THE CRAFT INDUSTRIES OF LOS ANGELES: PROSPECTS FOR ECONOMIC GROWTH AND DEVELOPMENT

Allen J. Scott and David L. Rigby

The craft industries of Los Angeles -- such as the apparel, furniture, and jewelry industries -- have for the most part experienced significant growth in recent years, but their current competitive posture threatens to impede future expansion. In light of this finding, drawn from our recent studies of the craft industries of Los Angeles, we pursue two primary objectives in this policy brief. First, we describe the character and dynamics of these industries. These are sectors typified by low-technology, labor-intensive forms of production, and their outputs compete in specialized markets partly on the basis of price and partly on the basis of fashion, design, and cachet. Second, we discuss the current predicaments of Los Angeles's craft industries, and we then highlight some policy approaches that might help to remedy these problems. Our central argument is that whereas large segments of the craft industries compete by insistent cost cutting (achieved principally by their reliance on low-wage and low-skill labor), a significant reorientation of their competitive strategies is both desirable and possible, and is likely to yield important economic development benefits for the region as a whole.

THE CRAFT INDUSTRIES OF LOS ANGELES: GROWTH AND ORGANIZATION

While the defense-related manufacturing sector in the Los Angeles region has experienced severe job losses over the last several years, the region's craft industries have grown significantly. Given appropriate policies to upgrade their competitive advantages and the labor skills of their work force, the latter industries appear to offer an important platform from which to launch a new trajectory of economic growth and job creation in the region.

Five main craft industrial sectors in Los Angeles County can be readily identified on the basis of the Standard Industrial Classification (U.S. Department of Commerce, Bureau of Economic Analysis): textiles, apparel, furniture and fixtures, printing and publishing, and jewelry. Table 1 [entitled "Employment in Selected Labor-Intensive Craft Industries: Los Angeles County -- 1967, 1980, 1993" and available only in the printed *Brief*] reports the changes in employment for these five industries in Los Angeles County from 1967 to 1993. At the present time, these industries collectively employ over 185,000 workers, or about 27% of the county's manufacturing labor force. Through direct and indirect multiplier effects, the same industries generate another 65,000 jobs within the county. In 1992, the total value of the output of these five craft industries in Los Angeles County was $15 billion, approximately 45% of which represented shipments to other parts of the United States, and 5.3% exports. By contrast, imports of craft industrial products into both the United States and California have increased rapidly in recent years, and now make up a large part of total local consumption of these products.

The craft industries of Los Angeles County are marked by many common organizational and developmental features, six of which are particularly important:

1. Firms in these industries typically are extremely labor-intensive. Thus they cannot reap the advantages of internal economies of scale and are usually quite small.

2. Rather than combining most stages of production under one roof, firms are subject to extreme forms of vertical disintegration. This means that they are generally organized in complexes of specialized, interdependent producers locked together in subcontracting and other business relations.

3. As a consequence of this organizational trait, firms almost always cluster in dense industrial districts. These districts are the fountainheads of strong agglomeration economies, which are frequently marked by the availability of specialized subcontractors, enhanced information flows and technology transfers, and the development of local manufacturing cultures -- positive external economies that reduce costs and enhance innovation. In Los Angeles, most of the craft industrial districts are scattered throughout the inner-city area, with subclusters at outlying locations.

4. Individual districts share common pools of labor, primarily composed of immigrant and female workers. Local labor markets are highly flexible, and craft-sector workers tend to rotate at rapid intervals between firms and across all craft industries.

5. The craft industries are under intense price competition from foreign producers in Latin America and Asia, and this competition makes itself felt, above all, in a persistent downward pressure on wage levels and in a deterioration of the working environment.

6. Because of this pressure, a large proportion of the firms in these industries have turned their backs on any effort to compete directly with high-quality producers located in other parts of the world and compete instead at the low end of the market.

We now broaden and deepen these observations with a more detailed description of two of the most important craft industrial sectors in Los Angeles, the apparel and the household furniture and fixture industries.

TWO SECTORAL PROFILES

The Apparel Industry

In several respects, Los Angeles County's clothing industry has been marked by considerable success. In 1992, employment in the industry exceeded 100,000, spread across approximately 4,000 firms. It has grown strongly of late, thanks to the emphasis of local designers on the "California look," especially in the women's active-wear market. A network of local design studios, training institutes, and specialized subcontracting shops has developed to cater to the needs of the local complex. The California Mart at Ninth and Main streets has become the largest wholesale apparel center in the nation.

In spite of these accomplishments, the industry suffers from several weaknesses. Only about one-third of garment firms focus either wholly or in part on the fashion market; the remainder are concerned with relatively standardized basic products and seasonal lines. In 1990, the average weekly wage for production workers in California's apparel industry was $237, less than 50% of the average for production workers in the state's manufacturing sector as a whole. Moreover, real hourly wages for garment industry workers in California were 16.2% lower in 1990 than in 1965. Apparel manufacturers in the Los Angeles region are not, in general, employing state-of-the-art technology. Most manufacturers claim to know about best-practice production methods, but cost prohibits over half of them from adopting these methods.

Three structural conditions of the industry impede its capacity to deal with these and other problems. First, the low barriers to entry of new firms, the availability of an inexpensive local labor force, and cutthroat competition have resulted in the proliferation of unlicensed sweatshops that engage in illegal work practices, including the hiring of undocumented immigrants. The existence of these shops has given rise to much market instability, generating costly uncertainties in the business environment and retarding investment. Above all, these conditions undermine the ability of producers to construct relationships of trust with one another and thus to begin to develop effective and innovation-inducing forms of interaction.

Second, the low levels of investment in apparel manufacturing translate into weak productivity gains, thus undermining competitive leverage. Without significant investments in research and development, in new capital equipment, and in labor training, simple cost cutting is one of the few competitive strategies that producers can pursue. These kinds of investments are not likely to be made in the sweatshop segment of the industry, and will in any case be inhibited in an atmosphere of continued uncertainty and distrust.

Third, the distrust among manufacturers means that most transactions or linkages between design studios, manufacturers, contractors, and retailers remain at arm's length. In addition, product and process innovations are almost entirely independent of one another in Los Angeles's apparel industry. Quick-response technologies have proven to yield considerable productivity gains for the apparel industry, yet few firms in the textile-apparel-retail chain are closely linked together through electronic data interchange.

The Household Furniture and Fixtures Industry

In contrast to the clothing industry, the household sector of the furniture and fixtures industry in Los Angeles County has suffered severe job losses since the late 1970s. In 1980, the industry employed 24,500 workers; by 1993 the number had fallen to 13,000. In 1991, the average weekly wage per worker was approximately $250, more or less equivalent to the apparel industry wage.

Southern California's household furniture and fixture manufacturers typically are artisanal in nature.

Manufacturing processes are simple and largely labor-intensive, and can be broken down into four basic sets of tasks: cutting and shaping wooden or metal parts; assembling these parts into frames for upholstered furniture or into products like cabinets or tables; finishing exposed wooden or metal parts by varnishing, lacquering, painting, and so on; and upholstering. Only a few wood household-furniture manufacturers have installed advanced factory automation systems, and the upholstery segment of the industry has effectively resisted mechanization. As a consequence, most businesses in the industry are not able to achieve significant internal economies of scale, are small, and are focused on short production runs. These problems are compounded by the fact that the industry is subject to strong cyclical fluctuations in demand and -- like the apparel industry -- to the vagaries of fashion, and it is no surprise that the markets it serves are usually quite unstable and intensely competitive.

The recent decline of the household-furniture industry in Southern California can be ascribed in large degree to the pressures of foreign and domestic competition, and again, producers have chosen to respond to this competition by seeking continually to drive down costs rather than to upgrade quality. As a result, the industry's employment structure is almost entirely dominated by low-wage, unskilled workers. These workers are predominantly foreign-born Hispanic males, a high proportion of whom are illegal immigrants. Because of the industry's extreme sensitivity to the costs of production, state and local regulations governing environmental and labor conditions in Southern California have become especially irksome to producers. Among the more severe of these regulations is Rule 1136 of the South Coast Air Quality Management District (covering the entire region of Southern California), which since 1983 has imposed costly restrictions on furniture manufacturers by seeking to control emissions of volatile organic compounds from paints and solvents. Health and safety laws, minimum wage legislation, and Workers' Compensation (the latter recently reformed but still widely resented by manufacturers) have also played a role. As a consequence, many Southern California furniture plants have moved to *maquiladora* locations in Mexico.

A BASIC DILEMMA

In both the apparel and the household-furniture industries, cost cutting is an understandable individual and short-run competitive response to current economic conditions. In the minds of producers, the immediate gains from substituting cheaper for more expensive labor are likely to outweigh by far the long-term and much less certain benefits of a strategy focused on moving up the quality/price curve, with all that this would demand in terms of new investments, higher labor skills, intensified management, and so on. Unfortunately, this individual and short-run strategy is also marked in the end by a number of self-destructive qualities. It can temporarily alleviate the strain of competition, but any gains made by an individual producer in this manner are subject to eventual negation as other producers move in the same direction, and it also severely curtails any possibility of switching to skills-intensive forms of production. Moreover, in what is now a *global* race to cut production costs, Southern California is at an absolute competitive disadvantage -- despite its large immigrant labor force -- in that there are always other parts of the world where the costs of these kinds of products can be brought down to yet lower levels. The consequence is that chronic competitive stress has become an endemic feature of important segments of Los Angeles's apparel industry and virtually all of its household furniture and fixtures industry, and this state of affairs will almost certainly endure so long as significant numbers of producers in these industries continue to pursue a strategy of competitive cost cutting.

The alternative strategy -- building regional and firm-specific competitive advantage on the basis of skills, quality, and reputation -- is very much more difficult to adopt, not only because it is more risky for individual producers, but also because it would entail significant changes in local industrial organization and culture. Despite these obstacles, it probably represents the best pathway to long-term growth and prosperity for the craft industries in the new global competition. In view of the many barriers to a spontaneous emergence of this pathway in the Southern California craft industries, some active policy stimuli would appear to be imperative in order to foster appropriate forms of industrial restructuring, to build the institutions and organizations that are necessary to sustain the regional manufacturing system in a more aggressively creative and innovative posture, and, of course, to raise wages.

TOWARD A TWENTY-FIRST CENTURY PRODUCTION COMPLEX

A General Policy Framework

Two interrelated questions call for immediate attention. The first is whether there are any courses of action that policy makers can pursue that might persuade manufacturers who are engaged in strictly cost-cutting strategies to adopt a different approach involving competition on the basis of product quality rather than cost alone. The second is whether policy makers can do anything to ensure that the more successful segments of these industries in Southern California maintain and augment those capabilities that have kept them competitive.

The arguments that we shall briefly develop in response to these questions do not involve "picking winners." Rather, they are based on a bottom-up and industry-wide approach directed toward improving localized external economies and hence toward stimulating the entrepreneurial and creative capacities of all local firms. This approach also acknowledges the possibility of, and seeks to facilitate, many kinds of unexpected and unpredictable outcomes (new firm formation, technological and organizational improvements, new kinds of products, and so on) as external economies intensify through time. We do not advocate any attempt to deal with the so-called business climate problem (i.e., the alleged negative effects of governmental regulation on the local economy), and we emphatically refrain from suggesting any form of regulatory relaxation. Any such effort would certainly stem the flow of jobs to Mexico, but in our opinion would only exacerbate the current problems that Los Angeles's craft industries face by encouraging further downward pressure on wages and working conditions. We present the discussion only in general terms, and make no attempt to translate it into an explicit action agenda. Any claims as to the appropriate kinds of organizations or agencies needed to implement specific types of policy have been kept deliberately muted.

We propose that a major effort needs to be invested in the creation of regional craft-industry alliances or consortia to enable them to coordinate overall development strategies and to work with local government agencies in various kinds of private-public partnership efforts. In view of the dense interdependencies that characterize the craft industrial districts of Los Angeles, new organizational structures of this sort can provide critical agglomeration-wide services that would otherwise fail to materialize because individual firms are reluctant to invest when the potential returns are likely to be shared among all the members in the agglomeration. In broad terms, we envisage the creation of communities of firms, workers, and public agencies engaged together in reconstructing the collective competitive advantages of the region's craft industries. We contend that long-run economic development within Southern California is critically dependent on collaborative activities devoted to enhancing the region's institutional infrastructures and social capital, as argued under "Specific Policy Tasks" below. Many regions in different parts of the world have engaged in highly successful experiments in local economic coordination (e.g., Joint Venture: Silicon Valley Network; the Bay Area Multimedia Partnership; or the celebrated municipal development programs of the Third Italy), and there is much that a comparable effort might accomplish in regard to the craft industries of Los Angeles.

Specific Policy Tasks

Six specific policy tasks are essential to any system of coordinating activities of the sort alluded to above. These tasks can be approached jointly by private and public agencies under the aegis of a single local economic development organization; less ambitiously, they can be thought of as representing discrete initiatives that can be parceled out to different public agencies or private associations.

Promote Process Technology Innovation. The continuous development of new manufacturing technologies is critical to the competitive success of any regional economy. Despite patents and other forms of business protection, it is extraordinarily difficult for firms to realize fully the economic benefits that flow from new knowledge about process technologies. For this reason, firms are typically reluctant to invest in research and development. Policy support and coordination of research effort are therefore required to boost the development of appropriate process technologies. In Southern California there is little public investment in technology development for the craft industries, with the notable exception of the Apparel Technology and Research Center of the California Polytechnic University at Pomona. In view of this general deficiency, we strongly advocate increased funding -- private and public -- for the establishment of craft industry research centers within Southern California.

Foster Design Excellence. The long-run competitive success of craft industries in developed economies is intensely dependent on high standards of product design. Successful firms compete in the market by emphasizing creativity and continuous improvement. Such a strategy requires persistent investment in skilled personnel as well as the promotion of local design cultures, capabilities, sensitivities, and so on. Such investment, however, is typically subject to market failure. Consequently, collective provision of facilities underpinning excellence in design may be required in order to boost local innovativeness and competitiveness.

Many craft-industry agglomerations, especially in Europe, are endowed with design centers that promote innovation in local products. Such centers often provide showrooms and other facilities for high-end design consultants and manufacturers. Private initiatives such as the Apparel Mart in downtown Los

Angeles or the Pacific Design Center in West Hollywood can also play a major role in highlighting regional design and manufacturing capabilities. Such centers act as critical points of exchange of ideas and help to foster a region-specific design culture. Trademarking and distinctive product labeling can also enhance that culture. Furniture New York, a publicly supported consortium of designers and manufacturers, brands its members' products, and has experienced considerable success.

Improve Education, Training, Wages, and Working Conditions. Because of pervasive worker mobility, educational services and worker training facilities in the craft industries are usually underprovided. Each firm is reluctant to invest in education and training because it cannot be certain that it, and not a competitor, will gain by the expense. Yet well-trained labor is essential to the long-run viability of these industries, for without it, high product quality and high productivity are impossible to attain. To complement the focus on process technology innovation and product design in the policies outlined above, significant investment in the region's craft industry work force is required. There are two main issues here.

First, a major effort needs to be made to expand and upgrade existing institutions involved in the education of craft industry workers (such as the Fashion Institute of Design and Merchandising, the Apparel Technology and Research Center of the California Polytechnic University at Pomona, or the Los Angeles Trade-Technical College). Intensified training of blue-collar workers in the operation of new technologies is especially important. Representatives from the spheres of industry and education must identify emerging technologies and skill requirements needed to train the region's manufacturing work force in core competencies. Labor unions can sometimes play a significant role in this process, acting as intermediaries between workers, owners, and public institutions.

Second, craft industry wages and working conditions need to be improved. This is essential to provide incentives for workers to learn skills and increase their performance. The payment of wages below the legal minimum, the absence of worker benefits, and the frequent infractions of worker health and safety regulations are all problems that must be corrected. With the productivity gains that new technologies and new production strategies promise, there is significant headroom for employers to raise wages and remain competitive.

Facilitate Capital Investment. The craft industrial agglomerations of Los Angeles contain extremely large numbers of small specialist producers. Such producers underpin the system of external economies that holds these agglomerations together. Precisely because they are small, however, these producers face difficult problems in raising new capital. This is a problem that can be addressed in part through the more extensive provision of community banking services, either by municipalities or the state.

Revise Marketing Strategies. Equally, small craft-oriented firms rarely have the resources to engage in significant volumes of information gathering, advertising, and market development. Yet successful transformation from cost-based competition to high-performance manufacturing and commercialization of products hinges on the ability to penetrate, sustain, and shape consumer market niches. Institutional support of this process through advertising of regional products, marketing, trade shows, export incentives, and so on is essential to the formation of a regional platform that enhances the abilities of individual producers to compete in national and international markets. The inauguration of periodic high-prestige design and fashion fairs would do much to help producers throughout the region build recognition for their products. We strongly recommend the establishment of a marketing and trade promotion board for the craft industry products of Los Angeles with three main mandates: to promote the quality and unique character of local products, to provide guarantees of quality and authenticity through product branding, and to support local firms in the search for new markets, especially export markets.

Encourage and Support Collaborative Networks. Market competition is one of the conditions under which industrial efficiency is secured. However, when competition impedes producers from specializing (hence relying on others) and from pooling certain kinds of resources and endowments (e.g., technologies, skills, information) to the detriment of innovation and competitive advantage, then ameliorative intervention is appropriate. Certain forms of institution building can mitigate the worst effects of cutthroat competition by helping to build trust, to overcome barriers to cooperation, and to forge effective conventions of business practice. The craft industries of Los Angeles, most particularly the apparel and the furniture and fixture industries, are to a large degree characterized by market-based and "arm's-length" contractual relations that breed intense rivalry and distrust. In this economic climate, forging the social ties that create viable industrial communities is extremely difficult.

We suggest three initiatives to deal with this lack of trust and to foster efficient forms of cooperation among firms in these industries. First, public support is needed -- perhaps in the form of a series of seed grants -- to establish collaborative craft industry networks comprising labor, designers, manufacturers, and commercial agents to experiment with the possibilities of cooperative production arrangements. The Small and Medium Enterprise Policies of the Japanese government provide one example of this type of public support. Under this program, the government offers firms a series of low-interest loans and tax incentives to restructure, but limits such incentives to firms that have formulated restructuring plans in cooperation with others in the same sector. Second, there should be active attempts to foster and support local industry associations (such as the Southern California Apparel Roundtable, the California Fashion Association, or the various garment contractors' associations) in an effort to build a stronger sense of common purpose. Third, the existence of unlicensed firms poses a particular set of problems. These firms are typically the worst abusers of labor and environmental regulations and the most unscrupulous in their business practices. They tend to undermine confidence and to sow distrust; they should be eliminated through active enforcement of the law.

SUMMARY

The foregoing points represent lines of attack on three overarching challenges that the craft industries of Los Angeles face today. The first challenge is to reorient at least significant portions of those industries, like furniture and fixtures, jewelry, and segments of the apparel industry, which have headed down the "low road" of development, and to help them shift into more design-intensive forms of production aimed at attracting more upscale consumers. The second is to encourage the formation of more tightly knit interactive arrangements -- and improved integration of existing ones -- among producers in these industries so as to build collaborative quick-response manufacturing networks and enhance the innovative potentials of the region. The third, and in some respects the most important, challenge is to protect those critical qualities of Los Angeles and its craft industries as a place-bound system of cultural associations that beget potent and commercializable images and styles, and that endow the outputs of its craft industries (at least potentially) with a unique cachet. We estimate that if firms in just the apparel and household-furniture industries of Los Angeles were to gain an additional 1% share of the national output in their respective sectors, this would translate into direct job gains of about 9,100 in the region's apparel industry, 2,800 in the household-furniture industry, and more than 3,100 additional ones in the rest of the Los Angeles economy.

We need, however, to be modest in our expectations as to what policies like these can accomplish. Some, but by no means all, segments of Los Angeles's craft industries may be susceptible to transformation in the manner sketched out above. Other segments will undoubtedly continue to pursue low-road strategies.

A CONCLUDING COMMENT

An assumption frequently made by local economic development practitioners is that high- technology industry represents the best pathway to regional prosperity. As the present investigation has suggested, the craft industries (and the cultural-products industries more generally, including motion pictures, music recording, multimedia, and so on), can also be a vehicle of growth and employment creation. Paradoxically (in view of its long and massive engagement with the aerospace-defense business) Los Angeles may find that its destiny ultimately is more closely bound up with the cultural-products industries than it is with high technology. Already, the former employ considerably more workers than the latter.

In any case, in the emerging new world economic order, firms develop mastery of markets not just as a function of their individual competence but also -- and to a major extent -- on the basis of the competitive advantages their local milieu confers. This observation alone makes it imperative that sound local economic development policies be put into place.

Allen J. Scott is professor of geography and associate dean of the School of Public Policy and Social Research and David L. Rigby is associate professor of geography, both at the University of California, Los Angeles.

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-- D. L. Rigby. The apparel industry in Southern California. Unpublished paper, Department of Geography, University of California, Los Angeles, 1995.

-- A. J. Scott. Economic decline and regeneration in a regional manufacturing complex: Southern

California's household furniture industry. *Entrepreneurship and Regional Development*, 8:1-24, 1996.

-- A. J. Scott. The craft, fashion, and cultural products industries of Los Angeles: Competitive dynamics and policy dilemmas in a multi-sectoral image producing complex. *Annals of the Association of American Geographers*, 86:306-323, 1996.