

Can they do it again?

THE budget for the present financial year 1992-93 assumed a modest economic recovery this spring. This has clearly not happened, and the financial year 3 will end with the State in debt by \$2.1 billion, or perhaps slightly more. This does not seem too bad in context of the revenues received, except that revenues for the next financial year are expected to decline sharply: the first time this has happened since the Depression of the 1930s. The proposed budget for the General Fund (excluding Special Funds for specific purposes) for 1993-94 is \$39.9 billion, a reduction of \$1.07 billion on the previous year, \$37.8 billion of which will be available after paying off the debt. 40.2 per cent, or \$15.2 billion of this is tied up in mandatory obligations such as education, leaving \$22.5 billion for health, welfare, public safety, higher education and all other expenses: \$151 million less than last year. \$31 million will be set aside as an emergency fund.

Against this decline in revenues, expenditure commitments are charitably described as unrestrained. For example, the Medi-Cal (medical welfare) caseload will increase by 7.5 per cent next year, some three times the general population increase. All in all, available revenues will meet only 80 per cent the expenditure demand. Deficit spending is out of the question for a variety of reasons, hence the severe cutbacks in a variety of programs necessary to balance the budget.

The state has a number of additional crosses to bear. Perhaps the most notorious is Proposition 13, a constitutional amendment sponsored by private citizens and passed 2:1 by the voters in 1978, whereby the tax of 1 per cent on property value is fixed, and reviewed only when the property is sold. The idea was to provide tax relief for residents burdened by rising local taxation in a booming property market. This has since had three effects. First, the state had not been able to take fiscal advantage of the extraordinary rise in property values in recent years. Second, this very rise is a disincentive to property transactions, which will be subject to sudden, large tax re-assessments. Third, people in the same neighbourhood pay wildly different sums for the same services, depending on the history of their individual properties.

The immediate effect of Proposition 13 was to cut local tax revenue by two-thirds: the state, which had passed the amendment, had no option but to bail out local governments and assume control of a wide range of local services such as schools, emergency services, jails, trial courts, land registration, and planning. The state can no longer afford this subsidy, and the upcoming budget proposes

to eliminate a great deal: school funding will be returned to the mix of State and local sources that applied before 1978.

The long-term outlook is gloomy to the point of opacity. Largely because of immigration, mandatory expenses will grow faster than the ability of the state to meet them. Throughout the 1990s, K-12 enrollments are projected to grow by 37 per cent (23 per cent in the 1980s); numbers of people eligible for child benefit (Aid to Families with Dependent Children, or AFDC) will grow by a staggering 61 per cent (14 per cent in the 1980s),

AEROSPACE

Crash and burn

OF the 800,000 jobs lost in California over the past two years, a quarter were directly or indirectly related to defence and the aerospace industry. In southern California alone, 100,000 aerospace engineers may be out of work.

Twenty-two cents of every dollar spent on defence in the United States are spent in California, almost double per capita that in any other state. So it is no surprise that when the Cold War thawed, California got chilblains. Under the Bush administration, the federal defence budget was expected to fall by 30 per cent between 1991 and 1996. If President Bill Clinton's pre-election statements are anything to go by, the figure could be as high as 50 per cent. That this affliction struck on the brink of a recession was hard luck.

To make matters worse, California's high taxes, cost of homes, forward-looking environmental protection regulations and expensive workforce compensation arrangements have driven much of what is left of the aerospace industry.

In previous recessions, aerospace companies have survived through diversification. This time they are consolidating their core areas, breaking down peripheral activities and selling off the parts. For example, General Dynamics has sold its missiles unit in San Diego to the Hughes Corporation, and its fighter aircraft division in Fort Worth, Texas, to Lockheed. There is a perception that the weaker companies will fall prey to the strong, and that the number of key players in US aerospace will have halved by 1996.

This trend does not mean that diversification is no longer an issue in the present recession, heavy investment in plant and equipment means that there are some operations that simply cannot relocate, and diversification is the only option.

This has meant two things for aerospace companies. First, a broadening of

and recipients of state healthcare (Medi-Cal) will almost double — a barely credible 98 per cent (27 per cent in the 1980s). The tax base, however, continues to be eroded by unemployment (projected to improve from 10 per cent to 9.5 per cent by 1994), the relative decrease in the number of taxpayers, and the migration of middle-aged high-earners out-of-state.

As a consequence, growth in expenditure will continue to outstrip revenue throughout the 1990s, long after the present recession is history. For example, revenues in the financial year 2001-02 will be an estimated \$68.5 billion, and expenditures \$83.4 billion. □

core activities into the civil sector. This broadening has spread to encompass some distinctly un-traditional partners. With Rockwell, Lockheed is working with Russia to develop a lifeboat for the Space Station out of the present Soyuz spacecraft design. This, in turn, has led to a 50:50 venture between Lockheed and Russia to market the massive but reliable Proton booster internationally.

Second, aerospace managers have applied some lateral thinking. If the design of a stealth bomber or a space shuttle requires some facility with large, complicated systems, then the same skills can be applied to civilian projects: among many other activities, Lockheed has built and runs an airport in Toronto, and with Rockwell and others has been working on metropolitan transit systems. Closer to home, it manages the system that collects fees in San José's parking lots. The division of Lockheed that coordinates these activities is the fastest growing part of the company, and around 40 per cent of Lockheed's research concerns software design and analysis — for both military and civilian use.

Adaptation is more than a problem of re-tooling, it requires a change in culture. Most of all, aerospace companies are not used to the cut-and-thrust of the marketplace, which runs counter to everything they have learned.

This cultural change is happening — it must happen — and there is no sense that the aerospace industry in California is headed for extinction, although an overall sense of the sort of things it will do in future is unclear. Perhaps they will do a bit of everything. In that the mighty Californian aerospace industry of today was built by the flood of otherwise unoccupied engineering graduates in the 1960s, the past offers a lesson. Today's unemployed engineers will have to find something to do: now, as then, it is in the interests of the state that they do it in California. □