

Bay Area needs to invest to retain top-tier economy

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Today's economy is generating anxiety at all levels. But as immediate as its problems are, we also need to keep our eye on the long-term prospects. While the Bay Area's economy is arguably the most competitive in the world, that edge could quickly fade if we fail to address our most pressing needs.

First, the good news: The Bay Area is the world's fourth-most-important center for global business—after New York, London and Tokyo—as measured by the number of and revenues of Forbes Global 1000 companies. We are the envy of the world, and most cities, regions and nations would kill for the assets that we take for granted.

At \$400 billion, the region's economy—if it were a nation—would be the world's 18th largest. Its economic productivity—\$122,000 per worker—is enormous, and sector-by-sector outstrips the national average by a wide margin. Some 42 percent of the Bay Area's residents have college degrees - more than in any comparable place in the United States or abroad, with knowledge workers (professionals, managers and scientists) distributed across a range of industries. The region attracts 35 percent of all venture capital invested in the United States, and the \$1,370 invested per capita vastly exceeds the second-place location, Singapore (\$180), or New York (\$107).

Its universities attract a disproportionately large share of national academic research funding (6 percent). Based on these assets, foreign investment in the region grew 67 percent from 2002 to 2006. And it continues to nurture innovative businesses (Google, Facebook, Wikipedia) and world-leading business sectors (biotech and clean tech). At a time when global trade and investment is increasingly focused on metropolitan regions, ours is in the top tier.

Now the bad news: Global change is accelerating, competitive pressures are increasing, and the cities and regions with which we compete are executing on ambitious strategies that may soon erode our leadership. By investing heavily in their infrastructure and in the education of their workforce, city-regions from Shanghai to Bangalore, and nations such as South Korea and China, are building their competitive assets. China and India are churning our huge numbers of scientists and engineers who provide the human infrastructure for new industries. Global companies, in pursuit of both talent and markets, are following. Increasingly, service jobs, manufacturing and R&D that once were focused here are being distributed globally.

By comparison, our record in California and the Bay Area isn't encouraging. While the Bay Area fares better than the rest of the state, California students underperform students in most other states in math, science and reading (and by international standards, U.S. students rank poorly). As a result, too many students graduating from our schools are unprepared for college or even for entry-level jobs. Foreign students, who fill the ranks of our university programs in science and engineering (and have contributed heavily to our economy after graduating) are drifting away in the face of post-9/11 barriers, a shortage of H1-B visas for those who might stay to create new products and companies, and a wait of up to five years for those who would become permanent residents. Other countries at the same time are aggressively competing for the same talent.

The cost of doing business in the Bay Area is among the highest in the world, and second only to London among comparable city-regions. Overall, Bay Area housing is the least affordable among the U.S. and global cities we analyzed. As this pushes more residents farther from their place of work, congestion has continued to worsen, eroding both productivity and residents' quality of life.

What does this tell us about the Bay Area's economic future? The short answer is: Change is the only certainty, and the future is in our hands.

To hold its edge, the Bay Area must rebuild a world-class K-12 public education system and support the community colleges that are essential to a flexible technical workforce. Our universities must remain second-to-none, and immigration policy must be reformed to ensure that the doors to global talent stay open. A larger, more diverse housing stock is needed, with more density closer to transit and major transportation corridors. And investment in public infrastructure, such as ferries and BART, must be accelerated.

Today, the Bay Area is a global hub for business and innovation, and a magnet for talented, creative people. By thinking and acting as a region, and by investing strategically in our strengths, we can remain a global leader, providing a high quality of life to those who live and work here. Standing still is not an option, and if we fail to invest and think strategically, we and our children may forfeit the privileged position that generations of Bay Area citizens have worked to achieve.

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