expansion and contraction. The rapid deceleration of the early 2000s was hardly surprising after a period of explosive growth. "In the life of every innovation there is a boom phase," explained UCLA senior economist Tom Lieser in 2001. "This is an adjustment phase that may last as long as two years. No one doubts the strength of demand in the long run."

The expected revival of the high-tech sector was clearly evident by 2004 as venture capital resumed its flow and a new generation of electronic products and services appeared on the scene. "Silicon Valley has got its mojo back but, like always, it gets it back in a different way than last time," observed Martin Kennedy of UC Davis in 2005. "What happens is that the technology becomes staid and stabilized and then, boom, it explodes out in a new direction." Standard bearers of the newest iteration, dubbed the "Internet-Powered World," were Google, Yahoo!, eBay, and Apple—all committed to using media and content to drive innovation on a global scale. Emblematic of the new direction was Apple's combination of the phenomenally successful iPod, its portable digital audio player, and iTunes, its online music and video store. A slew of other portable electronic products helped drive the latest high-tech expansion. "I've got my phone in my left pocket, my Palm Pilot in my right pocket, and my iPod on my belt everywhere I go," commented a 20-year-old engineering student.

Economic forecasters warned that the high-tech future of California was clouded by increased foreign competition, most notably from South and East Asia, as well as by such domestic problems as traffic congestion, mediocre public education, and the lack of affordable housing. Nevertheless, the fundamental outlook was positive. Most observers concluded that California's Internet-driven New Economy was back on track. "Every time someone counts it down and out, it rises back with a new innovation or type of industry," observed a high-tech CEO in 2006. "That's certainly what we're seeing now."

The Arsenal of America

One of the most significant factors in the California economy after World War II was the growth of the state's defense industry. At the war's end, many observers wondered if the California economy could adjust to peace. The state's industrial leaders, however, were determined not to lose the momentum generated by the wartime boom. The technological advances made during the war—in aerodynamics, electronics, radar, and other fields—provided the basis for California's domination of the postwar defense industry.

As tensions with the Soviet Union increased during the cold war, the United States entered into its first sustained peacetime defense boom. Each country sought to acquire a supply of aircraft and missiles large enough to guarantee its security against the other. The rivalry between the two superpowers also included a race to be the first nation to place a person on the moon. California's aircraft industry, transformed now into "aerospace," played a leading role in these new forms of international rivalry.

Southern California became the nation's leading center of aerodynamic research, partly because much of the aircraft industry was already concentrated there and

partly because the empty spaces of the Mojave Desert to the north and east of Los Angeles were ideal for aerospace testing and experimentation. The concentration of scientific talent at the California Institute of Technology and the Jet Propulsion Laboratory, both in Pasadena, also played a major role in the region's burgeoning aerospace industry.

During the 1980s, under the Reagan presidency, the defense industry became the state's largest source of revenue, generating $28.5 billion in income. California firms in 1985 received about one-fifth of the nation's total defense budget—more than the combined total of the state's three nearest competitors. Throughout the Reagan era of defense spending, southern California maintained its dominant position. Los Angeles County remained the nation's top location for weapons development, followed by Orange, San Diego, Santa Barbara, and San Bernardino counties. In northern California, Santa Clara County received the lion's share of defense spending. Only six states received more military dollars than Silicon Valley. The town of Sunnyvale, home of the Lockheed Missile and Space Company, won a larger portion of the national defense budget than 29 states.

The nation's defense came to be based on what was called the Triad, an interlocking network of three kinds of weapons: missiles launched from under the sea, strategic bombers, and ground-launched missiles. California was the center for production of two of the three legs of the Triad. Lockheed built all the ballistic missiles for the Polaris, Poseidon, and Trident submarines. Likewise, the latest generations of strategic bombers were developed in the state, including the advanced-technology Stealth bomber produced by the Los Angeles-based Northrop Corporation. California also made a major contribution to the third leg of the Triad, missiles launched from the ground.

Not all of the federal money spent in California for weapons came from the Department of Defense. About a third of the research and development budget of the Department of Energy was allocated to the University of California for its operation of the Lawrence Livermore National Laboratory. This laboratory and its sister UC lab in New Mexico, the Los Alamos National Laboratory, were responsible for the development of all the nation's nuclear weapons.

California led the nation as well in the variety of nuclear weapons located at the more than 100 military installations in the state. Strategic bombers were based at Mather, Castle, and March Air Force bases. San Diego, home to more military personnel than any other city in the nation, contained both a major naval base and an air station. In addition, California contained three important storage facilities for nuclear warheads; the largest of these, the Concord Naval Weapons Station, occupied a site within a few miles of residential neighborhoods in suburban Contra Costa County.

With unexpected suddenness, an astonishing series of international events in the late 1980s and early 1990s signaled the end of the cold war rivalry between the United States and the Soviet Union. The Berlin Wall, the most infamous symbol of the cold war division of Europe, came down in November of 1989 and within two years the Soviet Union had been transformed into a commonwealth of independent states. These monumental events had a profound effect on American defense policy because about 70 percent of United States defense spending had been aimed at