



December 20, 2006

VIA: FedEx

Elisabeth Laurence
Bay Area Council
200 Pine Street, Suite 300
San Francisco, California 94104

Dear Ms. Laurence:

Thank you for your invitation to be the "leader/champion" of the Global Competitiveness Initiative. I have read carefully much of the information you gave me about the Bay Area Council (BAC), especially the "One Million Jobs At Risk" analysis. I agree there is a substantial and important manufacturing base in the Bay Area that should be preserved and enhanced. Currently, we are driving that manufacturing base away with bad policies. We have literally driven the silicon out of Silicon Valley. However, I disagree with the position that we are in a state of dire emergency with only two years to fix these problems or lose our competitive advantage. That dire-emergency method of scaring people into action is borrowed from politics. I deeply dislike politics and all but a few politicians.

While we may both hold a similar view of the desired result - an economically competitive Bay Area, there may be certain issues, and perhaps even some underlying philosophies, that separate my views from those of the BAC. While it is possible for people with divergent views to work together toward a common overarching goal, it is less likely that those parties can work together if they disagree on the specifics of how to achieve that end goal, and even less likely that they can work together when their basic philosophies differ. Below, I give my perspective on some issues that may divide us.

The Light Rail in San Jose and the BART extension to San Jose are a clear waste of money that will not reduce traffic congestion in the Bay Area. Anyone reading the government statistics compiled and analyzed by the Reason Foundation in Los Angeles, experts on public transit (reference 1, attached), comes to understand quickly that neither Light Rail nor BART make sense for Santa Clara County. The Light Rail system here is such a miserable economic failure (ref. 2) that the VTA blacked out the windows of its trains so the public could not see that they are usually empty. There is a Light Rail stop directly between the headquarters of my company, Cypress Semiconductor, and that of Cisco Systems. Despite the massive scale of Cisco; almost no one uses that train. In one informal survey I took, there were only eight Cypress people (plant population: 950) using the system on a daily basis. My survey was quite accurate: San Jose Light Rail has never exceeded its 1992 ridership, despite massive investments (ref. 2.1). It also has the lowest ridership of any U.S. system (ref. 2.3) and accounts for less than 0.2% of passenger miles traveled in the area (ref. 2.5). Its ridership could triple with no effect on Silicon Valley traffic congestion. Light Rail is both expensive and ineffective, yet we keep wasting money on more tracks to carry more empty trains, relying on circular "Field of Dreams" logic: "If you build it, they will come."

Unlike business, which must account for its use of capital, Santa Clara County Light Rail is allowed to ignore capital expenditures and merely meet its maintenance and operating costs to declare economic success. That it fails to meet even that minimal financial criterion is no surprise to anyone who has studied Light Rail in other cities. At the time our Light Rail system was installed, most of the approximately 20 Light Rail systems in the U.S., each created as a political stepping stone for local politicians, were economic failures, unable to cover their incremental costs and missing their ridership projections dramatically (ref. 1.1, 1.2, 1.4). In most U.S. cities, despite ongoing investments, ridership on public transit actually declined both in market share and even in absolute numbers over the last 20 years (ref. 1.1, 1.2). Only New York (25%) and Chicago (11%) exceed a 10% share of market (ref. 1.3).

I believe that BART to San Jose would be an even bigger economic failure than the Light Rail, unfortunately for typical reasons: The biased consultants hired by politicians have grossly overestimated ridership revenue, which, in turn, will never cover the project's huge costs, which are much higher than those of Light Rail. The talk about a BART "Ring Around the Bay" is an aesthetically pleasing economic folly. We are not Manhattan. We do not want to be Manhattan. Yet, ambitious and uncreative politicians continue to foist Manhattan-style transportation on an area characterized by wide geographic distribution, a.k.a. "urban sprawl" (more on that topic later). There are sensible forms of mass transportation, such as the commuter bus systems in Los Angeles and Seattle that pick up suburban commuters in the morning on local busses, which turn into freeway express busses and then back into local busses to drop off riders in business and industrial zones. These systems are highly cost-efficient because they use existing infrastructure (freeways) and add only a modest amount of capital equipment (busses) to move a significant number of people. They would work even better if the High Occupancy Vehicle (HOV) lanes on the freeways were converted to market-priced High Occupancy Toll (HOT) lanes that would remain uncongested during rush hours (as in Orange County and San Diego). The success of the L.A. bus system also makes it obvious why Silicon Valley commuters ignore our Light Rail transportation: Its

master plan fails to recognize that commuting involves at least a three-legged trip, 1) to the train station from home, 2) from station to station, and 3) from the train station to the job. Light Rail and BART solve only the station-to-station problem. A "good citizen" who tries to use Bay Area public transportation must drive his or her car to the station anyway, pay a significant parking fee (if a parking spot is available), then zoom from one station to the next, only to have to find yet another way to get to work from the end station. I haven't even discussed the "irresponsible" 52% of all commuters (ref. 1.7) who stop for groceries or at Starbucks in the morning, necessitating private transportation. This classic government disdain for customer service is why commuters mostly ignore public transportation 'not only in San Jose, but most other cities that have sunk money into Light Rail (ref. 1.9). If the BAC is going to push public transportation in the Bay Area, it needs to present new ideas that will pass the scrutiny of the engineers in the Bay Area who see through the hyped-up claims used to justify multibillion-dollar taxes.

Let's stop demonizing the single-person commuter. As we get teary-eyed over the "economic miracle" of Silicon Valley, let's stop insulting the very people who have created that miracle, namely those who, like me, drive to work by themselves every day. I do not want to get on my bicycle, ride miles to the nearest train station, take one train, connect to another train, then ride my bicycle to work on crowded and dangerous expressways. That's not a reasonable way to treat Me or my employees. Those who propose it will be written off as environmental zealots or politicians with an agenda. If the BAC truly believes in free-market economics, it should show respect for the commuters that have created the Silicon Valley economic miracle. We can obviously pay not only for the cost of our commute, but also create enough wealth to pay over \$100,000 in wages per employee, as we create new businesses with huge market values. The transportation choices intelligent, successful individuals have made should not be disdained by arrogant politicians. If the BAC wants to take the highly risky position of telling the people of Silicon Valley that it has a "better idea," then that idea needs to be demonstrably better. That idea must offer a direct benefit to the people of Silicon Valley, not just a penalty for bureaucratically determined "undesired behavior." For example, the commuter bus system in Los Angeles can offer a worker the luxury of a portable desk during the morning commute. Furthermore, with his or her commute vehicle turning into a well-appointed bus, a worker can enjoy the added economic benefit of owning only one vehicle. We should use the WIIFY (What's In it For You) argument to convince intelligent, analytical people to change their lifestyle, not governmental badgering to force people to use poorly engineered transportation systems.

Sometimes the best way to solve a transportation problem is simply to make the freeway wider. Did you know a freeway lane costs only about 25%-50% to build per mile relative to Light Rail and carries 15 times more people? (Ref 2.3, 2.4.) The numbers are even worse for BART. Did you know that the Long Beach-L.A. Light Rail, the country's busiest Light Rail line, carries the equivalent of only one lane of freeway traffic? These statistics are shocking because the public has been fed only pro-train propaganda for years. This year, SunPower, the solar cell company of which I am chairman, will manufacture solar cells that produce 65 megawatts of power. Next year, that figure will double. The point is simply to establish that am a true environmentalist, one who uses his intellect and capital to produce pollution-free energy.

Many of the so-called environmentalists of today are just power politicians, those who use often spurious environmental issues to control the resources of others. They often win their political victories by championing the "rights" of various species, such as the red-legged frog, to foil the efforts of people to utilize their own property, or by forcing governments to spend money on ecologically correct projects that make no economic sense. In most cases, the government accedes to the demands of this group that I label coercive eco-topians. When politicians cave in this way, environmentalism ceases to be a science and becomes a secular religion: Cars are bad. Freeways are bad. People who drive cars are bad. Houses that require a commute are bad.

We must turn ecology back into a science that respects property and human rights. While it is a political loser not to be "green," we should focus on real ecological accomplishments to counter ecotopian scare tactics. For example, the Bay Area has very much cleaner air than it has had at any time in the last 35 years, even as we are bombarded with the-sky-is-falling misinformation. The eco-topians are noisy and get much free airtime from their brothers and sisters in the media. Politicians are afraid to challenge eco-nonsense as such for fear of bad publicity. What does that mean to the BAC? if the organization bows to secular religious environmental beliefs, rather than basing its policies on science and economics, its policies will soon be shown to be ideologically bankrupt.

In a decade or less, about the time it will take to implement a train-based mass transit plan, many of our current beliefs about transportation already will have been obsoleted by technology. If we spend the next 10 years building the infrastructure and laws to force commuters off the road, what will we tell them in 2015, when they reasonably want to drive their zero-pollution, 150-mpg cars on the freeways to go to work? Even without electric cars, since 1970, as U.S. automobile vehicle miles tripled, air pollution, as measured by the EPA, has been cut in half by better emission controls (ref. 1.11). Of course, if we have already invested billions in trains, tracks to nowhere and "smart growth" developments by then, we will make up a political lie, such as, "Your car may get 150 mpg, but the plant that makes the electricity for it does pollute..." Silicon Valley engineers will answer that the plant producing power for their cars has state-of-the-art pollution control equipment, produces one-third or less of the pollution per mile compared with the cleanest of the old-fashioned Prius cars, and that their cars emit zero-pollution in urban areas where it counts.

We may also try to convince commuters to use trains because the 30 minutes per day they spend in their automobiles on the way to work will get worse unless they take public transportation (a lie: the average commute time has been constant for over a decade). Their response will be that while Government reports say they "lose" time commuting, they actually enjoy entertainment, make phone calls to Eastern Time zones on their wireless headsets and listen to the news on podcasts as they commute. In short, they will tell us it is none of our business what they do in their car on the way to work on a road that they paid for, and they will be right.

The view that our train system will become obsolescent while it is being built is not science fiction. I've already been in three different automobiles that are powered by electricity, provide more than 100 mpg equivalent fuel efficiency, even in their prototype forms, and will soon get as much as 20% of their "gas" from solar cells that charge their lithium-ion batteries in the parking lot. This revolution will be occurring even as the iron is being laid for the BART tracks to nowhere, our 21st century version of the Maginot line. The arguments for BART remind me of the generals who, during the Cold War, came to Congress every year to show satellite photographs of the largest tank factory in the world, in Siberia. It worked to get funding for the generals, but not for the Soviet Union. By the time they were ready to re-fight World War II with more, bigger tanks, the Soviet Union went broke, due to poor public investment policy (more about the Politburo later). There are already more telecommuters than mass transit users in 27 of the 50 most populous urban areas, Silicon Valley is notorious for obsoleting technologies. Why are we investing in 200-year-old train technology that is already being successfully attacked by electronics? We could do a lot more with half the money, if we invested it in communications and not trains.

The "urban sprawl" that eco-topians hate is my backyard and that of my employees. Some of our employees live in San Francisco because they enjoy the urban life and don't mind the long commute. Others have new families and want a backyard for their children, away from the noise and pollution of transportation corridors. I live in Woodside, which was on the northern perimeter of the 30-minute driving-radius circle I drew on a map when I began house-hunting in 1979. I do not mind my 30-minute commute, as I work in my car (dictating this letter, for example) or just listening to news radio. In short, the free market is nowhere more evident—or important in peoples' lives—than in the personal housing and commuting choices they make. Urban "sprawl" and its concomitant commute are worldwide phenomena (ref. 1.6, 1.10) that reflect the typical choices people make worldwide as they become more wealthy.

As the examples above illustrate, there is no such thing as "smart growth," as dictated by politicians and enforced by local zoning czars. For example, it would be hypocritical for me to say—as I view my vineyard from the deck of my Woodside home—that someone else needs "smart" growth; that their house should be a small apartment next to the railroad tracks, because I believe it's good for the environment. I am unwilling to usurp the freedom of others to feed any eco-topian vision of urban perfection. After Light Rail failed to achieve its projected ridership in most cities, local bureaucrats took the next step—using the building-permit process to force people to live in smart growth ghettos next to the railroad tracks that carry the empty trains. (Look at any 20-year-old government sanctioned apartment complex in the Bay Area to see the future of "smart growth.") This is what's happening now in San Jose. Nationally, Light Rail typically doesn't get to 20% market share until population densities become five times higher than that of San Jose (ref. 1.8, 1.9).

I consider the loss of property rights inherent in "smart growth" to be an evil on par with the current spate of Eminent Domain abuses, but more insidious, because it does not produce the horror stories of retired couples being thrown out of their homes of 40 years, as they are "condemned" due to the lack of an attached garage—and the pressing need for taxes from a new shopping mall. If the BAC believes in free-market capitalism, as it claims, it will support free-market housing choices over the heavy hand of a central housing authority, populated by hostile government bureaucrats, who literally dictate not only where to build houses, but how to build them, what type of lights they must have in them and even what color they must be painted.

Centralized authority in the form of the Politburo of the old Soviet Union failed miserably, caused horrible economic damage that has yet to be remedied and put that country out of business. Of course, the Politburo put housing for workers near the giant Siberian tank factory, it only made sense. Socialism and the collectivist controls that surround it have never worked as well as free markets—and never will. If the BAC truly believes in free markets, it must not only say so, but it must act in a manner consistent with that belief, even when it comes to suppressing its urges to force its own "good ideas" onto the citizens of the Bay Area. Being free inherently contains the right to make a bad decision, even as a paternalistic and well-meaning government watches it happen without acting.

Silicon Valley was created by individuals making choices to promote self interest in a lightly regulated and completely unplanned economy. There is no evidence whatsoever to indicate that any shift from a free-market economy to a more collectivist economy would benefit Silicon Valley. Indeed, there is iron-clad evidence from the Fraser Institute, which was founded in part by Milton Friedman, that the more free the markets are in any country, the better off its citizens are both in per-capita income and the growth rate of that income (ref. 3.0-3.9). Consequently, the SAC should avoid forcing its views onto the market (a collectivist act), despite the credibility of its experts or even the demonstrated business successes of the members of its leadership.

Consider the chain of wealth-building in Silicon Valley, as it might be described by a detractor trying to regulate the "excesses" of Silicon Valley:

"Santa Clara Valley was once a pastoral and unpolluted place full of fruit orchards, most of which have been torn up and paved over to make the parking lots of ugly, high-tech buildings. We used to buy fresh fruit at roadside stands on the side of Highway 101, before Gilroy became part of the urban sprawl surrounding Silicon Valley. The money for those sprawling industrial buildings came from an unabashed quest for profit. Local banks lent money at high interest rates to developers, who, in turn, built the cheapest possible buildings, despite the fact that they charged very high rents for them. Eager to preserve the small amount of Money given to them at high prices by venture capitalists, the executives of start-up companies paid high rents rather than using their funding to build and maintain more socially responsible, artistically pleasing buildings. The executives knew that if they could bring a new technology to the marketplace, they could score instant riches in a stock market that has always been ready to dramatically overvalue companies that were really nothing more than products with a corporate name. Ultimately, the only ones who made money were the developers, the venture capitalists, and the get-rich-

quick executives, who even backdated their stock options to make more money. Silicon Valley white-collar workers did earn salaries more than double the national average, but it helped them little, because they were chasing* housing prices that grew even faster. And, as soon as the workers started to make too much money, the leaders of Silicon Valley replaced them with immigrant labor or offshored their jobs. We should get our political representatives to pass laws to make sure that the disgusting excesses of Silicon Valley are never repeated.'

The enemies of freedom, and therefore the enemies of capitalism, are defined by the statements above. They resent the wealth created by Silicon Valley, even when that wealth is spread widely. The statements above are not just hyperbole; they are believed and actively promoted by groups with significant political clout. They use securities laws, tax laws, environmental laws and zoning ordinances to fight against Silicon Valley and its entrepreneurs with all of their energy.

Free market capitalism and socialism are irrevocable enemies. There is no such thing as a political compromise with a group that fights for the demise of the economic system that created Silicon Valley.

Let me introduce you to some of the characters behind-a true version of the Silicon Valley story outlined above. The developer is John Arriaga, who builds economical buildings for entrepreneurs. He allowed them to use their scarce funding to develop the new technologies that changed the world, rather than putting up buildings to impress the architecture critic of the San Francisco Chronicle. Because Arriaga served Silicon Valley well by providing ready-to-use, economical buildings, he made a lot of money, tens of millions of dollars of which have been donated to Stanford University, one of the cradles of the brain trust of Silicon Valley. The entrepreneur is T. J. Rodgers, who started Cypress Semiconductor because he thought he could bring his ideas about silicon chips to market and run a company better than the companies he worked for. He knew that successful start-up CEOs could make a lot of money; but he still holds most of the stock he received from his company. His company now employs 5,000 people, worldwide, and makes not only silicon chips, but the most efficient, commercially available solar cells in the world. Despite their passion for technology, Cypress employees have won the award for most food donated to the Second Harvest Food Bank 14 years in a row, and donated rehabilitation centers and mobile prenatal care units to the Santa Clara Valley Medical Center. Where there is no wealth creation, there can be no charity.

Among the immigrants that "took jobs" from native-born Americans were Vinod Khosla, an Indian venture capitalist who was one of the founders of Sun Microsystems and Andy Grove, the Hungarian-born member of Intel's founding team. Khosla's and Grove's companies created well over 100,000 high-paying jobs that helped build the economic foundation of Silicon Valley. The average high-tech worker in Silicon Valley now earns about \$100,000 per year.

Houses are so expensive not because of workers' salaries, but because San Jose has a low-growth policy that prevents the building of new homes outside the "smart" growth areas dictated by local politicians (ref. 2.15). Many members of the Silicon Valley brain trust have left the area, a disaster for the Bay Area economy, because of destructive eco-topian housing policies. My company maintains R&D centers in Ireland, India and Oregon partly to offer our top R&D people a chance to stay with our company, but move to a place where they can buy a house. Other high tech companies also pay to relocate high-tech employees out of the Bay Area, rather than lose them. For example, Intel has huge R&D centers in Sacramento and Oregon. Some Silicon Valley workers and managers have chosen to quit and start high-tech companies in new technology centers such as Austin and Colorado Springs. Those cities routinely talk about their aspirations to become the next "Silicon Valley." Rather than over-regulating their nascent technology industry, the new high-tech areas welcome new companies with streamlined regulations and even tax breaks. My company literally received a building permit to build an entire wafer fabrication plant in Round Rock, Texas more easily than it did to build an employee gas station at our San Jose plant (the employees love it). If other states continue to practice free-market capitalism, while Silicon Valley drifts toward a regulated economy, their high-tech industries will grow and prosper, while ours will stagnate. It's that simple. And it's that hard. We must stand up to the philosophical forces that oppose the free markets on which Silicon Valley was built. This battle is about philosophy, not economics. The BAC must get on the moral high ground, reversing the traditional arguments that support free markets because they produce good economic results.

We should not justify free-markets because of their economic benefits. Free-markets are morally right on their own. They also happen to produce excellent economic results because they provide human beings with the opportunity to make themselves better off. The American dream is a result of freedoms partially conceived and implemented in England and brought to practical fruition by the U.S. Constitution and Bill of Rights. We should be ardent in our defense of the rights of Americans, because that is the morally right thing to do. The BAC should defend property rights, as it did in the case of the recent eminent domain initiative, but fails to do in its support of smart growth. The BAC should visibly join forces with the ACLU whenever the rights of citizens are being trampled, and scrupulously avoid trying to take away any of the rights of citizens itself. The "lithe guy" will side with business when he feels business is on his side.

It is not clear that a philosophical consensus of CEOs can be achieved in the Bay Area, because of its extremely diverse base of companies. The BAC power structure seems to be controlled by San Francisco-based companies that were created by pioneers 100 years ago and are currently maintained as icon corporations. On the other hand, the culture of Silicon Valley is about attacking the old guard with new technologies brought to market by new leadership. Although my company, Cypress Semiconductor, is relatively young on the scale of most San Francisco companies, I have watched the demise of 42 of the 59 U.S. semiconductor companies that existed at the time of our founding in 1982. It is only by our creation of seven internal start-up efforts (five of which came to no consequence) that we have been able to remain among the 17 survivors. As the attached paper, "The Paradox of the Statist

Businessman," by Theodore Forstmann and Edward Crane of the CATO Institute describes, the CEOs who preserve iconic institutions have very different values from the would-be CEOs of Silicon Valley, who spend their lives working on creating economic upheaval (ref. 4).

Planning, at least the type that picks technology winners and losers for deployment over a five-year timeframe, has become irrelevant, if not counterproductive. Moore's law guarantees that any company's most advanced silicon technology will be obsolescent in two years and totally obsolete in four years. Furthermore, attempts to plan a technology progression are deliberately disrupted by waves of new entrepreneurs who strive to invent better and lower-cost technologies on a faster timetable. Venture capitalists deliberately seek out start-up companies with disruptive technologies, knowing that if they can obsolete the static plans of a big, slow-moving competitor, they can make a huge profit, and serve mankind in the process. Does anybody believe that the emergence of Google left unscathed the plans of any information technology company in the world? One of the reasons that the proud fathers of "Silicon Prairie," "Silicon Forest," "Silicon Mountain," etc., have never really harmed Silicon Valley after more than 20 years of trying, is that their use of Soviet-style, five-year plans and naive technology assessments will never compete effectively against the unbeatable random chaos of the free market in Silicon Valley. They never had a chance, and still don't, unless we foolishly start creating our own five-year plans.

Nanotechnology (a.k.a. nano-BS) is a classic example of how technological con men can dupe city fathers and government bureaucrats into wasting millions of dollars. First, nanotechnology is not a technology per se, like silicon integrated circuit technology or relational database technology or genome mapping technology. Nanotechnology refers to the direct manipulation of individual atoms and molecules, something scientists and engineers have been doing for years. Most of the pictures in the BAC's glossy brochure nanotechnology were of the useless, "Gee Whiz" type: a picture of atoms glowing in falsely applied color, forming a kanji character, a picture of nanotubes forming a miniature American flag, etc. After the "Wow, we can now control atoms" section, the brochure then describes some well-known material phenomena in a misleading way. For example, carbon nanotubes, made from one of the cheapest and most abundant elements on earth, are claimed to be stronger than steel. While that may be true on an atomic scale for laboratory samples, the authors neglect to say that the phenomenon has never been demonstrated on a macro scale in a useful structure. Furthermore, even if the carbon were free, the preparation of even milligrams of nanotubes is very expensive. When I saw the "world's smallest electric motor," I immediately thought what I would do if I were a venture capitalist talking to its inventor. I'd say, "Turn it on and let me see it run." If I'm wrong about nanotechnology, the proof will come from a venture-funded start-up, not a government project.

I have been involved directly with a carbon nanotube failure in the area of heat conduction (they also conduct heat better than common materials) where the "super material" failed to replace common silicone grease. Nanotube transistors are touted as the future of electronics, but nobody has demonstrated the ability to make even 10 transistors work together with even one-thousandth the performance of the equivalent silicon integrated circuit. My company invested three years of R&D and over \$50 million in magnetic memories, another supposed break-through nanotechnology, according to the BAC brochure. Magnetic Random Access Memories, or MRAMs, are claimed to have the potential to be the "universal memory" of the future in the BAC brochure, yet I know personally that only one company (Freescale), after more than a decade of effort, and a quarter-billion-dollar investment, has brought MRAMs to market. In practice, the Freescale MRAM is slower, burns more power and is an order of magnitude more expensive than the equivalent silicon memory. It is highly unlikely that MRAMs will ever achieve an economic scale to support a single semiconductor company, let alone an industry or geographical area. Furthermore, even an improbable MRAM success story would take a decade to unfold, subjecting it to ten years of disruptive new ideas from Silicon Valley, one of which would probably prove fatal. We've cancelled our MRAM project because we have already found what we believe to be a superior silicon-based alternative that doesn't need those expensive layers of ruthenium, platinum, manganese and cobalt atoms that we deposited with a \$7-million machine.

The point of this anecdote is that the BAC does not have the expertise or capability to tout technological ideas, even those backed by very smart people in universities or in business. Government money is usually the "sucker money" that companies, even those with long-term research programs like IBM, put into projects that did not pass their internal financial criteria for funding.

If nano-BS brings money, into our universities, it is worthwhile. Graduate students in our universities usually work on government-funded projects. For example, I spent part of my time in graduate school working on the high-voltage transistors used to drive the transducers used in prenatal ultrasound imaging devices. While I never once considered doing that for a career, I did learn basic transistor physics and fabrication while Working on this interesting project. Although the government or government-adjunct agencies such as the BAC are foolish to pick winners and losers in the marketplace, there is value in bringing money into our universities, even if it is earmarked for projects that have very much less economic value than their advocates would have us believe.

We should improve the economic environment in the Bay Area, a plan to raise the tide for all boats. Mostly, that means getting government out of the way. High taxes and burdensome regulations harm Bay Area entrepreneurs. Our roads are crowded because the government doesn't make them wide enough. We don't have enough homes, and therefore staggering housing prices, because the government prevents us from building them with a myriad of costly regulations and outright prohibitions. And, when an entrepreneur does succeed in today's environment, the tax burden in California, and particularly the Bay Area, is stifling. The Bay Area is much more likely to lose its top technical talent to other areas because of high housing costs, commute hassles and high taxes than it is likely to keep them with ineffective government programs. The best thing the BAC can do to improve the Bay Area economy is to remove the mostly governmental road blocks that prevent our companies from being more competitive.

The lack of a guiding philosophy is evident in the BAC's view of taxes. While complaining about high corporate and income taxes in California, the BAC supported yet another sales tax increase in Santa Clara County to extend BART, which included building an absolutely useless \$3-billion tunnel under Market Street in San Jose. As another example, while the BAC says in its "million-job" report that Silicon Valley should encourage "capital intensive industries" to settle here, it mentions only fleetingly that California is one of only three states in the union to impose a sales tax on manufacturing equipment. For manufacturing job creators like me, that tax makes California a non-starter for capital investment. What CEO could justify paying an \$82.5 million sales tax for the "privilege" of creating jobs in a new \$1-billion plant in Silicon Valley, when the alternative of zero taxes, and even subsidies, is commonly offered by other states and countries?

We were once offered a wafer fabrication plant (fab) in California at almost zero cost, just for taking the burden away from the company selling it. The fab was huge, necessitating our partnering with another company. I called up the CEO of a semiconductor company in another state and told him of the great opportunity. His response was, "Not interested." After I reiterated to him that the cost was zero to get a fab that cost over \$200 million to construct, he said again, "Not interested." Then he said, "ABC." When I asked him what "ABC" meant, he said, "Anywhere But California." His company looked at California's regulatory burdens, environmental legal maze, local and state taxes and that big message, the sales tax on investment, as a sign at the border saying, "Businesses not welcome."

He is right. Over the past 23 years, I have had to abandon my personal goal of manufacturing everything in California, which Cypress did from its inception in 1983 through 1992, when we began to move our manufacturing jobs out of state (first to Minnesota and Texas, then to the Philippines, and now to Shanghai) to keep our company among one of the 17 survivors in our industry. During that period, I personally invented and patented assembly and test robots for the purpose of making U.S. manufacturing economically viable. Those robots are now operated in Manila, because I refused to pay a huge sales tax on our own invention in California. The Silicon Valley Manufacturing Group, founded by David Packard to make Silicon Valley a more friendly place to manufacture has renamed itself the Silicon Valley Leadership Group, as there is not much manufacturing here to support anymore, and it now favors a sales tax on manufacturing investments.

About 15 years ago, then-assemblyman Willie Brown got a law passed authorizing a rebate for sales taxes on capital equipment bought in California for the purpose of creating manufacturing jobs. The manufacturing sales tax should never have been levied, but at least we expected to get our sales tax rebated when we invested another \$30 million in our San Jose fab a few years ago. We requested our rebate in a year when we had a loss and were not paying state taxes. When the rebate was denied, we took our case to the state tax equalization board, which found in our favor. State Senator Carol Migden then made a public comment about companies that paid no taxes but still took money from the government. In a response printed in the Sacramento Bee, I promised Ms. Migden that she would never, ever, have to worry again about our taking money from the government, because our days of investing in California were over. We would never subject ourselves or our shareholders again to public insults by an anti-business politician over a destructive tax that never should have been passed. We have invested nothing more in our San Jose fab and will soon sell it, to complete the move of the very last of our manufacturing facilities out of the state of California. With only a few exceptions, the silicon has indeed been forced out of Silicon Valley.

I'm sure the BAC values an amicable relationship with Ms. Migden, but truly backing free markets means that one must sometimes criticize the politicians who are among the primary enemies of the free market.

I believe passionately in freedom and free markets. I do not befriend those who attack my freedoms, nor do I compromise basic freedoms for the fleeting benefits of political alliances. My guess is that I am therefore not a suitable candidate to lead the BAC's global competitive initiative. But, at least you know where I stand.

Sincerely,



T. J. Rodgers
President & CEO

Enclosures: The Road More Traveled
Reason Foundation Data on Public Transportation
Frasier institute Study
The Paradox of the Statist Businessman

cc: Larry Sonsini
Don Bell
Jim Wunderman