Metropolitan Policy Program
The Brookings Institution

The Third California:
The Golden State's New Frontier

Joel Kotkin and William H. Frey [1]

"How the Third California fares may determine whether the state remains competitive and a beacon of opportunity in the early decades of the 21st century."

The "Third California" extends from the outer suburbs of greater Los Angeles to the foothills of the high mountains of Northern California. It covers a vast and diverse series of places, from urbanized areas like Sacramento to great suburban regions to some of the most fertile agricultural regions in the world. To a large extent, what defines the Third California is how it contrasts with the increasingly congested, expensive, and physically hemmed in coastal region. Virtually all the fast-growing regions of the state, from Riverside-San Bernardino to the south to the burgeoning suburbs around Sacramento are located in this area. To capitalize on this growth, and to secure its place as a font of opportunity in the state, the Third California must appeal to skilled workers and industries, address the needs of undereducated, primarily Hispanic workers, and build on the optimism that has led many newcomers to the region.

I. Introduction

For most Americans, California evokes coastal images, the sunny beaches of south or the spectacular urban vistas of San Francisco Bay. Yet within California itself, the state's focus is shifting increasingly beyond the narrow strip of land between the coastline and its first line of mountain ranges.

This interior region—which we define as "the Third California"—extends from the outer suburbs of greater Los Angeles to the foothills of the high mountains of Northern California. It covers a vast and diverse series of places, from urbanized areas like Sacramento to great suburban regions to some of the most fertile agricultural regions in the world.

To a large extent, what defines the Third California is how it contrasts with the increasingly congested, expensive, and physically hemmed in coastal region. Virtually all the fast-growing regions of the state, from Riverside-San Bernardino to the south to the burgeoning suburbs around Sacramento are located in this area.

Yet not much public commentary about the Third California is positive. To some this region of California represents an increasingly failed geography, a place of rising poverty, environmental, and aesthetic ugliness. The Central Valley, for example, has been described as a product of "malign neglect", shifting from an agricultural cornucopia into "an almost unbroken chain of smog-choked cities and suburbs."[2] Local media descriptions of the Inland Empire are rarely any more charitable. "Activists," reported the Los Angeles Times,"believe the Inland Empire is evolving into an ecological catastrophe."[3]

Along with the aesthetic criticisms a widespread notion exists that the skill levels and economies of this vast area are marked by permanent underdevelopment and undesirable jobs. Insofar as there are significant gains in educated migration to the Central Valley, argues one report, it is because people still commute to jobs in the coastal region, where the vast majority of good jobs are located.[4]

Such assessments all contain elements of truth, but often ignore the more dynamic aspects of the region's demographic and economic growth and its potential for positive change. Along with its growing urbanized character, much of the Third California is building more diverse job growth, while developing both urban amenities and developing a greater appreciation of the need to preserve its natural environment.

Most importantly, the Third California remains perhaps the greatest untapped outlet for upward mobility in the Golden State. In some senses, this reflects as well the difficulty of wealthier areas—such as First California's San Francisco Bay Area and, to a lesser extent, coastal Second California in the south—to provide new jobs and opportunities, especially opportunities for homeownership.

Some of these areas, notably the San Francisco Bay, may well be content to continue as relatively high-wage, high-income regions without any further population or even job growth, preferring essentially to remain in a kind of socio-economic steady state. This has been defined by one prominent economist as "Growth without Growth".[5] Although this may work in metropolitan areas such as Boston or Providence that have a stagnant, rapidly aging population, it is difficult to imagine amid the demographic force of a state like California, whose population is expected to grow substantially over the coming decades.

Even policy experts in California often fail to see this critical distinction between an aspirational economy and an aging, albeit affluent one. Relatively low incomes are certainly a problem, particularly in parts of the San Joaquin Valley, but more consideration needs to be paid to the impact of the Third California's much higher rate of family formation, as well as lower cost of living.[6]

We have chosen to focus on the Third California for three reasons:

- The area has experienced rapid recent growth and is capturing an increasing share of the state's population. Today with a population approaching 10 million—more than that of 42 states—the interior region represents almost 30 percent of California's total population, more than the combined populace of the greater Bay Area. Since 2000 it has been home to four of the nation's top ten fastest growing large metro areas—Riverside, Stockton, Sacramento, and Bakersfield.[7] By 2050, the region is expected to account for over 38 percent of Californians and be home to over 21 million.[8]
- This recent growth is creating new challenges for the region in its transition from rural and agricultural to urban and service-oriented. Indeed, Third California faces severe problems with pollution, growing congestion, out-migration, racial stratification, and industrial decline. Its problem may not be as obvious as those of older, dense cities, but they are very much as real.
- At the same time, growth and diversification are creating great potential for California families and Third California communities. Migration to the region seems to be driven largely by such things as new jobs, availability of housing and a sense that there is a future for upward mobility. For example, a survey in 2004 found nearly 60 percent of Bay Area residents express deep concern about the ability of the next generation to become homeowners; residents of the Central Valley and Inland Empire were considerably less negative.[9]

The purpose of this paper is to document the new movement of people and jobs to this formerly rural part of the state, far detached from coastal, metropolitan California. It provides a detailed description of these changes and discusses the broad implications of these changes for California as well as other Western states.

Map 1. Reference Map for the Third California

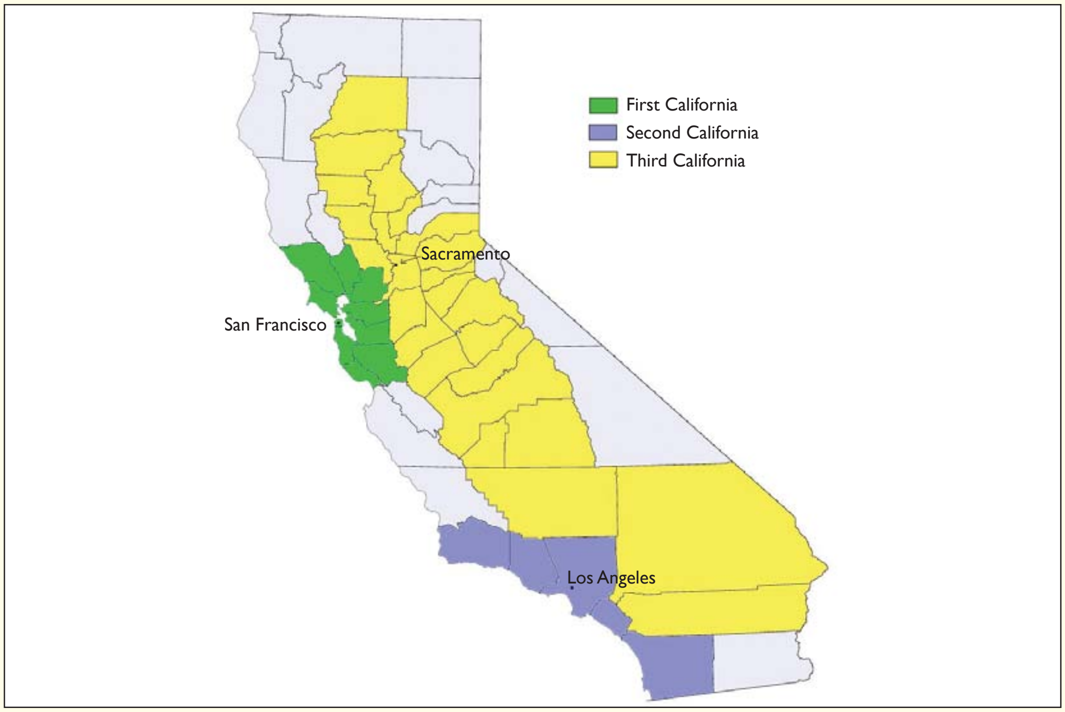


Table 1. Population Reference Table, California Regions

Region	2000 Population*	2005 Population	Numeric Change, 2000–2005	Percent Change, 2000–2005	Share of State Population, 2005	Square Miles of Land Area	Density, Persons per square mile, 2005
First California	7,061,194	7,112,240	51,046	0.7	19.7	7,367.8	965.3
Second California	16,383,991	17,053,877	669,886	4.1	47.2	13,632.5	1251.0
Third California	9,162,095	10,518,015	1,355,920	14.8	29.1	74,769.0	140.7
Remaining California	1,395,476	1,448,015	52,539	3.8	4.0	60,190.4	24.1
California state	34,002,756	36,132,147	2,129,391	6.3	100.0	155,959.7	231.7

**Estimates per July 1st of year.*

Source: US Census Bureau estimates, with land area data supplied by Anthony Downs

II. Historical Overview of Third California

Since the period of Native American settlement, the largest concentrations of population in California usually have been along the coast. Well into the Spanish and Mexican periods, interior regions were generally undeveloped. The major missions remained, for the most part, close to the coastal areas, which proved easier to cultivate and had access to the sea.

By the late 1840s, however, the interior part of California began to develop its agricultural production, most particularly along the Sacramento River and delta regions. This area became even more important with the discovery of gold in the foothills outside Sacramento. Almost immediately the area to the east became inundated with miners from around the world. Yet as the "gold fever" abated, the interior regions of California became progressively less important. Mining towns still rose whenever a rich vein was discovered, but most eventually shriveled and died.

With the increased tapping of ground water, and then runoff from the Sierra range, Third California—most notably the Central Valley—evolved into a region of vast ranches extending over thousands, even tens of thousands of acres. In 1870 just five hundred farmers controlled over 8.6 million acres, a land mass greater than all of Massachusetts and Connecticut combined.[10]

This history of large scale agriculture and the underdevelopment of towns and urban infrastructure contributed to the still persistent underdevelopment of education and professional skills. For most of the region, city life evolved slowly and hesitatingly. In 1861 Fresno "city" consisted, as one writer put it, "one large house, very dilapidated, and an empty warehouse and a corral."[11]

In contrast, San Francisco and its environs quickly became established as California's preeminent urban center, with growing educational institutions and professional service firms. The Bay Area was "first" in almost everything for California, with the largest port, most of the industry, and the bulk of the state's population. Cosmopolitan in taste and affect, San Francisco thought itself not as merely another American city but "the Paris of America."[12]

Gradually, coastal Southern California began to develop as well, particularly after the establishment in 1876 of regular train service from the east. Playing off its legendarily idyllic climate and spectacular topography, the area became popular with migrants from the Midwest, as well as those seeking to establish a new identity away from the constraints of more familiar surroundings.

Both this emerging new "Second California" and the already well-established Bay Area developed flourishing agricultural industries, exporting wine, vegetables, fruits, and nuts to the rest of the country. By the 1920s the rapid growth of Los Angeles allowed it to supplant the Bay Area as the primary population center of the state. The Second California emerged as the industrial, trade, and political center of the state.[13]

In contrast, the interior parts of the state grew much less spectacularly. With the exception of the state capital of Sacramento, most towns and cities in the area from Riverside to Chico existed primarily to service the agricultural economies in their immediate hinterlands. Although the climate was generally harsher than along the coast, much of the land was extremely fertile and, once irrigated, became enormously fecund.[14]

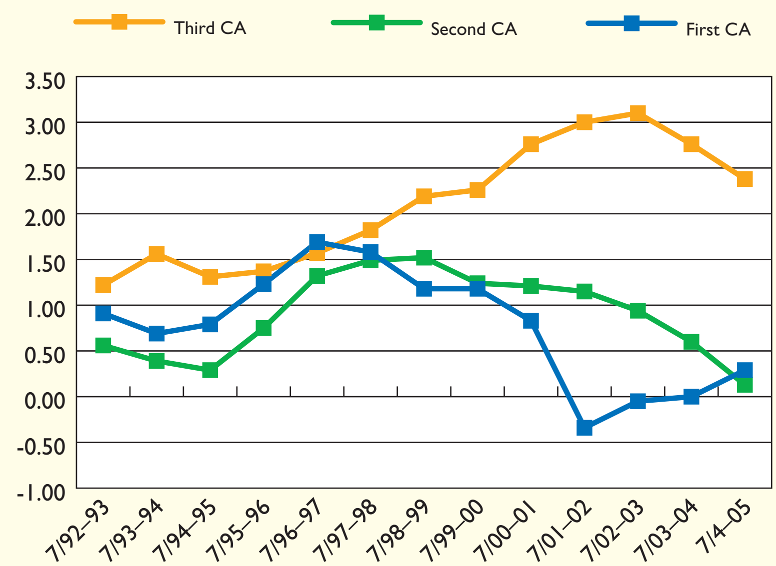
Agriculture and resource extraction dominated the economy, and its population reflected these realities. Fresno was renowned largely for its raisin grapes and its large Armenian population. Bakersfield became well known as an oil and cotton town. It reflected in large part the rural backgrounds of many of its citizens who migrated to the area from the southern "Dust Bowl" states in the 1920s and 1930s. Los Banos' vineyards attracted newcomers from Portugal. Japanese and other Asians settled in other communities such as Hanford, excelling in cultivating fruit and nut trees.[15]

Despite the migration of these groups, as well as the growth of its longstanding Mexican-American population, the interior part of the state represented a relatively small proportion of California residents—roughly one-fifth of the state's population in 1960 compared to nearly one in three today. If anything, it was widely regarded by other Californians as a place from which talented and ambitious people tended to leave for the greater opportunities along the coastal plain. It is also possible that opportunities in oil and agriculture—where a college education was not widely necessary for a first job—diverted people from seeking educations.

III. The Demography of Third California

Although the interior regions of California continued to grow in the period after 1950, most of the job and population growth continued to be concentrated in the First and Second Californias. These regions saw the growth of key industries—entertainment, electronics, international trade—that provided great new opportunities for both Cali-

Figure 1. Annual Growth, Three California Regions



Note: Yearly Change is from July to July.
Source: Frey, "Eastward Ho."

fornia natives and newcomers from other states.

After 1970, foreign immigrants increasingly drove the state's population growth and were first concentrated in the already highly urbanized coastal areas. Population growth in the interior was not as rapid initially and depended largely on domestic migration.

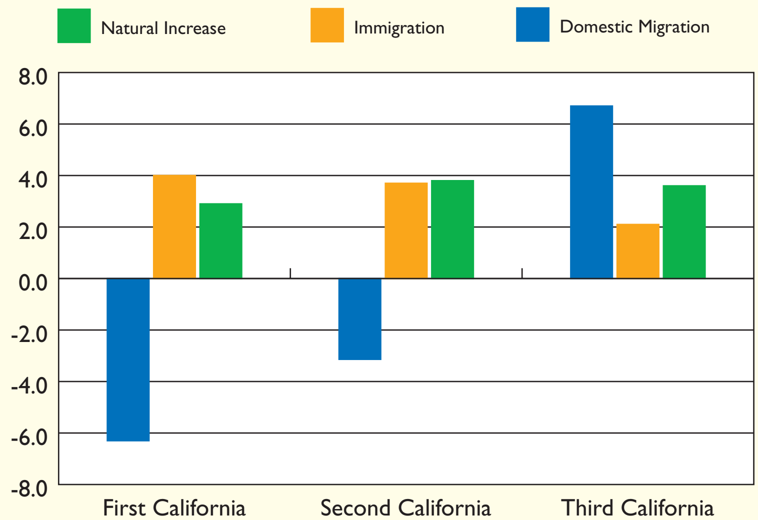
By the 1980s there came a major shift in migration patterns. As both the Bay Area and Southern California began to fill up, housing and land prices began rising substantially. This helped initiate a massive wave of migration—much of it from working class families—from the coastal regions of First and Second California to the interior of Third California (Figure 1).

Most prominent were two massive waves, one from the Bay Area to the Stockton-Sacramento region, which abuts the Bay Area, and, even more dramatically, into the Riverside-San Bernardino areas from Los Angeles and Orange counties.[16] This process continued, albeit at a slower rate, during the devastating recession of the early 1990s, which led to both slower population growth and a massive out-migration of Californians.

Indeed over the past four years, the Third California has been the only section of the state to enjoy domestic in-migration while population growth in the other parts of the state has been entirely the product of foreign immigration and natural increase; that is: the excess of births over deaths (Figure 2). Yet this migration pattern is not changing the fundamental reality of ethnic change in the different regions; although Southern California is already majority non-Hispanic white, both the Bay Area and the Third California seem poised to move in this same direction in the years to come (Figure 3).

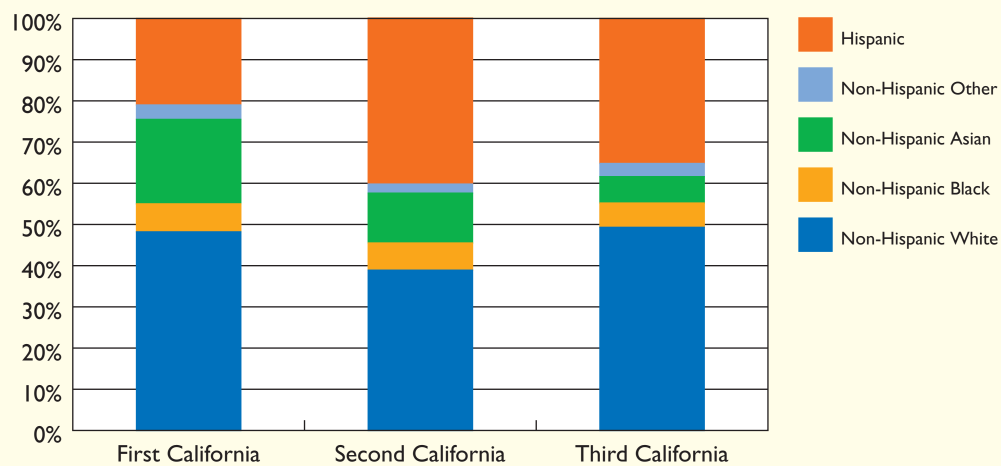
When growth resumed again in the Bay Area and coastal southern California in the mid-1990s, the migration to the closer-in parts of the Third California again accelerated. This time domestic migrants were joined by immigrants and immigrant minorities—Hispanics and Asians—who increasingly began to move into places like the Inland Empire, Sacramento and even the more rural, less urbanized areas in the Central Valley. As coastal urban land prices accelerated, areas such as Fresno, Bakersfield, and Visalia also began to become increasingly attractive to both domestic and foreign newcomers. Roughly two in five movers to the Central

Figure 2. Demographic Component Rates per 100 Population, 2000–2005, Three Californias



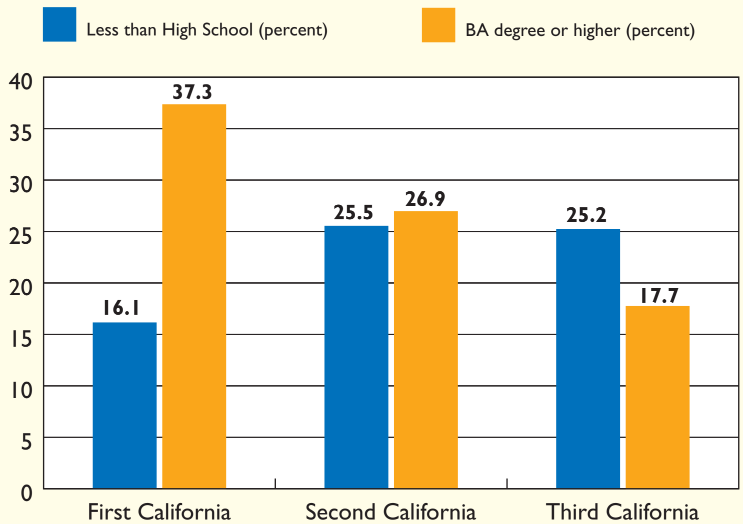
Source: Frey, "Eastward Ho."

Figure 3. Race-Ethnic Composition, 2005, Three Californias



Source: US Census Estimates

Figure 4. Education Attainment Persons 25 and Older, Three Californias, 2000



Source: US Decennial Census

Valley, noted a recent Public Policy Institute of California study, did so because housing was much less expensive in Third California.[17]

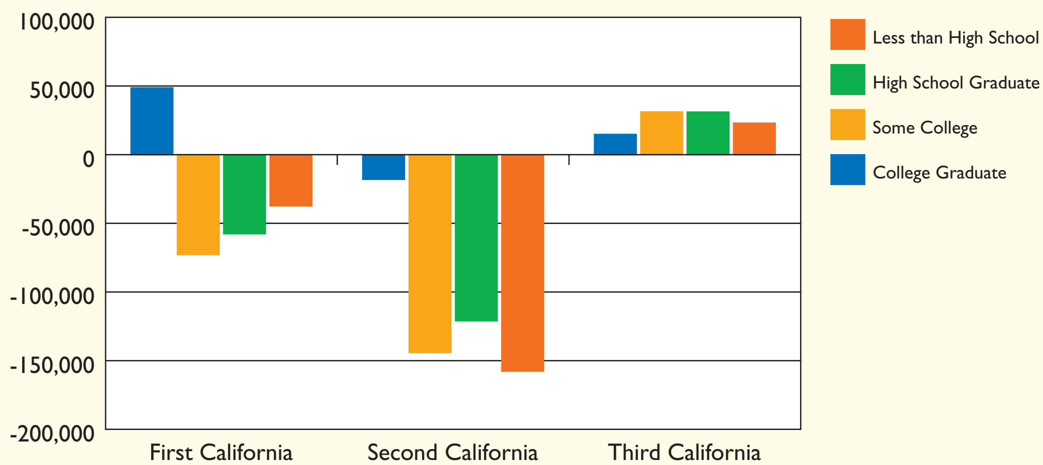
As a result, since the late 1990s, the population growth rates in interior California began to outstrip those of the coastal regions by increasingly large margins. Once a backwater, large parts of the Third California appear to be coming of age. The new migrants to the Third California were a mixed lot. In some areas, an increasing percentage was young families, including many with college educations. In others, the migration seems to be somewhat less skilled, and included a large proportion of Hispanics.

Today, it appears the Third California is serving as a catch-basin for a large demographic of people from the rest of California. Like the state overall, although to a lesser extent, it also continued to lose domestic migrants to the rest of country, most predominately to lower cost areas like Nevada, Arizona and Texas. Yet troublingly, a larger portion of the Third California's in-migration tended to be less well-educated than that to either Southern or Northern California, perhaps somewhat off-setting the net gains made among domestic migrants. This could be caused by the nature of the Third California economy, which remains more dependent on agriculture, basic manufacturing, and distribution than the coastal economies, which retain the bulk of high-value added technology and business service employment.

Overall, the workforce of the Third California remains substantially less well educated than in either First or Second California (Figure 4). However, its percentage of educated people increased from 1995 to 2000, which was somewhat more than Second California but somewhat less than the First California. Yet at the same time grew far more rapidly than the rest of the state in terms of people with community college degrees and high school graduates (Figure 5).

Perhaps most intriguing of all, Third California also experienced nearly a 40 percent growth in its ranks of people with graduate degrees, a rate of increase larger than the Second California and close to that of the First California.[18] This movement of professionals into parts of the region—most notably the Inland Empire and Sacramento—may signal a longer-term shift in the area's ability to compete in high-skilled industries.

Figure 5. Net Migration Gains or Losses By Education, Three Californias 1995–2000



Source: Frey, "Eastward Ho."

Table 2. Fastest Growing California Metro Areas, 2000–2005

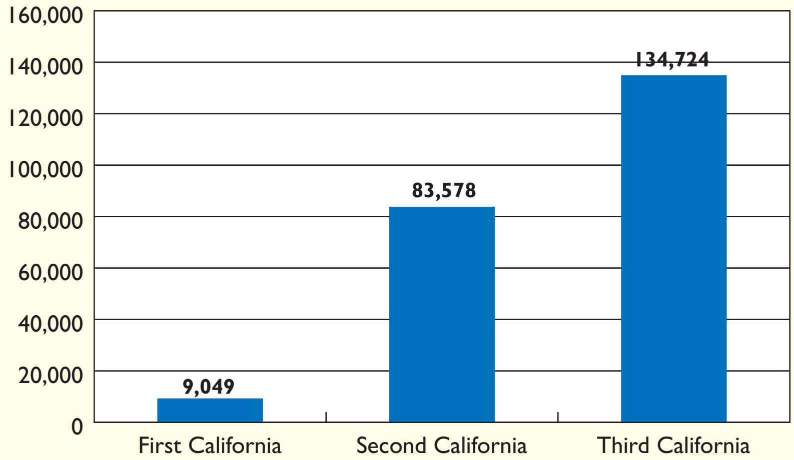
Rank	Metro Area	Population Growth per 100 population
1	Riverside-San Bernardino PMSA	19.2
2	Stockton-Lodi MSA	16.9
3	Merced MSA	14.2
4	Bakersfield MSA	14.0
5	Sacramento PMSA	13.3
6	Modesto MSA	12.4
7	Yuba City MSA	11.8
8	Visalia MSA	11.4
9	Fresno MSA	10.2
10	Redding MSA	9.8

Source: Frey, "Eastward Ho."

The first years of the 21st century have seen something a shift in the 1990s trends. From 2000 to 2005 each of the state's ten fastest growing metropolitan areas are located in the Third California. And since 2000, both coastal regions, the First and Second California, lost more migrants to the Third California than to other parts of the US. Indeed, this central California region is now successfully competing with surrounding states like Nevada and Arizona as destinations for out-migrants from greater San Francisco and Los Angeles.

These trends appear to be driven, first and foremost, by the remarkable run-up in home prices in coastal California. The situation in the Bay Area was particularly notable. Slow population and job growth rates have not substantially lowered the high price of housing. From 2003 through 2006 the affordability rates in the San Francisco Bay Area –the percentage of

Figure 6. Growth in Under 15 Population, 2000–2005



Source: US Census Bureau Estimates

people able to buy a median priced home—had dropped by about 15 points to around 25 percent.[19]

These conditions appear to have accelerated migration to the Sacramento region of Third California, and even further afield. Many of these newcomers have simply been priced out the First California, and in some cases, might also be migrating for better job opportunities. Coastal Southern California, particularly Orange County, followed a similar, if somewhat less dramatic pattern, spurring considerable migration moving to the Inland Empire region. This was perhaps more a function of housing than opportunity since the coastal economy in the south, particularly in Orange County, has remained robust. In 2004, the income necessary to buy a median priced home in Orange County was nearly $147,000; in the Inland Empire it was roughly $106,000.[20]

Taken together, housing costs and a weaker coastal economy, particularly in the Bay Area, have produced an ever widening gap between growth rates in the Third California and the rest of the state. In fact, between 2000 and 2005 the Third California growth rate has reached over 14 percent, four times the rate for the rest of state.

Much of this growth has come from domestic migration, most of which from elsewhere in California, including many Hispanics, who made up more than half of the Third California's growth since 2000. Another key driver of growth has been the movement of young families. In contrast to the Bay Area and the Southern California coastal plain, the Third California has seen dramatic increases in its population under the age of 35, including a substantial number of young children. Indeed between 2000 and 2005, this area added more new children under 15 than the rest of the state combined (Figure 6).

The education, class, and income of these more recent migrants can not be definitively known from the current census estimates. Clearly the 1990s saw the continued "brain drain" from places like the Central Valley outside of Sacramento to coastal California.[21] Yet the post-2000 patterns, particularly the negative trends in the Bay Area, have the potential to reverse these longstanding patterns and accelerate the movement of higher skilled people into the parts of the Third California.

Another intriguing issue may be whether this migratory pattern will now expand to other regions, such as the Imperial Valley, which is now beginning to attract commuters from the San Diego area. Similarly, there are increasing media reports of some migration of families to places such as Bakersfield, where some are reportedly commuting regular to parts of Los Angeles County.[22]

Nevertheless the most critical question today remains a possible mismatch between the new migrants and higher-wage job possibilities. Even with improving conditions, the overall Third California workforce likely still lags far behind the level of education found particularly in the Bay Area, Orange County, as well as parts of western Los Angeles County.

IV. The Economy of Third California

As stated earlier, the key challenge for the Third California lies in developing an economy that can accommodate its population growth in appropriate and sustainable ways, employment and wage levels. Most assessments in this regard are less than encouraging, in large part due to the high levels of poverty, low wage rates and unemployment that exist in large parts of the region.

In some senses, the problem reflects the flip side of the region's agricultural past. Rural parts of the Third California experience both low wages and high unemployment, in part due to the seasonability of farm-related employment. Many of the counties with the nation's persistently highest rates of poverty and unemployment are located in the San Joaquin Valley, including in the region's metropolitan center, Fresno. Many of these areas have experienced declining per capita incomes through the 1980s and 1990s.[23]

This negative picture persisted to a large extent throughout the 1990s. The Third California entered the 1990s with the highest rate of poverty and ended it with the greatest percentage increase. Much of this poverty was concentrated among people under 18 most particularly in rural areas of the central and south San Joaquin Valley. The big exceptions lay with the Sacramento area, and the Inland Empire region, which stayed close to the state-wide average.

Income numbers tell much the same story during the late 1990s. Overall the Third California had a considerably lower percentage of high income households earning over $100,000 than the rest of the state, particularly the First California. At the same time, it was home to a somewhat higher percentage of households earning under $25,000 a year. Again, the Sacramento and Inland Empire regions had less poor, and more affluent, households than the more rural San Joaquin regions.

Given these statistics, a great deal of emphasis has been given to the development of the economy throughout the region. To a large extent the Third California still depends largely on demographic growth to drive its job creation. Construction, retail and related services constitute a large part of the overall job growth.[24] Yet over the long run, population growth alone can not alone build the overall economy—and leaves the region highly susceptible to any downturn in the housing market and do not represent a "competitive" capture of markets from outside the region.

Yet there is some room to hope for considerable improvement. In a sense, this follows what economist John Husing has described as the "dirt theory".[25] According to Husing, a specialist on Southern California's economy, the first stage of development for fast-growing regions like the Inland Empire has tended to focus on cheaper land costs, first for residents looking for single family homes, then for low end industry and finally for the evolution of higher-end industry. Although similar conditions may exist elsewhere, the process Husing describes may have evolved more quickly due to the enormous growth of southern California and the steep run up of housing prices in the region.

As discussed earlier, this pattern could be applied to the rise of places like Orange County in the 1950s and 1960s, as well as to the immediate interior regions of Los Angeles, such as the San Fernando and San Gabriel Valleys. One can make much the same point about the early evolution of the Santa Clara Valley south the San Francisco. The Inland Empire—the southern anchor of the Third California—epitomizes this transition abundantly. Husing describes the

Table 3. Percent Change in Employment, by MSA , December 2002–2005

Metropolitan Area	Total Employment	Manufacturing	Professional Business Services	Information
First CA				
Oakland	-1.4	-4.3	-.1	-11.0
San Francisco	- 9.1	-7.6	- 5.2	-17.1
San Jose	- 14.1	-15.2	- 3.5	2.3
Second CA				
Los Angeles	- .8	-10.7	- .8	7.1
Oxnard	2.5	.7	5.0	-13.1
San Diego	5.2	-6.6	2.1	0.4
Santa Ana	5.7	-2.3	10.0	-12.3
Third CA				
Bakersfield	8.2	8.2	11.3	8.2
Chico	2.0	7.4	-10.8	15.4
Fresno	4.6	2.4	8.3	-1.5
Hanford	10.2	10.1	2.6	0.0
Madera	20.2	4.2	33.8	0.0
Merced	7.9	6.2	1.0	-13.3
Modesto	4.4	-.1	1.8	25.8
Redding	5.8	-12.1	16.1	-11.8
Riverside-San Bernardino	13.7	4.9	19.1	-2.9
Sacramento	5.7	4.4	2.4	-14.3
Stockton	6.6	1.1	16.3	-7.7
Visalia	3.5	1.5	1.8	20.0
Yuba City	3.6	-19.6	2.4	33.3

Source: Shires, 2006

region's emergence as one of the nation's premier growth areas as "the natural consequences of the interaction between human preferences, land and pricing systems."

Husing starts with the premise that most adults—upwards of 85 percent according to one recent survey—would prefer to live in a single family home.[26] As the price of that kind of housing becomes prohibitive in the most desirable areas such as the coast, individuals are forced to move to where housing is affordable. In this case, first to the nearest coastal valley, and finally further into the periphery.

By late 2005, the average home price in the Inland Empire, according to Dataquick, was more than $150,000 less than Los Angeles and more than $300,000 below that in Orange County, according to the California Association of Realtors.[27] These same price considerations also apply to certain industrial and warehouse users, who began to relocate to the lower cost region.

Initially, most of the economic growth in these areas is limited to these industries, as well as to population serving jobs, primarily in construction and retail. But over time, commuters' preference to work locally tends to spur the creation of jobs in formerly outlying areas. In some cases, such as Inland Empire commuters to Orange County, nearly 30 percent of commuters are willing to take pay cuts upwards of 15 percent to work closer to home.[28]

Husing suggests that eventually these dynamics lead to the relocation of firms, or launching of new ones, in other, often higher-paying industries. This is reflected in such things as dramatically growing demand for office space—something already evident in the Inland Empire—and acceleration in a broad base of job creation.[29] This process, which can take decades, gradually lifts the once peripheral area closer to levels, particularly when lower cost of living is factored in, of the established metropolitan economies.

To what extent can we apply the "dirt thesis" successfully to all of Third California? On the surface many of the factors seen in the case of the Inland Empire appear present in the rest of the Third California, most particularly in the Sacramento region.[30]

And it also seems clear that these trends have accelerated after the collapse of the dotcom economy in the early 2000s as well as the growing affordability crisis in coastal California. Using an analysis of Bureau of Labor Statistics findings we have laid out comparative growth data of California regions between 2001 and 2005.

Not surprisingly, fields such as construction have driven much of the job growth in Third California.[31] In the major centers of Bakersfield, Fresno, Sacramento, and the Inland Empire construction related employment ranges between eight and ten percent of all jobs. More impressively, this sector has expanded rapidly since 2002 from between 15 and 30 percent, clearly driving much of the region's growth.

In contrast, construction in the First California has grown about 5 percent, with some increases in the east bay suburbs of Oakland, but declines in both the San Jose and San Francisco. Coastal urban Southern California, has seen growth ranging from ten percent in Los Angeles to twenty percent in San Diego, Orange, and Ventura Counties. This pattern can also be seen in other growth-related industries such as retail, education and health, which essentially serve the expanding population. Yet the increases here are by no means as overwhelmingly larger than the rest of the state's metropolitan regions as in construction.

The key issue, however, lies in the next stage of the "dirt" theory, the growth of jobs that are essentially "contestable" and could locate elsewhere. This may prove to be the most encouraging development in the Third California: namely, the rise since 2002 in such varied fields as manufacturing, wholesale trade, information, business and professional services, all of which pay upper to middle income wages.[32]

Overall, business conditions in California—as well as the shift of production to the Far East—have hurt industrial employment in the state. Yet the effects have not been uniform by region. In fact, some parts of the Third California have enjoyed surprising growth in manufacturing. Indeed, some areas of the interior now have higher percentages of their workforces in industrial pursuits than in the traditional manufacturing centers closer to the coast. Riverside-San Bernardino, Modesto, and Stockton, for example, now are as heavily industrialized as Los Angeles, long among the nation's premier industrial areas.

Over the next decade, however, most higher wage job creation will continue to come from white collar service occupations. These have become the bulwarks of the coastal economies as they have hemorrhaged blue collar positions.

The largest percentage losses in information industry jobs over the past three years have taken place in traditional bastions such MSAs as San Jose, San Francisco, and Santa Ana-Anaheim. In contrast, losses in most Third California regions were far less, and some, notably Bakersfield, Chico, Visalia, and Modesto registered strong gains.

Of course, these areas still boast information-related percentages of jobs half or less of larger, more tech-oriented regions. More impressive still has been the Third California's strong gains in the far larger professional business service areas, which represent the bulk of high wage white collar employment.

So although most Third California regions still lag the coastal areas in terms of percentage of workforce in high wage service sectors there are indications this could be changing. Already a recent study found that over the past decade areas such as Riverside-San Bernardino and Sacramento led California in creating middle and high income jobs; in contrast, Orange and Los Angeles saw modest growth while San Francisco and San Jose suffered declines.[33]

If high-skilled jobs, particularly in services and information, continue to shift to the interior this might accelerate the movement of skilled professionals out of the coast and into the Third California. This is particularly true for those regions, notably Sacramento and the Inland Empire, which appear to have progressed furthest along the path laid out in Dr. Husing's 'dirt theory'. Sacramento also may benefit from its position as the state capital, since the government both hires professionals and stimulates industries, such as lobbying and political relations, which hire them.

V. The Metropolitan Components of Third California

Although collectively the Third California shares many commonalities, including rapid population growth, the various individual regions within this vast agglomeration each have their own story. In large part, they also can be seen in reference to their relationship to the First and Second Californias, as well as their own internal demographic and economic attributes. See Map 2 for the Third California's metropolitan components.

North Valley (Butte, Colusa, Glenn, Shasta, Sutter, Tehama, and Yuba Counties)

With roughly 600,000 people scattered across a vast landscape, since 2000 the North Valley region has the slowest growth—around 6.8 percent—of any part of the Third California, almost half the average for the rest of the region although above that for the state as a whole.

Demographic evidence suggests that the area has become an increasingly attractive location of choice both for educated migrants, including the retired, from the Bay Area as well for less well-educated immigrants. Overall, though, the percentage of adults with a bachelor's degree or better enjoyed decent strong growth between 1990 and 2000 while the percentage of those without high school educations actually dropped. The region's rise in poverty also was somewhat less than other regions.

One distinguishing factor is that the North Valley was the only part of the Third California since 2000 where the largest net increase by race was Anglos. Anecdotal evidence suggests this might consist of educated families and retirees from other parts of the state, notably the Bay Area.

This shift could prove important as the region endures a difficult economic transition. On the one hand, the area's old employment base—in food processing and wood products—has continued to erode, particularly in the Yuba City and Redding areas. But on the positive side, the region has seen expansion in its professional business and financial service sector. Given its natural attractions, the area likely could evolve these industries more rapidly, as skilled workers

Map 2. Metropolitan Components of Third California

seek out the lifestyle advantages of this less densely settled region.

Surrounding this area is a large, less developed region abutting the Sierra Mountains and the Shasta Cascade Range. These areas do not share the primarily agricultural past of the Third California and, for the most part, have not felt the same heavy in-migration of either commuters or Latino immigration.

Greater Sacramento.(Amador, El Dorado, Sacramento, San Joaquin, Place, and Yolo Counties)

The greater Sacramento region, with roughly 2.7 million people, entered the 21st century with arguably the healthiest trajectory of any part of the Third California. Five years into the decade, it has solidified its position. The relative stagnation of the Bay Area since 2000 has not spread to the state capital and its environs. Clearly, because it is a government center Greater Sacramento has a natural attraction to college educated people. Its economy is more advanced in terms of educated workers and also more fundamentally stable given the permanence of the government seat. Even the hard times felt by the state government have not substantially slowed the area's growth.

Sacramento, along with the Inland Empire, perhaps best epitomizes the validity of John Husing's "dirt thesis". Since the late 1990s, the differential between the Bay Area's population growth rate and that of Sacramento has grown appreciably.

This increase reflects important differences from the rest of the Third California. In contrast to most Third California regions, where much of the new population growth came from births, in the Sacramento region most growth came from outside the region.[34] It seems clear as well that this area has greater appeal than any other Third California region for educated workers, something traceable, at least in part, to the presence of the state government. Similarly, the migration of educated immigrants—including those from Asia—was consistently higher than other parts of interior California.

These positive trends likely have been further accelerated by the economic shifts that have taken place since 2000. As Bay Area economy has lost tens of thousands of high-end financial, manufacturing and professional service jobs, the region, including the Stockton area, has continued to create net new positions in these relatively high-paying sector.

At the same time it has enjoyed, like other Third California regions, strong growth in such population-based fields as construction, retail, education and health. In the next decade, it is conceivable that the Sacramento's problems may begin to resemble those of the First and Second California—including such phenomena as rising land prices and congestion.

Central San Joaquin. (Fresno, Kings, Madera, Mariposa, Merced, Stanislaus, and Tuolumne Counties)

If Sacramento represents arguably the demographically healthiest of all Third California regions, the central San Joaquin Valley may well be the most troubled. Although the area has enjoyed both robust job and population growth, the area also reflects most deeply almost all the negative stereotypes of the interior region.

More so than in the North Valley and Sacramento are, much of the central San Joaquin's growth accrues from the immigration of low income Hispanics. Its education levels are among the lowest in interior California, and its rate of poverty lies well above the state's average.

Yet the picture is not entirely bleak. Over the 1990s the region experienced a substantial growth in the percentage of both college educated and professional school graduates. And it may also be true, as in the rest of Third California, post 2000 that there has been some shift in the composition of migration, given the stronger net migration from within the state, as well as the growing out-migration from the coastal region due to concerns over housing.

This kind of migration could prove critical to Fresno's future. Over the last five years Fresno and Madera both have enjoyed a strong growth in professional and business services. There may be some sign that the "dirt" theory—driven by the availability of cheaper housing—may be helping to lure more skilled migrants as well as higher end jobs to the region.

Yet under any circumstances this region—Including Fresno--still has a long way to go.[35] The challenge may prove even greater in some of the more remote rural areas, which generally have less appeal to house hunting upwardly mobile families, suffer extremely poor education levels and little immediate prospects for building a professional or skilled labor base.

Southern San Joaquin

The southern San Joaquin Valley exhibits many of the same problems that afflicted its neighbors to the north. It is experiencing an even more rapid demographic turnabout that may hold promise for its future. A good part of this is driven by an increased domestic migration from the coastal region.

Much of the change appears to be taking place in the more heavily urbanized region around Bakersfield. Job growth in more rural Visalia and Porterville over the past five years has been around 3.5 percent; in the Bakersfield area, it has been over 8.2 percent. In 2004–2005 alone Bakersfield enjoyed a 3.1 percent job growth rate—the highest rate in all of the Third California.

As seen in other areas, much of this can be seen in population-serving fields, such as construction and retail. But, in addition, Bakersfield since 2002 has enjoyed healthy growth in everything from information and manufacturing to professional services. Unemployment, once chronic in the area has been cut in half, while new housing tracts on the west side—the area closest to Highway 5 which heads up into the Los Angeles basin—have filled up with commuters and early retirees.[36]

Some in Bakersfield look favorably at their area as becoming more and more an adjunct to Southern California, much as parts of the Sacramento and Stockton regions have become attached to the Bay Area. Bart Hill, founder and president of San Joaquin Bank, believes spillover from L.A., plus the strong oil sector, make Bakersfield stronger intrinsically then central Valley cities like Fresno. As he put it: "Fresno is Bakersfield without access to L.A."

The key problem here, as elsewhere, will lie in luring more skilled blue collar and white collar people to the idea. Economic diversification away from the traditional oil and agriculture base may be critical. "It's less of a problem now that fifteen years ago, Hill suggests. "Today even the white-collar worker sees the benefit of a lower cost of living."

The Inland Empire

With 3.7 million people, the Riverside-San Bernardino is the largest, and the fastest growing part of the Third California. Its rapid emergence from a largely agricultural backwater to a dynamic, highly industrialized region makes it, so to speak, ground zero for the "dirt theory".

The region grew even during the harsh recession of the early 1990s and has continued to gain ground on the coastal regions on a consistent basis. Since 2000, the region's growth rate rivaled that of Nevada, one of the most consistently fast-growing states.[37]

This growth has not totally transformed the area from the legacy of underdevelopment. The region displays patterns that resemble the Third California, overall, in terms of poverty, education and components of migration. It is neither as poor or behind in education as the central or south San Joaquin, but not as well-positioned as Sacramento.

To a large extent, Inland Empire's emergence is tied intimately to its location next to Orange and Los Angeles Counties. Although increasingly a place of major immigration, domestic migration, largely from the Second California, has been the driving force of growth. It slowed measurably at the height of the drastic Southern California recession of the early 1990s, but has accelerated ever since.

This demographic growth has coincided with, and fed off, an improving economy. its early stages of growth, the Inland Empire depended largely on the coastal counties for employment outside construction and population-serving industries.

As a result, many in the region fear about being stuck producing what some observers have deemed "crummy jobs". Yet since the late 1990s the economy appears to have prodigiously across a broad spectrum from manufacturing to professional and financial services. Manufacturing, much of it migrating from the coastal regions, has also rebounded. Although it still ranks behind the coastal regions in both high end services and manufacturing occupations as a percentage of jobs, the gap appears to be diminishing.[38]

In addition, the area has experienced rapid growth as a wholesale and trade center for the massive Los Angeles-Long Beach port complex. This process has taken off dramatically since the mid-1990s; during the period between 1996 and 2001 wholesale trade and goods producing jobs grew by a remarkable 30%, well above that for any part of southern California.

This role seems certain to increase with time. The presence of major rail and freeway lines provides the area with unique surface transportation assets. Equally important, the burgeoning Ontario Airport has room to expand—in sharp contrast to other regional airports. This provides the area with an opportunity to evolve into what scholar John Kasarda has called "an aerotropolis", essentially the 21st century equivalent of a seaborne port of entry.[39]

Perhaps most encouraging, locally based entrepreneurial growth has been remarkable. In the early 2000s, a time when the rest of the state was suffering a downturn in entrepreneurial formation, the region continued to rank among the top ten in new business formations in the country, more than any region outside Las Vegas.[40]

These new economic realities seem to be driving some interesting demographic changes. Local builders, like KB Homes, report that affordability, economic opportunities and enhanced amenities are leading to the movement of more middle and even upper middle class homebuyers to the area. There are now estimated to be over forty developments targeting families that can afford homes in the $300,000 to $750,000 range. Perhaps most importantly, more and more of these new residents appear to working in the region as well. Five years ago, Jay Moss, regional general manager for the Los Angeles-based homebuilder, estimates that 80 percent of homebuyers commuted to the coastal counties for work. Now only 50 percent do so.[41]

Indeed in the region's western edge of the Inland Empire, the balance between wage and salary jobs and housing is higher than that for Los Angeles County. "There's a fundamental shift in the market today," believes economist John Husing. "We're seeing a mass migration of highly skilled people to this region. Go to any area now and it's exploding, bringing professionals."[42]

VI. Looking Ahead: The Future of Third California

The future of the Third California remains critical not just an issue for the interior, but on the overall evolution of the entire Golden State. We recommend a three-pronged approach for the area to reach its potential:

1. Appeal to Skilled Labor and Industries

The movement not only of capital and companies, but, more importantly, skilled labor from the high-cost coastal areas has been evolving for over a decade. Recent demographic and economic evidence suggests this process picked up considerable momentum in the early 2000s, largely due to the combination of high house prices and changing economic conditions in the coastal counties, particularly the Bay Area.

Yet it will not be easier to accelerate this process, particularly in the farther out regions both in the San Joaquin Valley and eastern Inland Empire. These places may find themselves at an acute disadvantage against places like Las Vegas, Reno, and Phoenix, which enjoy lower business costs and convenient air connections to other metropolitan areas.

For this reason, resources must be targeted to where they will be most effective. To attract new skilled migrants and companies, the Third California must focus heavily on the needs of those demographic groups, notably young families and early retirees, who make up the bulk of skilled domestic migrants to the region. It makes infinitely more sense to concentrate on those things—such as basic infrastructure, open space, and parks—that matter most to both young families and downshifting migrants now coming from the crowded coastal regions.

The Third California also needs to be aware what its appeal is to entrepreneurs and corporations likely to move to the area. Husing's "dirt theory", argues that growth in Third California first focused on the production of low-cost house, then in lower wage industries, and is now spreading aggressively into higher wage fields like professional business services.

The key, then, lies in what, besides lower costs, can attract these skilled individuals to one community as opposed to another. One critical factor could be amenities including the redevelopment of older central cores, or providing better entertainment, retail and dining possibilities. This approach has been successful in cities such as Modesto and Visalia, and now can be emerging in efforts in such dispersed places as Bakersfield, Palm Springs, and Riverside.

2. *Deal with Home-Grown Problems*

Yet efforts to bring new companies and talent to the Third California will be of limited effectiveness if there is no concerted attempt to deal with the entrenched problems stemming from the region's past. For the most part, the Third California is not like a greenfield suburb in the middle of the desert; it possesses a profound historical legacy that must be confronted.

Much of that legacy was built on agriculture, an industry where employment growth in some places is actually falling, and under any circumstances tends to pay poorly and is susceptible to sometimes dramatic seasonal fluctuations.[43] The populations that have worked in the fields must be able to enjoy some sense of economic mobility. Ultimately, as Jane Jacobs once noted, a successful economy "is constantly transforming many poor people into middle class people…greenhorns into competent citizens…Cities don't lure the middle class, they create it."[44]

For the Third California, this means focusing predominately on a large, and expanding, class of undereducated workers, predominately Hispanic, who lack the skills to participate successfully in an upshifting economy. This group is more present in some areas—notably the central San Joaquin Valley—than in others, but remains a challenge virtually everywhere in all of the Third California.

Confronting this should become the number one priority of the region. Fortunately, many areas are attempting to improve the schools. There have also been stepped up attempts as well to improve workforce training. These must be given first priority in any comprehensive development for the region.

3. *Build on Optimism*

Yet despite these challenges, there is much room for optimism for the future of the Third California. Higher-end businesses and skilled workers are beginning to come in as affordability rates along the coast drop to record lows. In many places it appears that the historic "brain drain" of educated people out of the region can be not only stemmed, but eventually reversed.

Ultimately the answer lies in comprehensive economic development on a broad front, including education and worker training on one hand, and the nurturing of an infrastructure that can accommodate growing industries. Other regions of the country—such as Charleston, SC—have worked in this coordinated way, greatly improving prospects for newcomers and long-time resident while dramatically boosting their percentage of skilled workers.

Such developments occur most easily when there is a successful political consensus. Hopefully, we are seeing a rising new generation of leadership, including representatives from the Hispanic, Asian, and other minority communities.

Organizations like the Great Valley Center, the Inland Empire Economic Council, the Sacramento Regional Chamber of Commerce, the Fresno and Kern County Economic Development Corporations, growing major universities—including the new UC Campus at Merced—all could play a critical role in the region's transformation. Perhaps even more important, have been signs of grassroots involvement in individual towns and cities from Modesto to Bakersfield, as citizens tackle the myriad challenges—from open space and farmland preservation to education and developing new industries and redeveloping old town centers and creating new ones—that accompany rapid urbanization.

Most important of all, many people in the Third California believe that the future can be better. A recent poll of Central Valley residents found that 75 percent of all adults rated their community as excellent or good. Far more saw it as getting better than worse.[45]

Facing tough problems represents part of the Third California's challenge. But it also would be mistake not to build on this sense of optimism as a way of enlisting the energies of interior Californians in creating solutions for their regions.

Ultimately, after all, the people from the Third California, both long-time residents and newcomers, will be the ones who will determine the future of this vast, and increasingly important region. It is up to them whether the area continues to perform to the low expectations as voiced by many commentators, or begin to forge a future that will preserve the middle class "California dream" for at least another generation.

VII. Conclusion

The Third California plays a critical role in the evolution of the Golden State that is different from the coastal regions. Just as earlier generations left the Midwest, South, or Northeast for the opportunities of coastal California, today the interior regions represent the geography of aspiration for today's ambitious migrants, including increasing numbers from the Bay Area and coastal southern California.

To be sure, some of the Third California suffers from economic underdevelopment that needs to be addressed. But there is nothing hopeless about this. History shows that today's bedroom suburb or backwater can also become the dynamic growth region of tomorrow. It is important to remember that thirty years ago Orange County—now among the most dynamic metropolitan regions in the country—was largely a bedroom community for Los Angeles.

In this sense, the Third California represents not so much a break with the California "dream" but its new homeland, the state of opportunity for a new generation. The goal of policy, in our mind, should be how to fulfill these middle class aspirations, while finding ways to grow without destroying the rich agricultural and natural resources of the region. In the final analysis, how the Third California fares may determine whether the state remains competitive—and a beacon of opportunity in the early decades of the 21st century.

Endnotes

1. Joel Kotkin is an Irvine Senior Fellow with the New America Foundation and author of *The City: A Global History;* William Frey is a visiting fellow with the Brookings Institution Metropolitan Policy Program and a research professor at the University of Michigan Institute for Social Research.

2. Stepanie Pincetl, T*ransforming California: A Political History of Land Use and Development* (Johns Hopkins University Press:1999) p. 263.

3. Scott Gold, "Paying the Price for Growth in Inland Empire," *Los Angeles Times,* November 25, 2001.

4. Hans P. Johnson and Joseph M. Haynes, "The Central Valley at a Crossroads: Migration and its Implications" (San Francisco, Public Policy Institute of California, 2004); Lee Hanson, "Time Will Balance 'Crappy' Job Dilemma," *Business Press,* December 2, 2002.

5. Paul Gottlieb, "Growth without Growth: An Alternative Economic Development Goal for Metropolitan Areas." (Washington: Brookings, 2002). Available: **http://www.brookings.edu/metro/publications/gottliebexsum.htm**.

6. Dale Kasler, "Growing Pains in the Valley: Population Boom Yields Little Prosperity," *Sacramento Bee,* January 19, 2005.

7. Daryl Kelley, "Fewer Leave State When They Move," *Los Angeles Times,* September 6, 2005.

8. William H. Frey, "Eastward Ho: Population Movement to California's Interior and Beyond," Research Report 06-611. Ann Arbor, MI: University of Michigan Population Studies Center, 2007.

9. Kelly Zito, "Home Sweet Home Impossible," *San Francisco Chronicle,* November 14, 2004.

10. Carey McWilliams, *Factories in the Fields* (Santa Barbara, Peregrine Publishers:1971) p. 20.

11. William Henry Brewer, "Firebaugh to Fort Tejon," in G. Haslam and J. Houston, eds, *California Heartland: Writing from the Great Central Valley* (Santa Barbara, Capra Press: 1978), p. 23.

12. Kevin Starr, *Americans and the California Dream* (New York, Oxford University Press:1973) pp. 120–126.

13. Carey McWilliams, *Southern California: An Island on the Land,* (Salt Lake City, Gibbs Smith:1946), pp. 120–135.

14. Kevin Starr, *California: A History* (New York: Modern Library Chronicles: 2005) pp.165–170.

15. Ibid, pp. 307.

16. Johnson and Haynes, 2004, p. 22.

17. Ibid, p. 51–53.

18. It is important to note that the base for the growth was much smaller than the comparable bases in the other two major regions in California.

19. California Association of Realtors, "First-time Buyer Housing Affordability Index - Historical Series." (Los Angeles, 2006). Available: **http://www.car.org/index.php?id=MzY0ODU**.

20. Jason Newell, "Expanding Empire," *Inland Valley Daily Bulletin,* November 14, 2004.

21. Percy Ednalino, "Study: Valley Losing Skilled, Educated People," *Visalia Times Delta,* November 16, 2004.

22. Elliot Spagat, "Suburbia Takes Shape in Imperial Valley," *Los Angeles Times,* March 6, 2005.

23. Johnson and Haynes, 2004, p. 14–15; and Kasler, 2005.

24. Michael Shires, Pepperdine University for Inc. Magazine "Best Places", 2006.

25. John E. Husing, "The Dirt Theory: How Southern California's New Regions Grow Up Economically" (Redland, Economics and Politics Inc.: 2005) p. 1

26. "PPIC Statewide Survey: Special Survey on Land Use" (San Francisco, Public Policy Institute of California: 2002).

27. California Association of Realtors, 2006.

28. Husing, 2005.

29. Ibid.

30. Johnson and Haynes, 2004, p. 57.

31. Shires, 2006.

32. Christopher Thornberg, "The Los Angeles Job Report: Good Jobs, Bad Jobs" (Los Angeles: UCLA Anderson Forecast, 2004) p.3-4.

33. Ibid, p.3–4.

34. Jennifer Morita, "Transplants Key to Growth in the Region," *Sacramento Bee,* February 8, 2005.

35. Maria L. La Ganga, "Fresno's Brain Drain Has Left Town Smarting," *Los Angeles Times,* November 20, 2005.

36. Daryll Kelley, "Bakersfield Comes in to Full Bloom," *Los Angeles Times,* July 4, 2005.

37. Between July 1, 2000 and July 1, 2004, the Inland Empire grew by 15.7 percent and the state of Nevada grew by 18.7 percent.

38. Hanson, 2002; and Don Lee, "A First Taste of the Good Life in Inland Empire," *Los Angeles Times,* April 6, 1998.

39. John D. Kasarda, "California's Ontario International Airport: Driving an Emerging Aerotropolis," paper prepared for European Conference on Airports and Regions, New Driving Forces, November 2000; Jennifer Oldham, "Ontario's Airport Ready and Willing, to Grow," *Los Angeles Times,* May 12, 2003.

40. Jack Katzanek, "Riverside, California is Ranked Number 2 in Startups," Riverside Press Enterprise, December 29, 2004.

41. Personal interview, 2006.

42. Diane Wedner, "Empire Building," *Los Angeles Times,* April 27, 2003; Jesus Sanchez, "Builders Turn to Upscale Projects in Inland Empire," *Los Angeles Times,* December 26, 2002; Husing, 2005, p. 6–8.

43. Johnson and Haynes, 2004, p. 66.

44. Cited in Fred Siegel, *The Future Once Happened Here: New York, D.C., L.A., and the Fate of America's Big Cities* (New York, Encounter Books: 2000) p. 61

45. "PPIC Statewide Survey: Special Survey of the Central Valley" (San Francisco, Public Policy Institute of California: 2004).

Acknowledgements

The authors acknowledge the programming and data preparation assistance of Cathy Sun of the University of Michigan Population Studies Center. Thanks are also due to Jill Wilson of the Brookings Metropolitan Policy Program for assistance with maps.

The Brookings Institution Metropolitan Policy Program would like to thank the Charles Stewart Mott Foundation for its generous support of our work around metropolitan growth. We also wish to thank the Fannie Mae Foundation, the Ford Foundation, the George Gund Foundation, the Heinz Endowments, the John D. and Catherine T. MacArthur Foundation, and the Rockefeller Foundation for their general operating support. Finally, we wish to acknowledge the assistance of David Friedman, Leslie Parks, Alan Berube, Anthony Downs, Robert Puentes, and several other individuals who provided detailed reviews of this paper.

For More Information:

Joel Kotkin (**jkotkin@pacbell.net**)
William Frey (**wfrey@brookings.edu**)

For General Information:

Brookings Institution Metropolitan Policy Program
202-797-4139
www.brookings.edu/metro

The Brookings Institution

1775 Massachusetts Avenue, NW • Washington D.C. 20036-2188
Tel: 202-797-6000 • Fax: 202-797-6004
www.brookings.edu

Metropolitan Policy Program
Direct: 202-797-6139 • Fax/direct: 202-797-2965
www.brookings.edu/metro