

It's time to save the golden goose



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— Dale Kasler
The Sacramento Bee



Let's Put California Back in Business

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Businesses scared off by California go global

By Dale Kasler

Tim Keller, entrepreneur, wants to help revive the California economy – but only on his terms.

Working from a basement office near UC Davis, he has started a company with a quirky, only-in-California quality to it. VinPerfect's product: a high-tech seal designed to improve the performance of screw caps on wine bottles.

Don't laugh. Keller believes he can topple the \$1 billion-a-year market for corks. He has raised \$150,000 so far from investors and could begin commercial operations in a year.

But there's a catch. The lifelong Californian will outsource production – to China, maybe – if he can't get past the state's environmental laws.

"Feeding my family is still higher on the food chain than employing Californians," said Keller, 34, the father of a 2-year-old.

Such is the state of the California dream in 2010, with unemployment stuck at 12.5 percent and the recovery slow to take flight.

Time and again, the state's economy, driven by technology and entrepreneurship, has roared back to life after being declared dead. It could well happen again, despite the epidemic of empty storefronts and idle construction cranes.

"The core of the California economy is still in place," said Chris Thornberg of Beacon Economics in Los Angeles.

But a full comeback isn't guaranteed. California no longer competes only with other states for jobs. It competes with the whole world.

Globalization makes it easier and more tempting for California companies to outsource operations to low-cost countries. China has already snagged jobs in solar energy and other sectors of green technology – considered by many to be the next big hope for California.

Costly – and risky

California's political climate adds another complication. Along with taxes, regulation and other long-standing issues, "Furlough Fridays" and the \$20 billion deficit deepen the suspicion among some that California is no place to do business.

"It's more expensive. It takes more time. It's riskier," said Matt White of Basin Street Properties, a developer that owns office buildings in Sacramento. Basin moved its headquarters last year from Petaluma to Reno.

Intel Corp., a pioneer of Silicon Valley, soured on its home state years ago. During the rolling blackouts of 2001, the semiconductor giant pledged never to build another plant in California.

It kept that promise. Over the past decade, even as it downsized some operations, Intel spent \$11 billion on plants in Oregon, Arizona and New Mexico. It closed its last California plant, in Santa Clara, last June, although it closed plants elsewhere, too.

Intel has taken the ax to white-collar jobs as well, demonstrating that one of California's greatest assets – its brainpower – doesn't count for as much as it used to. Not when tech companies can hire engineers in Russia and India "for 20 percent of what it costs for an engineer in Silicon Valley," as former Intel CEO Craig Barrett once said.

Intel's Folsom research campus has lost 1,451 jobs, or one-fifth of its work force, since 2000. Most of those jobs went elsewhere or were eliminated, although about 400 were spun off to another company still in Folsom.

Asked about Intel's presence in California, spokesman Chuck Mulloy said "the record speaks for itself." He declined to comment further.

Bottle cap breakthrough

Keller wonders about his company's California future, too.

A 12-year veteran of the wine business, the founder of VinPerfect got his master's degree in business from UC Davis in 2008 and realized he didn't want to own a

winery after all. Instead, he decided the future was in bottle caps.

He says wine keeps better in screw-top bottles, and it's only a matter of time before wine enthusiasts see that, too. He's adamant that his product – a perforated seal inside the cap – will let him conquer a market dominated by cork.

"I think the time is right," said Keller, who has raised \$150,000 and is working on a second round of funding at \$500,000.

Finding a home for VinPerfect has been an issue from the start. Friends warned him about California's workers' compensation costs, which are still 20 percent above the U.S. average despite a massive reform. His investors pushed him to locate in Reno "as more business-friendly," he said.

His contacts in the packaging industry told him the same thing: "They're all deathly afraid of doing business in California."

California is the heart of his market, and his home state. But his product, made from a kind of polyethylene foam, can raise environmental problems. The production process involves emissions. Keller is worried that California's environmental laws mean he "can't have a business or be competitive," he said.

Though he considers himself an environmentalist, he might set up production in another state or China, where the laws are less strict.

A job exodus?

Stories like Keller's worry some public policy analysts.

"California has unbelievable resiliency," said Joel Kotkin, distinguished presidential fellow in urban futures at Orange County's Chapman University. "But its lead has certainly eroded and its cost structure is horrible."

The result, he said, is that jobs that could be created in California go elsewhere. The state's entrepreneurs and venture capitalists are still churning out new businesses, but Californians don't benefit like they used to.

"You create your jobs in China, you create your jobs in Oklahoma," he said. "Austin (Texas) is filled with young people who would have lived in Silicon Valley 20 years ago."

Others dismiss warnings of a mass job exodus. California's share of the U.S. job market has held fairly steady over the years at about 11 percent, according to a 2007 study by the Public Policy Institute of California. Some of the states held up as business-friendly, such as

Nevada, are doing worse now than California.

And California still enjoys some advantages. Although consultants say China has taken an early lead in green job growth, California's commitment to fighting global warming is drawing business to the state.

Solar Power Inc. of Roseville has assembled all of its solar panels at a factory in China. Now, with some financial help from the federal economic stimulus package, it's planning a 100-employee assembly plant at McClellan Park in North Highlands.

One could argue that California has bounced back from worse jams than this. The 1990s recession permanently devastated the aerospace industry – yet California eventually recovered when technology boomed.

In the current recession, most of the job losses have been in cyclical industries such as construction and retailing, suggesting another comeback is likely.

"We've actually walked through this horrible recession with our economic base unscathed," said Stephen Levy of the Center for Continuing Study of the California Economy.

History of boom, bust

That doesn't mean California hasn't suffered permanent losses in this recession, including the estimated 20,000 jobs that dried up when Toyota closed its Fremont plant last week.

Yet boom and bust is the California way, ever since the Gold Rush. The current hardship from the state's overexposure to the property bubble is merely the latest turn in the roller-coaster ride that defines California's economic history.

"When things are good in the world, they're great here," Thornberg said. "When they're bad in the world, they're terrible here."

Recovery will bring new occupations, replacing the ones gone for good. Michael Bernick, who analyzes work force issues for the Milken Institute, ran a job-training program in San Francisco in the late 1970s. One of the classes was typewriter repair, geared toward a cluster of repair shops south of Market Street.

"In 10 years, all those shops were gone," Bernick said. "Now you go down those streets and you see Web design and software shops."

But Bernick isn't sure if history will repeat.

"The challenges are, in a lot of ways, greater now," Bernick said. "The unemployment is deeper than we've seen before. Globalization is a far greater force than we've seen in the past two recessions."