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## Why California is Still America's Future

By Michael Grunwald

California, you may have heard, is an apocalyptic mess of raging wildfires, soaring unemployment, mass foreclosures and political paralysis. It's dysfunctional. It's ungovernable. Its bond rating is barely above junk. It's so broke, it had to hand out IOUs while its leaders debated how many prisoners to release and parks to close. Nevada aired ads mocking California's business climate to lure its entrepreneurs. The media portray California as a noir fantasyland of overcrowded schools, perpetual droughts, celebrity breakdowns, illegal immigration, hellish congestion and general malaise, captured in headlines like "Meltdown on the Ocean" and "California's Wipeout Economy" and "Will California Become America's First Failed State?"

Actually, it won't.

Ignore the California whinery. It's still a dream state. In fact, the pioneering megastate that gave us microchips, freeways, blue jeans, tax revolts, extreme sports, energy efficiency, health clubs, Google searches, Craigslist, iPhones and the Hollywood vision of success is still the cutting edge of the American future — economically, environmentally, demographically, culturally and maybe politically. It's the greenest and most diverse state, the most globalized in general and most Asia-oriented in particular at a time when the world is heading in all those directions. It's also an unparalleled engine of innovation, the mecca of high tech, biotech and now clean tech. In 2008, California's wipeout economy attracted more venture capital than the rest of the nation combined. Somehow its supposedly hostile business climate has nurtured Google, Apple, Hewlett-Packard, Facebook, Twitter, Disney, Cisco, Intel, eBay, YouTube, MySpace, the Gap and countless other companies that drive the way we live.

"Whenever we have a problem, everyone makes a big drama — 'Oh, my God, it's the end. California is over,'" Governor Arnold Schwarzenegger told me. "It's all bogus." Schwarzenegger likes spin and drama too — he's issued warnings about a "financial Armageddon" — and he literally blew smoke in my eyes while we spoke. But his belief in the anything-is-possible dream of California is more than spin; he is, after all, its ultimate embodiment.

California, to borrow a phrase, will be back. It's been stuck in an awful recession — not quite as awful as Nevada's — but it's getting unstuck. It's made nasty cuts to close ugly deficits, but it hasn't had to release prisoners or close parks, and its IOUs are being paid. Its businesses aren't

fleeing to Nevada or anywhere else; Jed Kolko, an economist at the Public Policy Institute of California, has shown that fewer than one-tenth of 1% of its jobs leave the state each year. Even California's real problems tend to get magnified by its size. If it were a country, it would be in the G-8. So, yes, California has the most foreclosures and layoffs. With 38 million residents and a \$1.8 trillion economy, it also has by far the most homes and jobs.

It can be perilous to generalize about a place this gigantic, an overwhelmingly metropolitan state that leads the nation in agricultural production, a majority-minority state with a white-majority electorate. There are real differences between (crunchy, techy) Northern and (hipster, surfer) Southern California, and especially (richer, denser, bluer) coastal and (poorer, sparser, redder) inland California. But one generalization has held true from the Gold Rush to the human-potential movement to the dotcom boom: California stands for change, for disruption of the status quo. "California is not another American state," concluded Carey McWilliams in his 1949 history *California: The Great Exception*. "It is a revolution within the states."

Today, it's still the home of the new new thing. It is electric-vehicle start-ups like Tesla, Fisker and Better Place taking on the Big Three, or the local-organic foodies behind California cuisine going after Big Ag. It's Kaiser Permanente, the HMO whose model of salaried doctors in group practice may be the future of health care, or the University of California at Irvine's law school, which opened this semester with free tuition and was instantly more selective than Harvard or Yale. It's SpaceX, the private rocket-launching company, or Kogi, the Korean taco truck that announces its location over Twitter to flash mobs of Angelenos. "The beauty of California is the idea that you can reinvent yourself and do something totally creative," says Kogi's Roy Choi, a former chef at the Beverly Hilton. "It's still the Wild West that way."

California is a state of early adopters — not only in fashion, technology and design but in politics too. Its voters approved huge bonds for stem-cell research, high-speed rail and repairs to aging infrastructure while Washington was dragging its feet; its politicians adopted first-in-the-nation greenhouse-gas regulations, green building codes and efficiency standards for automobiles and appliances that have rearranged the national energy debate. Yes, it was also an early adopter of subprime mortgages — Countrywide, Golden West and IndyMac were all California-based — but life on the frontier has always been risky. "This is the most dynamic place for change on earth," genomic pioneer J. Craig Venter said on a recent tour of his San Diego labs, where researchers are studying ways to convert algae into oil, coal into natural gas and human wastewater into electricity. "That's why we're here." Dressed in shorts, flip-flops and a crazy-loud floral shirt on a typically perfect day, Venter noted that California's quality of life isn't bad either: "It is pretty nice not to have to wear pants."

California has long inspired its own premature obituaries. The 1855 book *The Land of Gold* dismissed it as "lawless, penniless and powerless." TIME published a woe-is-California issue called "The Endangered Dream" in 1991 after the aerospace industry collapsed. But even with 12%

unemployment, California still has an enviably young and productive workforce. And it's still a magnet for dice-rolling dreamers who want to start anew, make money and change the world, with or without pants. "I see my own pattern repeated again and again — people who want to invent the future and aren't afraid to fail," says billionaire Silicon Valley financier Vinod Khosla, an Indian immigrant who helped found Sun Microsystems and recently unveiled a \$1.1 billion venture fund for investments in clean technology.

Which just happens to be the next California gold rush.

### **The New Gold Rush**

Tom Dinwoodie is standing on a roof, staring at the future. The roof covers Richmond's grand "daylight factory" overlooking San Francisco Bay, where Ford built Model A's before World War II and then the iconic Rosie the Riveter built jeeps and tanks during the war. Now SunPower Corp. uses it to assemble the world's most efficient solar panels, including a sleek array on its roof. That's where Dinwoodie, SunPower's chief technology officer, likes to go to look across the bay at a collection of hulking tanks in which Chevron stores fossil fuels. If we don't stop global warming, he says, that water will rise. But if solar and other renewables keep growing as fast as they are in California, "we'll turn those tanks into hot tubs."

If you think solar is an eco-fantasy, you probably don't live in California, where rooftop installations have doubled for two years in a row, to 50,000, heading to the state goal of 1 million by 2017. The San Francisco utility Pacific Gas & Electric, which recently bolted the U.S. Chamber of Commerce over climate policy, has 40% of the nation's solar roofs in its territory. SunPower now has more than 5,000 employees. It's building massive power plants for utilities, as well as roof panels for big-box stores, complete subdivisions and individual homes. Prices are plummeting, and competition is fierce, most of it from California firms like BrightSource, Solar City, eSolar, Nanosolar and Solyndra. "The scramble is on, and California is leaps and bounds ahead of the rest of the country," says Dinwoodie. "That's true of all energy issues."

When it comes to energy, California is not just ahead of the game; it's playing a different game. Its carbon emissions per capita are less than half the U.S. average. And from 2006 to '08, it attracted \$3 of every \$5 invested in U.S. clean tech — five times as much as the No. 2 state. It's by far the national leader in green jobs, green patents, supply from renewables and savings from efficiency. It's also leading the way toward electric cars, zero-emission homes, advanced biofuels and a smarter grid: its electric utilities plan to install smart meters in every California home. It's even launched a belated battle against car-dependent sprawl, with unprecedented rules forcing communities to consider carbon emissions in their land-use plans.

California has been preparing for its clean-energy future for a long time. Starting in the energy crisis of the 1970s, California revamped its electricity markets so that utilities could make more money by helping their customers use less power. It also began enacting groundbreaking

efficiency standards for buildings, appliances, pool heaters and almost anything else that needs juice. It just proposed the first standards for flat-screen TVs. As a result, per capita energy use has remained stable in California while soaring 50% nationwide, saving Californians an estimated \$56 billion and avoiding the need for 24 new gas-fired power plants. On the supply side, the state has required utilities to provide one-fifth of their power from renewables by 2010, which will jump to one-third by 2020. And California's soup-to-nuts effort to slash emissions — including a cap-and-trade regimen in 2012 — is the blueprint for federal climate legislation.

This public-sector foresight has created alluring opportunities for the most tech-savvy private sector on earth. The venture capitalists behind the high-tech and biotech booms see clean tech as the next big score. The necessary engineers, scientists, accountants, lawyers, marketers and other knowledge workers are already there. "We've already turned industries on their heads, so we assume we can do it again," says Steve Dolezalek, VantagePoint Venture Partners' managing director, who oversaw the firm's software and life-sciences investments before heading its clean-tech group.

The lines between sectors are blurring fast. As its name suggests, eSolar is essentially a software play; its added value is advanced code that positions vast arrays of mirrors to the millimeter to maximize their exposure to sunlight. The company was spawned by IdeaLab, a Pasadena incubator that developed NetZero, Picasa, pay-per-click ads and online car-selling. "We only do ideas that challenge the status quo, and California is the only place we'd do it," says CEO Bill Gross.

Chip-industry veterans are also drifting into solar, as well as LED lighting and green materials, while Cisco, which made the guts of the Internet, is pivoting to make the guts of the digitized grid. San Diego's cluster of more than 500 biotech companies is now the world capital of algae-to-fuel experiments, including a new \$600 million joint venture between ExxonMobil and Venter's Synthetic Genomics. Khosla's investments include Calera, a carbon-capturing-cement start-up founded by a Stanford expert in medical cement; Amyris, which has Berkeley malaria researchers working to turn sugar into diesel; and Soladigm, which exploits semiconductor-industry expertise to make energy-efficient windows.

California scores poorly in most "business friendly" ratings, which tend to focus on tax rates and wage levels rather than on, say, worker productivity or creativity. And the state has more than its share of no-no-no types protesting nanotechnology, synthetic biology and even some SunPower solar-energy projects, which could possibly imperil kangaroo rats and fairy shrimp. But the state's business culture fetishizes long-shot ventures and game-changing ideas. Failure is appreciated, not stigmatized, and an entrepreneur without a few busted start-ups on his résumé is almost suspect.

Guido Jouret, who oversees Cisco's emerging technologies, explained this creative destruction when we talked over TelePresence, an ultra-high-definition substitute for the hassle, expense and carbon footprint of business travel. We were 3,000 miles (4,800 km) apart, but I kept forgetting we weren't at the same conference table. One of Steven Spielberg's cinematographers helped Cisco get the illusion of intimacy just right. "California has a very welcoming attitude, but it's a Darwinian society," Jouret said. "Companies come and grow and die, and no one sheds a tear. And there's a real sense that it isn't worth doing if it won't change the world."

California's high-tech community has concluded en masse that the next Google guys are going to be the visionaries who figure out how to harness the sun, build a battery to store the wind or engineer the renewable fuel that won't compete with the food supply. (It could be the actual Google guys, who have launched an aggressive clean-energy initiative.) "Inventing a better gadget isn't enough anymore. We're trying to reshape the way people live," says SolarCity CEO Lyndon Rive, a South African who went to California for the world underwater-hockey championships, got caught up in the Internet boom and never left. He built and sold an IT-support company; now he's reshaping its software to monitor solar panels.

### **The State of Progress**

So why all the end-is-nighism? Schwarzenegger thinks California gets slagged nationwide for the same reason the U.S. gets slagged worldwide: it's natural to resent the big kahuna. (He should know; his approval rating has dipped below 30%.) In a poolside interview after hosting a global climate summit in Century City, he suggested that outsiders envy California's immense resources — beaches, mountains and redwoods; Hollywood, Napa and Disneyland; the best in stem-cell research, fruits and vegetables, entertainment and fashion. (He was sporting a suit with a zebra-print lining.) "We're all about the cutting edge," he said. "I mean, come on. California is wild!" He's right about the schadenfreude, and it was fun to hear him say the word. It is easy to gloat when the cool jock with the hot girlfriend wrecks his sweet car, especially if he seems kind of smug. I was reminded of this during Rob Lowe's talk at the summit, when he declared that everyone has an obligation to join the fight against global warming, then continued, "For my part, I'll be doing *The Ellen DeGeneres Show*."

Then again, California has legitimate problems that inspire legitimate criticism: gangs, sprawl, disturbing dropout rates, water shortages that don't seem to stop farmers from irrigating rice and cotton in the desert, the crazymaking traffic that Hollywood immortalized in *Falling Down*. It's still sitting on a fault line. Its expensive housing, even after the real estate crash, poses a real obstacle to the dream of upward mobility. So do its public schools and other public services, which have been deteriorating for years — in part because older white voters have been reluctant to subsidize younger minorities.

This gets to the one area where California really is dysfunctional: its budget. Californians generally enjoy government spending more than they enjoy paying for it, which is a national problem, but they've also straitjacketed their politicians with scads of lobbyist-produced ballot initiatives locking in huge outlays for various goodies, as well as the notorious Proposition 13, which has severely restricted local property taxes since 1978. California is also one of only three states that need a two-thirds supermajority to pass a budget or raise taxes, a virtual impossibility in its ultra-partisan legislature. So it relies on a boom-and-bust tax base that even many liberals admit is overreliant on the rich. The state's economy actually grew last year, but its revenues crashed because its top earners had lower incomes and capital gains. That meant sharp cutbacks, especially in education, which in California is unusually dependent on state cash. "We have an incredibly dynamic economy, but we'll still end up in federal receivership if our government can't pay its bills," says historian Kevin Starr, a prolific chronicler of the state.

Fortunately, help may be on the way. Nonpartisan groups like Repair California and California Forward have built momentum for sweeping reforms that could stop the unsustainable chaos — including an end to the two-thirds rule, limits on ballot initiatives and a new system of taxation. Schwarzenegger is pushing for a gargantuan water-sharing agreement that could help prevent the state from running dry. And his potential successors are also formidable go-getters with forward-thinking credentials — including former governor and current attorney general Jerry Brown, golden-boy San Francisco mayor Gavin Newsom and former eBay CEO Meg Whitman. Brown, the early front runner, was widely mocked as Governor Moonbeam back in the 1970s, but some of his ideas — including energy efficiency, as well as the emergency-communications satellite that inspired his nickname — no longer seem so flaky.

But the crazy-Kalifornia criticism is likely to continue regardless of the facts on the ground — not just because of envy, but because of ideology as well. The collapse of the Golden State provides an irresistible parable for hippie-lefty vegan politics, the failure of a quasi-Scandinavian progressive experiment symbolized by MoveOn.org, Daily Kos and the Sierra Club; yoga, crystals and medical marijuana; "Hollywood values" and "San Francisco values." California has a tradition of activist government, and public support for the University of California, federal energy labs and the military-aerospace-industrial complex played a huge role in creating Silicon Valley, San Diego's biotech cluster and the state's other private-sector centers of innovation. So it's been a juicy target for right-wingers who consider Schwarzenegger a squishy sellout. If a low-carbon, Big Government, change-obsessed state with high taxes on the wealthy, draconian environmental regulations, a porous border and the nation's most vibrant labor movement were imploding, what would that say about the age of Obama?

Then again, the home state of Richard Nixon and Ronald Reagan has been a conservative trendsetter as well, leading the backlash against taxes, affirmative action and illegal aliens and enacting the first three-strikes law against career criminals. Its economy is much closer than the nation's to a true model of free-enterprise capitalism, in which government sets rules and

enforces a level playing field but declines to pick winners. And what could be more Californian than the conservative megapastor Rick Warren urging his multimedia flock to make a fresh start with a forgiving God? "A clean slate is possible!" he wrote in his best seller *God's Power to Change Your Life*. "It's a lot like my son's Etch A Sketch."

In any case, California is not imploding, which ought to be heartening to Americans regardless of ideology or geography. Because America is essentially the land of the Etch A Sketch, and California is America but more so, beckoning dreamers who want to cook Korean tacos or convert fuel tanks into hot tubs. It's progressive more in the literal than in the political sense of the word. And it's where America is going: a greener, more advanced and more global economy; a browner and more metropolitan population; and, yes, some staggering debts and other governance problems that need to be resolved. It's expensive and crowded — because people still want to be there! — and it's recovering from an economic earthquake. But it continues to have a powerful claim on the future. "In the depths of the breakdown, you can see the next narrative," says Mark Muro of the Brookings Institution's metropolitan-policy program. "It's California. The next economy is already in place there, and it's amazing."