



Silicon Valley Index shows sides of new economy

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Even as much of the rest of California braces for what looks like a slowdown, the state's best known economic engine – Silicon Valley is humming along, according to an annual report that tracks the region's business, social and civic health.

The area is still adding jobs and attracting more than its share of investment and patents, especially in emerging industries, according to the Silicon Valley Index, released last week.

Driving much of this activity is Silicon Valley's role near the center of a new wave of research and development into "green technology" – everything from energy efficiency to batteries and solar and wind power. But biotechnology and nanotechnology are also growing fast, new media companies are expanding again and information technology, especially involving the mobile Internet, remains strong.

"I suspect the Silicon Valley will be insulated from the national trends for a period of time," Russell Hancock, president and chief executive officer of Joint Venture Silicon Valley, the coalition of business, government and civic groups that publishes the annual index, told me last week. "Our economy has become more diversified."

According to the index, Silicon Valley was on track to receive 30 percent of the nation's venture capital funding last year, more than during the height of the dot-com boom. The region was home to 62 percent of California's venture capital investment in green technology and 47 percent of the state's patents in 2006, the most recent year for which figures are available.

Incomes were up last year, and the region, which includes 7 percent of the state's population, paid 15 percent of the personal income tax collected in California.

At the same time, Silicon Valley finds itself on the cutting edge of a new economy that means more change, more volatility and less security for business owners and employees alike. As more work is farmed out to consultants and sole proprietors, people have more control over their daily lives and potential rewards are higher, but former employees who now work for themselves are also responsible for their own health care expenses and retirement costs.

"This is nothing less than a new model of capitalism," Hancock said.

"These companies, in order to stay competitive, have to become extremely lean, agile and flexible. They're focusing on their core competencies, and everything else they are contracting out."

In the old economy, the typical business model was to get bigger and bigger, adding employees and controlling every aspect of work and operations. But the new firms in Silicon Valley, Hancock said, want to maintain as small an infrastructure as possible to keep costs down and remain nimble.

"You need a function, but rather than hire it, keep it in house, you go find the best person who does it," he said. "They could be anywhere. You write a contract, and they deliver the work. The relationship is

over. It ends or it could be renewed. It's a transformation into an economy of free agents. In a way we are going back to a nation of shopkeepers, farmers and craftsmen."

That trend might be responsible for some seemingly contradictory economic numbers. On one hand, the share of middle-income jobs in Silicon Valley is shrinking and the number of low-paying jobs is growing as a share of the work force. Yet in recent years, the percentage of low-income households has been declining while more households report higher incomes.

One reason is that more people are earning their living outside of traditional, salaried employment.

According to the report, the share of households earning less than \$35,000 has been declining since 2004, while the share earning more than \$100,000 has been increasing. The proportion in the middle has remained about the same. Nearly 4 in 10 households earn more than \$100,000 a year.

Not everyone is a free agent. Silicon Valley firms, governments and non-profit agencies added 28,000 jobs last year. But the composition of the region's employment continues to change, reflecting the broader pattern toward more research, design and project management and less manufacturing.

Ten years ago, 56 percent of the jobs in Silicon Valley were in computer hardware, semiconductors and electronic components. Now that number is 38 percent. Jobs in software and creative and innovation services, meanwhile, have increased from 37 percent of the work force to 54 percent.

The index also highlighted some areas of concern. High school graduation rates are declining, academic achievement in the public schools has leveled out and juvenile crime is on the rise.

Those challenges and others suggest that government and nonprofit foundations (which are also expanding in Silicon Valley) need to do a better job preparing young people for higher education and the work force. But in a global economy, individuals are also going to have to take more responsibility for their own welfare.

"You're going to have to acquire skills, have a niche and be unique, have a distinctive competence," Hancock said. "This is the impact of globalization, and you can't turn back the clock. These forces are real.

"It's here and if anything, it's going to increase in speed and magnitude."

About the writer:

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