

Economic Differences between the Coastal and Inland Regions And Within the Inland Empire

by

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When thinking about the Southern California economy, most of us view the area either as one homogeneous entity consisting of something that should have the name “Los Angeles” in it; or being made up of the coastal regions versus the inland locations. In fact, the Inland Empire combined with the Greater Los Angeles (Los Angeles County, Orange County) and Ventura County area is referred to as a “Combined Statistical Area” (CSA) by the U.S. Office of Management and Budget (OMB). These so-called CSAs are made up, in general, of an economic center such as the Greater Los Angeles area, and adjacent Metropolitan Statistical Areas (MSAs) such as the Inland Empire and Ventura County, with economic ties measured by commuting patterns. The U.S. has around 380 Metropolitan Statistical Areas (MSAs), with Greater Los Angeles as the second most populous and the Inland Empire as the 12th largest, while there are roughly 180 Combined Statistical Areas (CSAs). The Los Angeles-Long Beach CSA is also the second largest in the nation. We set out here to provide you with some numbers regarding facts that you did or did not know about the CSA region.

Clearly, politicians look at the five counties as distinct areas but most residents do not, as we can see from daily patterns of residents crossing county lines to go to work (both authors reside in different San Bernardino County locations but work in Los Angeles County). The U.S. Census provides us with commuting patterns, and for the latest data available, 26.4% of the Riverside County residents work outside of their home county. The number for San Bernardino County is almost identical (26.2%). This is roughly one in four workers! These commuters can be categorized into two groups: those who live in one of the Inland Empire counties and work in the other, and those who reside in the Inland Empire but commute to coastal regions. There are more workers commuting from Riverside County into San Bernardino County (114,000 or almost 40% of all Riverside County commuters) than the other way around (78,500 or 31% of all San Bernardino County commuters). The number of commutes between Riverside and San Bernardino County is significant, but these are not as large as the number of commutes originating in the Inland Empire and ending up in the coastal regions.

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The reasons for commuting within the Inland Empire differ from those for commuting between the Inland Empire and the coastal regions. Let us rule out the idea that anyone gets satisfaction from commuting (duh). Then the only reason for a resident (you) to commute is that an attractive job is not available in your home county, and/or that desirable and affordable housing is lacking in the county where you work. Moreover, these differences must be substantial, as you are willing to spend a considerable amount of time sitting on the I-10, I-210, CA-60, CA91 and the I-15 looking at slow moving cars; or you are sitting on a Metrolink train for a considerable amount of time and then need further public transportation to get to your job. The transition times vary, but driving the 37 miles from Upland to downtown LA at 7am on a Thursday morning takes you 2 hours and 10 minutes by car; and even longer when you return at 5pm on a Thursday.

The fact that fewer commuters travel within the Inland Empire than between it and the coastal regions indicates that incomes in the coastal regions must be significantly higher than in the Inland Empire. We have calculated the share of total employment in Inland Empire industries and in the Greater Los Angeles area. Here we focus on broad industrial classifications, such as manufacturing, construction, logistics, government, etc. to find dissimilarities. For the case where the employment share is significantly higher in the coastal regions, the biggest difference comes from Professional and Business Services, followed by Information (including the movie industry), Financial Services, and Manufacturing. You notice that, on average, all of these sectors are higher paying jobs. If the Inland Empire were able to generate similar jobs within the region, there would be no need to commute - traffic congestion solved.

The difference in industry classification and pay also explains why the Inland Empire has the “First In - Last Out” attribute attached to it regarding business cycles. Commuters from the Inland Empire have higher human capital on average than what is required for the jobs offered within the region (again, on average); but not as high, on average, as those workers in the coastal regions who can afford to live there. Let us assume that higher degrees of human capital are rewarded with higher pay (certainly, cities with lower education levels, on average, have higher unemployment rates). Hence, when there is a national downturn, the commuters – that is, those with relatively less human capital – typically are laid off first, and, during the recovery, get hired last. This resembles a lake freezing from the periphery, and thawing first from the center. Since unemployment is measured by residency, this results in the bifurcated business cycle recovery we typically observe (think of the Great Recession of 2008-2009). However, note that the recovery from the Coronavirus downturn in 2020 is the exception: the Inland Empire recovered much faster. This was due to the extraordinary role that the Logistics industry (Transportation, Warehousing, Wholesale Trade) has played, which has become the third largest employer in the Inland Empire.

There are also some counterflows from the coastal areas into the Inland Empire, but they are relatively small. For example, 7,000 people commute from San Diego County into Riverside County, but 47,000 travel south on the I-15. The difference is less dramatic between LA County and San Bernardino County: 61,000 head east in lighter traffic in the morning, while 133,000 have

the sun in their rear view mirror. The Inland Empire has a much larger share of jobs in the Logistics industry, which is not surprising given that newsmagazine *The Economist* refers to us as the “Warehouse Capital of the World.” Other sectors, which are relatively more important in the Inland Empire, are Construction, Retail Trade, and Government. However, we doubt that many commuters from the coastal regions flock to jobs in those sectors, especially since Retail Trade and Logistics are lower paying jobs.

Within the Inland Empire, Riverside County is the slightly more populous area (2.5 million vs. 2.2 million residents). San Bernardino County is the largest county in the U.S. in terms of square miles. Moreover, Riverside County is gaining more residents compared to San Bernardino County, and the gap between the two counties has widened since 2006, when San Bernardino County had more inhabitants. The employment share differences (“dissimilarities”) are much smaller: San Bernardino County has a relatively larger share in Logistics and Health Care; Riverside County has a larger fraction of its labor force working in Construction, Leisure and Hospitality, and Retail Trade. This makes sense given the Logistics clusters around the Ontario airport, the hotels and restaurants of Coachella Valley, and the higher housing prices in Riverside County. Housing in Riverside and San Bernardino County remains to be the most affordable in Southern California. The Median Home Price currently is \$552,500 in Riverside County and \$433,500 in San Bernardino County. This compares with \$726,550 for Los Angeles County and \$1,221,800 for Orange County.

While the differences between the Los Angeles MSA and the Inland Empire are readily apparent and relatively large, there are more similarities than differences between Riverside and San Bernardino County in terms of major employment sectors, commuting patterns, and Median Home Price. Because of these similarities, there are more opportunities to gain than to lose by coordinating policies between the two counties, which already exist to some extent. These could be in response to the long-standing challenges (commuting or housing needs) or following economic shocks (pandemic downturn, housing bust resulting in the Great Recession, strikes at the ports). What remains the number one policy problem is to cut down the need to commute to the coastal areas to find better paying jobs for the area. Whether or not such coordination would work politically is not for us to judge - we simply point out the advantages to doing so.