January 27, 1993

WASHINGTON EDITION

BUSINES

Comment
ON BUSINESS

Economic Plan Takes Cue From Perot

BY JAMES FLANIGAN

Amid trial balloons and shouts of alarm, outlines of the Clinton economic program are becoming clear. It will be a program to make Ross Perot proud.

Clinton will gamble that cutting the deficit by about $185 billion between now and 1996 will drop long-term interest rates by a full percentage point or two and spur the economy more powerfully than public-works spending ever could.

That's why incentives will be meager. Labor Secretary and Clinton friend Robert Reich suggested Tuesday that a stimulus package of tax credits and spending programs would total $15 billion to $20 billion. That's peanuts—far less than the $37 billion a broad-based investment tax credit would pump into the economy.

But Clinton isn't interested. In his economic program, which will be announced over the next month, tax increases will outweigh incentives.

Politically, Clinton is taking his cue from Perot, who fired the public imagination last year with tough talk about cutting the deficit.

"If you're talking taxes, attack the really difficult ones, like Social Security cost-of-living allowances and Medicare," Perot said last year when he was running for President. "I would go to a new tax system. I'd be buried with Congress, and in 60 days we'd have new tax systems to offer the American people."

Clinton may bring in some humdingers in the taxing line. To raise money quickly, an energy tax is a good bet. "It's like turning on the faucet—money comes in right away," says a congressional tax expert.

Boeing to Cut Aircra

■ **Aerospace:** 'Significant' layoffs are planned. Action will be felt throughout Southern California

By JESUS SANCHEZ
TIMES STAFF WRITER

Faced with a persistent flow of canceled aircraft orders, Boeing Co. on Tuesday said it will slash jet production and lay off a "significant" number of workers.

The cutbacks by Seattle-based Boeing are sure to be felt in Southern California, where an estimated 1,000 firms supply the aerospace giant with everything from 747 fuselages to passenger seat cushions. In fact, one of Boeing's key Southern California suppliers, Northrop Corp., said it will lay off workers as a result of the cutbacks.

"The Boeing tentacles are very well entrenched in Southern California," said Jack Kyser, chief economist at the Economic Development Corp. of Los Angeles County. "What happens to Boeing is important to us."

Plans call for Boeing to scale bac
about 35% over the next 18 months
accelerate previously announced p
tion of some models. Analysts estim
eliminate 10,000 to 20,000 worker
years.

Besides Boeing, United Technol
Tuesday announced 7,700 ad
divisions that make jet engines an
for commercial aircraft.

Both aerospace firms are resp
canceled and postponed aircraft or
airline industry. Domestic airlines
hard by the recession and intense c
combined $8 billion during the
Tuesday, American Airlines postp
Boeing planes worth about $500 mill

Despite the mounting losses, Boei
aircraft manufacturer—had remain
ny expected its huge backlog of ord

IBM May Look Outside Now

■ **Transitions:** Chairman John F. Akers steps down, victim of an obsolete world view, analysts say.

By VICTOR F. ZONANA
TIMES STAFF WRITER

NEW YORK—"I missed your name," said John F. Akers glacially when a reporter was impertinent enough to ask at an analysts meeting last month whether he had considered stepping down as chairman and chief executive officer of International Business Machines Corp.

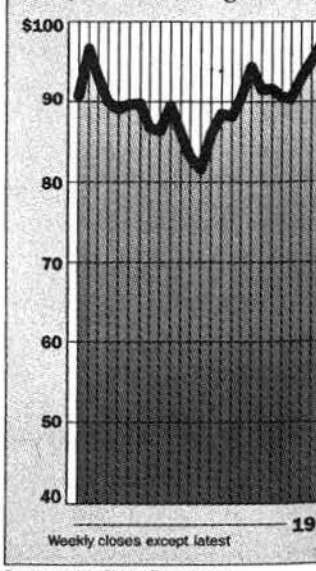
After making a mental note of the offending questioner's identity, the 58-year-old former Navy aviator responded through clenched teeth: "No, I have not given thought to stepping aside. I believe that the track that the IBM company is on in transforming our company is the right one."

To David Wu, an analyst with S. G. Warburg & Co. and a former IBM salesman, the episode said a lot about the man who had led IBM for eight years—and the culture that bred

Please see AKERS, B6

**Big Blue's St
Still No Life i**

Despite news that John Ake
executive, IBM stock closed
though it traded as high as $
half, the stock's long slide m



Source: Knight-Ridder Tradecenter

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Clinton may bring in some humdingers in the taxing line. To raise money quickly, an energy tax is a good bet.

The tax would be imposed on gasoline, coal and heating oil—thus affecting all sections of the country—and could be the equivalent of 10 cents to 15 cents per gallon of gas, says Joseph Tovey of Tovey & Co., a New York-based energy investment bank. Such a tax would bring the government $20 billion in additional revenue—offsetting the cost of the stimulus program but not much more.

For longer-term deficit reduction, a change in the tax system may be in the offing. A consumption tax, modeled on the value-added taxes (VAT) used in many countries, is being talked about favorably in Congress and the White House.

The tax, as explained in "Consumption Tax," a book published by the American Council for Capital Formation, is levied at every stage of production and distribution. For example, a car manufacturer would pay a tax on raw sheet metal, process the metal into a car and then collect a tax from the dealer on the finished vehicle. The dealer would then collect a tax from the customer.

Or, a dentist would pay a tax when purchasing enamel and silver for caps and fillings, then charge patients a tax on top of the fee for dental services.

A VAT is very appealing to economists and politicians—for good reasons and bad. An advantage is that capital expenditure can be exempted, thus encouraging business investment. Also, savings are encouraged because most non-food purchases bear a tax.

The drawback is that value-added taxes put too much power in the hands of politicians. They can be changed easily and imposed selectively—lower on some products, higher on others. In Europe, for example, consumers pay much more than Americans for household appliances, partly because politicians have decided that clothes dryers are luxury items, not necessities.

The attraction to the Clinton Administration is that even a low rate of VAT would bring in considerable

Please see FLANIGAN, B6

STOCKS Dow Indus. Avg.	**+6.75** 3,298.95
OIL Per barrel	−0.02 $19.64
BONDS 30-year U.S.	+0.06 7.25%
DOLLAR In yen	+0.10 123.55
GOLD New York	+2.30 $331.10

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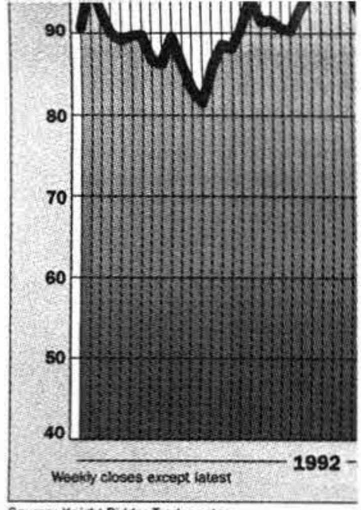

Source: Knight-Ridder Tradecenter

PERSONAL FINANCE / KATHY M. KRISTOF

Dividends Brighten, Despi

DAVE GATLEY / Los Angeles Times
Geraldine Weiss, editor of Investment Quality Trends.

IBM's decision Tuesday to the latest in a string of cal dividend-conscious inves years. Hundreds of big compa during the recession-racked regular hikes in their quarter

Each of the last three years increases since the early 1970 stocks in the Standard & Poor less than 3%—a historically l ominously for the market as a editor of Investment Quality newsletter for yield-hungry i yields linger below 3% for an decline usually follows, Weiss

Yet despite the bad news, s optimism.

For the first time in three y expected to rise by more than Arnold Kaufman, editor of St investment newsletter. Kaufr boost this year in dividends p 500. And a handful of big, fina dividends far more, Weiss adc

Indeed, Weiss predicts, such Electric, McDonald's, Merc Morris will announce dividen year. If the stock market retr months—as some predict—yi to consider investing in their encourage investors to buy n prices are too lofty.)

The dividend picture is brig analysts say.

First, the U.S. economy is r that it's not spurring inflation Low interest rates allow corp cheaply. Firms can also refin cutting interest expenses and

Meanwhile, many big comp

'Abuse of Authority' Cited in

■ Defense: Air Force officials allegedly diverted at least $450 million in public funds to the troubled C-17 cargo jet program, inspector general finds.

By RALPH VARTABEDIAN
TIMES STAFF WRITER

A cabal of Air Force generals and senior civilians used their influence and position to secretly bail out McDonnell Douglas in 1990 at a time when the firm appeared it might run out of cash, according to a Pentagon inspector general report issued Tuesday.

Although the report's broad conclusions were disclosed last week, the full 100-page report alleges that the high-level officials circumvented government regulations through an "abuse of authority" and funneled at least $450 million to the company's troubled C-17 c

Rep. John Conyers (D-Mich.), wh inspector general's investigation, called fense Secretary Les Aspin to suspend cargo jet program until the "true stat contracts can be determined.

Conyers called a hearing for March 1 Pentagon and Air Force leaders are expe the allegations that they diverted the McDonnell to prevent a financial collapse 1990.

A McDonnell Douglas spokesman sa needs the C-17 and the company sees no suspension on the program. He reiterate that the company acted properly u regulations.

Conyers, along with Rep. John Dinge asked that the Securities and Exch investigate whether McDonnell filed mi nage the company.

ob reductions at three planned 1992 cuts, and

'e, the lowest close since

ating from Standard &

5.46 billion in the fourth ne company reports its tions, $45 million. Akers

begin a search for a new stock dividend by more

Associated Press

comment, and a Justice Department spokesman said simply that he no longer works at the agency.

As for the memo, the spokesman said: "We are unaware of any public position that the Department of Justice has taken concerning the constitutionality of the Qui Tam provision of the False Claims Act. Beyond that, we have no

blowers lost their jobs, were blackballed from the industry and left embittered by the experience. The defense industry was outraged by the flood of suits, contending many of them involved specious allegations brought by disgruntled workers seeking financial gain.

Phillip Benson, an attorney who represents a large number of whis-

cases, I am now certain there is a concerted effort by the Department of Justice to circumvent the intent of Congress.

"The Department of Justice would rather blow a case and get no money for the government than have a whistle-blower succeed, and has always been antagonistic toward whistle-blowers."

heavily in new plant and ent," noted John B. Jones, analyst with Salomon rs. "Opel stayed on the after handing Akers the and his influence—along BM's 30 years history of —may have kept Akers aking needed changes.

n if Akers had had perfect atory skills—and he didn't— ld have had a difficult time g that company around," dded.

DOUGLAS: McDonnell Bailout

Continued from B5

He reiterated a past statement that McDonnell properly submitted bills for the work performed in accordance with agreements with the Air Force and Department of Defense accounting rules.

But the inspector general alleged that the officials made $349 million in payments that exceeded what was appropriate, and an additional $92 million for work that had not been delivered.

In addition, "improper contracting actions" reduced McDonnell's financial risk by $1.6 billion by declaring that the first C-17 aircraft was completed, even though it required months of additional work.

That action "created a false appearance of success to facilitate both the contractor obtaining financing through commercial sources and issuance of debt securities, and the Air Force securing additional funding from Congress," the report says.

The report especially faults Nauseef for attempting to "intimidate" lower-ranking officers to keep the cash flowing to McDonnell. At one point, Nauseef told a lower-ranking official to leave a meeting if he was not a "team player," it says.

Although McDonnell was supposed to be paid for its C-17 work on the basis of regular cost estimates, the Air Force created a monthly cost estimating system that portrayed an unrealistically optimistic picture of the program and temporarily allowed higher cash payments.

But the report says that the monthly estimates "provided no real basis for performance . . . and was merely a spending plan."

e Outlook on Dividends

here's good news and bad news for dividend investors, says Geraldine Weiss, editor of Investment Quality Trends sletter in La Jolla. The good news is that several big companies ikely to post double-digit dividend hikes this year, including e seven:

any	Current annual dividend	Expected dividend	Percent change
-Cola	$0.56	$0.66	18%
eral Electric	2.52	2.90	15%
onald's	0.40	0.45	12%
ck	1.00	1.18	18%
Morgan	2.40	2.64	10%
o Morris	2.60	3.22	24%
ter & Gamble	1.10	1.21	10%

bad news is that at least four widely held firms are likely to w IBM's lead and take a cleaver to their annual payouts to eholders.

a	1.60	1.07	-33%
rican Express	1.00	0.65	-35%
rpillar	0.60	0.30	-50%
eral Motors	0.80	0.40	-50%

e: Investment Quality Trends

ers outperformed growth over the last 10 years, ng to Lipper. Specifically, equity income funds earned 250.18% since 1982 versus 220.9% for small-company growth funds.

FLANIGAN: Clinton Economic Programs

Continued from B5

revenue—$60 billion in the first year. Still, don't look for one in 1993; new tax ideas take time to get through Congress. But consumption taxes will get a good debating this year.

Yet taxation alone won't cut deficits; spending cuts will also be needed.

"Nothing can really go forward unless we redefine Social Security and Medicare entitlements," says economist David Resler of Nomura Securities in New York. One area to watch are cost-of-living adjustments in Social Security—cutting them could trim $11 billion a year from the federal deficit.

Limits and cutbacks in Medicare, to rein in the federal budget's projected 10%-a-year growth in Medicare expenditures, are a certainty in Clinton's health reform program, to be announced by April 20.

The payoff for fiscal discipline could be impressive. If Clinton makes progress toward cutting the deficit in half, long-term interest rates—as measured by 30-year Treasury bonds—could fall from today's 7.23% to 5.75%, economists say. Such rates would make housing and business investment very attractive—and build a reelection bandwagon for 1996.

But there is risk.

If loading taxes on a fragile economic recovery causes a renewed recession, Clinton could be sent packing back to Little Rock four years from now. Stock and bond markets may cheer the thought of deficit reduction today, but they'll change their tune if taxes clobber consumer purchasing power.

Why take the risk? Because politically that's the way the wind blows. "People want straight talk," says a Washington staffer.

There is more credibility in talking about taxes and deficit reductions than there is in public works and promises. The country's mood has shifted, as Perot demonstrated, and Clinton appears to have noticed.