

AS GOES MASSACHUSETTS?

Investments in science and technology – from higher education to industry research and development – are critical in deciding the fates of regional economies, says a new report from the Milken Institute. And according to a state-by-state comparison released along with the report, Massachusetts, Colorado and California are in the best position to succeed. Indeed, institute economists found a strong causal link between regional investments in science and technology, on the one hand, and personal income and regional economic growth on the other.

State Technology and Science Index: Comparing and Contrasting California was underwritten by TechVentures Network (formerly the Bay Area Regional Technology Alliance). It is available for purchase or viewing on the Institute's web site at www.milkeninstitute.org along with the complete state-by-state rankings for all 50 states.

BIGGER IS BETTER

Mergers and acquisitions have been part of the American corporate landscape for 150 years. But are they good for the corporations and consumers – and for the economy?

In a word, yes. Research economist Susanne Trimbath found that roughly two-thirds of the mergers by 276 publicly held Fortune 500 companies over a 15-year period resulted in increased efficiency. The top 100 most-improved firms increased efficiency by 5 percent after merger, for an average annual savings of \$250 million each. And while some

layoffs did occur, the job losses were not large.

The research is available in a new book, *Mergers & Efficiency: Changes Across Time*, the third volume in the Milken Institute Series on Financial Innovation and Economic Growth. It is available through Kluwer Academic Publishers online at www.wkap.nl/prod/s/MILK.

WELCOME, JIM OSTERHOLT

James W. Osterholt, one of the nation's most respected development executives, has been appointed Vice President for Development at the Milken Institute. "Jim will play a crucial role in expanding the numbers of individuals and entities involved with the Institute, explained Michael L. Klowden, President of the Institute.

Osterholt was formerly the executive director of development at RAND, where he managed its philanthropic and development activities. Prior to joining RAND in 1996, he held a number of development positions at UCLA, including associate vice chancellor. Osterholt helped create the university's recent \$1 billion campaign, and earlier designed a \$300 million campaign that was the largest effort of its type for a public university.

CRAFTED WITH PRIDE IN CALIFORNIA

Manufacturing has been overshadowed by the more glamorous service sector industries. But according to a new study from the Institute, it remains a crucial part of the regional economy. Not only does manufac-

turing employ 1.9 million people in California, it creates millions more jobs thanks to its high “ripple effect” on the economy.

However, according to *Manufacturing Matters: California’s Performance and Prospects*, the state has lost 115,000 manufacturing jobs since May 2000. While some of these losses reflect the downturn in high-tech, much of the decline is the result of California’s steep cost of doing business.

Among the report’s findings:

Some 3.8 million jobs in other sectors are tied to manufacturing. When indirect effects are added, an additional two and one-half jobs are produced in other sectors for each manufacturing job created in California.

Average annual wages in California manufacturing range from \$102,900 in the computers and machinery industries to \$19,796 for apparel and textile product workers.

STATE OF THE GOLDEN STATE

Offering a “tough love” view, speakers at the 4th annual Milken Institute California State of the State Conference lauded the state’s many strengths, but warned of problems dogging its future. California remains a global economic powerhouse. And there was guarded optimism that the state will dig its way out of the tech-driven downturn.

Among the clouds on the horizon: the high cost of doing business in California, shortages of skilled workers and the lack of affordable housing. For a summary, including audio recordings of the sessions, visit www.milkeninstitute.org/sos2002.

California Legislative Analyst Elizabeth Hill thinks positive.



RIGHT: DAVID SMITH; LEFT: COURTESY OF THE MILKEN INSTITUTE

The caricature on the spine, we suspect you’ve already guessed, is America’s most celebrated Nobel Prize-winning economist – and perhaps the one whose work is least understood by non-economists. Indeed, some would argue that he’s not really an economist at all, but a world-class mathematician.

Yes, that’s right: It’s John F. Nash, whose best-selling biography, *A Beautiful Mind* by Sylvia Nasar, was made into an Oscar-winning movie. Nash’s personal struggle with schizophrenia is now legend. Not surprisingly, though, the movie made little headway in explaining Nash’s singular contribution to what economists call the theory of games.

Prior to Nash, game theorists had only managed to solve “zero-sum” games, in which one player’s gain was another’s loss. But the world is full of games – think of markets with relatively few buyers and sellers – in which the outcome generates a net gain in welfare. Nash outlined the mathematics for “solving” – that is, finding equilibria – in such games, which had the property that no player could benefit by changing his strategy while the other players keep their strategies unchanged.

Esoteric? Yes. Important? Very; it led to an explosion of research in a field that seemed to be on its way to a backwater in the history of economics.

