

ECONOMIC DIVERSIFICATION LOS ALAMOS COMMERCE AND DEVELOPMENT'S OUR TOWN: LOCAL ECONOMICS 101

POSITION

ISSUE: DIVERSIFY THE ECONOMY

WHY DOES THIS MATTER?

In order to understand, “why does it matter?”, it is important to understand what “diversify the economy” means. Our local economy is the sum of the dollars that flow into Los Alamos from outside of our local economy in payment for goods and services that we produce, or as payments related to investments and entitlements owned by our citizens. The activities that correspond to these dollars are called our “primary” or “contributory” industries. The wealth that our primary industries bring into our community is mixed and churned within the economy, circulating from business to business, person to person, until it is eventually consumed and leaves our local economy. Contrast primary economic activities with “consumptive” economic activities such as local retail and service activities that depend on primary industries to fuel them. While consumptive activities have an important role to play in their own right, they do not create diversification.

Diversification refers to the extent to which we can broaden our base of *primary* industry. Currently, more than 97% of our primary industry activity is represented by LANL activities. This is the proverbial “all our eggs in one basket” situation that exposes our community to increased risk in the event that LANL experiences fluctuations in their funding. Diversification is important as a means to provide a hedge against downward fluctuations in LANL funding.

However, as we have argued in previous installments of this series, retaining LANL as our economic engine is a critical issue for our future economic prospects. Diversification achieved at the expense of undermining the economic contributions provided by LANL should be avoided.

LACDC's Objective...

■ LACDC's mission is *enabling viable community through a sustainable economy*. The objective of LACDC's efforts is to achieve a sustainable Los Alamos economy, without compromising the area's quality of life. Sustainability implies the means to weather the expansions and contractions of Los Alamos National Laboratory (LANL) operations, and in particular its core national security mission. For the foreseeable future, Los Alamos will, nonetheless, depend on LANL as the foundation for the local economy. The objective is therefore comprised of two goals: 1) Support LANL's ability to maintain its vitality: its general health, global competitiveness, and internal diversification; and 2) Promote economic diversification apart from LANL. If achieved, these goals will yield increased job opportunities and security; an enhanced tax base; and provide for needed County services. The net result will be a better quality of life and a more vital community.

■ LACDC's “Our Town: Local Economics 101” comprises a series of **Issue Snapshots** which survey a range of viewpoints on economic sustainability issues for the Los Alamos/White Rock communities and **Position Papers** which present the viewpoint of the LACDC/Chamber relating to the issues. A complete overview of the series is available on the web at www.losalamos.org/lacdc

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WHAT ARE THE CHALLENGES?

The principal challenges to economic sustainability in Los Alamos are availability of land and/or adequate space, availability of qualified workforce, and the effects that these two factors have, in combination, on the cost of doing business in the community. These challenges are further complicated when considering diversification potential by the remoteness of our community.

The quality of the diversification potential must also be considered. Los Alamos is a relatively high income community. High quality diversification creates jobs that increase the per capita income in the community. The average annual earnings per worker for jobs located in Los Alamos is about \$60,000, so diversification efforts need to aim at diversification opportunities that support or improve this level of average income. This level is very high, and there are a limited number of primary industries that support jobs at this level.

The range of opportunities for high quality diversification in a remote setting with a high cost of business are fairly limited. Think of it this way: if a business can operate just as effectively in Albuquerque or Dallas where there are relatively low costs of doing business and workers are easier to come by, why would they even consider Los Alamos? If a business that proposes to set up shop in Los Alamos plans to seek employees at half of the average compensation for existing employees why would we consider them as desirable diversification?

These constraints limit the ability to keep successful businesses in Los Alamos as well as attract new businesses. They also mean that we rarely will have opportunities to create diversification through new activities that bear no relationship to our existing primary economic engines unless the new businesses can be incentivized in other ways. Activities that gain advantage and value by locating closely to our existing economic engines will often be our best diversification candidates. For instance, a business that locates in Los Alamos because LANL is a key customer can also bring diversification benefit to the extent they also work for customers outside of our local economy.

It is LACDC's view that any diversification program must build upon our strengths and competitive advantages as a business location and that diversification activities that can sustain or increase the average wages in our community are the most desirable.

HOW CAN THE COMMUNITY HELP?

Through both individual, corporate responsibility, and governmental actions, the community has much to offer in pursuit of economic diversification. Investing in economic development infrastructure needs such as land availability for new economic activities, workforce availability and capability, addressing housing cost/quality/availability issues that affect workforce cost/availability, and the ability to provide incentives and assistance in support of diversification are all important to pursuit of diversification. Los Alamos

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County government has several positive initiatives well in progress that should be supported.

As with any long-term investment strategy, there must be a willingness to take calculated risks and recognize that not every individual investment will pan out. We must maintain a long run view and realistic expectations.

Our likelihood of success with any diversification strategy is improved through understanding our strengths as a community to build upon, weaknesses to address, targeting opportunities to pursue, and being conscious of and seeking to counter factors that threaten to make our efforts ineffectual. LACDC has performed and continues to perform “Strength, Weaknesses, Opportunity, and Threat (SWOT)” analysis and uses this analysis to inform our work. Our most recent SWOT analysis is factored into targeting of industries for economic diversification and it also points both to fundamental weaknesses and threats that we are addressing through our work to improve the foundation for success in diversification efforts.

There are four active strategies that LACDC pursues aimed at diversification:

- Assisting in expansion of primary economic activities that we already have in the community that provide diversification. This includes encouraging LANL to diversify their funding sources and to support businesses that have the potential to provide diversification benefits.
- Recruitment of new primary economic activity to the community in the form of businesses, organizations, or industries.
- Start-up of new businesses and organizations that provide diversification potential
- Retention of primary economic activities that provide diversification benefits or offer diversification potential.

Simultaneously, we pursue similar strategies aimed at consumptive economic activities such as retail as well as lead, facilitate, or participate in activities aimed at basic economic infrastructure improvements in the areas of land availability, workforce development, and improving commercial “quality of life. LACDC is a limited resource that is appreciative of community support.

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