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California Capitol Hill Bulletin

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To expand communications between Washington and California, the California Institute provides periodic faxed bulletins regarding current activity on Capitol Hill which directly impacts our state. Bulletins are published weekly during sessions of Congress, and occasionally during other periods. The e-mail edition is made possible in part by in kind donations from Sun Microsystems and Qualcomm, Inc.

AGRICULTURE EXPORTS CONSIDERED

The House Committee on Agriculture met Wednesday and gave voice approval to the Selective Agricultural Embargoes Act, H.R. 17, which would require congressional approval of agricultural embargoes ordered by the President. The bill calls for the President to report to Congress when he imposes a selective embargo on agricultural goods. Congress would then pass a bill expressing either approval or disapproval of the embargo, if a bill of disapproval becomes law, the embargo would cease after 100 days. The bill also limits the length of Congressionally approved embargoes to one year, which could be terminated earlier by the President. The bill would not affect agricultural products that are part of an embargo of all exports to a particular country.

Proponents argued the legislation is necessary because an increase in the use of export sanctions to achieve foreign policy goals is threatening the livelihood of U.S. farmers and ranchers. Chairman Larry Combest (TX) stated that this bill is "aimed at keeping foreign markets open to American agricultural products." Rep. Cal Dooley (Visalia), however, was concerned that the bill is too limited in scope to affect most of the embargoes imposed on agricultural products and urged support of broader legislation on Congressional approval of economic sanctions. The bill is tentatively scheduled to be considered by the House under suspension during the week of Feb. 22.

CALIFORNIA CITRUS FREEZE UPDATE

On Tuesday, the Administration announced a second round of disaster assistance for Fresno, Madera, Tulare, Kern, Kings and Monterey counties, those hardest hit by the recent costly citrus freeze. See, *Bulletin*, Vol. 6, [Nos. 1 \(1/21/99\)](#) & [2 \(1/28/99\)](#). FEMA Director James Lee Witt said the latest declaration "makes federal funds available specifically to supplement unemployment compensation for farm laborers and other farm industry workers put out of work as a direct result of lost citrus and seasonal crops" in these six counties. The Administration had previously made assistance available to growers affected by the freeze. More counties and additional forms of disaster assistance may be designated later based on the results of ongoing assessments of damage to California crops.

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FEINSTEIN, BOXER & GALLEGLY WEIGH IN ON ARGENTINE CITRUS IMPORTS

The U.S. Department of Agriculture (USDA) has proposed allowing the importation of citrus fruit from Argentina. Senator Dianne Feinstein sent a letter on Monday, February 8 to Secretary of Agriculture Dan Glickman expressing her concern about the proposal. Feinstein stated that both the California and Florida State Agriculture Departments believe that there is a lack of evidence that Argentine medfly, citrus canker, citrus black spot, and sweet orange scab have been diminished sufficiently in regions from which citrus is proposed to be imported to the US. She cited the financial devastation to California from such pests in the recent past. Feinstein also discussed the particularly vulnerable financial situation of the California citrus industry due to the recent freeze. She said this is an inopportune time to risk the possibility of an infestation and urged the USDA to postpone consideration of the importation of Argentine citrus.

Senator Barbara Boxer also urged the USDA to withdraw its proposal in a statement before a USDA hearing on the topic Monday in Thousand Oaks. Congressman Elton Gallegly (Simi Valley), who represents the area in which Monday's hearing took place, has been vocal in concerns about the USDA proposal and had urged Secretary Glickman to postpone Monday's hearing until later in the year. He noted that "the pest and disease problems, long evident in Argentina, pose a real threat to the health of agriculture in Ventura County and throughout California." He argued for more time for an independent scientific analysis of citrus production in Argentina.

Rep. Gallegly's testimony is available at http://www.house.gov/gallegly/pr990208_anpl.htm, and Senator Boxer's press release is at <http://www.senate.gov/~boxer/28citrus.html>.

CALIFORNIA ECONOMY TO SLOW BUT STILL OUTPACE NATION, SAYS PG&E

According to a new report from PG&E, 1999 will produce a lessening of growth in employment and personal income, steady low inflation, an increase in the unemployment rate, and continued increase in the housing construction industry. The report, "California Economic Outlook and Key Issues – 1999 and Beyond," notes that California has added more than 1.4 million jobs since pulling out of a harsh recession in 1993, but declining exports to Asian economies will bring the 3% employment growth rate of 1997 and 1998 down to slightly more than 2% in 1999 and 2000. These levels will outpace the nation as a whole, however, which is expected to have employment growth of just 1% for the next two years.

The report finds that Southern California is now "the state's economic performance leader" due to its strength in services, tourism and high-tech entertainment, with construction and real estate industries contributing to the resurgence. One component of Southern California growth is San Diego's "strengths in defense-related business as well as telecommunications, biotech and tourism." The San Francisco Bay area continues to thrive economically, particularly as the technology sector has diversified into internet and web areas and geographically eastward into the East Bay communities. It was noted, however, that traffic congestion, skyrocketing housing prices, and increasing unevenness in the jobs/housing balance pose challenges for the region. The Central Valley shows considerable contrasts, with tech sector income growth around Sacramento and in some other pockets, while wages remain flat in many other areas.

The report was authored by PG&E's consulting economist, Dr. Tapan Munroe, who also founded the California Institute's Economic Advisory Council, a group of the state's top economists who advise the Institute on economic and policy issues. Dr. Munroe was in Washington Thursday to announce the findings of the study.

In remarks, Dr. Munroe noted that the harshness of Asian difficulties has been lessened by increased trade with Latin American trading partners, particularly Mexico. He also noted that diversity is an important asset for California's current and future economic growth.

For further information, contact PG&E at 415-973-5930 or 202-638-3500.

SILICON VALLEY VENTURE CAPITAL DOLLARS SET ANOTHER RECORD

According to a report this week prepared for the San Jose Mercury News, venture capital into Silicon Valley startups exceeded \$4.5 billion last year, exceeding the prior year's record level by more than \$1 billion. According to PriceWaterhouseCoopers, which prepared the report, 41.6% of the funds went into communications companies. The average size of a deal in 1998 was reportedly \$5.8 million, which was 16% higher than for the prior year. A national figure is expected for release on February 12th. For more information, see <http://www.mercurycenter.com/premium/business/docs/vcnumbers08.htm>.

LOCKHEED MARTIN AND BOEING ARE TOP DOD CONTRACTORS

The Department of Defense announced last week the top Pentagon procurement recipients for FY 1998. According to the "Top 100" report, the top five contractors were: 1. Lockheed Martin Corp. (\$12.3 billion); 2. The Boeing Co. (\$10.9 billion); 3. Raytheon Corp. (\$5.7 billion); 4. General Dynamics Corp. (\$3.7 billion), 5. Northrop Grumman Corp. (2.7 billion); 6. United Technologies Corp. (\$2.0 billion); 7. Textron Inc. (\$1.8 billion); 8. Litton Industries Inc. (\$1.6 billion); 9. Newport News Shipbuilding Inc. (\$1.5 billion); and 10. TRW Inc. (\$1.4 billion). In fiscal 98, DoD prime contract awards totaled \$118.1 billion, \$1.4 billion more than in fiscal 97.

Its report, "100 Companies Receiving the Largest Dollar Volume of Prime Contract Awards (Top 100)" is available at <http://web1.whs.osd.mil/peidhome/procstat/procstat.htm>.

DEFENSE CONTRACTS TO CALIFORNIA

Several contract announcements this week by the Defense Department will send substantial dollars to the state. On Tuesday, a \$125 million contract to provide for the first year's work on an experimental space-based laser project was awarded to a joint venture including Boeing's Rocketdyne Division in Canoga Park, Lockheed Martin Missiles and Space in Sunnyvale, and TRW of Redondo Beach. Initial work is to be completed in two years at the Air Force's Space and Missile Systems Center in Los Angeles and will include feasibility research, technology development and demonstration. The award is the first installment of what is envisioned as a \$3 billion contract.

Also on Tuesday, Science Applications International Corp. (SAIC) of San Diego was awarded a \$74 million contract over 5 years to provide for systems engineering and technical assistance on a range of systems and programs. And on Thursday, the Air Force awarded an \$80 million contract to Boeing for process and design improvements for the F/A-18E/F aircraft, with 40% of the work to be performed in Los Angeles.

MTBE DEBATE CONTINUES

Under a law passed by the State Legislature in 1997, Governor Gray Davis must issue a finding on the risk posed by MTBE about 10 days after two upcoming public hearings. The hearings, scheduled for February 19 in Southern California, and February 23 in Sacramento, will focus on a recent University of California report that California does not need MTBE to clean up its air and should gradually eliminate the chemical from its fuel supply. If Davis orders a ban on MTBE, he would render moot the various legislative proposals currently under consideration. If he rejects an immediate ban or orders an MTBE phaseout, the bills could still be sent to him by the legislature. For more information on state and federal MTBE legislation, see our previous coverage in [Bulletin, Vol. 6, No. 1 \(1/21/99\)](#).

GOLD RUSH PARTY ON FEBRUARY 25TH

The California State Society will hold its Gold Rush Party on Thursday, February 25, from 6:30-9:00 p.m. The formal program begins at 7:15, and the event will be in the Cannon Caucus Room in the Cannon House Office Building. Ticket price for the event will be \$30.00 per person. Tickets are limited, and must be purchased by February 22, 1999. To buy tickets, please send a check payable to the California State Society, along with the name of the ticket purchaser and his or her guests, address, and phone number. Send check and information to The California State Society, 1615 "L" Street, NW, Suite 1000, Washington, DC 20036. The contact number is 202-745-1938, and the website is <http://www.cssdc.org>. Alternatively, if you are on Capitol Hill and would like to buy tickets in person, come by the California Institute at 419 New Jersey Avenue, SE.

PUBLIC POLICY INSTITUTE OF CALIFORNIA STUDIES INCOME INEQUALITY

The Public Policy Institute of California (PPIC) released a study Tuesday noting that California's prolonged economic boom has seriously exacerbated the income gap between the state's richest and poorest residents. Author of the study, economist Deborah Reed, said that the widening gap was due mostly to falling wages for men at the bottom of the scale rather than rising wages for those at the top; "the earnings of workers with less than a bachelor's degree have eroded dramatically."

The study, "California's Rising Income Inequality: Causes and Concerns," found that families of four with incomes at the bottom 10 percent of the pay scale saw their real-dollar incomes slip from \$15,000 in 1989 to \$11,300 in the mid-90s, then recover to \$13,000 by 1997. In contrast, families at the top 10 percent of pay saw incomes slip from \$121,500 in 1989 to \$117,400 in the early 1990s, and then rise to \$130,600 in 1997. Thus, real incomes at the top of the income scale are rising, while those at the lower end are decreasing.

The PPIC notes that educational attainment is an important factor. In 1969, a U.S.-born male with a bachelor's degree earned 50% more than a similar worker with a high school diploma. By 1997, that difference had risen to 70%. Likewise, while attainment of a high school diploma meant a 9% wage advantage over a similarly skilled worker without a diploma in 1969, the advantage of the high school diploma holder had grown to 37% in 1997. Dr. Reed also found that immigrants accounted for 10% of the male workforce in 1969 and 36% in 1997 and that immigrants are overrepresented in the bottom categories of the wage scale.

For further information, contact PPIC at (415) 291-4400, or at <http://www.ppic.org>. As a reminder, Reed will be speaking on this topic at the PPIC forum February 23rd in Sacramento. For further information, contact PPIC or see, *Bulletin, Vol. 6, No. 4 (2/4/99)*. The [PPIC web page](#) has the full text of Dr. Reed's report as well as a research brief.

TRADE SUBCOMMITTEE BEGINS HEARINGS ON TRADE EXPANSION

The Trade Subcommittee of the House Ways and Means Committee held a hearing on February 11 on the importance of expanding trade and resisting protectionism through active U.S. involvement in trade negotiations. The hearing is the first in a series to address this issue.

At Thursday's hearing, United States Trade Representative Charlene Barshefsky testified before the Subcommittee. Ambassador Barshefsky cited the United State's continuing growth in trade with \$932 billion in goods and services exported last year -- a 51% increase from the 1992 level of \$617 billion, despite a slowing in export growth due to the financial crisis.

Measured by country, the United States' largest five goods export markets were Canada at \$156 billion, followed by Mexico at \$71 billion, Japan at \$57 billion, the United Kingdom at \$40 billion and Germany at \$25 billion, according to Ambassador Barshefsky. And, in 1997, our six largest service

export markets were Japan with \$34 billion, the United Kingdom with \$23.7 billion, Canada at \$20.5 billion, Germany at \$13.5 billion, France at \$9.4 billion and Mexico at \$9.3 billion. (As an aside, the value of California's exports rose to over \$100 billion in 1997.)

Ambassador Barshefsky then outlined the initiatives that the USTR would address in 1999 leading up to the Ministerial Conference in November and December and at the event itself. They include:

- An "Information Technology Agreement II" adding new products to the sectors already covered by the first ITA.
- Extension of last May's multilateral declaration not to assess customs duties on electronic commerce, to make sure that the Internet remains an electronic duty-free zone.
- An agreement on transparency in procurement to create more predictable and competitive bidding, reducing the opportunity for bribery and corruption and helping ensure more effective allocation of resources.
- Building consensus on the sectoral liberalization initiative begun in the Asia-Pacific Economic Cooperation forum. This would eliminate tariffs and in some cases liberalize services in chemicals; energy equipment and services; environmental goods and services; fish and fishery products; gems and jewelry; medical and scientific instruments; toys; and forest products. Meaningful participation by Japan in the fishery and forest products sectors would be essential to success, according to the Ambassador.

Additionally, the USTR is now consulting with Congress, industry, and other interested parties on a detailed negotiating agenda for talks which would begin after the Ministerial meeting. While the final scope of the agenda is yet to be determined, Ambassador Barshefsky stated that at a minimum they should include such issues as: agriculture; services: government procurement; intellectual property; reducing industrial tariff and non-tariff barriers. She also indicated that the USTR wants to address newer multilateral system issues, including how competition and investment policies meet the test of assuring fair and open trade, and how the WTO can help to create an international pro-competitive regulatory climate, particularly in services, and further advance our efforts against bribery and corruption.

Other hearings to be held by the Subcommittee in the future are expected to address: (1) the potential impact of ongoing trade negotiations on jobs, wages, economic opportunity and the future competitiveness of U.S. manufacturers and service providers; (2) implementation and compliance with existing trade agreements; (3) prospects for an agreement to establish a Free Trade Agreement of the Americas (FTAA); (4) trade talks under the auspices of the Asia Pacific Economic Cooperation Group (APEC); (5) negotiations on the so-called "built-in" agenda in the World Trade Organization (WTO); and (6) the possibility of further bilateral trade negotiations with Europe, Chile, New Zealand, Australia and other nations in the Pacific Rim region.