

I Executive Summary

The downturn in Department of Defense related industry combined with globalization and economic restructuring have thrust the San Diego region into a period of dramatic economic change. Since the early 1990's regional economic planning agencies have been looking for answers to rebuild the middle-income occupations and drive sustainable economic growth. This report studies the main strategy that has been put forth to assist in the region's economic recovery – the targeting of regional employment clusters.

In 1994, the idea of “clusters” was introduced locally as an effort to aid in the economic recovery of the San Diego region. Clusters are groups of complementary, competing, and interdependent industries that drive wealth creation in a region, primarily through the export of goods and services.

In 1998, the San Diego Association of Governments (SANDAG) identified 16 industry clusters as the “engines” of the local economy. These clusters became the primary focus of regional economic development activity because of their potential impact on the region's standard of living.¹ SANDAG states that “Without healthy clusters, the rest of our region's economy – retail, services and government – cannot prosper.”²

Utilizing the clusters identified by SANDAG, the City of San Diego and the San Diego Economic Development Corporation (SDEDC) “targeted” nine clusters as “economic drivers” for our region, which are to receive public support for growth. These targeted industries, which import dollars into the local economy by exporting goods and services, are then able to support other, non-targeted industries. Additionally, providing public support for targeted clusters should result in an increase in per capita average income through higher average wages going to an increasingly educated workforce.

¹ SANDAG/SourcePoint, *INFO, San Diego Regional Employment Clusters: Engines of the Modern Economy*, May-June 1998, pg. 5.

² *Ibid.* pg. 9.

A regional economic development strategy that does not consider 82 percent of all workers is limited at best.

While we agree that the targeting of industrial clusters is an important element of a successful economic development strategy, this report shows that focusing on these clusters alone is not adequate. Our findings indicate that the targeted industry clusters do indeed provide jobs that pay on average higher wages, require higher levels of educational attainment and provide health insurance at higher rates than non-targeted and non-clustered industries. However, the targeted clusters comprise only 18 percent of the region's labor market. Therefore, economic development strategies must include methods to increase the quality (i.e., wage and benefit levels) of other non-targeted, and non-clustered jobs. Few would contest that creating higher paying jobs is important to our regional economy, but a regional economic strategy that does not consider 82 percent of all workers is limited at best.

We point to a growing body of research indicating that economic inequality actually inhibits overall regional growth,³ and believe the only successful path towards building a healthy and prosperous economy is the one that meets the needs of every actor in our regional economy – workers, employers and communities.

Supporting Informed Decision Making

The Center on Policy Initiative's 1998 report *Prosperity and Poverty in the New Economy* revealed that throughout the San Diego region's rapid economic expansion of the 1990's, economic inequality had been increasing. In an effort to comprehend how public investment in targeted industry clusters impacts both the region's labor market and regional economic inequality, this current report *Planning for Shared Prosperity or Growing Inequality?* analyzes the nature of the jobs being created in the industrial clusters of San Diego's New Economy. This report studies not only the number of jobs being created and average incomes, it further analyzes the occupational composition of the clusters, the educational attainment for employment, the structure of earnings by cluster, the mix of full-time versus part-time employment, the clusters in which firms are likely to provide health insurance, where firms are located and the size of firms in cluster and non-cluster industries.

³ Manuel Pastor Jr., Peter Dreier, J. Eugene Grigsby III, Marta Lopez-Garza, *Regions that Work: How Cities and Suburbs Can Grow Together*, (University of Minnesota Press, (forthcoming August 2000). Enrico Marcelli, "Economic Growth and Inequality in San Diego County: Evidence and Policy Implications," *California Western Law Review* (forthcoming).

Because regional planning agencies have established a framework of industry clusters for our regional economic development strategies, this report compares and contrasts the three groupings of industries that planners have set forth:

- ‘High-tech’ Targeted Industrial Clusters – nine regional industries selected as economic drivers to receive public support, including: Communications, Biomedical, Biotech and Pharmaceuticals, Computer and Electronics Manufacturing, Defense and Transportation Manufacturing, Software and Computer Services, Business Services, Financial Services, and Environmental Technology;
- ‘Low-tech’ Non-Targeted Industrial Clusters - regional industries that meet required criteria for density, export orientation and wages to constitute a cluster, but have not been selected for growth incentives, including: Visitor Industry Services, Fruits and Vegetables, Horticulture, Medical Services, Recreational Goods Manufacturing, and Entertainment and Amusement;
- Non-Clustered Industries – a general grouping of all remaining regional economic activity not meeting the density, export or wage criteria set forth by economic planning agencies.

Findings

As stated above, our findings indicate that the targeted industry clusters do indeed provide jobs that pay on average higher wages, require higher levels of educational attainment and provide health insurance at higher rates than non-targeted and non-clustered industries.

However, while many of the jobs within these targeted clusters provide strong income and benefits, 22 percent of all targeted cluster jobs pay wages below \$18,000 per year, 15 percent of this labor force does not receive health benefits, and from 1990 to 1998 there has been a substantial increase in the percentage of working poor employees within the targeted industry clusters. Additionally, while good jobs are being created, the targeted industry clusters employ a lower percentage of women and non-Whites and have far lower rates of unionization than the non-targeted and non-clustered industries.

The major findings of this report are summarized below:

The cluster industries are growing, but the majority of jobs remain in non-targeted and non-clustered industries.

- Employment in targeted and non-targeted industry clusters has increased from 32 to 42 percent of the total labor market between 1990 and 1998, yet the majority of the jobs remain in non-clustered industries.
- Targeted industry clusters comprise only 18 percent of the region's workers.
- Overall, from 1990 to 1998 job growth in non-targeted industry clusters, which added 71,079 new jobs, has exceeded job growth in targeted industry clusters, which added 36,794 new jobs. However, non-clustered industries lost 94,045 jobs.

Promoting targeted clusters does not decrease regional economic inequality.

- In targeted clusters, non-targeted clusters and non-clustered industries, there has been a decrease in median weekly earnings, even while average weekly earnings have increased.
- Targeted clusters experienced an increase in average weekly earnings between 1990 and 1998, however three of these clusters – Business and Financial Services, Communications, and Defense and Transportation Manufacturing – experienced a rise in wage inequality over this time period.
- The proportion of working poor has risen in all but four clusters – Software and Computer Services, Entertainment and Amusement, Recreational Goods Manufacturing, and Fruit, Vegetables & Horticulture.

Lower-skilled occupations are increasing for the overall regional labor market.

- Sales, Services and Laborer occupations (relatively lower-skilled) account for 39 percent of all workers, and have increased among both clustered and non-clustered industries.

- Managerial and Professional occupations (higher-skilled) accounted for 45 percent of all jobs in targeted clusters, as compared to 33 percent in non-targeted clusters and 24 percent in non-clustered industries.

Educational attainment in both targeted and non-targeted clustered industries is decreasing, and there remains a robust demand for workers with only a high-school degree or less in all industry categories.

- Fully 27 percent of workers employed in targeted cluster industries have only a high-school degree or less.
- The educational attainment in clustered versus non-clustered industries narrowed slightly from 1990 to 1998, due to an increase in the proportion of workers with a high-school degree or less in clustered industries.
- Sixty-seven percent of workers in clustered industries possess at least some college education, compared to 60 percent in non-clustered industries.

Targeted and non-targeted clusters experienced dramatic increases in the percentage of part-time workers.

- Targeted clusters experienced a 91 percent increase in part-time workers from 1990 to 1998, with non-targeted clusters experiencing a 112 percent increase, and non-clustered industries a 143 percent increase.

Targeted clusters provide health benefits at a higher rate than non-targeted and non-clustered industries, but a large number of workers have no coverage.

- Fully 33 percent of San Diego County's workers have no health coverage.
- A larger proportion of employees in targeted industry clusters have health coverage (85 percent) than in non-targeted clusters (60 percent) and non-clustered industries (63 percent).

Targeted clusters are less likely to employ women and non-Whites.

- Targeted clusters experienced a decreasing percentage of females in their workforce, in contrast to an increase found in the non-targeted and non-clustered industries.
- Targeted clusters increased the proportion of non-White workers more than both non-targeted and non-clustered industries, but most non-Whites are still employed in non-targeted clusters.

Declining unionization in the region has been driven by dramatic trends in targeted cluster industries.

- Rates of unionization in targeted clusters fell from 14 percent to 3 percent between 1990 and 1998.
- In all clustered industries, unionization rates fell by 50 percent, while the proportion of workers in non-clustered industries who are union members rose by 16 percent.

The number of small firms far surpasses that of large firms in all industry categories, however, more workers are employed by the larger firms.

- Over 70 percent of San Diego County firms are very small and small (1 – 25 employees), but 60 percent of the employees work in medium to very large firms (51 employees and above).
- Targeted clusters employ a larger proportion of workers in small and medium sized firms (34 percent) than do non-targeted clusters (24 percent).

The majority of clustered industry firms are located in North County while the working population resides largely in the southern areas of the county.

- The percentage of employment in clustered industry firms in the University (16.4 percent), Kearny Mesa (15.4 percent) and Del Mar-Mira Mesa (12.75 percent) Subregional Areas is two to three times the percentage of working age population in those geographic areas.

A Strategy for Shared Prosperity

Our starting point for economic change is a basic viewpoint that healthy economies are built on successful businesses with good jobs that pay family-supporting wages, provide secure health and retirement benefits for their families and create clear pathways and opportunities for career advancement.

The Center on Policy Initiatives (CPI) applauds economic development strategies that create high-wage jobs in fast growing high-tech industry clusters. Unfortunately, many significant industries and jobs fall outside of the scope and attention of current strategies – fully 82 percent of all jobs in the region fall outside of the San Diego Region’s targeted cluster industries.

We urge policymakers to expand their efforts to promote a high-productivity economic development strategy that includes the following core elements.

- **Good Jobs** – Create “good”, full time jobs with decent wages and secure benefits.
- **Standards** – Turn “bad” jobs into “good” jobs by setting job quality standards for low-wage industries and occupations and using every possible public and private influence to implement those standards.
- **‘Jobs Impact Report’** – Establish “Jobs Impact Reports” to evaluate job quality outcomes of development, redevelopment, land use and public spending decisions utilizing the criteria of wages, benefits, and full-time versus part-time or temporary employment.
- **Labor Market Partnerships** – Develop industry-specific systems of structured career ladders and skill development, paying special attention to creating entry points, pathways and clear career steps for communities left out of the current economic boom.
- **Community Involvement** – Expand participation by workers and communities in regional economic development.

The challenges of our new economy require a multi-sided approach if we are to genuinely lift the standards of living of all San Diegans. While we focus on building new

high-tech, high-wage industries we must also pay special attention to the hundreds of thousands of jobs in rapidly growing low-wage industries. Once we have committed our region to the principle of shared prosperity, we no longer have the luxury of choosing one economic path but rather must recognize that only a commitment to “all paths” together leads to a healthy economy.