

# Job losses mount as US economy heads into virtual freefall

Jerry White  
3 July 2008

Job losses in the US are mounting as inflation, the credit crunch, plunging home values and tighter family budgets are combining to produce a perfect storm of economic malaise, which is threatening the livelihoods of tens of millions of working people.

The private sector eliminated 79,000 jobs from May to June, according to a survey of nearly 400,000 US businesses released Wednesday by Automatic Data Processing, Inc. The ADP National Employment Report said the decline was “broad based across industrial sectors and suggests continued weakness in employment.”

The goods-producing sector slashed 76,000 jobs last month, ADP reported, with manufacturing employment falling by 44,000, marking their nineteenth and twenty-second consecutive monthly declines, respectively. Service jobs also declined by 3,000, the first fall-off since November 2002.

Construction and financial services related to home sales and lending are the two sectors of the economy hardest hit by the housing and mortgage crises. In June, ADP reported, construction employment dropped by an additional 34,000 jobs, marking the nineteenth straight monthly decline. A staggering 349,000 construction jobs have been lost since the peak of August 2006. Three thousand jobs in financial services were also lost in June.

“It’s clear that the housing downturn and credit crunch are still very much under way,” Andrew Tilton, an economist with Goldman Sachs told the *New York Times*. Clearly, there are more jobs to be lost in housing, finance and construction—hundreds of thousands of more jobs to be lost collectively.”

The US Bureau of Labor Statistics will release its monthly jobs report on Thursday, with economists predicting a loss of as many as 60,000 jobs in June. This would be the sixth consecutive month of employment declines.

Meanwhile, the Chicago-based job placement firm Challenger, Gray & Christmas Inc., which tracks job cutting announcements by employers, said planned layoffs rose to 81,755 last month, up 47 percent from June 2007.

“Downsizing in the financial sector has remained heavy, but now we’re seeing increased job cuts in other non-housing-related industries, mostly due to the added burden of skyrocketing oil prices,” chief executive officer John A. Challenger said in a statement released Wednesday. “The overall economy could continue to experience net losses for several months to come.”

So far this year, Challenger said, companies have announced 475,948 cuts, up 21 percent from the first six months of 2007.

The financial sector led in announced reductions, with 19,227 job cuts. Last week, Bank of America, the second biggest US bank, announced plans to cut 7,500 jobs after its purchase of home lender Countrywide Financial. Year-to-date, Challenger reported, the financial industry has announced 85,258 positions will be eliminated.

The second highest sector was federal, state and local governments, which are being pressed by falling property values and tax revenues. Government entities have announced 10,797 job cuts, Challenger reported. This was followed by telecommunications, which announced 10,342 cuts.

Last month the official unemployment rate jumped half a point to 5.5 percent, the biggest single month rise in 22 years. Goldman Sachs recently forecast the jobless rate would rise to 6.4 percent by late 2009 before any improvement occurred.

Official government figures routinely underestimate the actual unemployment rate, since they do not count those who have given up looking for work and those reduced to part-time hours. If those workers were added, the “under-employment rate” in the US would rise to 9.7 percent, up from 8.3 percent in May 2007, according to the Labor Department.

“It’s a slow-motion recession,” Ethan Harris, chief US economist for the Wall Street firm Lehman Brothers told the *New York Times*. “In a normal recession, things kind of collapse and get so weak that you have nowhere to go but up. But we’re not getting the classic two or three negative quarters. Instead, we’re expected two years of sub-par growth. Growth that’s not enough to generate jobs. It’s kind of a chronic rather than acute pain.”

The massive loss of jobs in the US is part of an international trend fueled by the worldwide credit crisis, economic slowdown and spiking commodity prices. On Wednesday, the Paris-based Organization of Economic Co-operation and Development (OECD)—which includes 23 European states as well as the US, Australia, Turkey, New Zealand, Canada, Mexico, Japan and South Korea—warned that joblessness in industrialized countries would rise by 9 percent to 34.8 million, reversing the downward trend of recent years.

In the face of spreading unemployment, the OECD noted, “the growth in real compensation per employee should slow down in 2008 in the majority of the 30 OECD countries and be broadly in line or below productivity gains.”

From the standpoint of the world’s corporate and financial elite, this is the positive side of the growing economic insecurity felt by

masses of working people. Citing the OECD figures on slowing job growth the *Financial Times* of London noted, “Rising unemployment, however, should dampen fears of inflationary pay rises as workers worry more about retaining their job than using their bargaining power to increase real pay.”

Job cuts, higher prices and crushing levels of debt all threaten to slow US consumer spending, which accounts for 70 percent of the country’s economic activity. In a sign of the impact this is having on retailers, Starbucks, the world’s largest coffee chain, said Tuesday it would close 600 stores in the US—in addition to 100 already announced—laying off more than 12,000 employees.

American Airlines—which, like several other carriers, has cut back routes in the face of the high cost of fuel and fewer air travelers—announced Wednesday it would furlough 900 flight attendants.

UnitedHealth, the largest US health insurer, also announced it would lay off 4,000 workers, due to falling profits and rising health care costs.

The auto industry has been particularly devastated, with vehicle sales hitting a 10-year low, down 18 percent in June. Detroit automakers continued to see sharply declining sales, with Chrysler’s June sales down 36 percent compared to a year ago, Ford down 28 percent and General Motors falling 18 percent. Japanese automaker Toyota was also hit hard, with US sales down 21 percent.

Analysts predict automakers will sell well below 15 million new vehicles in the US this year, far fewer than the 16 million typical sold throughout the decade.

The decline—driven by high gas prices and falling demand, including from contractors and construction workers, for SUVs and pickups, upon whose high profit margins the US automakers depend—has now raised the prospect of the financial failure of one or more of Detroit’s famed “Big Three.”

GM, which is reportedly burning up \$1 billion in cash reserves each month, could face bankruptcy, according to Merrill Lynch analyst John Murphy, who lowered his outlook for GM stock to \$7 a share in a note to investors Wednesday. “The key change in our outlook is a much lower forecast for US auto sales that is driving higher cash burn necessitating a much larger raise than the market is currently anticipating,” Murphy wrote in reference to GM’s need to quickly borrow money.

Other analysts say GM must raise as much as a \$10 billion as early as this quarter to keep operating. The company says it has liquidity and flexibility to meet its financial requirements. However, it could find raising additional cash difficult, if not impossible, because of the unfavorable rates in the tight credit market.

The threatened collapse of the once mighty icon of US industrial supremacy underscores the historic decline in the world position of American capitalism and the virtual takeover of the US economy by various forms of financial parasitism. Wall Street has carried out a deliberate policy of deindustrialization, in order to free up capital from unprofitable industries and invest it in more lucrative and speculative ventures, including the dot-com boom, the housing bubble and the new frenzy in oil, corn and other commodity future markets.

GM stock has fallen to a 50-year low, plummeting from \$43 last November to close at \$9.98 Wednesday. The total value of GM stock is the least of all companies traded on the Dow Jones Industrial Average. By contrast, the Internet company Google is selling at \$527 per share and has a market capitalization 28 times the size of GM.

“What’s GM worth now—\$7 billion?”, Bruce Birger, managing director of Birger Capital Management asked the *Detroit News*. “People can write checks for that amount.”

Ford, which has borrowed heavily against its assets, is not much better off, with shares of its stock selling at \$4.36, roughly equivalent, the newspaper noted, to the price of gas in some major American cities.

Both companies are reportedly scrambling to sell off assets or use overseas divisions as collateral for new loans, which could mean selling them off to raise cash.

Another candidate for bankruptcy is privately-held Chrysler, which was bought by the private equity firm Cerberus. “They’re a limited liability company—when they run out of money, they’ve run out of money,” Steven Davidoff, a law professor at Wayne State University told the *Detroit News*. “Cerberus may push for the nuclear option and go into bankruptcy to restructure the organization,” he added, suggesting that the company could follow the lead of auto parts maker Delphi, which used the bankruptcy court to tear up its labor agreements and impose 50 percent wage cuts on its workers.

The *News* reported that there was “talk” of the automakers reopening union contracts, less than a year after the four-year agreement signed by the United Auto Workers bureaucracy, which handed over massive wage and benefit concessions in return for what have proven to be worthless “job guarantees.” All three of the companies have since carried out mass layoffs.

The burgeoning economic crisis is taking place in the middle of an election campaign that is remarkable for the lack of any serious proposals to meet what is increasingly becoming a catastrophe for tens of millions of working people in the US. The economic stimulus checks Washington sent out to the public have long since been eaten up by rising gas and food prices, and neither party nor their respective presidential candidates—Democrat Barack Obama and Republican John McCain—has any proposal to provide relief to workers facing the loss of their jobs and their homes.



To contact the WSWs and the Socialist Equality Party visit:

**[wsws.org/contact](http://wsws.org/contact)**