

"LOSING THE COMPETITIVE EDGE"

Hungrier: Attrition reduces industry

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of a political infrastructure to support industry, a situation that has accelerated the exodus to other regions. And they point to a system that requires business to ante up more than 65 percent of state taxes.

"We're in a position of always being wrong, of always being in limbo," said Kenneth Richardson, president and chief operating officer of Hughes Aircraft Co. "We don't have to put up with that anywhere but in California. That's why we're gradually moving away."

Hughes Aircraft's California work force has dropped from 84,000 in 1985 to 69,000 today. At the same time, the company diluted the percentage of business based in the state from 84 percent to 75 percent.

The company now has operations in 15 states vs. just two states in 1985.

"That trend will continue, I can assure you of that," Richardson said. "We have a policy that says we will not expand in the state of California again."

Hughes Aircraft is hardly alone.

Lockheed Corp. in April said it will build the Advanced Tactical Fighter in Georgia, costing California approximately 21,000 jobs over the next decade. McDonnell Douglas plans to build two new commercial aircraft — the MD-12 and the MD-95 — in plants outside California. Northrop Corp.'s employment fell from 48,000 in 1985 to the current level of 37,000. The company expects to cut 600 more jobs this year.

"It's not a matter of saber-rattling," said Don Hanson, spokesman for Long Beach-based Douglas Aircraft Co. "When it comes time to expand, California has got to compete with all the other states."

Aerospace officials agree the expense of relocating aircraft tooling — which would cost upward of \$50 million for midsize plants — makes it improbable that the industry will pick up and leave California. Unlike other business costs which can be spread over a period of years, relocation expenses must be deducted from the company's bottom line the year in which they are incurred.

Instead, the industry is being reduced by attrition. New aerospace programs are going into production in cheaper states, leaving California with little more than the remnants of the Reagan era.

"It's not a visible thing, like you're here on Friday and gone on Monday," said George Roos, vice president for human resources at General Dynamics' Convair division. "But over a period of time, you notice that General Dynamics is opening a plant in Arkansas and a plant in Texas. And after a time, General Dynamics is not a large employer in San Diego anymore."

The Convair division already has opened production facilities in Tijuana, Texas, Louisiana and Florida.

"Frankly," said Roos, "we'll be looking at more."

San Diego-based Cubic Corp. and Rohr Industries have expanded their production operations outside San Diego and are considering additional moves that will cost the county hundreds of aerospace jobs.

"We're going to cut back," said Cubic Chairman Walter Zable. "The competition is keen, so we've got to keep our costs down. We can't afford



Associated Pre

From left, Carl Covitz, secretary of the state Business, Transportation and Housing Agency; Gov. Wilson, and Ron Cedillos,

president of Cedillos Testing Co. of Long Beach, are shown during a meeting of aeronautical firms at the Capitol.

to increase our employment here.

"It's going to hurt San Diego, but I've got to hire people where I've got fewer costs," he said.

California is clearly a victim of its own success.

With its warm climate, oceanfront property and comfortable suburban lifestyle, California had only to sit back and wait for industry to arrive from decaying Northeastern states. It offered no financial incentives to lure business. Nor did it screen and train workers like its counterparts in the South.

"California has always been a self-sustaining force," said Robert Ady, president of PHH Fantus Corp., a Chicago-based corporate relocation firm. "The state hasn't had to do much in the way of courting industry. People just came and stayed."

But the state that traded on its charm and beauty is now "on the cusp of losing not just the aerospace industry but the biomedical people and possibly the Silicon Valley folks as well," said Steve Frates, executive director of the San Diego County Taxpayers Association.

The exodus is particularly troubling to business leaders, who say San Diego and other California cities are not responding to corporate America's efforts to remain competitive in a changing global economy.

"We're seeing older industries like aerospace leaving in order to be competitive, but at the same time we are not looking at what new industries we are going to attract to back-

fill into the vacancies," said Dan Pegg, president of the San Diego Economic Development Corp. "As new industries like biotech graduate to manufacturing from R&D, we're not being as hospitable as we should be."

These days, the state finds itself whipsawed by a push-pull effect that is costing thousands of high-paying jobs. As California is pushing companies out, other states are positioning themselves to reel them in.

During the current industry downturn, at least 18,000 California aerospace jobs have been relocated to other states. A recent survey estimates as many as 150,000 more could be lost over the next five years.

"Governors and mayors used to be nebbishes about this. Now they have offices in Hong Kong and Tokyo," said David Heenan, chairman and chief executive officer of Honolulu-based Theo. H. Davies & Co., who authored a book titled "The New Corporate Frontier."

"If you're not out there aggressively marketing yourself," he said, "you're going to get trampled."

The Southeast is becoming a particularly tough competitor. By establishing a pro-business posture that builds on its folksy Southern hospitality, the region has convinced aerospace officials it has the political and physical resources to support industry.

"They've had to work so hard to get anybody to come to their state that they're becoming quite effective

in their approach," said Ady. "They're not hicks any more."

Aerospace officials say they have been pleasantly surprised by their experiences in a region they viewed as less sophisticated than California.

The governor of Tennessee met with Zable when Cubic opened a 100-employee manufacturing plant in rural Tullahoma.

"The governor wanted to assure me that he would do everything pos-

"We're in a position of always being wrong, of always being in limbo. We don't have to put up with that anywhere but in California. That's why we're gradually moving away."

Kenneth Richardson Hughes
Aircraft president

sible to help me increase my employment," said Zable. "They were catering to us. We didn't have to go and beg for anything. They came to us."

While company officials undoubtedly enjoy being pampered, they adamantly deny that they expect special treatment from communities in California.

"The industry does not want special privileges, we don't want handouts to get us through the lean years," said Richardson. "What we're looking for is some fairness in the process."

Yet, aerospace executives are quick to point out that other states offer tangible incentives to relocate.

The Southern states, for example, offer tax breaks and job training so that the aerospace industry gets the "very, very most select people," said Richardson. Once employees are hired, aerospace executives often find the work ethic is better in the South than in California.

"We've become complacent in California," said Richardson. "In the South, they're nurturing industry, especially high-tech."

For the folks down south, the aerospace industry offers high-prestige work.

"If they don't work in aerospace or

in a high-technology plant," said Richardson, "they'll either be harvesting crops or they won't have a job at all."

Covitz says California cannot afford to give industries financial concessions to expand or remain in the state.

With a \$14.3 billion budget deficit "we don't have the financial resources available to us to compete with other states, whether it's tax credits or cash money," he said.

But there are things California can do to stem the exodus.

First, Covitz said, state government must recognize "that it is coming terribly burdensome to live and work in California." Government officials must also "recognize the import of the business community to the future of California."

The state can offer job training. The permit process can be expedited. The tax burden on industry can be re-examined. And the administration can help the industry lobby for federal contract awards, he said.

"There has to be a degree of moderation when we're dealing with industry," said Covitz. "If we continue to tax it so that it's no longer practical to do business here, then the foundation collapses."

Yet, if California begins offering financial incentives to keep companies, the state could find itself in a bidding war, cautioned Heenan.

"When you start offering too many incentives you can always be outpriced," he said. "You can't throw in the towel. You've got to take care of what you've got. But some communities have been pretty cavalier about what they were willing to offer, only to find that they had overreached."

States such as California, which have traditionally attracted people should pitch their assets, Heenan said. "That's a much healthier approach than simply giving it away."

Business executives say Sacramento's conciliatory tone is a step in the right direction.

"I think people in California are starting to wake up to the fact that we cannot expect to be carried on technical ability alone," said Ken Kresa, chairman, president and chief executive officer of Northrop Corp.

"I'm not sure we need to offer incentives," he said, "but we cannot continue to impose disincentives on people who come here and expect them to remain."

Corporate income tax collection (per capita)

California ranks among the top 10 states in the nation in corporate income tax. Alaska, with a relatively small population and significant oil production, ranks first.

	\$ amount
Alaska	\$872.27
Connecticut	\$246.98
Delaware	\$230.91
Massachusetts	\$201.14
Michigan	\$200.81
California	\$174.20
New Jersey	\$169.29
New Hampshire	\$137.31
North Carolina	\$120.11
Minnesota	\$112.06

SOURCE: California Taxpayers' Association

