The Bay Area’s Economic Prospects: Promising or Problematic?

I. Introduction

  isn’t often I get a chance to speak in my own backyard, so it’s a special pleasure to be here today.

B. As a Lamorinda resident, I share your interest in the future of this area and that of Bay Area generally.

C. Also, as representative of Federal Reserve Bank of San Francisco, I have a responsibility to monitor the health of this region.

  1. Not only because we’re headquartered here,

  2. but also because Bay Area is key component of nine-state region San Francisco Fed serves.

D. So, let me pose a question to you today: Are the Bay Area’s prospects promising or problematic?

E. My answer is they’re both.

  1. That is, Bay Area has tremendous strengths that should help to keep its economy vibrant.

  2. At same time, however, some key weaknesses are compromising the region’s ability to capitalize on its strengths.

II. I’ll turn first to the Bay Area’s strengths. They are numerous, of course. But I want to focus on just a few that I think are key.

A. First, this region has a highly-educated and highly-skilled population.

  1. Nearly 25% of Bay Area’s residents have had four or more years of college.

  2. This is substantially higher than national average of 16%.

  3. The high average salary level for this region reflects this higher educational attainment and skill level.

B. Part of the reason the Bay Area has such a highly educated populace is that its colleges and universities historically have ranked among the nation’s best.
1. In fact, region’s colleges and universities are world class.
2. As a result, Bay Area has more than its share of resident Nobel laureates, as well as many other distinguished academics.
3. This creates a tremendously rich environment for research and development.

C. Another key strength of the region is that it’s a center of trade and finance.

1. Bay Area is strategically located as gateway to growing trade with Asia and Pacific Rim countries.
   a. San Francisco area ports rank second to Los Angeles in terms of trade volume on West Coast.

2. In field of finance, Bay Area also stands out.
   a. Several of country’s largest banks are headquartered here.
   b. Likewise, region has access to necessary venture capital to encourage new business development.

   (1) 21 of top 100 venture capital firms are headquartered here.

D. Finally, region is vibrant because it has been able to attract the "best and the brightest" from other regions.

1. The incredible beauty of this region, coupled with its mild climate, make the Bay Area a desirable place to live.
2. The economic opportunities in the Bay Area’s economy also are attractive.

III. Region has been able to capitalize on its many advantages by specializing in industries that have particular need for highly skilled and educated work force.

A. High tech and biotechnology are prime examples.

1. High tech includes semiconductors, computers, software, and data processing.
2. It’s possible to include biotechnology, as well.
3. All told, this sector employs about 9% of the Bay Area’s work force, up from 7% fifteen years ago.
a. This contrasts with national average of 4%.

b. One fourth of nation’s biotech firms are in California, and the two largest (Cetus and Genentech) are headquartered here in the Bay Area.

B. Another industry in which the Bay Area specializes is business services. Here again, the region’s highly skilled work force has been an important reason this industry has grown so rapidly here.

1. By "business services" I mean public relations, advertising, word processing, personnel placement, data processing, and other office services.

2. This sector employs about 9% of the Bay Area work force.

C. Together, high tech and business services have accounted for 24% of the region’s job growth in the past 15 years, compared with only 17% nationally.

IV. I believe that the Bay Area’s specialization in high value-added industries like high tech and business services is a good thing -- a sign that our region’s economy is capitalizing on its strengths. But some see our region’s specialization as a problem to be solved.

A. As an example, they cite the current round of layoffs and plant closings in Silicon Valley.

1. San Jose Business Journal points out that several thousand high tech manufacturing employees have lost their jobs in recent months.

2. Layoffs have been result of retrenchment in semiconductor and computer manufacturing.

a. Some companies are moving manufacturing facilities to lower cost sites out of area;

b. Others merely are trying to keep expenses down.

3. But whatever the reason, many worry that the potential for future restructuring threatens the health of the Bay Area economy.

B. What’s more, many worry proposed cutbacks in defense spending will compound the region’s problems.

1. Proposed base closings in this area could eliminate as many as 17,000 civilian and 36,000 military jobs, according to Pentagon estimates.

2. Slowdown in defense contracting also could hurt region since
three of nine Bay Area counties (Santa Clara, Alameda, and Solano) rank among the ten California counties with highest per capita value of defense contracts.

V. Wrenching as many of these changes may be, I don’t think they signal the demise of the Bay Area economy.

A. For one thing, the layoffs in Silicon Valley are not going to continue indefinitely.

1. Once firms have adapted operations and costs to meet competitive pressures, I expect computer industry in this region to regain forward momentum.

2. To be sure, some of region’s manufacturing capacity may end up moving to lower-cost areas like Oregon and Idaho.

3. But, research and development will stay in this region. These are the activities in which the Bay Area continues to enjoy particular advantage over other regions.

4. Moreover, other aspects of high tech (such as biotechnology) will assume more prominent roles.

5. So, I’m convinced that high tech will remain a dominant force in our region.

B. Likewise, concerns about the proposed cutbacks in defense spending probably are overblown.

1. To be sure, base closings will have impact, but unlikely that all Bay Area bases will be closed.

   a. And to the extent the land is allowed to be used for other activities, impact of closings could be very minor -- maybe even beneficial in long run!

C. These observations suggest that our region’s dependence on high tech and services shouldn’t be an impediment to a vibrant future.

1. But let me offer an important proviso.

   a. An economy that is dependent on high tech and services also is dependent on people --

      (1) people who will do innovative research,

      (2) people who will make important technological breakthroughs, and

      (3) people who will provide the leadership for
innovative and fast-growing companies.

2. If we can’t attract these kinds of people and keep them here in the Bay Area, our economic future is in jeopardy.

VI. In this respect, I do have some concerns.

A. As I said at the outset, there are several key problems that are compromising our region’s future. These are:

1. Housing prices that are out of the reach of the average Bay Area wage-earner;

2. Elementary and secondary educational attainment that is disappointing at best; and

3. Transportation facilities that are strained to capacity.

4. Let me say a few words about each of these problems.

B. First, housing affordability.

1. Median price of house in Bay Area is $262,000, well above state and national averages.

2. Affordability index shows that only 11% of families in Bay Area can afford median-priced home, compared to 19% in California generally and 47% in U.S.

3. Of course, I want to point out that while housing prices are a problem, they’re also a reflection of the region’s prosperity.

C. Second, many (including businesses) are becoming concerned about elementary and secondary educational attainment.

1. And for good reason. Over one-fifth of the California students who entered tenth grade in 1985 had dropped out of school before graduation in 1988.

2. In Bay Area, this drop-out rate ranged from a low of one in every fourteen students in Marin County to one in four in San Francisco.

   a. Contra Costa’s rate was one in every eight students.

3. This is a dismal performance, considering the wealth and resources available to us.

4. Inadequate educational system restricts supply of qualified workers.
5. And it makes it harder to attract highly-educated workers from outside the region since many considering a move to the area worry about educating their families in school systems that are deemed less than adequate.

D. Finally, many cite transportation as one of most serious problems facing our region. That’s especially true here in Contra Costa County.

1. Between 1980 and 1988, highway travel speeds dropped from 55 to 20 mph on stretches of I-680, and I suspect, it’s even slower-moving now.

2. Likewise, many of our surface streets are having to carry excessive loads, as a result of changes in commute patterns.
   a. Moraga Road is a notorious local example.

E. The problems of housing affordability, lackluster elementary and secondary educational attainment, and inadequate transportation systems are all regional in nature, and require regional approaches to their solution.

1. That’s why Bay Area Economic Forum was formed.
   a. It’s a public/private partnership that brings together elected officials, academic leaders, and business executives from throughout the region.
   b. San Francisco Fed has been actively involved since the Forum’s inception.

2. One of the first problems the BAEF has tackled is the transportation problem.

3. I believe that our partnership approach to the transportation problem has yielded a potentially more effective solution than the more regulatory-oriented proposals currently being considered.

F. I want to spend a few minutes talking about this issue.

1. The Bay Area’s transportation crisis has two dimensions: congestion and air pollution.

2. The 1988 California Clean Air Act, which requires the Bay Area to address the air pollution problem by 1997, will bring the congestion problem to a head, as well.
   a. Clean Air Act requires that Bay Area reduce vehicle emissions 35% by 1997.
b. It also requires the Metropolitan Transportation Commission to file plan by June this year for achieving this reduction.

3. MTC is considering raising bridge tolls, but it is also considering some more heavy-handed options, such as:
   a. driving restrictions,
   b. parking restrictions, and
   c. mandatory car-pooling.

4. BAEF is proposing a more market-oriented solution, instead.
   a. We believe that transportation problem is basically an incentive problem.
      (1) By not charging full cost of using roads, particularly during peak commute hours, we’re subsidizing single-occupant vehicles and making public transit relatively less attractive.
      (2) This is a little like trying to get people to eat hamburger when filet mignon is being offered at a lower price.
      (3) No wonder transit use has been declining more or less continuously throughout the 1980s.
   b. Basic principle of BAEF proposal, then, is: charge drivers full cost of driving, including cost of delays they impose and the costs of their vehicles’ emissions.
   c. As an example, this may mean charging fees according to the amount of pollution a vehicle discharges in a year’s time.
   d. It also means that vehicle fees would be substantially higher during peak commute hours than during off-peak times.
   e. Revenues collected would be used primarily to expand public transportation network.
   f. This approach lets each driver decide what is best tradeoff for him or her: convenience and high cost of private automobile versus somewhat less convenient, but considerably less expensive public transportation.

5. Such a market-based approach has been tried in cities like
Singapore, with dramatic results.

a. Bus use increased 40%.

b. Car pool use increased 25%.

c. And single-occupant vehicle use dropped 35%.

6. With an approach along these lines, I think we can make real progress in solving one of the Bay Area’s most pressing problems.

VII. In conclusion, then,

A. I think the Bay Area’s economic prospects are more promising than problematic.

B. I’m confident that we can solve our region’s problems and keep this area’s economy vibrant.