California Dreaming Isn't Dead. It Just Has a ZIP Code.

by

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Every few years, someone declares the death of California Dreaming. Sometimes it is a governor from another state boasting about inbound U-Hauls. Sometimes it is a tech CEO announcing a move to Texas. And sometimes it is a clever point made in in the *Financial Times* suggesting that California's geographic concentration of economic activity is not as extreme as England's.

The FT's argument went like this: If you removed the Greater London area from the United Kingdom, the country's per-capita GDP would shrink by 14 percent. This would put it, shockingly, at the level of the poorest U.S. state, Mississippi. Remove the San Francisco area from the United States, and national per-capita GDP would fall by only about 4 percent. The implication was that America's prosperity is more evenly distributed than Britain's, and that California's famed innovation hub is not nearly as essential as London is to the U.K.

We find this to be an eye-opening comparison, but it is also the wrong one.

The United States is too big economically for this analogy to mean much. California alone is an economic giant. The state economy is a $4.4 trillion powerhouse that would rank fourth in the world if it were a sovereign nation, ahead of Japan, India, and the U.K. Comparing the Bay Area to the entire United States is like comparing a spark plug to a freight train. The scale mismatch hides the real story.

If we want to understand California's economic geography, we need to answer a different question: What happens if you remove the Bay Area from California? And if we did, would the California Dream still have a pulse?

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The answer is startling.

Despite the negative headlines California still ranks fourth among U.S. states in per-capita GDP, just behind New York, Massachusetts, and Washington. It sits comfortably above Texas (ranked 17th) and Florida (36th). But prosperity is not evenly distributed. And this is where the FT's analogy becomes genuinely illuminating, although not in the way the article intended.

When we remove the Bay Area from California by subtracting both its population and its economic output, California's per-capita GDP falls by 20 percent, from $84,000 to $67,000. That drop is far larger than the U.K.'s hypothetical decline without London. It would place California in the bottom 10 states in the U.S. in terms of per capita GDP, although "comfortably" above Mississippi.

In other words: California has its own London effect — and it is even bigger.

The reason is straightforward. The Bay Area's per-capita GDP is $166,000, twice the state average, even though only 17 percent of California's residents live there. Its industrial mix is uniquely tilted toward high-value industries. The Information sector and Professional and Business Services each have roughly double the employment share in the Bay Area compared to Southern California. These industries generate immense value added per worker. Even recent reductions in employment, possibly driven by the gradual introduction of AI, have not changed the fundamental structure.

Southern California, by contrast, produces enormous *total* GDP. If the area was a country, it would have the 16th-largest economy in the world. The "Republic of Southern California" would rank just behind South Korea and Spain. At the same time, Southern California has more than twice the population of the Bay Area. Its per-capita GDP is close to the state average. Removing Southern California barely affects California's overall figure.

This is not a North-versus-South rivalry story. It is an economic concentration story.

However, it is also a reminder that California Dreaming has not disappeared. It has simply become geographically concentrated, in terms of intensity, productivity, and disproportionality, in the Bay Area.

That concentration explains why 131 of California's 199 billionaires live there. It explains why California generates more patents annually than any country except Japan. It explains why the state attracted more venture capital last year than the next ten U.S. states combined. And it explains why, despite the headlines about corporate departures of Oracle, Space X, Hewlett Packard, and yes, In 'N Out and Jamba Juice, California today has two more S&P 500 headquarters than it did in 2016. Mature firms may leave, as economic theory would predict for a dynamic and innovative region, but new firms rise.

For Southern California residents, this may feel like yet another reminder that Northern California gets the glory. But the point is not to elevate one region over another. Southern California's economy is enormous, diverse, and globally influential. Its entertainment, logistics, aerospace, and biomedical sectors shape the world. Its cultural output is unmatched.

But if we want to understand why the state continues to outperform most of the country in per-capita prosperity, we have to acknowledge where the economic engine is strongest.

The California Dream is not dead. It is concentrated. And that concentration continues to lift the entire state, including Southern California.

The real challenge for policymakers is not to mourn the dream, but to broaden it. Decision makers need to ensure that the innovation ecosystem that powers the Bay Area can be nurtured, replicated, and expanded across California's diverse regions.

The dream still lives, even on such a (hot) summer's day. It just has a ZIP code.