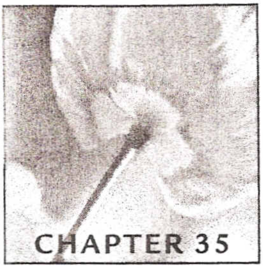

CHAPTER 35

The New California Economy

California's economic growth in recent decades has been phenomenal. The state leads the nation in the most advanced technological fields, including electronics, computers, multimedia, aerospace, and bioengineering. It has emerged as the global center of the New Economy in which information, goods, and services are accessible worldwide via the Internet. It also remains the nation's leading agricultural state, number one travel destination, and home of the entertainment industry. If California were an independent nation, it would be one of the world's major economic powers, ranking sixth in gross domestic product.

The Sunbelt Shift

The remarkable growth of the California economy has been a part of one of the greatest population shifts in American history. Since World War II, the southern and western regions of the country have grown much more rapidly than the northeast and midwest. The population of what came to be called the Sunbelt more than doubled between 1940 and 1980, whereas the population of the so-called Frostbelt increased by less than half. The Census Bureau in 2005 predicted that the shift would accelerate in the years ahead, with nearly 90 percent of the nation's population growth occuring in the Sunbelt during the next quarter century.

The most commonly used indicators for economic growth are gross product, employment, and income. By the early 2000s, California's annual *gross product,* the total value of goods and services produced in the state, consistently exceeded that of all but five countries. (Neck-and-neck with France, its nearest competitor, California's trillion-dollar gross product occasionally surpassed that of all but four nations.) Year after year, the state was producing one-eighth of the nation's goods and services. Employment in California also was growing rapidly. Between 1950 and 1980, while older regions of the country suffered from structural unemployment, California's

labor force grew by 250 percent. The state lost jobs during the recession of the ear
1990s but gained them all back—and a million and a half more—by the end of th
decade. Economic forecasters in 2000 predicted that California would post a 25 pe
cent gain in jobs by 2010, compared to a national growth of less than 15 percent. A
California entered the twenty-first century, its major metropolitan centers continued
generate more employment opportunities than those of any other state. The boomin
Los Angeles basin emerged as the world's twelfth largest economy. Twenty-five of th
nation's fastest-growing companies were in California, compared to just five each
New York and Massachusetts. "I don't think there's any question that New York sin
ply isn't the dominant city," concluded an economist at Chase Manhattan Bank. "Th
whole point is, there's a shift away from New York and to Los Angeles."

The economic indicator that best represented the welfare of the average Californi
was personal income. Following the dramatic increase in per capita income durin
World War II, Californians continued to earn more than most of their fellow American
Between 1980 and 2000, per capita income in the state rose a healthy 30 percen
The economic boom of the late 1990s produced the most spectacular increases i
incomes, especially in the technology-rich San Francisco Bay area. The subseque
collapse of the high-tech sector in the early 2000s led to a temporary downturn, an
some economists warned that the state's per capita income might decline in th
decades ahead. Stephen Levy, cofounder of the Center for Continuing Stud
of the California Economy, remained optimistic. "California is ideally positione
for the next few years," commented Levy in 2001. "We believe that the state wi
continue to outpace the nation in jobs, income, and spending."

The Pacific Rim

Californians found themselves beneficiaries of another, even more far-reachin
shift in the national economy. In 1977 the Pacific Rim overtook Europe as the lea
ing trading partner of the United States. The 28 nations bordering the Pacifi
emerged as the most dynamic economic region in the world.

California had established itself as a major partner in trans-Pacific trade in th
years before World War II. This profitable trade was interrupted by the war but wa
reestablished as part of the American postwar reconstruction of Japan. Even befor
the war's end, California entrepreneurs were looking to the rebuilding of the shat
tered economies of East Asia. Henry Kaiser, speaking before the San Francisc
Chamber of Commerce, declared in July 1945: "I accept the judgment of the expert
who proclaim that the Pacific Basin will be the theatre where civilization makes it
next great advance. . . . I am ready to accept the forecast that the Orient will be on
of our best customers, even as we will be one of theirs."

The driving force in the rise of the Pacific Rim was the economic vitality of th
nations of East Asia. Japan, at the center of the emerging Asian industrial complex
developed the most productive workforce and industrial plant in the world. Sout
Korea, Taiwan, and Hong Kong outperformed the economies of virtually ever
major European country.