

Economic crisis shocks California

by Brian Lantz

Talk of secession. A tuberculosis epidemic. Rising joblessness and bankruptcies. The bad reports from California should be of concern to anyone. The largest U.S. center of economic activity, California is by far the nation's largest food producer; it represents 30% of defense and aerospace capability and accounts for much of total R&D investment. The state's population now comprises 12% of U.S. total population, growing 26% in ten years.

In early October, Californians woke up to the news that their state was facing a new financial crisis. New figures showed a dramatic rise in unemployment and rapidly falling state tax collections. To explain this bad news, the following yarn was told: The state has always relied on the federal Bureau of Labor Statistics to determine state job levels and, hence, to project revenues. Confused over unusually low tax revenues, the state financial department looked at payroll tax data for themselves, as Illinois, New York, and New Jersey had done.

Based on the federal statistics, the state's economists had predicted a loss of 35,000 jobs due to the "recession." They also had projected an economic upturn. But in reality, over 240,000 California jobs had been lost in less than a year, compared to the "normal" annual creation of some 250-300,000 jobs a year—an effective loss of 500,000 jobs in 12 months. California faces another major budget crisis in 1992-93, meaning thousands of state layoffs, and further cuts in education, infrastructure, and medical care. Welfare costs for poor families with dependent children have increased 12% since July.

Going: real estate, defense, electronics

Behind the jobs debacle have been the collapse of California's real estate market, and defense spending cuts. Over 10,000 jobs have been lost in northern California's Silicon Valley electronics sector. California's aerospace sector, centered in the south, lost more than 30,000 jobs last year. Total official job loss in manufacturing was 89,500 for 1990. Largely in response, commercial construction and home building are also coming to a dead stop, having laid off over 42,000 workers last year, and many more since. Commercial office vacancy rates in major California cities are between 15 and 30%. Home sales are down 10-50% from a year ago.

The major banks are reeling. In the last 12 months, the

common stock of Bank of America, First Interstate, Security Pacific, and Wells Fargo Banks halved in value, since then recovering only in part. The deteriorating condition of California banks' loan portfolios, heavily invested in real estate loans, forced large increases in loan-loss reserves as well as mergers. Wells Fargo Bank—recently bailed out, like American Express and Salomon Brothers, Inc., by the shadowy Omaha, Nebraska tycoon Warren Buffett—has threatened to leave the commercial real estate market altogether. The merger of Bank of America and Security Pacific Bank will result in the direct loss of upwards of 20,000 jobs.

California state tax revenues ran \$245 million behind projections in September because no one wanted to face reality. Another \$10-20 billion state budget deficit is already predictable, with tremendous repercussions. Since the Carter administration, the federal government has been cutting funds to the states. For over a decade the states have been dumping billions in expenses on the counties and cities. Now California's northern-most rural counties are mooting secession. As one professor recently remarked, "We don't have New Federalism, we have New Feudalism."

The cost in human lives

Here is California today:

- The number of California children living in extreme poverty has increased 50% in the last decade. According to the Washington D.C.-based Food Research and Action Center, some 13.1% of California's children go to bed hungry every night. Another 15%—almost a third—are "at risk."
- California's public schools now rank *last* in the nation in classroom size, and in expenditures per pupil as a percent of average per capita income.
- Close to one-third of the California's school districts are in deficit, despite major budget cuts—and falling SAT scores. Several districts face financial bankruptcy.
- Tuberculosis is now epidemic in California. A marker for poverty, statewide TB cases are up 40%, or 50% above the national average. Syphilis and measles are also taking off. The AIDS epidemic costs the state \$500 million a year and has outstripped resources.
- California's injured workers' compensation program is the worst in the U.S., paying less than 45 other states, despite California being one of the most expensive states in which to live.
- According to the 1990 Census, one in five homeless people in the U.S. sleeps in a California homeless shelter or on the state's streets.
- The state's prisons are filled to over 180% of capacity, and the prison population grew over 250% between 1980 and 1988. The nation's prison population grew "only" 90%.
- The state's program for the mentally ill recently rated behind those of Alabama, South Carolina, West Virginia, and the District of Columbia and is "moving backward." State budget cuts will slash mental health programs further.