

# The Great California Depression of the 1990s

By MIS President

Mark K. Rogo

Morton Machinery Co. Inc.

“If the economy doesn’t go against us, we can repair our balance sheet and withstand the next recession as a financially strong independent company.” Sound familiar? It could be the President of any MDNA-member company as easily as Robert Eaton, Chairman of Chrysler Corp. (Los Angeles Times, September 26). Then why all the gloom and doom in California while the Midwest seems to be heating up and even the east coast shows signs of movement? Simple. The automotive industry is on the move, but the industries that made manufacturing profitable in California continue to show no sign of recovery.

California is going through the same difficult restructuring that the Midwest went through in the early 80s. The only reason why the spotlight is on California is because of its size. It is the seventh largest economy in the world, accounting for over \$500 billion annually in goods and services. Even President Clinton recognizes that when he said, “We can’t turn this economy around unless we’re going to lift California up,” (New York Times, August 24). The spirit of California’s entrepreneurs will be the engine that will drive the state out of its depression in 1995. I predict it.

California is a hugely diversified economy, so much so that it normally rides through any normal business cycle in better shape than the rest of the country. Not so this time. But we had it coming. Californians were used to a large defense outlay of \$50 billion/year or 20 percent of all Pentagon spending on weapons programs, an agricultural industry that eclipsed manufacturing, strong Pacific Rim economics that imported goods through California ports and the glitter of Hollywood and all the jobs that go with it, shipbuilding, a housing market that hasn’t filled capacity since the early 1960s, and a 20 year span of making millionaires out of anyone who owned property. It all came crashing down in mid-1990. The smart players will survive, the rest will become victims of the worst shake-out in California’s post WWII history.

The Los Angeles Times on September 26 reported, “future cuts in the Defense Department budget, along with the recently announced closures of several military bases in the state, will lead to the loss of a further 125,000 California jobs over the next four years, the California Commission on State Finance has predicted. Those losses would be added to the 330,000 aerospace-related jobs that . . . have already vanished statewide since 1986.” What does this tell us about just one segment of the California economy (coincidentally, the main one California dealers are concerned with)? No one saw how deep and quick this depression would hit California. And no one understood the effect it would have on the rest of the country. “Nearly two-thirds of the jobs lost in the United States in the last three years have been in California. California has suffered a net loss of 519,000 jobs, the bulk of 810,000 jobs that disappeared nationwide in the recent recession. . .” (*New YorkTimes*, August 24).

Where is California now? “California, shows little sign of recovery before 1994,” says Dr. Tapan Munroe, chief economist for Pacific Gas and Electric Company. The most

recent figures show California's unemployment continuing to rise. But *Los Angeles Times*, September 25, reported that "Orders to U.S. factories for big-ticket items such as cars and computers rose for the second time in three months. . . economists took the report as evidence that American manufacturing is starting to recover from a slump earlier this year."

We continue to lag behind the rest of the country, and this is no doubt slowing the national recovery. Since the government is out of money, it can no longer generate programs to jump-start the economy as it has in the past. Furthermore, the Federal Reserve has ". . . adopted a policy of stability" (*Los Angeles Times*, September 25), meaning that there are no plans to lower interest rates any further to generate growth. It remains up to the economy itself to work itself out of this depression and into a solid recovery. And as we all know, a recovery supported by real growth instead of government short-term subsidies will stand a stronger chance of becoming a part of a protracted and strong business cycle.

There is hope. New state legislation has passed lower workers comp rates and a balanced budget. The state has streamlined the process for obtaining permits for large manufacturers. The California Air Quality Management district has relaxed many of the regulations that business finds objectionable. Even the normally pessimistic Kiplinger California Letter reports, "For the first time in years, some positive steps will be taken to boost the state's economic climate."

Meanwhile, the smarter California dealers will place increased emphasis on sourcing leads and making sales on a national rather than a (dead) regional scale, rely on national/international publications like LOCATOR® and its national draw rather than regional advertising publications.

More victims will fall before it's all through, but when it is, the California economy will experience a renaissance. If you're planning to come out to the auction at McDonnell-Douglas to "steal" machines, or want to move some of that massive California surplus to your local market, then hurry up. You've only got one more year. Until then, the battle cry of the California MDNA member will be "Stay Alive 'til '95"