Agglomeration in Southern California

Prosperity and economic growth require robust specialization and exchange. This means the formation and maintenance of numerous complex supply chains. These are emergent and include supply chains for things and supply chains for ideas. The former involves transactions; the latter can be via transactions and/or realized positive externalities. All supply chains have a geographic dimension. Firms carefully choose what to make vs what to buy and also where to buy it, from near or far. The whole system tends to a pattern of locations that denote realized transactions (and transactions costs) as well as realized externalities. The city remains a competitive producer if these relationships are encouraged with the costs contained. Cities are “engines of growth.” This means they offer attractive supply chain formation and management opportunities, including supply chains for things and supply chains for ideas. The latter are more complex than standard discussions of non-rival goods suggest. People are keen to transact. Consider (i) the advantages of open-source knowledge sharing have been acknowledged; (ii) ideas often denote complex tacit knowledge exchange; and (iii) access to useful knowledge is priced in land markets and impacts location choice. Favorable networking and location opportunities are significant as these choices are made. Flexible land markets can facilitate the availability of such opportunities. Access to pools of human capital is clearly beneficial but the ability to tailor access to the peculiar requirements of the firm is even better. Detailed firm location (and co-location) data for various sectors for the Los Angeles metropolitan areas are analyzed to support our claims. We estimate Ripley-k functions and consider differences by industry as well as firm size. We pay special attention to co-location of “tech” and “venture capital” sectors.

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