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The Bashers Are Back

The electricity crisis has given critics of California a new opening to predict catastrophe.

California-bashing, that great staple of the early 1990s, has returned. Emboldened by the state's embarrassing energy woes and the thundering crash of its dot-com economy, California's traditional detractors--Texas energy barons, Western economic-development officials and Eastern media moguls--are again predicting the state's imminent demise.

Business Week, for example, recently devoted its cover to California's ills. "The Golden State's prospects," it intoned, "seem to be getting dimmer and dimmer." Stories now abound of job recruiters from the South and West landing in San Jose handing out flashlights to supposedly itchy-to-leave Silicon Valley executives. The old, familiar themes of overcrowding, ethnic tensions, Hollywood discontent and environmental degradation have been pressed into service to sustain the dreary predictions.

To be sure, there is much to be concerned about. Sacramento's management of the energy crisis has been uneven, California's public education system is slow to improve and the state's housing shortage is deepening. Furthermore, the Anderson Business Forecast at UCLA recently predicted a contraction in the state economy because of the electricity crisis. Yet, California is not about to fall into a long-term decline. Now the world's fifth-largest economy, recently surpassing that of France, the Golden State has emerged as the dominant force in both the "hard" and "soft" ends of the digital revolution. For this reason, if for no other, the state seems virtually assured of maintaining a global leadership position that no one--certainly not Texas or New York, much less geriatric Europe or Japan--is likely to overcome in the foreseeable future.

David Shulman, an economist with Lehman Bros. and one of the most knowledgeable Wall Street experts on California, says the resurgence of California-bashing is not justified by the facts. Unlike the early 1990s, when the cratering defense economy fueled some extreme pessimism, today's California economy is remarkably diversified.

"With the end of the Cold War, I saw the justification for some California-bashing," recalls Shulman, who back then was with Salomon Bros. "But the California improvement in the 1990s was pretty evident. The economy has changed. This is clearly where people go to create wealth."

The most troubling problem spots in the U.S. economy lie elsewhere, notes Milken Institute regional economist Ross C. DeVol. Especially hurt is the industrial Midwest, which has been hammered by the precipitous decline in "big ticket" purchases such as cars and refrigerators. The Great Plains, facing a falling population and largely uncoupled from the digital economy, suffers from weak commodity prices. Even in the high-technology sector, most of the severe losses are being felt at the manufacturing level (chips, computers), which is increasingly concentrated in lower-cost regions like the deep South and Western locales like Phoenix.

Shulman thus traces much of the current bashing to wishful thinking in places like New York City, where hopes are again being raised that the painfully prolonged California era is at an end. "At this stage, it's illogical, more psychological than real," Shulman suggests. "It makes people back here feel better."

The best way to gain perspective on the revival of California-bashing is to revisit the early 1990s. Then, the end of the "California dream" was so widely predicted and accepted, even in the state itself, that it took fortitude, or blind faith, to think otherwise.

Remember the headlines? "California: End of the Dream." "California Dream Turns Into a Nightmare." "State of Collapse." The doomsayers were not just trend-jumping journalists but also Wall Street analysts such as

Prudential Bache's George Salem, who wrote in 1992 that California "appears in the early stages of a long-term economic slide." It would take at least a decade to recover, he proclaimed, if ever.

It wasn't just the economy that was wrong. Salem and others saw the state, particularly riot-scared Los Angeles, as a racially divided dystopia. Two leading scholars associated with USC's Southern California study center described the City of Angels as "a superficial gloss of striking beauty, glowing light and pastel hues, which together conspire to conceal a hideous culture of malice, mistrust and mutiny." Furthermore, as late as the mid-1990s, UCLA forecasters, who were initially slow to predict the downturn, saw little evidence of an eventual recovery.

So what happened? Within two years of Salem's predicted "long-term decline," the California economy, after taking a huge hit from the collapse of the long-dominant aerospace economy, started to show unmistakable signs of recovery. Hollywood, which the USC professors had predicted was about to leave town for good, went on a hiring binge, boosting its employment base by two-thirds. Silicon Valley, widely thought to be on its heels in the face of the Japanese juggernaut, took off on one of the most spectacular expansions in the history of modern economies, establishing itself even more as the global epicenter of the digital revolution.

California not only came back. It also gained ground on the rest of the country, not to mention the world. Statewide job growth since 1994 has been roughly 30% higher than the national average. Over the past three years, California's job growth has been stronger than "booming" Texas, Washington state and Florida, and light years above that of competing industrial states like New York, Michigan, Ohio and Pennsylvania.

Even more important has been California's performance in the high-tech sector. Since the early 1990s, according to economist Steven D. Levy, California has gained market share in everything from computer services to medical instruments, biotechnology and communications equipment. Despite losses in aerospace and electronic-component manufacturing, the state's total share of the nation's high-tech jobs has risen from 19.5% in 1990 to 21.5% today.

In addition to its core strengths in technology and entertainment, California has also expanded its national leadership in many other fields, including agriculture, international trade and even diversified manufacturing. Los Angeles and Long Beach remain the nation's leading ports, and the region has reclaimed its place as a primary destination for tourists. Overall, out-migration from the state, some 430,000 in 1993, has fallen to barely 80,000. The annual rate of net population growth, driven largely by births to residents, now stands at nearly three times the levels of the mid-1990s.

The biggest problems on the collective California public mind are not economic collapse or racial tension but quality-of-life issues like traffic, pollution and metropolitan sprawl. Electricity and, increasingly, water shortages are symptomatic of the state's unexpectedly strong recovery.

California is certainly not immune to the recessionary forces affecting parts of the country. Gov. Gray Davis' spotty leadership in dealing with the energy crisis poses serious short-and even mid-term problems for companies. Yet to date, there is little sign of a mass exodus of companies or people to other states. "There's a hoped-for feeding frenzy," suggests one Northern California development official, "but right now it's just hoped for."

In sharp contrast to the early 1990s, California's unemployment has stayed relatively steady at historically low levels. Economic growth, although clearly slowing in the Bay Area, remains fairly solid throughout Southern California, particularly in the Inland Empire, which has emerged as one of the most dynamic economies in the advanced industrial world. Housing prices, except at the extreme high end, remain strong throughout much of the state.

Other factors suggest that California won't underperform the rest of the nation or on the verge of hemorrhaging jobs and population to other states. For one thing, many of the prime beneficiaries of the last California recession--places like Denver, Portland and Seattle--no longer offer individuals or companies the cost advantages they could in the early 1990s. Similarly, these areas, themselves now leading centers of the digital economy, also boast regulatory regimes and anti-growth movements as powerful as any in the Golden State.

At the same time, many of the lifestyle and ethnic problems associated with California-bashing in the early 1990s have spread to competitive regions. Mass in-migration to places like Las Vegas and Phoenix, both from within the nation and abroad, has transformed these cities into smaller versions of ethnically diverse, sprawling and congested California cities. "Los Angeles: America's First Third World City" was the headline on an early 1990s Arizona Republic screed, which indicated that most middle-class Anglos