

Los Angeles today of course is more than the site of the original pueblo. Its market area covers the bulk of Southern California—excluding San Diego, which has experienced a different growth pattern—and that area of 36,700 square miles stretches from Palm Springs on the southeast to Santa Barbara on the northwest. The 11.4 million people in the area will receive about \$125 billion in personal income this year, or about six percent of the national total. That nation-sized economy—roughly the size of Australia—accounts for more than one-half of the California market and about one-third of the entire Western market. The area's inhabitants, moreover, boast a per capita income about 15 percent above the national average.

Causes—and results—of growth

Economic-development experts generally agree that a local area grows because it creates "export" sectors capable of attracting

income from other regions. (In other words, a region's inhabitants can't prosper simply by taking in each other's laundry—or in the L.A. context, by washing each other's cars or taking in each other's mortgages.) In its first century of existence, Los Angeles exported very little except a few cattle and hides. Over the past century, however, L.A. has prospered mightily by generating a series of major export industries. It has exported citrus and oil to other regions, and also has exported aerospace products to the Pentagon and foreign buyers. For most of its history, L.A. has exported climate—and rising real-estate values—to tourists and home buyers throughout the nation. And for several generations, its spiritual center (Hollywood) has exported its dreams all over the world.

Throughout a series of booms, and a few busts, Los Angeles has steadily increased its share of the national economy. In the past half-century alone, the area experienced more than a ten-fold increase in real personal income—from \$11 billion to \$125 billion—and raised its share of the national total from 3.1 percent in 1929 to 6.0 percent today.

Los Angeles recorded much stronger growth than the nation in the World War II and early postwar periods. Its share of total income was no higher in the early 1970's than in 1959, however, as a consequence of the post-Vietnam aerospace recession—but it then recorded another burst of growth in the expansion of the past several years. Yet even in the recent period of relatively slow growth L.A. managed in almost every year to outstrip the nation in terms of employment and other key measures (see chart).

Land boom

Throughout most of its first century, Los Angeles was nothing more than a sleepy Mexican town, with an economy which was based on cattle raising and which frequently used hides ("California dollars") for currency. But

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then came the first of the several land booms that have characterized Southern California history ever since. The boom started in 1885, when the Santa Fe came to town to contest rail supremacy with the Southern Pacific. The ensuing rate war sent transcontinental rail fares plummeting, with the New York-Los Angeles fare dropping to \$25—and with the fare from Kansas City falling to one dollar at the peak of the boom. (The 1980 airline rate war is an obvious parallel, with the New York-L.A. fare falling as low as \$99, then \$88, and even \$79 at one point.)

At the peak in 1887, the boom sent Los Angeles land prices soaring from \$100 an acre to \$1,500 an acre within several months' time. But then the boom collapsed, and many trainloads of people left just as quickly as they had come. Yet the next surge of growth started from a much higher level than before, as happened so frequently in later decades. Between 1870 and 1890, the city's population jumped from 6,000 to 50,000, and the stage was set for the next boom.

Industry boom

After a slump lasting several years, more residents began arriving in search of sunshine, and they eventually introduced a new industry requiring lots of natural sunshine—the movie industry. (According to industry tradition, many producers also benefitted from L.A.'s relative proximity to the Mexican border, because they could then evade the process servers who were trying to protect Thomas Edison's original patents.) Still, the industry has had many reverses as well as triumphs in later decades—typified by the

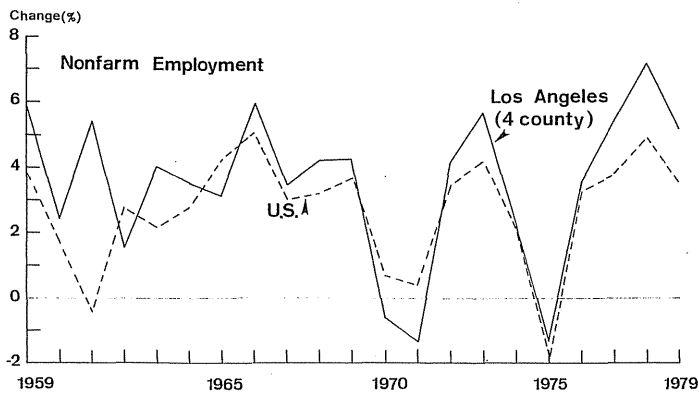
recent destruction of the old sound stages and their replacement by commercial real-estate developments.

Indeed, with the development of modern technology, movies today can be (and are) made everywhere, yet Hollywood has been able to transfer its technical skills to the newer television and recording industries. Today, in fact, it dominates those fields as much as it ever did the movie industry. Thus, more than 90 percent of the world's recorded entertainment is now produced within five miles of the intersection of Hollywood and Vine. Moreover, L.A. in recent decades has parlayed its outdoor living style and its Hollywood sophistication into a position of leadership in the manufacture of women's clothing, and now accounts for almost one-eighth of the national industry.

In earlier days, the area benefitted from its dominance of the citrus industry, achieved under the aggressive advertising and marketing of the California Fruit Growers Exchange. Then in the 1920's came the oil boom, which created a glut in the national market but contributed mightily to the development of Southern California's auto-based civilization. Today of course the region is an oil importer, although Southern California produced 934,000 barrels a day in 1979—down considerably from the 1968 record, but still 12 percent of the nation's total.

Aerospace—and infrastructure

Aerospace-electronics manufacturing, however, has been the dominant growth sector of the past half-century, the period of L.A.'s growth to world stature. (To repeat, personal income, in today's dollar terms, jumped from \$11 billion to about \$125 billion over this period.) By 1937, Southern California led the nation in aircraft production, and its position strengthened as defense dollars poured in during World War II. Despite the inevitable slump after that conflict—and the slumps after more recent wars—the region has continued to dominate all but the commercial-aircraft side of the business. California as a



whole accounts for roughly one-fourth of Pentagon contract awards, and about two-fifths of space-agency awards—and the Los Angeles area accounts for the lion's share of the state total. Altogether, this area now employs one-seventh of the nation's aerospace workers.

The region's resiliency has been tested in its several major aerospace recessions, such as when the industry lost three-fourths of its workers after World War II, and about one-fourth of its workers after the Vietnam War. Much of the slack was taken up by heavy infrastructure investment, involving immense engineering projects which helped make a major metropolis out of a very unlikely geographic location.

Early in the century, Los Angeles was a day's buggy ride away from the ocean and very inadequate port facilities; today, it boasts the nation's third-largest port, which handles about \$30 billion in import-export trade annually. Moreover, this semi-arid region has become the world's largest oasis (with more than 200,000 swimming pools) by reaching far afield for water—to the Owens Valley, then the Colorado, and more recently to Northern California's rivers. And just since World War II, the region has conquered its immense distances with that unique California product, the freeway system—a system which has led Angelenos to propose that the cloverleaf replace the California poppy as the state flower. Today, Los Angeles County alone boasts 480 miles of freeways, which pour about 650,000 vehicles into the central city every morning.

Problems—and solutions

How well will Los Angeles cope with its problems when it enters its third century of existence? Any civilization based on the internal-combustion engine seems to be asking for trouble, yet Angelenos already have begun to deal with that problem. Roughly half the cars they buy are fuel-efficient foreign models. Again, Los Angeles has belied its reputation for sprawl by raising its population density

while most other cities were lowering theirs, so that only New York now exceeds L.A. in terms of urban concentration. The process of concentration may be accelerated by today's office-building boom, which is adding the equivalent of eight Empire State Buildings to the L.A. skyline.

Water may turn out to be a greater long-term problem, despite the absence of any immediate shortages. In the mid-1980's, when Arizona begins taking its full allotment of Colorado River water, Southern California's allotment will drop from about 4.9 to 4.4 million acre-feet a year. This would force greater reliance on Northern California water, which some critics claim could cost a typical Los Angeles family about \$800 a year because of heavy pumping costs. In the longer term, many engineers argue for tapping the waters of the Columbia, or even the Yukon, to meet this area's growing thirst.

Los Angeles definitely will face serious problems in coming decades, but the area is uniquely situated to deal with them, because of its dominance of the high-technology and "knowledge" industries. The region's universities and think tanks, which produce inventions and innovations out of such inputs as human and electronic brains, claim a large share of the credit for L.A.'s recent growth record, and they remain capable of developing further successes in the future. Los Angeles boasts the largest concentration of Nobel prize winners of any area in the world, plus hundreds of thousands of scientists, engineers and other professionals. Surely one of them will come up with a better idea.

William Burke

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BANKING DATA—TWELFTH FEDERAL RESERVE DISTRICT
(Dollar amounts in millions)

Selected Assets and Liabilities	Amount Outstanding 8/13/80	Change from 8/6/80	Change from year ago	
			Dollar	Percent
Large Commercial Banks				
Loans (gross, adjusted) and investments*	138,122	185	7,235	5.5
Loans (gross, adjusted) — total#	116,480	245	8,507	7.9
Commercial and industrial	33,517	161	1,968	6.2
Real estate	47,087	162	7,348	18.5
Loans to individuals	23,550	8	741	3.2
Securities loans	985	- 138	- 769	- 43.8
U.S. Treasury securities*	6,242	13	- 1,345	- 17.7
Other securities*	15,400	- 73	73	0.5
Demand deposits — total#	43,833	- 576	450	1.0
Demand deposits — adjusted	31,834	- 339	440	1.4
Savings deposits — total	29,280	12	- 1,339	- 4.4
Time deposits — total#	62,214	382	10,387	20.0
Individuals, part. & corp.	54,039	377	10,611	24.4
(Large negotiable CD's)	22,932	312	4,412	23.8
Weekly Averages of Daily Figures	Week ended 8/13/80	Week ended 8/6/80	Comparable year-ago period	
Member Bank Reserve Position				
Excess Reserves (+)/Deficiency (-)	- 57	16		9
Borrowings	31	12		121
Net free reserves (+)/Net borrowed(-)	- 88	4		- 113

* Excludes trading account securities.

Includes items not shown separately.

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