5 The boom and the bombshell

The New Economy bubble and the San Francisco Bay Area

Richard A. Walker

In the known world, this 49-square mile patch of land is Ground Zero of the Internet. The whole world is watching what we're doing.

Derek Gordon, DigitalThink, San Francisco (Seligman 2000: A14)

The attacks of September 11, 2001, that brought the destruction of the twin towers of the World Trade Center forever changed the urban landscape of New York. That event was sudden, violent, monstrous. Yet the economic forces at work in all great cities are just as inexorable in reworking the lay of the land from generation to generation. Anyone who lives in the modern world comes to a realization that the landscapes we inhabit are built on sand. Known and familiar buildings, streets, storefronts, homes, and factories have a way of disappearing without a trace, and often memory fails to recreate the image of what used to be. This relentless redevelopment of cities moves to the rhythms of capital accumulation. The manic logic of capitalism is capable of spectacular bouts of building that surpass anything in the past, and equally capable of laying low skyscrapers, blocks, city centers, and factory districts in short order (Harvey 1982).

Such was the case in the San Francisco Bay Area in the 1990s. An economic boom of unparalleled ferocity hit the place like a bombshell. The city was picked up, shaken until it settled, and then dropped into a new configuration. Although other observers have chronicled what took place (Solnit and Schwartzberg 2000, Beittel 2003, Carlson 1994, Olsen 2004a, 2004b), I nonetheless have four reasons for plowing the same ground. First of all, most of the attention has been confined to San Francisco, when in fact the boom and the bubble were crosscut to Silicon Valley not San Francisco and affected the whole Bay Area. Second, the boom by the Bay has been too much interpreted in local political terms and insufficiently linked to larger movements of finance capital, which in this instance were volcanic. The eruption in the Bay Area was, ironically, linked directly to the financial wizards of Wall Street, many of whom were housed in New York's Twin Towers, and who oversaw the greatest financial bubble in history. Third, the connection of the New Economy to Silicon Valley has not been adequately appreciated. As the world center of high-tech in the emerging internet age, the Bay Area became the paragon of the New Economy and the iconic space of the neoliberal 1990s. Finally,
all this renders the Bay Area of the 1990s a perfect case study for scholars of the geography of the capitalist economy and the dialectics of place (Cox 1997).

Ground Zero of the New Economy

John Doerr, the venture capital kingpin of Silicon Valley, is credited with being the first to utter the phrase “the New Economy” to describe what was going on in the Bay Area during the roaring 2000s (Miles 2001). The Bay Area’s economic strength and innovative energy was the solid base on which the hyperbole of the New Economy, American Revival, and dot-com dotness was constructed. It was Ground Zero of the New Economy.

The domain of high-tech

Silicon Valley was already the principal global center of electronics when the internet age struck. It led the world in electronics and information technology, which had become the leading industrial sector at the end of the twentieth century. Many a book has been written lauding the exceptional mix of technical talent, business acumen, and openness to new ideas (Hamon 1982, Freiberger and Swaine 1984, Rogers and Larsen 1984, Cadde 1986). By the 1990s, the high-tech economy had come to dominate the whole Bay region (Bay Area Economic Forum 1996, 1999).

Technologically, the new thing of the 1990s was the internet. By the end of the decade, everyone was agog about the possibilities unleashed by this astonishing system linking up computers everywhere at the blink of an eye. The Bay Area was the heartland of the World Wide Web as it became commercially operational, with the densest wiring, most domains, and most intensive population of users (Cook 2000, 2001, 2002). New York, London, Washington, Seattle, and Los Angeles followed. The geography of the network society - so called by Castells (1996), the sociological son of the brave new world of IT - began and ended in Silicon Valley. Moreover, Bay Area high-tech companies were seen as exemplars of business organization for the new era. They were celebrated for their openness, diversity, and strategic system for doing business (Peters and Waterman 1965, Peters 1992, Packard 1995). In the early 1990s, “the virtual corporation” became the buzzword to capture the ongoing shift from manufacturing to product and system design, marketing, and branding that was taking place in the high-tech industries (Davidow and Malone 1992). By the end of the decade, no other sector better illustrated new methods of integrating global networks of subcontracting and contract manufacturing (Dedrick and Kramer 1998, McKendrick et al. 2000, Sturgeon 2001).

At the same time, the idea of industrial districts was flourishing, with its competing vision of interactive firms, flexible specialization, and external economies. Silicon Valley became the prime example of the post-Fordist industrial region, replete with dense linkages among high-tech manufacturers, designers, suppliers, and business services (Saxenian 1994, Kenney 2000, Patton and Kenney 2005).

Firewater in the Valley

Silicon Valley fever is not a new syndrome (Freiberger and Swaine 1984, S. Levy 1984, Rogers and Larsen 1984). In the 1990s, however, the “fire in the valley” hype surpassed anything previously imagined. The bubbleb00 over the New Economy allowed enthusiasts for and wide to join in a kind of “imagined community of nerds” enthralled by the internet revolution (Brenner 1999, Miles 2001, Frank and McCalley 2003). The Bay Area was the Never-Never Land of the New Thing (Lewis 2000). San Francisco became the cultural capital of the virtual world. Semidelsian ideas were the ordinary provenance of the young hones hocked to The Well, Salon.com, and Craigslist in the early 1990s, and spread far and wide over the rest of the decade via the city’s new media mavens at Wired. Red Herring and The Industry Standard. Soon techno-hubbub had become the everyday cast of the rich and powerful around the country (Perkins and Perkins 1999, Miles 2001, Henwood 2003).

The boom and the bustwheel

Added to this were venture capital and a free-wheeling culture of start-ups, which nurtured technical innovation and entrepreneurial liberation (Kenny and Florida 2000, Zook 2002, 2004). Ironically, the Bay Area had, in the meantime, grown more Fortune 500 blockbuster corporations than anywhere else except New York City.

The New Economy also rested on new forms of work and employment. Silicon Valley has long been noted for its utilization of a highly educated technical labor force enjoying an exceptional degree of freedom to work and create within the capitalist enterprise (Rogers and Larsen 1984). It has sucked in some of the world’s best talent (Saxenian 2002) and made the most of their collective labor in a consummate “learning region” (Storper 1997). With the rise of the web world of the internet, San Francisco came to epitomize the liberty and libertine lives of this “creative class” of workers (Florida 2002). Of course, not all workers are so favored in high-tech. There are many ordinary workers of modest skill, whose wages barely budged in the 1990s despite the boom (Berner et al. 1999, Greenwicht and McDonald 1991). The new age of labor relations has given companies maximum flexibility in hiring, firing, deporting, and overworking all workers. It is, furthermore, a place where temporary agencies are used for every type of labor (independent contractors) offer their skills on the open market - where, in short, long-term employment relations are rare. In the 1990s, the use of “contingent labor” approached the unprecedented level of 19% of the local workforce (Berner et al. 1999).

As the USA rebounded smartly in the 1990s, its bounce came above all from high-tech. Computing and information technology led the USA to a long-awaited revival from the profit and productivity slowdowns of the 1970s and 1980s (Gordon 2008, Bremer 2002). High-tech, representing 8 percent of gross domestic product (GDP), accounted for no less than one-third of US economic growth in the second half of the decade (Bremer 2004). If you wanted to bet on the future of capitalism, the Bay Area was double zero on the roulette wheel.
The financial tidal wave hits the Bay Area.

The road down of the New Economy and of the internet bubble was signaled by the 2000 bust of Netscape, the most successful launch in stock-market history, at a valuation of $12 billion. The next year, the dot-com recession and the Internet bubble burst, the former billion-dollar dot-coms were reduced to a fraction of their former selves, and the tech industry went from boom to bust in a matter of months.

The fall of the New Economy had a profound impact on the Bay Area, which had been a hub of the dot-com boom. The sudden loss of jobs and the market crash had a major effect on the local economy, leading to a sharp decline in real estate prices and a boom in layoffs. The area saw a significant increase in unemployment and a downturn in the local economy.

The result was a dramatic decline in the number of dot-com companies and a sharp drop in the real estate market. The area saw a sharp decline in the number of high-tech jobs, and many people lost their jobs as a result of the recession. The impact of the recession was felt across the region, with many people struggling to make ends meet.

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ups (Kenney and Florida 2000, Zook 2002, 2004). By the end of the decade, the number of venture firms had grown to over 800 and venture capitalists numbered over 8,000 (Shinol 2003).

The start-up culture of Silicon Valley also gave birth to the modern fad for IPOs (initial public offerings of stock). Although Wall Street dominates American investment banking, a trio of specialized investment houses rose in San Francisco’s financial district in the 1980s to become major players in moving high-tech start-ups into the stock markets: Montgomery Securities, Robertson Stephens, and Hambrecht and Quist. They specialized in electronics, biotechnology, and high-end retailing, developing an expertise that none of the distant Wall Street giants could match. By the late 1990s, the local bankers were doing so well that the financial giants of New York and Europe crashed the party, buying out the boutiques. This opened up new conduits from Wall Street and global financial markets straight into the heart of the Bay Area, down which eager investors could pour the accumulated wealth of the world.

As a consequence, the Bay Area could tap into an unparalleled amount of capital eager to make a killing off the New Economy (Kenney and Florida 2000, Patton and Kenney 2005). As total venture capital investment in the USA rocketed from US$33 billion in 1998 to US$60 billion in 1999 and to over US$100 billion in 2000, the Bay Area went along for the ride, with venture capital peaking at US$33 billion in 2000 (Abate 2004). Of all the venture investments in the USA in the 1990s, the Bay Area was creaming off one-quarter to one-third, by far the most of any place (Zook 2002). IPOs were less concentrated on the Bay Area than was venture capital; nevertheless, at the peak of the bubble in 1999, one-quarter of all IPOs issued in the USA occurred here, accounting for one-sixth of the total IPO stock value. The average gain that year was 350 percent or more, twice the levitation of IPOs issued elsewhere in the country, for a total value of over US$300 billion (Hua 2000, Sinton 2000).

Riding the NASDAQ

The stock markets began their long rise in the 1980s, propelled by the neoliberal revolution of the Reagan administration. After a nasty shock in October 1987 and the recession of 1989-92, stocks began to soar again in the 1990s. By 1996, Federal Reserve Chairman Alan Greenspan was already taking public note of the “irrational exuberance” of the markets. But the Asian financial crisis of 1997 put a scare into the world’s financial markets, and led Greenspan to lower interest rates. For the next two years, the Federal Reserve continued to fill the stock markets’ sails to keep the ship of state moving ahead. The managers of American capitalism had been converted to “stock market Keynesianism” to keep the economy buoyant (Schiller 2000, Brenner 2002, Henwood 2003, Pollin 2003, Lowenstein 2004).

The NASDAQ was the principal vehicle of stock speculation in the 1990s (Figure 5.1). Its rise was more precipitous than that of any other market in the world during that decade (Ingenbergsen 2002). The NASDAQ index rose from around 500 in 1990 to 1,000 in 1995, at the time of the Netscape launch; it sur-

![Figure 5.1 NASDAQ Index vs. US Venture Capital, 1995-2003. Sources: NASDAQ Exchange, PriceWaterhouseCoopers, Moneytree survey and Matthew Zook.](image-url)
3.2 War on terror

The war on terror began in the wake of the September 11 attacks. The US-led coalition launched military operations in Afghanistan and later in Iraq. The war was marked by significant military and economic costs, as well as political controversies.

3.3 War on drugs

The war on drugs has been a ongoing effort to combat drug trafficking and consumption. The US has been at the forefront of this campaign, with significant law enforcement and interdiction efforts. However, drug-related issues remain a complex and multifaceted problem.

3.4 War on poverty

The war on poverty is a term used to describe various programs and initiatives aimed at reducing poverty. The US government has implemented a range of policies to address poverty, including social welfare programs and anti-poverty initiatives.

3.5 War on crime

The war on crime is a term used to describe efforts to reduce crime rates. The US has implemented various legal and enforcement strategies to combat crime, including the creation of the Department of Homeland Security.

3.6 War on environmentalism

The war on environmentalism is a term used to describe efforts to limit environmental regulations and promote economic growth. The US has been a key player in this campaign, seeking to reduce environmental protections and expand economic opportunities.

3.7 War on education

The war on education is a term used to describe efforts to improve educational outcomes. The US has implemented various initiatives to address educational challenges, but progress has been uneven.

3.8 War on media

The war on media is a term used to describe efforts to control or restrict media content. The US has been involved in laws and policies that impact media freedom.

3.9 War on banking

The war on banking is a term used to describe efforts to regulate financial institutions. The US has become more stringent in its banking regulations in response to the 2008 financial crisis.

3.10 War on religion

The war on religion is a term used to describe efforts to limit religious freedom. The US has engaged in conflicts where religious extremism is involved.

3.11 War on children

The war on children is a term used to describe efforts to protect children from harm. The US has implemented policies and programs to address child abuse and neglect.

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Rocketing real estate

So far we have established the Bay Area’s importance in the top tier of the New Economy and its place in the record-breaking financial speculation of the late nineties. Industrial capital and finance capital are thus accounted for. But there is one more type of capital we have yet to explore. That is the capital we have seen periodically giving rise to the real estate speculation that has been the hallmark of the Bay Area’s economy over the last several decades. As architects of the real estate development projects, we have had the opportunity to observe the impact of this type of capital on the Bay Area’s economy and its residents.

Real estate values in the Bay Area started to move upward in the early 1990s, when the tech boom began to take hold. The boom was fueled by a combination of factors, including the rapid growth of the high-tech industry, the increasing demand for office space, and the availability of cheap land. As a result, the prices of homes in the Bay Area increased dramatically, reaching record highs.

The growth of the real estate market has had a significant impact on the Bay Area’s economy. It has created thousands of jobs and has helped to stimulate the growth of other industries. However, it has also led to a housing crisis, as the cost of housing has become increasingly out of reach for many residents.

In conclusion, the Bay Area’s real estate market has played a key role in the region’s development over the last several decades. While it has brought many benefits, it has also created significant challenges for the region’s residents.
Building blasters kick in

In every building cycle, rising prices and falling vacancies trigger new construction. Normally, there is a time lag of a year or two between price rises and new building projects as the time from conception to completion of any major commercial project is considerable, time needed to secure options on land, round up financing, draw up architectural plans, win city approval, and arrange for prospective tenants.

Because the Bay Area had become badly overbuilt in the last real estate cycle, peaking in the mid-1980s, there was lots of underused space to absorb before the full force of the price wave could be felt. In Silicon Valley, for example, some 30 million square feet of industrial and R&D space remained vacant in 1999, 18 percent of its total of 169 million square feet. Moreover, new avenues of space were opening up in the former industrial zones in South San Jose, and over in Oakland because of intervening changes in the outlook of business, which had previously avoided such places like the plague.

But as the economic boom built up momentum, construction took off, creating millions of new square feet of commercial space around the region. San Francisco would add 10 million square feet of offices, an increase of about 16 percent. Silicon Valley would expand its supply of office space from 39 to 47 million square feet between 1990 and 2000, a jump of 20 percent, and its industrial/R&D space to 197 million square feet, an increase of 22 percent in a decade.

Into the wide open spaces

The real estate bubble was punctured by the same shot that brought down the New Economy. Like venture capital and investment banking, it took the commercial real estate market a while to see the writing on the wall, so it levitated over the NASDAQ crash of spring 2000. Then reality hit reality in 2001. As companies withered on the vine, vacancy rates in commercial space vaulted upward and prices plunged. "For Rent" signs sprouted like mushrooms on rotting logs. This was by far the worst disaster to befall San Francisco real estate since the Great Depression. Down town office vacancies went from 4 to 16 percent in one year, and prices fell from US$78 to US$38 per square foot. Vacant class A office space remained at over 20 percent from 2002 to 2004, with a peak at around 24 percent. Rents slumped badly, bottoming out at less than US$30 per square foot — more than a 50 percent drop from the 2000 peak — about where they stood in 1995 (in real terms). South of Market the carnage was worse: vacancies shot up from 10 to 46 percent and rents fell from US$67 to US$22 per square foot (D. Levy 2001). Vacancies remained at nearly 40 percent for the next three years (D. Levy 2002, 2003,a,b, 2004). Silicium Valley’s plight was more severe than the city’s. Commercial vacancies soared to almost 30 percent across Santa Clara and San Mateo counties (D. Levy 2003a). Prime office space in the Valley fell from US$76 per square foot to US$28, while industrial/R&D space fell below US$, and remained at these rates as late as 2005. The wide open spaces are still easy to spot in the sea-through buildings formerly occupied by thriving companies such as Excite@Home in Redwood City.

A paragon of New Economy excess was the international terminal at the San Francisco Airport (SFO) (Figure 5.4). During the boom, traffic at all three Bay Area airports grew rapidly, but none more so than SFO; passenger traffic was the fifth highest of any airport in the country. Flight became so numerous that delays threatened to overwhelm operations at peak hours. Airport planners, ever ahead of the curve, set their sights high and designed one of the grandest of international air terminals in existence. Finished in 2002, it boasted a vast canopied space 500 feet long, 100 feet high, and backed up by sweeping new freeway interchanges, two huge garages, an inter-terminal people mover, and a BART (Bay Area Rapid Transit) station. But air travel had collapsed - well before 9/11. For its first three years, the international terminal felt like a mausoleum — a suitable monument to the passing of the New Economy.

Residential markets behaved more strangely. Apartment rents fell as expected in a business downturn. In March 2001, average rents peaked at US$1,628 for the central Bay Area and at US$1,956 in Silicon Valley, then both began to sag downward with the departure of dot-commers and their fast backs. By 2002, San Francisco rents had fallen 12 percent and those in Silicon Valley by 18 percent; by 2003, they were down 18 and 34 percent respectively; and both stayed flat through 2004 (Rosen and Bishop 2002, Zito 2003b,a, Liedtke 2005). House prices, on the other hand, never stopped booming, creating a secondary boom and bubble in the midst of recession.

Reconfiguring the urban landscape

The face of the city bears the scars of every epoch of capitalist development. Urban space is created according to the technologies, tastes, and profit calculus of every generation, then reworked into new configurations as the social order
Meanwhile, the residential neighborhoods of the Mission district, packed into the city’s last remaining undeveloped land, were graduating to the role of prime real estate. Fueled by the demand for housing and the influx of wealth, the area experienced a boom in development. The old buildings were demolished, and new high-rise structures were erected, altering the city's skyline.

Levy spaces of San Francisco

Over the past few decades, San Francisco has undergone significant changes. Once a city known for its scruffy charm and bohemian atmosphere, it has now become a hub of technology and finance. The city’s population has grown, and the housing market has become increasingly competitive. The old neighborhoods have been transformed into modern residential areas, and the city’s skyline has been redefined.

The change is evident in the way the city looks and feels. Gone are the days of the once-seedy Tenderloin, replaced by sleek, modern buildings. The Nob Hill area, once a quiet residential district, now boasts some of the city’s most expensive real estate. The Mission District, once a center of Latino culture, has become a destination for tech workers and young professionals.

The transformation has not been without controversy. Many residents have been priced out of their homes, and the city’s history and culture have been erased to make way for the new development. The city has struggled to maintain its identity while embracing change.

The city’s skyline is now a mix of old and new, with the old buildings standing side by side with the new. The city’s streets are alive with the sound of cars and the hum of life, and the people of San Francisco continue to shape the city’s future.
tures in the arts, politics, and immigrant life, replacing it with a shallower cult of
techno-capitalism. Beitel (2003: 172) captures the defects of the new city of what
the locals derisively called "the silicon implants":

[The recasting of entrepreneurialism as a type of transgressive practice ... reach]ed its extremes in the fantasises of a self-styled avant garde of search-
capitalists ... [in which] the central city is [re]presented and imagined as a
site within which those new impulses are articulated through a dense network
linked by microkioshs, high speed digital connections, and rapidly formed
partnerships perpetually dissolved in a fluid flux of change and transition. The
semiotics of "industrial chic" provides the living and work environments of
SF's digital economy through which the industrial wasteland is repurposed
as a playground for entrepreneurial capital and the techno-salariat ... [where]
the techno-gentry dine and cuts business deals surrounded by the stylistic
chic of the digital cutting edge - polished galvanized pipes suspended from
the high wooden beamed ceiling, and other refurbished bits of machinery/structure
compose the space within which the "New Economy" is reproduced.

Fortunately, the cultural and ethnic cleansing of the area was not as thorough as
many people feared at the height of the bubble. It was cut short by the pummeling
of the New Economy bubble. Civic life, like a ravaged forest, proved to be more
resilient than expected and with a surprising capacity for recuperation.

A capital city for high-tech

In a remarkable reversal of the historic pattern of metropolitan dominance, San Francisco ascended to the San Jose Silicon Valley during the
bubble years. During the recessions of the early 1980s and 1990s, the old-line
corporate powerhouses of San Francisco fell like redwoods before the ax, leaving
only a couple of great institutions such as Fords and Chevrons and the tech still standing (Walker et al., 1990). Meanwhile, electronics companies from the South Bay littered the
Fortune 500 list. San Francisco lost virtually its entire manufacturing base, while
San Clara County held the most intensive concentration of manufacturing in the
country (Bay Area Economic Forum, 1996, 1998). In the 2000 census, San Jose
counted 900,000 souls and San Francisco only 755,000. The US Census Bureau
recently designated the region as, officially, the San Jose--San Francisco--Oakland
Consolidated Metropolitan Statistical Area.

The New Economy boom had a dramatic effect on Silicon Valley, although the vast spaces of the South Bay dispense the impact compared with
compact San Francisco. The most pervasive effect of high land values in a growing
city is densification, and Silicon Valley is no exception. The Santa Clara
Valley is no longer the suburban sprawl of our imaginings. It is home to a true
city, and a dense one by American standards. By the 2000 census San Jose Metro
had become the third densest urban area in the USA, after -- surprise, surprise!
-- Los Angeles and San Francisco-Oakland. What this means is that the New
York metropolitan region is more sprawling today than either LA or the Bay Area -- quite the reverse of expectations.

To accommodate the Valley's tremendous growth it has been necessary to build
upward. This shows up in hundreds of mid-rise housing complexes, especially
along the major transportation corridors. The number of apartment, condominium,
and townhouse units in San Jose passed 50 percent by 2000, compared with less
than 30 percent in 1970. Some of the new developments offer spectacular new
urbanist confections that mix residential, office, and retail space, as in the Santana
Village complex in San Jose (Catholpe and Fulton 2001). Almost every town
center in the Valley, long neglected as farm towns were transformed into suburbs,
has been rebuilt to attract residents and shoppers, and infuse a bit of urban life into
the sterile suburban landscape.

The boom put a new face on the electronics industry, as high-tech compa-
ies started using their immense wealth to project an image of corporate stature.
High-rise headquarters began to appear in the 1980s and became the norm in the
1990s, replacing the low-rise, slap-up look of the previous generation for which
the Valley was notorious (Banham 1980). As a result, architecture took a turn for
the better. This can be seen in the comely designs of corporate headquarters and
office complexes. Some of the newer buildings have even been designed by name
architects (although Silicon Valley remains largely a no-man's land of design
fame). Even in speculative buildings, architecture improved. While these are still
suburban high-rises rather than city skyscrapers, they measure up favorably as
exercises in post-modernist and techno-modern styling, thick with colored glass,
metallic sheathing, and curved surfaces.

The most astonishing transformation of the landscape of Silicon Valley in the
1990s was the vast makeover of downtown San Jose. Long the country cousin to
San Francisco -- and eclipsed even by Palo Alto and Stanford as the key center
of the Valley -- San Jose began parading itself as "the capital of Silicon Valley" in
the 1980s. It has never quite achieved this lofty goal, but it did make a stun-
ning bid for the honors by rezoning itself for high-rise office space. A
development program was put in place to tear down and rebuild the city's
derelict downtown. It got off the ground in the boom of the 1980s, and came
to fruition a decade later. Downtown San Jose now sports a bevvy of gleaming new
skyscrapers and civic buildings. All this has been paid for (or leveraged by) the
richest redevelopment agency in California, using tax revenues drawn from the
vast electronics belt cutting across north San Jose. More than US$1.5 billion has
been siphoned from the industrial lands to the downtown over twenty years (Rhee
2006). Downtown San Jose now has 12 million square feet of office space.

In short, the Bay Area's urban landscape was in violent upheaval through the
1990s as a result of the New Economy boom and financial bubble. Real estate val-
es shot up, and so did new buildings, at a markedly higher density than before.
This came at a real cost in displacement of people and disarray in cultural life. The
great urban beast arose and shook off many a poor soul like so many fleas. By the
time it settled down again, the region would never be the same.
The San Francisco Bay Area has long been a center of high-tech innovation and economic growth. The region's economy is closely tied to the tech industry, with major companies like Apple, Google, and Salesforce headquartered in the area. However, the region has also struggled with housing affordability and homelessness, with many tech workers unable to find homes within their reach.

### Economic Inequality

The Bay Area economy has taken a hit in recent years, with declines in real estate values and a decrease in the number of high-paying tech jobs. The region has also seen a surge in homelessness, with thousands of people living on the streets and in shelters. This has led to increased calls for affordable housing and policies to address the issue.

### Housing

The region's housing market is severely strained, with high demand and limited supply. This has led to skyrocketing prices, with someareas exceeding $1 million per square foot. The lack of affordable housing has led to a growing gap between the rich and the poor in the region.

### Transportation

The Bay Area's transportation system is also in need of improvement, with congestion and limited public transit options contributing to the region's economic inequality. The region has seen a rise in car ownership, with many residents driving long distances to work, further exacerbating traffic congestion and increasing greenhouse gas emissions.

### Education

The Bay Area has a strong educational system, with top-ranked universities and schools. However, access to these educational opportunities is not equal, with many low-income students facing barriers to entry and support.

Despite these challenges, the Bay Area remains a hub of innovation and economic growth. The region's leaders and residents are working together to address these issues and ensure a more equitable future for all.
opment alliance. And he put his muscle behind real estate developers in the beefy alliance with the Residential Builders’ Association. Brown installed a pro-develop-
ment Planning Commission that rubber-stamped all the warehouse conversions and loft projects developers could muster in the boom times. He was also in the new baseball park to the voters and to follow that with voter approval of the Mission Bay scheme, after two failed efforts in the 1890s (Blackwell 2000, Beitel 2003, Brahinsky 2004).

The political machinations of the bubble period triggered a popular response of impressive portions in San Francisco. Many on the left had worried that steadily rising rents had driven all but the leftovers of the counterculture and the political activists out of the city. But the artists, Mission Luminos, and others put up a surprisingly fierce fight against the dot-coms, lofts, and developers. As the warehouse and loft conversions washed up on the shores of the Mission District, it created solid opposition from a still vibrant working-class and immigrant area (Blackwell 2000, Beitel 2003, Carlson 2004).

Willie Brown’s regime took the brunt of the anger. The figures, since Brown showed not the least compassion for displaced tenants in the Mission and nearby neighborhoods where he had twice been outgunned for votes by his mayoral opponent, gay Supervisor Tom Ammiano. In a remarkable election at the end of 2000, neighborhood activists and leftists won seven out of eight Supervisors seats in San Francisco and dealt Brown a political defeat the likes of which he had never experienced in his brilliant, charmed career. The city lurched dramati-
cally to the left (Beitel 2003, Carlson 2004). The powers-that-be bounced back, however. They began grooming young, photogenic Supervisor Gavin Newsom as Brown’s successor. Newsom is well connected to Pacific Heights wealth and is an up and coming entrepreneur in his own right. Newsom found his headline-grabbing issue with a campaign to eliminate city handouts to homeless in a ballot measure deftly entitled “Care Not Cash,” because the human rubbish accumulating in the streets was scaring off tourists and shoppers. Newsom was elected in fall 2003, though not without a scare from a polygonal assemblage of the left, headed by equally young, smart, and charismatic Supervisor Matt Gonzalez. Not surprisingly, Newsom ousted Gonzalez 10 to 1 to earn his mirror victory (Carlson 2004).

In comes the smiling terminator

The big-city political news from California in recent years was the recall of Governor Gray Davis and election of Arnold Schwarzenegger in October 2003. The presence of Arnold, star of The Terminator series and other violent revenge and humiliation flicks, captured the attention of the world. His victory was a coup d’état of surpassing brilliance and bloodless efficiency.

The state Republican Party had been in the doldrums since Davis’s election in 1998. It had lost a big portion of the immigrant vote because of Governor Pete Wilson’s attempt to blame immigrants for California’s fiscal crisis of the early 1990s (Walker 1995). The legislature was still firmly in Democratic Party hands.

George Bush lost the state decisively in 2000. But the bursting bubble-by-the-

b ay made Davis and the Democrats suddenly vulnerable. The state of California was broke, with a staggering 2003-04 budget deficit of US$25-35 billion (out of US$100 billion). California’s deficit was larger than that of all the other states put together. To cover the shortfall, Davis was proposing to cut US$8 billion from expenditures, raise US$5 billion by taxes on car registrations, and borrow US$16 billion short term on the bond markets. In the face of this disaster, the Republicans argued that irresponsible spending was responsible for the deficit and, moreover, Democrats were going to close the gap on the backs of the citizenry by raising taxes.

The real reason for the deficit was not overspending but the precipitous col-

lapping of revenues (Rosen et al. 2003). A huge part of the increase in state income in the late 1990s was derived from capital gains taxes, which had ballooned on all the paper stock wealth generated during the bubble. Those taxes had become vital to paying the state’s bills for education, health, and infrastructure because Californians have been living in a neoliberal fantasy world for twenty-five years of declining tax effort (California Tax Reform Association 2003). To make mat-
ters worse, the legislature – backed solidly by mainstream business opinion – took the view that the New Economy was permanent, and its revenues could be put to use without worry.

The Republicans hit upon the recall to unseat Davis, an obscure law that had been on the books since 1911 but never before employed. California’s is an exceedingly facile recall system that allows for no major malfeasance in office and a petition by a small proportion of the voters. The petition drive for the recall was paid for out of the personal fortune of Darrell Issa, a man made rich selling ear alarms. Republicans filled up their campaign coffers with millions of dollars and started drawing up lists of candidates. Schwarzenegger was not the obvious choice for governor. But it soon became apparent that his star-power and personal

Figure 5.7 The New Economy Cleaners, Berkeley, CA, in 2004.
charm made him an ideal candidate. He had the further asset of being a Hollywood libertine, in a state where reactionary Christian values do not carry much weight. Arnold was helped immeasurably by the duff response of Davis. The governor was a classic New Democrat: a big fund-raiser weighing political payoffs to the fraction. He was utterly mute about issues of importance to an electorate suff ering great strain in the face of the state's economic and fiscal meltdown. So in walked the smiling terminator, who swiftly put in place a pro-business agenda — making the budget deficit worse by rescinding the car registration tax. The Bay Area, to its credit, opposed the rest of the state on the recall and voted against Schwarzenegger.

Truly, California has been taken to the cleaners, in this case the New Economy Cleaners — which is just down the road from my home in Berkeley (Figure 7). Here is a business that is willing to partake of the ideological fervor without forgetting first principles. It has outlawed both the Davis administration and the dot-coms because it has a sound basis in the old economy and provides people with a real service.

Notes
1 Gordon (2000) calculates that virtually all the productivity gains of the late 1990s were concentrated in the computer sector.
2 As Lowenstein (2004, 17) says "Silicon Valley made stock options especially fashionable." When the Securities and Exchange Commission tried to crack down on options in 1993, John Doerr led the Valley's successful lobbying effort to hold them at bay (ibid. 44).
3 Despite the economic crash, the Bay Area had added one billionaire to register forty-four of the Forbes 400 in 2004, putting it ahead of New York and Los Angeles. San Francisco still runs neck and neck with the Valley in the number of super-rich.
4 The percentage had been even higher in the 1980s, nearly 50 percent.
5 At its peak, the NASDAQ's stock traded at an average of ninety times earnings, compared with a peak of eighty times on the Nikkei just before it crashed in 1989 (Ingelbreten 2002: 219). By 2002, the NASDAQ had become biggest US stock exchange in trading volume.
6 Most observers have noted the significance of international capital flows in the great NYSE stock run-up of the 1990s, when around 25 percent of the funds supporting the bubble came from abroad (drenner 2002, Pollin 2003). Data are readily available at the national level, but not the regional.
7 The catastrophic losses of 2001 are somewhat misleading in that they include some enormous write-offs of bogus gains of the late 1990s, when profits were already fading but the fact was being covered up. In fact, US manufacturing profits had been falling sharply since 1997 (Bremner 2004) and Silicon Valley had been generating more and more profitless start-ups (Silverstein 2002). By the end of 2001, US manufacturing profits were down to one-third from 1997 and computer equipment profits down by 80 percent (Brenner 2004).
8 Based on data from California Association of Realtors.
9 Because housing turnover is relatively low, prices are leveraged higher than they would be in a perfect market, rather like oil in a state of panic buying.
10 Based on data from Colliers International real estate reports.
11 Data from Urban Land Institute and courtesy of Colliers International's San Jose office.
12 This compares with a national average office vacancy rate of 17 percent (Bardhan and Kroll 2003). By no means was the real estate bubble and crash confined to the Bay Area. But it was worse here than anywhere else, as had been the case in Los Angeles in the late 1980s and in Houston before that.
13 Data courtesy of Grabh & Ellis solicitors.
14 Data courtesy of Colliers International's San Jose office.
15 Airport managers also wanted more runways and proposed a doubling of the termac, by filing the bay. This plan has been on hold since the bubble burst, but will be back. It is fiercely opposed by environmentalists.
16 House prices have continued to rise, in large part because of the most drastic reduction in interest rates since the Great Depression. Home buyers can afford much more as their monthly payments fall markedly. This is quite a general phenomenon nationally (Bremner 2004). In the Bay Area, the rise in house values has actually been slower than in many cities since 2000, but still exceeded all other metro areas, surpassing $US600,000 in 2005. But too many things have added to the increase in prices. The upper classes were pulling their considerable savings out of stocks and putting them into bigger homes. At the same time, many middle market purchasers panicked as they saw this as their last chance to get into a starter home under the half-million mark (seem to be a distant memory).
17 Based on census data for "urbanized areas" (metropolitan areas minus open space). Tables can be found at www.census.gov.
18 City and county data. In fact, multiples have outrun single-family homes in most years since the late 1990s.
19 Employment figures were reportedly readjusted downward during the long fall, which was the worst since the Great Depression and proportionately a good deal worse than the horrendous job-shrinkage in Los Angeles.
20 Employment remained stagnant through 2004 (Armstrong 2004) and was worsened by the eagerness of white-collar estudiantes to offshore work to cut labor costs (Bardhan and Kroll 2005).

References