

# **ECONOMIC DEVELOPMENT IN BERKELEY**

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# **Berkeley and the Regional Economy: The Need for a New "Space Program"**

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## **Berkeley's Export Base and the Regional and Global Economy**

The central focus of Berkeley's economy is the production of education and research services. Public and private institutions such as the University of California, Lawrence Berkeley Labs, the Educational Testing Service, and a number of related large and small organizations in the education and research field constitute the bulk of Berkeley's economic and employment base. Moreover, this education and research sector, while it is primarily a service rather than a goods-producing sector, is a vital element of Berkeley's **export** base. These education and research services draw on a worldwide demand, bringing income to Berkeley residents and institutions from the rest of the state, the country, indeed the entire globe.

Berkeley's education and research sector is not only key to the city's economy, but constitutes a major part of the export base of the East Bay (Alameda and Contra Costa counties). Many people who work for Berkeley's education and research service organizations commute in each day from their residences in other East Bay cities. Their income contributes to the property tax base of other communities. Also, much of the income derived from Berkeley's export services is spent in other

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1. \* For further background, see Marc Allan Weiss and Ann Roell Markusen, *Economic Development: An Implementation Strategy for the City of Berkeley*, Working Paper Number 354, Institute of Urban and Regional Development, University of California, Berkeley, June, 1981.

East Bay cities, thus contributing to regional economic growth.

In the area of retail sales, many stores located in Berkeley are exporters to the rest of the East Bay and Bay Area, particularly in certain categories of specialty shops, boutiques and clothing stores, food and beverage stores and restaurants, and record and book stores. On the other hand, in “big ticket” items such as automobiles and major appliances, Berkeley residents tend to make their purchases elsewhere, thus contributing to other cities’ retail export base.

Berkeley has traditionally had a large export base in manufacturing, especially in fields like chemical production, metalworking and machining, food processing, and construction supplies. However, much of this industrial base has declined in the past two decades, some of it being replaced by new manufacturing growth in such areas as camping equipment, scientific instruments, printing/publishing and communications.

Finally, in accord with the strong export base in education and research, Berkeley has a growing number of firms and employees specializing in white collar-type business and professional services, including law, accounting, architecture, photocopying, data processing, graphic design, and management consulting. These firms serve both the local and regional economic community. The same is true of Berkeley’s leading personal service industries: health care and psychological and physical therapy.

### **Indigenous Innovation in Berkeley: Technologies and Lifestyles**

Over the years, Berkeley residents and investors have helped spawn a number of new products, services, and technologies due to the innovative talent that is drawn to the city and the university. An older example is Berkeley’s homegrown Cutter Labs, which has been a major worldwide success in chemical and pharmaceutical research and manufacturing. More recently, indigenous innovative growth sectors in Berkeley have encompassed three broad areas: 1) *New Technologies*, including computers, microelectronic components, instruments and control devices, and biological and biochemical engineering; 2) *New Lifestyles*, including down and waterproof camping gear and clothing and accessories, natural and organic foods, new fashions in wearing apparel and jewelry and haircuts and artwork, producer and consumer cooperatives and collective forms of organization and living, performing arts, therapies and experiential education, and political culture and communications; 3) “*Appropriate Technologies*,” or the innovative interaction between technologies and lifestyles, including holistic health care, computer software, energy and environmental conservation and recycling, solar energy and renewable resource technologies, creative housing and building design and materials, and “independent living” products and

services for the disabled and other groups with special needs.

However, due to the high cost of purchasing or leasing land or building space in Berkeley, and the even greater difficulty in assembling sizable or suitable parcels for development or expansion, many firms headed by Berkeley residents, whose innovative approach to marketing new technologies or lifestyles was developed in Berkeley, have located their facilities in other Bay Area locations. For example, even though Berkeley, through the little Ski Hut retail store on University Avenue, has been the American breeding ground for a revolution in camping equipment, one of the largest of the new firms, Sierra Designs, located its manufacturing facility in Oakland. The other key camping manufacturer, The North Face, was nearly forced to relocate outside of Berkeley recently when it needed to find land to expand its operations. Cetus, the flagship company of the new recombinant DNA bioengineering industry, has located its main facility in Emeryville. North Star Computers and Osborne Computers are both now in Hayward. Teknekron, a leading developer of control systems, keeps its research facility across the street from the University, but put its manufacturing plant in Emeryville. Information Unlimited Software, one of the fastest-growing in the industry, has moved to Sausalito. The successful new Rockridge Health Care Plan, a health maintenance organization created by Berkeleyans and serving Berkeleyans, is located in Oakland and Albany. The list goes on and on.

In one sense, of course, there is nothing wrong with this pattern. Berkeley is a largely built-up community and there is not much room to grow. Also, the Berkeley-originated firms that spin out to other nearby locations still employ some Berkeley residents, and contribute to the overall economic health of the region. However, they probably do not employ as many Berkeley residents as they would if they remained in Berkeley. I believe that it is crucial for the City government, the University, and the business community to cooperate in encouraging and assisting the retention of a critical mass of new, growing, and innovative ventures within our own boundaries for three basic reasons: 1) to improve the fiscal condition of the city; 2) to provide a greater range of employment opportunities for Berkeleyans who need jobs (or better jobs); 3) to maintain the climate of innovation. Unless land and space is available for new industries to develop and grow, one of the features that has historically made Berkeley a magnet for creative talent and entrepreneurship may be lost.

This is not to argue for a policy, adopted by many city governments, of automatically promoting any and all development that private developers propose. Neither retail specialty shops nor commercial office space, for example, necessarily provide the types of jobs that are needed by Berkeley residents, nor do they necessarily contribute to the

innovative growth of new product or service based industries. Their development costs in terms of negative impacts on housing availability, transportation access, and environmental amenities may seriously outweigh any conceivable benefits from these or other types of commercial or industrial project. No development policy should encourage displacement or destruction of low and moderate cost housing, given Berkeley's currently inadequate supply. But those who maintain that Berkeley needs no new development at all, except perhaps for more recreation and open space, are as misguided as those who support unlimited development. We do need more jobs in this community to serve the unemployed and the underemployed, and we need to create these jobs by removing the barriers to the creation of innovative new industries. Even if some of these firms ultimately do spill over beyond Berkeley's borders, the total pool of job opportunities available to local residents will be increased.

### **The Need for a Berkeley "Space Program"**

Berkeley's greatest economic development need is for a "Space Program." What I mean by this is a set of targeted land-use and building-use policies to help find space for innovative ventures with potential to provide good jobs for Berkeley residents, particularly residents from the large South Berkeley minority community. There are many potential elements of such a program. One element is for the University, the city's Redevelopment Agency, and community economic development corporations to identify, develop, and sell or lease industrial and commercial space, and for appropriate public and private agencies to help inquiring businesses find such space. Another element is for the Planning Commission and staff to initiate a major study of zoning practices both in West Berkeley and along the Shattuck-Adeline corridor, in order to facilitate mixed-use commercial and light manufacturing development with much higher job-per square foot density ratios than much of the current uses. A third element is public or private land and space-banking (just holding, not developing), with some portion of this effort focused on providing low and moderate cost incubator space for new small businesses, and a separate portion aimed at providing space for major business expansions. The Chamber of Commerce, Industries Association, Board of Realtors, and a number of key neighborhood organizations, specialized business groups, and labor unions and councils

should be actively involved in an intensive community-wide search for usable, affordable, available, job-creating local "space."

In designing our new "space program," we should utilize an environmental and neighborhood-sensitive policy of selective decentralization. Care should be taken to steer development away from areas that are suffering from excessive development pressures, and toward those areas where the need and desire by the community for industrial and commercial development is greatest. For example, rather than Alta Bates Hospital and the surrounding residents simply fighting to a long and bitter standstill over the issue of hospital expansion in Berkeley, prospective expansion of hospital facilities could be redirected to appropriate sites in West Berkeley, where the neighborhood impacts would be less controversial. This would allow for more health care jobs to stay within easy transportation access to Berkeley residents, and perhaps to enhance possibilities for local spin-off businesses in other health-related services and manufacturing.

As part of our "space program," we will also want to explore how to better utilize other public-private economic development tools such as job training programs and aids to capital financing. In particular, we need to examine methods of leasing and performance contracting whereby firms receiving public or community assistance in turn promise to help meet important local goals and concerns. For example, the City of Berkeley has on occasion required businesses to agree to train and hire a certain number of CETA-eligible unemployed persons in exchange for City cooperation in obtaining development aid, such as UDAG loans or grants. Santa Monica, San Francisco, Oakland, Hartford, and a number of other city governments have negotiated a wide variety of "developer agreements" requiring everything from hiring of local residents, affirmative action hiring and promotion, affirmative action contracting and subcontracting, equity ownership participation by city governments and community organizations, building affordable housing, building child care and other social service facilities, building parks and recreational space, and so forth. More creative thought and experimentation is needed to improve the "developer agreement" process and also to find ways of preventing companies from communities that assisted them, worked for them, and provided them with infrastructure and service.

What distinguishes Berkeley from most other communities, however, is Berkeley's acute problems with lack of available space. Innovative businesses who would like to start here and grow here find it extremely difficult to do so. Unless we can find a range of effective solutions to the space problem, usage of other economic development tools will have little or even no positive impact.

Recently there have been signs of growing awareness in Berkeley about the need to find creative solution to the "space problem." The coalition that came together around the attempt to save the Colgate plant and then to redevelop it under the auspices of Builders, Inc., has made a careful study of the space problems and space needs of Berkeley's existing and potential innovative business sectors. No doubt the people who contributed to Builder's efforts, many of whom are participating in this conference, will continue to search for new sources of space for incubation and expansion, whether it be on Colgate's 10-acre site or elsewhere in Berkeley.

The series of workshops sponsored by the City concerning future development of the waterfront are constructively raising the space issue. Waterfront planning may turn into a "new frontier" in which the city and the university and the community finds means of cooperating to ensure careful development of one of Berkeley's last remaining large undeveloped land parcels, in ways that reap economic benefit to a diverse set of local and regional interests. Similarly, the storm of controversy over "boutiquification" of North Shattuck and Elmwood and "mini-Manhattanization" of the downtown are also raising the level of public debate about the relative costs and benefits of different types of development. What is needed is to reshape this debate from a relatively polarized "pro-development" versus "anti-development" framework to one which constructively confronts the space problem and the need to fine-tune development policies to meet targeted job needs and also to ensure fiscal solvency.

"Redevelopment," in Berkeley as well as in most other communities, has acquired a deservedly bad name over the past three decades. Perhaps "Space Program," with a peculiarly Berkeley emphasis on the small-scale, the unconventionally creative, the sensitivity to existing human and physical environments, the technologically appropriate, and the willingness to experiment and be bold, will have greater popular success. I hope so, because at last part of Berkeley's economic and fiscal future depends on it.