

**HONORARY**  
**JOHN C. BOLLENS/JOHN C. RIES**  
**LECTURE COMMITTEE**

---

Dr. Joel Aberbach  
Jim Algie  
Phyllis Amboss  
Joel Bellman  
Arnie Berghoff  
Dr. Irving Bernstein  
Ross Bollens  
Virgene Bollens  
Councilman Marvin Braude  
Dr. Donald Chisholm  
Dr. Ross Clayton  
Dr. Winston Crouch  
Supervisor Edmund D. Edelman  
Dr. David Farrelly  
Jerry Givens  
Robert Geoghegan  
Dr. J.A.C. Grant  
Le Roy Graymer  
Dr. Ivan Hinderaker  
Dr. Marvin Hoffenberg  
Harry Hufford  
Assistant Vice Chancellor Carlotta Mellon  
Mel Mitchell  
John Pimentel  
Dr. David Rapoport  
Rita Ries  
James Ries  
Dr. Hans Rogger  
Dr. Ronald Rogowski  
Loren Rothschild  
Jeff Seymour  
Dr. David Wilson  
Councilman Zev Yaroslavsky

The  
John C. Bollens/John C. Ries  
Lecture Series

---

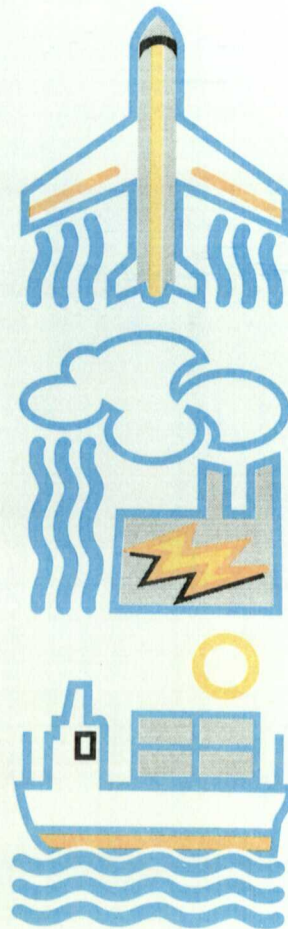
**BUILDING AND  
REBUILDING  
LOS ANGELES**

"How the City's Development  
Agencies Shape Regional  
Growth"

---

**STEVEN P. ERIE**

Department of Political Science,  
University of California  
San Diego



**THE  
JOHN C. BOLLENS/JOHN C. RIES  
LECTURE SERIES**



The aim of the John C. Bollens/John C. Ries Lecture Series is to bring together the worlds of academic exploration and practical politics so that the work of those who serve the public will be illuminated by discussion of the broader principles and ideas of representative government. Such a synthesis is true to the spirit of the lecture's namesakes, distinguished professors both in the Department of Political Science at UCLA.

Born in 1920 in Pittsburgh, Pennsylvania, John Bollens earned his doctorate at the University of Wisconsin before joining the UCLA faculty in 1950, becoming a full professor in 1960. A most productive and influential thinker on local government, he was the author of 26 books, including a profile of California governor and presidential candidate Jerry Brown, and served in numerous important appointive positions in the City and County of Los Angeles, as well as in Chicago and Seattle.

Born in 1930 in Marysville, California, John C. Ries earned his doctorate at UCLA as one of John Bollens' most promising students. Following a hitch in the Air Force, he joined UCLA's Political Science Department in 1965. Known as a caring and dedicated teacher both at the undergraduate and graduate levels, he rose to become an associate vice chancellor, while maintaining his commitment to quality teaching at the University. An author or co-author of four books and numerous scholarly articles on defense policy and public administration, his life was tragically cut short by a brain tumor at the age of 57.

A handwritten signature in cursive script, appearing to read "Edmund D. Edelman".

**Edmund D. Edelman**  
Supervisor  
Los Angeles County

A handwritten signature in cursive script, appearing to read "Marvin Braude".

**Marvin Braude**  
President Pro Tem  
Los Angeles City Council

A handwritten signature in cursive script, appearing to read "Donald Chisholm".

**Donald Chisholm**  
Assistant Professor, Department of Political Science  
University of California, Los Angeles

**Ninth Annual  
John C. Bollens/  
John C. Ries Lecture**

*STEVEN P. ERIE*

“Building and Rebuilding  
Los Angeles:

How the City’s Development  
Agencies Shape  
Regional Growth”

I am triply honored to be here tonight. UCLA is my one and only alma mater; here I received my bachelor’s, master’s and doctoral degrees and even spent time at the law school — the real third degree. The City of Angels has an especially important place in my life. I was born and raised here. While the vagaries of the academic job market have put me in San Diego, I commute to L.A. to conduct research in the nation’s most important urban laboratory. I also confess to being one of the few San Diego residents who feels real affection for so-called “dreaded L.A.” I deeply love Los Angeles — for what it has been and for what it can be.

Finally, and most importantly, I take real pleasure in being able to honor the memories of two of my favorite graduate school professors — Jack Bollens and Chuck Ries. Their intellectual legacy will be apparent tonight. From Jack Bollens I learned the intricacies of Los Angeles’ municipal government and, in particular, its byzantine 1925 charter. From Chuck Ries I learned to appreciate public administrators and their essential role as practicing politicians.

Tonight I honor the memories of Jack Bollens and Chuck Ries by discussing the vital — and I believe neglected — role that Los Angeles’ municipal bureaucracies have played in building the region’s economy. We will talk about their role

in shaping the city's future as well. Los Angeles' municipal agencies are crucial partners in rebuilding a riot-torn and recession-shattered city.

My story concerns the city's so-called crown jewels — its proprietary or revenue-producing Harbor, Water and Power, and Airports Departments. This is a particularly crucial time to discuss the past and future of the city's lead development agencies. The results of last week's mayoral primary are in. Candidates Richard Riordan and Michael Woo see our crown jewels — and the ways to rebuild Los Angeles — very differently.

Dick Riordan offers us what many believe is repackaged Reaganomics. He wants to lease Los Angeles International Airport to private operators to pay for 3,000 additional cops and reduce the city's budget deficit. Riordan believes that curbing crime can lead to economic revival. In contrast, Michael Woo offers a municipal version of Clintonomics. He wants to use federal funds for local infrastructure projects such as transportation to stimulate new industries. On June 8th we will do more than choose a new mayor. We will be deciding the question of who should manage our public infrastructure. And we will be debating whether — and how — our municipal infrastructure can rebuild an ailing economy. I hope that my remarks tonight will show you how consequential these decisions are.

Although I will focus my remarks on Los Angeles' proprietary departments, I do not mean to slight or minimize the other city departments, County agencies and special districts involved in the planning, infrastructure provision and economic development of the region. My hope is that an analysis of the vital economic contributions of these three agencies can stimulate further discussion of the role of other local public agencies in restarting the region's depressed economy.

I am here tonight to endorse the principle of continued public ownership and management of our harbor, water and power, and airport systems. These agencies were present at the creation. They played absolutely crucial — and underappreciated — roles in building modern-day Los Angeles. Today, they are engaged in reconstituting the Southland as a global trading center.

I believe that Los Angeles' crown jewels should be kept securely under public lock and key, safe from today's privatizers. These agencies have been, and will continue to be, enormous job generators. Under public rather than private management, they have followed a market-maximizing rather than profit-maximizing strategy of long-term growth and sustained revenue yield. Unlike private businesses, our public bureaucracies rarely have succumbed to the temptation of quick profit-making. With long-term investment horizons, and with markets taking precedence over profits, our city development agencies behave like Japanese, not American, corporations.

Today, our crown jewels are imperiled by Los Angeles' worst budget crisis since the 1930's, and by a laissez-faire philosophy that reduces local government to the "thin blue line" and that seeks to privatize the city's services. Raiding the special funds of the Harbor Department is no way to solve the city's general fund deficit. It didn't work in the 1930's, and it will backfire in the 1990's.

Surrendering control over our airport to pay for more cops is no way to build a healthy and growing economy. Los Angeles' Harbor and Airports Departments currently are at work making Southern California a global trading center linking the United States to the Pacific Rim and to Mexico. Liquidating our crown jewels — particularly at recessionary fire sale prices — is no way to rebuild Los Angeles at this crucial juncture in our history.

### **Improbable Los Angeles**

Somebody needs to tell the Clinton Administration that early Los Angeles is the true test case for the proposition that public investment in infrastructure matters. Modern-day Los Angeles would not have been possible without such Progressive-era public works projects as the man-made harbor at San Pedro-Wilmington (the world's largest artificial harbor), the Owens River Aqueduct (the era's largest and most expensive aqueduct system), and the Department of Water and Power's hydroelectric plants (the nation's largest municipal power system).

To appreciate fully the vital economic stimulus role of the city's crown jewels, let's turn the clock back to the late nineteenth century before Los



*Professor Steven P. Erie challenges a skeptical audience member during his lecture.*

Angeles had its proprietary departments and public infrastructure. Early Los Angeles was a most unlikely candidate for growth. From the vantage point of today's Greater Los Angeles — one of the world's megacities — the Southern California of 1880 is barely recognizable.

A sleepy Mexican pueblo with a thin Yankee veneer, early Los Angeles numbered barely 10,000 inhabitants. Its essentially rural economy still reeled from the collapse of the once-booming cattle industry that fed hungry gold and silver miners in Northern California and Nevada.

The city's national notoriety was suitable for the *Police Gazette*. Its murder rate was ten times higher than Dodge City, as Anglos clashed with native Californios in what amounted to intermittent racial warfare. L.A. also had the dubious distinction of being the site of the second greatest massacre of Chinese immigrants in the nation's history — 19 killed by a frenzied white mob in 1871. So much for intergroup harmony in early multiethnic Los Angeles.

The little pueblo possessed none of the strategic advantages thought conducive to rapid growth. Unlike New York, San Francisco or San Diego, Los Angeles had no natural harbor. Unlike Chicago and

St. Louis, its geographical location placed it thousands of miles from major markets. While possessing a wonderful year-round climate, the city had few other resources. In semi-arid Southern California, water was scarce. The Los Angeles River and nearby artesian wells could only support a population of 300,000. There was no readily available cheap energy supply. Early L.A. numbered but 28 square miles in size — one-half of rival San Francisco — and its boundaries lay a distant fifteen miles from the Pacific. Given these enormous disadvantages, this small semi-urban frontier town should have been consigned to the scrap heap of history.

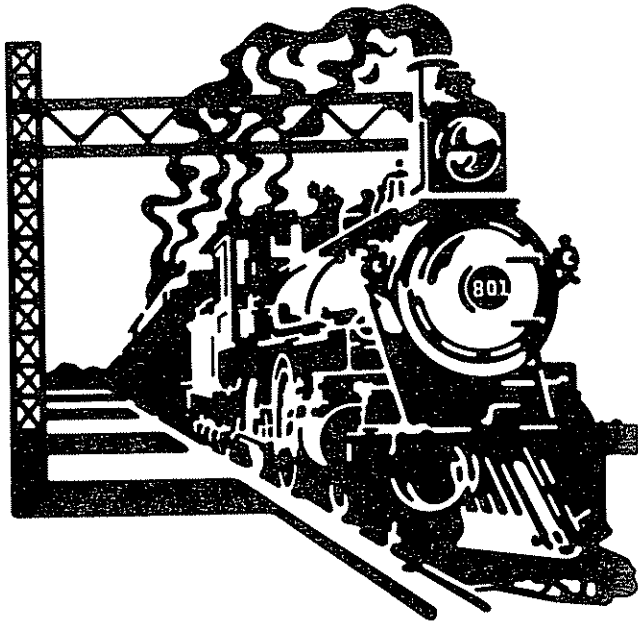
Yet grow it did, undergoing what historian Robert Fogelson has termed the most extraordinary urban expansion in American history. Since 1880 the City of Angels has taken three great economic leaps forward — in the late nineteenth century with the coming of the railroad and real estate development; in the early twentieth century with territorial expansion and the coming of industry and commerce; and during World War II as an "arsenal of democracy" producing much of the nation's military aircraft. Massive public investments in infrastructure were made in each of these three critical stages in the region's development.

In order to adequately evaluate the current fate and future prospects of the city's crown jewels, we need to carefully consider our past experience with public infrastructure investment and management. This is not an arcane history lesson. I delve into Los Angeles' history with a distinct purpose in mind — to deepen our understanding of the consequential choices we now face.

To place the watershed 1993 mayoral election in appropriate historical context, we need to review the region's early experiment with privatization, to evaluate the track record of our ambitious municipal infrastructure program, and to consider the fate of the city's crown jewels during the 1930's when last they were threatened by the forces of privatization and retrenchment. In the process we may discover that our past is prologue to our future.

### **Railroads and Real Estate**

Los Angeles' first economic leap forward occurred in the late nineteenth century. In 1876 Los



Angeles secured a vital railroad connection with San Francisco and the East. As the price for placing a trunk line through L.A., the Southern Pacific demanded a king's ransom — a voter-approved bond subsidy of \$602,000 equal to five percent of the County's assessed valuation. The Southern Pacific also demanded control of the local railroad linking the city to San Pedro Harbor. Believing that "Los Angeles must place herself on the world's highway," the County's voters approved the deal. As one local politician sheepishly admitted, "We had sometimes to do unpleasant things from necessity."

The 1876 railroad bond subsidy was Los Angeles' first large-scale public investment in its infrastructure. The financial sacrifice to the region's residents was far more substantial than it now appears. Six hundred thousand dollars sounds like peanuts today, but five percent of the County's assessed valuation was not small change. If today's voters were called upon to make a similar sacrifice, the price tag would be twenty-five billion dollars.

The Southern Pacific connection assured Los Angeles' dominance over regional competitors such as San Diego, San Bernardino and Ventura. In the mid-1880's, the completion of a competing transcontinental line — the Santa Fe — jumpstarted the local economy. Locked in a desperate fare war, the railroads lowered their first-class fare from

Kansas City to one dollar. In 1887 over 120,000 Midwesterners responded to the "Gold Rush by rail." The first great Southern California land boom had been launched.

Relevant to current policy choices, the late nineteenth century represented Los Angeles' great experiment with a privately-run infrastructure. The city quickly tasted the bitter fruits of private monopoly as the land boom collapsed in 1888. The Southern Pacific was a true economic behemoth, casting a long and ominous shadow over the region's economy. Save for the rival Santa Fe, the Octopus (as its critics called it) monopolized the Southland transportation network, controlling local railroad lines and access to the shallow-water harbor at San Pedro.

Based in San Francisco, the Southern Pacific treated Southern California as a colony. To give the Bay Area an economic advantage, the railroad saddled Los Angeles with high shipping rates and poor schedules. Similarly, local privately-owned water and power companies treated their customers as cash cows to be frequently milked with high prices and poor service.

The City of Angels thus learned the hard way about the limits of private enterprise. As monopolies with investor pressure to produce quick economic results, private infrastructure providers acted as short-term profit maximizers. In particular, they could not or would not make the expensive long-term capital investments — such as building the harbor breakwater or constructing the Owens River Aqueduct — that did not yield immediate economic payoff.

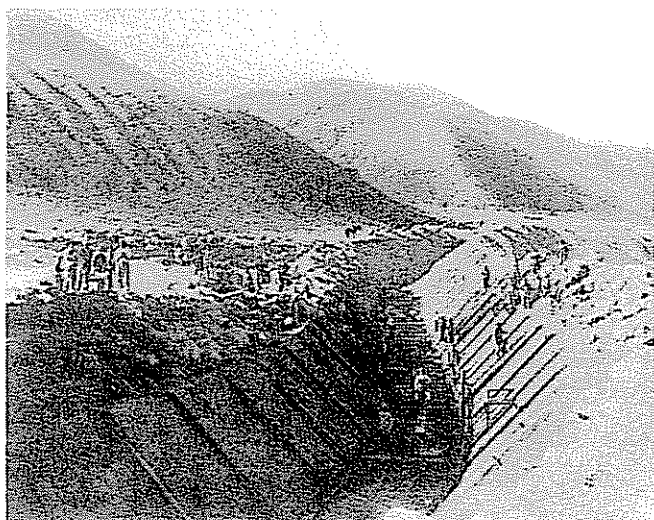
More ominously, the very municipal powers — franchises, contracts and licenses — which created private transportation and utility monopolies offered strong incentive for political corruption. To preserve their privileges, the railroads and utilities captured city government. Early Los Angeles' analogue to New York's corrupt Tammany Hall was the infamous Southern Pacific machine.

### **L.A.'s Crown Jewels: Territorial Expansion, Commerce and Industry**

Forsaking failed and corrupt private enterprise, Los Angeles chose to become the nation's first Keynesian city-state. From the Progressive era

onward, the city deliberately — and I believe wisely — emphasized a public/private partnership committed to a municipally-owned and managed infrastructure. The city's airport system represents the postwar capstone of the policy of municipal ownership. Dating from the turn of the century, the Harbor and Water and Power Departments are the true cornerstones of modern Los Angeles.

Massive municipal projects supplied the three essential pillars of early regional growth: the man-made harbor at San Pedro-Wilmington, the Owens River Aqueduct, and the DWP's hydroelectric plants generating the cheap energy needed to attract Eastern industry after World War I. The federal government actively assisted Los Angeles in building its public works projects.



*Construction workers break from their labors to pose for posterity during construction of the original Los Angeles Owens River Aqueduct, built between 1908 and 1913 to carry water from the Owens River and eastern Sierra Nevada snowpack 233 miles south to sustain a thirsty Los Angeles.*

Public enterprise underwrote the city's phenomenal early twentieth century territorial expansion, population growth and industrialization. For local historian Kevin Starr, the L.A. story is one of relentless water imperialism. In *Material Dreams*, his account of Southern California's development through the 1920's, Starr tells the familiar "Chinatown" tale of ruthless municipal *realpolitik*

as Los Angeles secretly bought up the water rights in the distant Owens River Valley, publicly financed and built the world's largest aqueduct, and used its surplus water as an irresistible force for territorial expansion. By 1930 Los Angeles — at 442 square miles — was nearly ten times the size of rival San Francisco, allowing the city to capture a significant share of the region's growth.

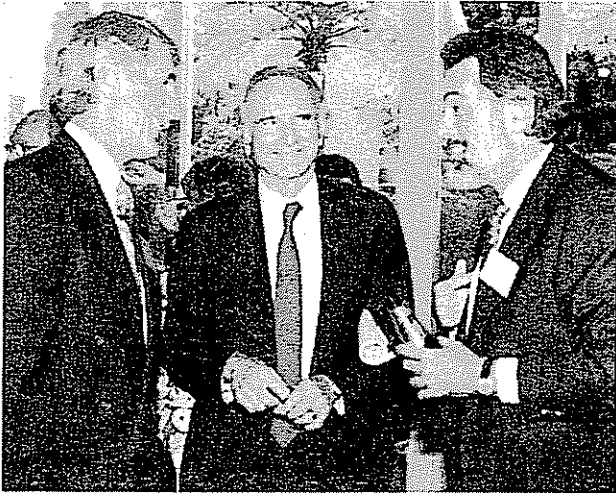
Turning from water to the harbor, the story of the development of the Port of Los Angeles is particularly intriguing because it started out as San Diego North. The newly-formed Harbor Commission assiduously courted the Navy to fill its empty wharves and publicize the infant port. By the early 1920's, however, the port commissioners started eviction proceedings against the Navy. The board believed in the doctrine of highest use. Maritime shipping and international trade would yield far more benefits to Los Angeles than merely being a Navy town. Echoing the sentiments of the harbor board that the Navy should relocate elsewhere, the president of L.A.'s powerful Chamber of Commerce candidly remarked, "Oh, San Diego. Let them have something."

Sending much of the fleet on its merry way, Los Angeles quickly became a world-class commercial port. By 1932 the Port of Los Angeles was first on the Pacific Coast and third nationwide in total tonnage. In a few short years, Los Angeles had become the shipping and wholesale center for the Southwest.

As for Los Angeles' rapid industrialization in the 1920's, I disagree with Joan Didion's provocative account of how modern Los Angeles was the invention of the *Los Angeles Times* and its owners, the "Two Harrys" — founder Harrison Gray Otis and his cherubic successor Harry Chandler (who, like Horatio Alger, married the boss' daughter). Didion tells the story of Harry Chandler's friendship with tire baron Harvey Firestone as being the primary reason that Eastern branch plants came to Los Angeles. For Didion, Chandler's personal bankrolling of Donald Douglas brought the fledgling aircraft industry to Southern California.

I would advise Jack Nicholson of "Chinatown" and "The Two Jakes" fame to hold off on buying the option rights to Didion's screenplay about "The

Two Harrys." The real story of the region's industrialization in the 1920's is far more complex than Didion's simplistic portrayal.



*Supervisor Ed Edelman (center) shares a joke at the post-lecture reception with his longtime Chief Deputy Bob Geoghegan (left) and 1993 Bollens/Ries lecturer Steven P. Erie.*

Los Angeles' bureaucrats equally deserve nominations for the best actor award in the region's industrialization drama. In particular, the DWP's unsung Chief Electrical Engineer Ezra Scattergood tirelessly (all puns intended) lobbied Detroit automobile manufacturers and Akron tire firms to set up branch plants in the Southland. Scattergood's primary drawing cards were cheap public water and power. Los Angeles' electrical power rates — the lowest of any major city in the nation — acted as a strong magnet for Eastern industry.

Urban historian Roger Lotchin tells a similar story of business-friendly bureaucrats in his study of Los Angeles' early love affair with the airplane. For Lotchin, L.A.'s low-cost public infrastructure coupled with its year-round sunshine played key roles in luring the fledgling aircraft industry. Between 1908 and 1938, fully 60 percent of the nation's civilian aircraft manufacturers located in Southern California.

Thus the city's crown jewels played central, not merely supporting, roles in Los Angeles' second invention as a West Coast Chicago — a commercial

and industrial empire. The city's Harbor and Water and Power Departments both shaped and accelerated the region's economic development by setting low dock, water and power rates, and by actively lobbying Eastern businesses. As then-L.A. Mayor George Cryer accurately observed, these "magic agencies" chiefly were responsible for the city's phenomenal early twentieth-century growth. Los Angeles' huge public infrastructure investments were complementary inputs — and preconditions — to the region's private development.

L.A.'s municipal ownership movement yields valuable political as well as economic lessons for today. The city's bureaucrats did not do it alone. To realize their ambitious plans, they fruitfully collaborated with the city's elected officials, its business community and its voters. Early mayors like George Cryer led the fight for the DWP's water and power projects. Business organizations like the Chamber of Commerce provided effective leadership both in the campaigns for a municipally-owned harbor and for the Owens River Aqueduct.

The high point of early public/private collaboration was achieved during the 1920's with the creation of the Harbor Trunk Line Railroad, jointly owned by the Harbor Department and its old railroad antagonists, including the Southern Pacific. The Harbor's partnership strategy extended to management as it leased city piers to private shipping lines while reserving the right of public oversight. The overall ownership and management of the harbor, however, remained firmly in public hands.

Los Angeles' voters also were important partners in building our municipal infrastructure. Before the New Deal, cities financed their infrastructure projects with voter-approved general obligation bonds rather than with revenue bonds. Despite California's high municipal bond ceiling — 15 percent of assessed valuation, double the national average — voter approval of local bonds can be difficult to obtain. To prevent excessive debt, California long has required an extraordinary majority — two-thirds voter approval — to pass local bonds.

The Harbor and Water and Power Departments transformed themselves into powerful ballot-box



machines in order to secure the public support needed to finance their public works projects. Between 1905 and 1932, Los Angeles' voters overwhelmingly approved \$4 billion (constant) dollars' worth of harbor, water and power bonds. Our early crown jewels truly were owned and managed by and for the people of Los Angeles.

### **From Depression to World War: Forging the Arsenal of Democracy**

Public infrastructure also played a major role in Los Angeles' third invention as an arsenal of democracy during World War II. Detroit built tanks; Los Angeles and Long Beach built airplanes and ships. Most of Los Angeles' 6,000 factories were converted to war production. With the coming of the Cold War, L.A.'s manufacturing base remained committed to defense. By the early 1950's, defense and aerospace accounted for fully 60 percent of Southern California's manufacturing employment.

Ironically, our wartime arsenal of democracy — the very foundation of much of the region's postwar prosperity — almost was not meant to be. During the Great Depression, Los Angeles suffered a near-failure of public nerve. Eerily reminiscent of today's economic crisis, the 1930's produced a series of proposals to dismantle the crown jewels as a remedy for the city's fiscal woes.

Note the contemporary ring — and familiar sources — of these Depression-era proposals. Prominent leaders of the business community wanted to sell off or lease the city's infrastructure.



Leading politicians wanted to borrow from the DWP's special fund to reduce the city's massive general fund shortfall. In the end, Los Angeles was not stripped of its valuable public infrastructure to meet the immediate fiscal situation. The proprietary departments and their supporters narrowly beat back the forces of privatization and retrenchment. The apocalyptic "Day of the Locust" future for Depression-era Los Angeles never materialized.

In the late 1920's and early 1930's, the Southland added to its stock of crown jewels with the creation of the mammoth Metropolitan Water District — a special district serving as a regional wholesaler for Colorado River water — and with the building of a municipal airport. These new agencies would play vital roles in stimulating the Southern California economy both in wartime and in peace. Their stories briefly need to be told.

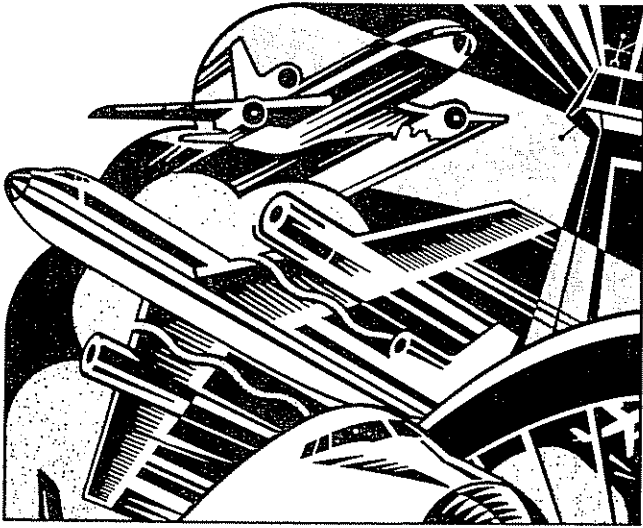
Were it not for Los Angeles' Department of Water and Power, there would be no Hoover Dam or Metropolitan Water District. DWP bureaucrats such as William Mulholland and Ezra Scattergood played central roles in lobbying for congressional passage of the Boulder Canyon Project Act. The massive federal water project, culminating in the building of Hoover Dam, permitted Southern California to grow beyond two million.

Los Angeles turned to the device of the special district to transport Colorado River water. Because of the enormous expense of aqueduct building, the city formed a water-sharing and financing alliance with its suburbs. This regional coalition created the Metropolitan Water District. Initially capitalized at \$2 billion (constant) dollars, the MWD in the 1930's built a massive aqueduct and water storage system for the Southland.

The Hoover Dam project also produced a new source of hydroelectric power. City bureaucrats such as Ezra Scattergood played masterful political roles in the early 1930's in lobbying the federal government for the Reconstruction Finance Corporation loans needed to build power lines to the city. Southern California could not have served as a wartime arsenal of democracy, let alone later as an aerospace center, without Colorado River water and power.

The era also witnessed the creation of L.A.'s third crown jewel — the Airports Department. Before there was LAX, there was Mines Field. Mines Field started life in 1930 as a municipally-leased runway. During the Depression, federal WPA grants — needed to extend the runway and build hangars — forced cash-poor Los Angeles to purchase the land for a municipal airport as a condition for receiving federal help. Currently the airport is the city's largest single asset with \$2 billion in property — thanks initially to Uncle Sam.

Used for military purposes during World War II, the city's airport played a catalytic role in building the region's aerospace industry. After the postwar shift to commercial use, LAX adopted a policy of



low landing fees — a controversial issue today as operating agreements with the airlines are being renegotiated. Airline-friendly agreements have acted as another magnet for regional growth.

The city's Harbor and Water and Power Departments also performed yeoman service during World War II. Los Angeles and Long Beach successfully lobbied the federal government to designate our twin harbors as a port of embarkation to the Pacific theater, and as a major shipbuilding center and supply depot. Not to be outdone, the DWP added a new power plant in the Owens River Gorge specifically designed to supply cheap and abundant energy to the city's growing defense industries.

## Our Future as a Global Trade Center

The magic of the unfettered and unaided market did not build this city. Modern-day Los Angeles would not have been possible without massive public investments in needed infrastructure. Today, however, the pillars of our once-vibrant local economy are crumbling. The region's real estate market has been particularly hard-hit by the recession. The last of the famed automobile and tire branch plants has been closed.

The Southland's defense industries have been decimated by federal budget cutbacks. With the ending of the Cold War, Southern California has lost 126,000 defense-related jobs and the region is expected to lose another 28,000 such jobs this year. The county's unemployment rate — at 10.4 percent — is 50 percent higher than the national average. As Stephen Cohen has observed, "L.A. is the hole in the (national) bucket." Twenty-seven percent of the total U.S. job loss from mid-1990 to the end of 1992 took place in one town — the Los Angeles metropolitan area.

In the context of the deepest and most long-lasting downturn in the region's economy since the Great Depression, the 1992 riots erupted — the nation's worst urban disorder in the twentieth century. Property damage from the three days of rage approached \$1 billion and upwards of 10,000 jobs were lost.

We now are faced with the daunting task of economically reinventing Los Angeles for the fourth time after the twin disasters of recession and riot. Once again our municipal development agencies have come to the rescue. The city's Harbor and Airports Departments have made global trade with the Pacific Rim, Mexico and Latin America the locomotive for regional revitalization. With expanding international trade has come foreign investment in the region, accelerating Los Angeles' transformation into a major financial center.

The importance of global trade to the Southland economy and to its future cannot be overstated. If Southern California were a separate nation, its gross product of \$360 billion would make it the eleventh largest economy in the world. Today, an estimated 25 percent of our regional gross product

depends upon international commerce — double the national average. By 1996, it is estimated that one in six jobs in Greater Los Angeles will depend upon global trade, up from one in ten in 1990.



Our municipal harbor and airport systems are the major engines revitalizing and internationalizing the region's stalled economy. Worldport LA — as the port now calls itself — handled \$55 billion in foreign trade in 1991. Over the past ten years we have become a leading gateway to the Pacific Rim. Today, trade with Japan, South Korea, Taiwan and Indonesia accounts for one-half of our total import and export tonnage. Propelled by this trading surge, Los Angeles has replaced New York as the nation's pre-eminent port. Riding the same Pacific Rim crest, the Port of Long Beach has become the nation's third busiest harbor.

As a result, the harbor has become an enormous generator of employment and job-related revenue in the Southland. An estimated 203,000 jobs and 20,000 businesses — from manufacturing and assembly plants to wholesalers, distributors and retailers — depend directly or indirectly upon the harbor for the shipment of raw materials and finished products.

The sphere of influence of the Port of Los Angeles extends far beyond the boundaries of Southern California. Cities throughout California, Arizona and Mexico are served overnight from the harbor. With three connecting national railroad

lines, the harbor is directly linked to Sunbelt, Midwest and East Coast markets.

Los Angeles' regional airport system — consisting of Los Angeles and Ontario International airports, Palmdale Regional Airport and Van Nuys Airport — represents the city's second global gateway. LAX is the world's third busiest passenger airport and the nation's second busiest air cargo facility. Serving 46 million passengers and handling more than 1.2 million tons of air cargo annually, LAX is a vital link to the international economy.

LAX serves as the primary West Coast gateway for air cargo trade with the Pacific Rim. In 1990, Asian countries accounted for 56 percent of LAX's \$34 billion in import/export traffic. Our global reach by air extends well beyond the Pacific Rim. More than 90 airlines with 800 cargo flights daily link Los Angeles with destinations throughout the world. The shipment of goods worldwide generates local jobs, and attracts foreign investment, further stimulating the region's economy.

The Los Angeles airport system serves as a significant generator of regional employment and economic activity. The international, national and local users of our airports — cargo shippers and passengers — generate employment for 400,000 Southern Californians. Measured in terms of economic activity, LAX has an estimated annual impact of \$37 billion on the Southland economy.

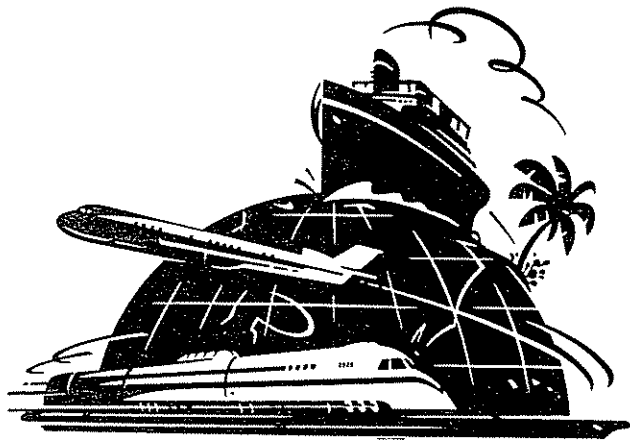
International trade is one of few bright spots in the Southland — and, indeed, entire California — economy. Last month, the president of the Federal Reserve Board's western regional bank painted a particularly bleak picture of the state's economy, holding out little hope for a quick turnaround. The only positive factor was California's sizable and growing foreign trade. In 1992 the state's total import and export traffic climbed to \$193 billion, up a robust 10 percent over 1991.

Despite the sluggish Japanese economy, the 1990's promise further regional growth in Pacific Rim trade — particularly in the export sector vital to Southland manufacturers. The Clinton Administration has put strong trade "rebalancing" pressure on Japan — the world's second largest economy — to open its domestic markets to American exports and investment.

While Japan served as Southern California's chief trading and investment partner in the 1980's, the 1990's are becoming the decade of the so-called Chinese "seven dragons." Taiwan, for example, has developed strong commercial and financial ties with Southern California. The largest — and more promising — of the dragons is mainland China. Since 1990, U.S. exports to China through the L.A. customs district have risen 125 percent — to \$1.6 billion. China — with one-fifth of the world's population, a more market-oriented economy, and \$50 billion in foreign currency reserves — has the potential to rival Japan as Southern California's major Pacific Rim trading partner.

In terms of global trade, we must look to Mexico and Latin America as well as to Asia. The pending North American Free Trade Agreement with Mexico may be a regional bonanza rather than disaster. Many fear that Mexico's low wages and relaxed environmental regulations are irresistible lures to Southland manufacturers to relocate south of the border. Local businesses, however, have to consider the high costs of moving coupled with Mexico's inadequate infrastructure. Tijuana's Achilles Heel, for example, is its lack of water.

NAFTA can bring real economic gain to the Southland. The trade agreement promises to open the growing Mexican market to U.S. suppliers. Los Angeles' excellent infrastructure — particularly its



harbor, railroad lines and highways — makes us a potential port-of-entry linking Northern Mexico to international markets. While the Mexican government has plans to develop a major container port at Ensenada and to build a railroad line connecting

Tijuana and Ensenada, little has been accomplished on these projects.

With its well-developed infrastructure, Los Angeles already has beaten rival San Diego for the all-important NAFTA trade routes to Mexico. In February, Caltrans announced that the major highway and rail lines connecting Mexico's market of 85 million with California and the Western United States and Canada would cross the border at Calexico/Mexicali, extend north through Imperial County and veer west at Indio into — you guessed it — Los Angeles.

To further Los Angeles' global ambitions as the trade center linking the Pacific Rim, Mexico and Latin America to the domestic market, the city's crown jewels have prepared far-reaching blueprints for infrastructure expansion. The Port of Los Angeles has unveiled its ambitious 2020 program. This \$2 billion 30-year plan of outer harbor dredging, landfill and facilities construction is designed to increase the port's shipping capacity and offer state-of-the-art containerization facilities.

The port's 2020 program also promises to create the world's largest integrated marine/highway/rail transportation hub. As part of the 2020 plan, the Alameda Corridor transportation project will facilitate the movement of cargo directly from the harbor to the downtown rail heads along a separated-grade truck and rail corridor. The Clinton administration is being lobbied to provide \$1.5 billion in federal infrastructure funding for this important project.

The city's airport system also has prepared for our international future. The first phase was completed in time for the 1984 Olympics. At a cost of \$750 million, an international terminal was built as LAX and the entire facility was double-decked. During the 1980's, the Department of Airports developed a second major LAX cargo handling complex to handle increased international trade.

Ontario International Airport — with 5.5 million passengers and nearly 300,000 tons of airfreight — is becoming another international gateway to the region. Last month the city's Airport Commissioners approved plans for a 700,000-square-foot terminal at Ontario to be opened to international arrivals from Mexico.

## The Crisis of the Crown Jewels

For the city's crown jewels, these are both the best of times and the worst of times. Economically, they never have been more successful or more needed to revitalize a slumping economy. Never have the economic benefits of harbor and airport investment and expansion been more evident. Equipped with long-range capital development plans and possessing the willingness and capability to make large-scale investments, the city's proprietary departments are trying to assure us a brightened future in the highly competitive, twenty-first century global marketplace.

At the same time, the city's crown jewels never have faced greater political threat both to their public mission and very existence. They have been placed in double jeopardy by the forces of fiscal retrenchment and privatization. The first threat involves raids by the city's elected officials on the special revenue funds of the proprietary departments to reduce the city's burgeoning general fund deficit. Resorting to what Councilman Zev Yaroslavsky has termed "deficit spending," our politicians are trying to dip into the ample cash reserves of the revenue-producing departments in order to cover the losses resulting from declining city revenues while maintaining essential police and fire services.

The City Council initiated this raiding strategy and first tried it on the Department of Airports. Foiled by federal grant requirements that all revenues generated by the airport must be used for airport purposes, the city's cash-strapped politicians now have turned to the Harbor Department's ample financial reserves.

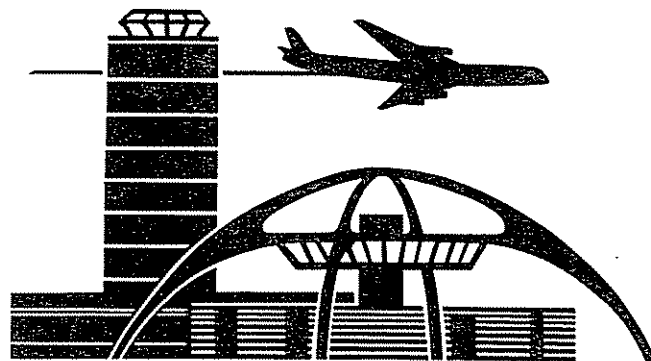
Here the raiding party may be more successful. Recent state revenue-sharing legislation allows the city — at least until 1995 — to transfer a portion of the port's cash reserves into the municipal budget. Earlier this month Mayor Tom Bradley — long an ardent champion of the crown jewels — reluctantly proposed taking \$37.3 million from the Harbor Department's reserve fund to help close a \$190 million budget shortfall. This summer the city's budget deficit could balloon to nearly \$500 million — one-quarter of the city's entire general fund — if

the state as planned eliminates its post-Proposition 13 financial assistance to the cities.

There are potentially ominous long-term economic consequences if the city decides to tap into port funds. The harbor's discretionary reserves are used for expansion and improvement of dockside facilities, making our port one of the best equipped and most competitive in the world.

If the proposed cash transfer becomes more than one-time money — that is, if cash-starved cities succeed in extending the state revenue-sharing legislation — the harbor will face both a depleted revenue fund and likely higher financing costs. The port will find it increasingly difficult to manage any type of long-term capital development plan — such as the 2020 program — that will keep us competitive with rival West Coast ports such as Seattle and Tacoma.

The second, and more serious, threat to our crown jewels is posed by privatization. Mayoral candidate Richard Riordan has proposed leasing LAX to private operators in order to pay for 3,000



additional police and reduce the city treasury's shortfall. However, as a recent study has shown, the LAX leasing plan may yield only a fraction of the projected \$130 million in annual municipal income that is the financial foundation of Riordan's crime-fighting proposal.

Proposals from the business community now are being floated to privatize another of our crown jewels — the Department of Water and Power, the very temple of our New Jerusalem. A public offering of DWP stock to investors, it is argued, could bring in \$2 billion to our cash-strapped city. Suitably invested, the DWP stock sale proceeds might earn Los Angeles an estimated \$130 million a year.

Privatization — by lease or sale — of the city's crown jewels is a dangerous idea whose time has not come. These proposals blend the worst features of the economic nostrums of the 1930's and 1980's. As was the case in the Depression era, privatization of our infrastructure is a quick-fix remedy to an ailing municipal budget which imperils the region's long-term economic prospects.

As was the case in the Reagan years, today's privatization schemes resemble hostile corporate takeovers. The difference between the 1980's and the 1990's is that today's hostile takeovers are being conducted on public agencies, not on private companies. Los Angeles' crown jewels are "in play" because they are undervalued "cash cows."

It is ironic that Los Angeles' most successful and business-friendly departments — the very agencies increasing our competitive edge as we slip in other sectors — are the ones most ripe for private takeover. Today's privatizers are no fools. They know they can reap handsome profits from the years of prudent management of our public investment portfolios.

Nor are our West Coast rivals fools. Rather than privatizing their infrastructure, they are dramatically increasing their public investments. San Francisco, for example, recently approved a \$2.4 billion airport revenue bond issue that supporters say will make their city the leading gateway to the Pacific. Under the plan, San Francisco International Airport will have a \$600 million international terminal with the capacity to handle three times as many flights as it does now.

Los Angeles also faces growing competition from rival ports. The Ports of Seattle, Tacoma, Portland and Vancouver are not being forced to bail out their city governments. Each is making major investments in their capital facilities and transportation systems in order to capture a greater share of West Coast container traffic.

There is a place for privatization in the City of Los Angeles — in routine housekeeping services, not in infrastructure. Dick Riordan's proposal to privatize trash collection has merit. It makes sense to hire a maid to clean your house. But does it

make equal sense to hand over the first-trust deed to the hired help?

The managers of Los Angeles' proprietary departments share the blame for their current difficulties. In the waning days of the Bradley administration, harbor and airport officials planned elaborate eleventh-hour foreign travel junkets and allegedly awarded contracts to their cronies. The resulting public backlash has not helped their cause.

At this critical juncture in our history, Los Angeles cannot afford to be the great experiment in milking our public cash cows and privatizing our infrastructure. Let us not betray our past or sabotage our future. Los Angeles' crown jewels played vital roles in building this great region. Today, they are among the chief engines of regional revitalization. Depending upon the outcome of the fateful choices Los Angeles is about to make, our West Coast rivals are poised vulture-like to capture the enormous flows of international trade and commerce that now pass through our public harbor and airport systems.

I will conclude my remarks this evening about the vital importance of Los Angeles' crown jewels where I began — with the legacy of Jack Bollens and Chuck Ries. Both inside and outside the classroom, Jack Bollens and Chuck Ries imparted wisdom and understanding about how Los Angeles' municipal government worked and about how it could be improved.



*Supervisor Ed Edelman (second from left) joins speaker Steven P. Erie (center) for a group portrait with old friends (from the left) Virgene Bollens, Rita Ries, and County Chief Administrative Officer Harry Hufford.*

Jack Bollens taught important things about the city's 1925 charter. Two of his valuable lessons stand out regarding the quasi-independent status of the city's proprietary departments. First, Los Angeles' crown jewels were given special protection to prevent a hostile takeover of the controversial public power program by the powerful forces for privatization.

Second, the charter protected the city's long-term investment accounts from periodic raids by the city's politicians. Compared to career civil servants, elected officials face short career horizons — four-year terms and now a two-term limit. As a result, office-seekers favor current expenditures popular with voters, such as more police, over long-term investments with little immediate political payoff, such as airport improvements. Jack Bollens' lessons regarding the charter and crown jewels should be kept in mind as we approach the June 8th mayoral election.

Chuck Ries taught that public administrators need to view public service as a calling, not merely as a career. The charismatic Progressive-era bureaucrats who helped build Greater Los Angeles — the DWP's Mulholland and Scattergood, the port's Clarence Matson — were imbued with a calling for public service. Above all, these founding fathers were civic educators. They tirelessly taught the residents of Los Angeles about the great public mission and benefits of their respective departments.

Unfortunately, many career-oriented bureaucrats have forgotten what the founders knew and practiced — that their primary duty was to educate and serve the public. Today's bureaucrats are paying a heavy political price for the abdication of responsibility for civic education.

Los Angeles became a great city because its reach always exceeded its grasp. Today, however, we face the greatest disparity ever between our reach and our grasp. Never has our economic reach been more global. Never has our political grasp been more local. This mayoral campaign should be a referendum about our vital job-creating infrastructure. Only then will we fully grasp how to achieve Greater Los Angeles' true global reach.

## SPECIAL ACKNOWLEDGMENTS

Presentation of the John C. Bollens/John C. Ries Lecture Series has been made possible through the cooperation and support of many individuals. Special recognition and gratitude is due the group of Founding Patrons listed below, whose generous contributions have helped to establish an endowment ensuring the permanent continuation of the Lecture Series:

AECOM Technology Corporation

Alma Fitch, President  
Fitch/Davis Associates

The Gas Company

GTE California

Pacific Bell

Parsons, Brinckerhoff, Quade & Douglas

The Southern California Edison Company

---

The Ninth Annual  
John C. Bollens/John C. Ries Lecture  
was presented April 28, 1993 at Faculty Center,  
UCLA

---