Wall Street hails signs of downturn in US economy

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A series of recently released reports points to a sharp slowdown in the American economy and the likelihood that the US will slide into recession in the coming months. The downturn is in large measure the result of a deliberate policy by the Clinton administration, working in tandem with the Federal Reserve Board, to drive up unemployment and preempt a movement by workers for wage and benefit improvements. Last month, the Fed raised key interest rates by one-half of one percent, its sixth increase in a year.

On June 2 the Labor Department reported that the nation's private sector employers eliminated 116,000 jobs in May, the first drop in employment since January 1996. The fall was the largest in eight years, since November 1991 when the US was in the midst of a recession. Until last month the private sector had added an average of 182,000 jobs a month.

Job reductions occurred in almost every area of the economy, except the government, which hired 357,000 temporary census workers for a once-a-decade population count. Construction employment, which had been on the upswing because of the housing boom, fell by 29,000 jobs. Some 71,000 jobs were wiped out in wholesale and retail trade, after a big gain in April. Manufacturing saw a drop of 17,000 jobs and 11,000 jobs were lost in transportation, mostly trucking.

The job cuts included the first major layoffs in the auto industry in nearly a decade. One of the few categories to gain jobs, services, was up 17,000 in May, well below its monthly average of 103,000 new jobs this year.

The layoffs pushed up the official unemployment rate, which had been at a 30-year low of 3.9 percent, to 4.1 percent. Hardest hit were blacks and Hispanics, whose unemployment rates in April had fallen to the lowest levels since the government began tracking the groups separately in the early 1970s. But the growth in unemployment was not limited to the most vulnerable workers, affecting wide layers of the population, including college graduates and skilled workers in Internet-related businesses.

Another indicator of a slowdown was the decline in the average workweek in manufacturing by eight-tenths of an hour to 41.4 hours, bringing the number of hours worked to the lowest level since March 1996.

Workers' wages stagnated, despite the tight labor market. Average hourly wages, which in the early spring had increased moderately but steadily, rose by only one penny in May, to $13.65, the smallest increase in months. Labor costs in the first quarter of 2000 rose at the slowest rate in nearly four years—0.6 percent, for an annual rate of 1.6 percent. At the same time, the Labor Department reported, output by workers in the first quarter rose at the fastest pace in seven years, up 3.7 percent over the corresponding period in 1999.

A series of other reports showed a decline in the sales of new and existing homes and automobiles, plus a slowdown in construction and consumer spending. The Index of Economic Indicators, which forecasts future economic growth, fell 0.1 percent, and Lehman Brothers lowered its estimates for US economic growth for the second quarter from 6.3 percent to 4.7 percent.

Wall Street greeted the reports of increased joblessness and negligible wage gains by sending stocks skyward. The Dow Jones Industrial average rose 142 points June 2, ending one of the index's best weekly performances for the year. The Nasdaq rose 230 points, completing its largest weekly percentage gain in history. One factor in the buying spree was investors' anticipation that signs of an economic slowdown might lead the Federal Reserve to forestall another increase in interest rates when it meets at the end of the month.

More fundamentally, the big shareholders and banks calculate that a downturn in the economy will dampen workers' demands for increased wages and benefits, and force them to take whatever job they are offered. Fed Chairman Alan Greenspan has repeatedly complained that the tight labor market was forcing employers to bid up wages and benefits to attract workers. Significant wage increases, he told Congress last February, would "intensify inflationary pressures or squeeze profit margins, with either outcome capable of bringing our growing prosperity to an end."

The prospect that workers might recoup some of the wages and benefits they lost over the last 20 years hangs like a specter over corporate America and its political representatives. This fear is heightened by a series of recent struggles—at Northwest Airlines, Boeing and Delphi Automotive, to name a few—where workers rejected contracts recommended by their unions because they contained insufficient wage and benefit improvements.

While previous US economic expansions brought with them substantial improvements in workers' living standards, the present economic boom has disproportionately benefited the top layers of society. The resulting growth of inequality is not accidental. Since Democratic President Jimmy Carter appointed Greenspan's predecessor, Paul Volcker, in 1979, the policy of the Federal Reserve Board and the federal government has been to use interest rate policy to conduct an unrelenting assault on the jobs and living standards of workers.

In the early 1980s Volcker's double-digit interest rates provoked the worst recession since the 1930s, resulting in the destruction of millions of jobs, the shutdown of hundreds of factories and the decimation of entire industrial regions. At the same time, US corporations, with the support of the Reagan administration, launched a union-busting and wage-cutting offensive against the working class.

By the end of the 1980s, weekly wages of workers had fallen by nearly 10 percent, while the richest one percent of American families pocketed 60 percent of the total increase in after-tax income. This redistribution of wealth—from working people to the financial elite—has intensified during the Clinton years and the stock market boom.

The very basis of the success of the current boom is the maintenance of a permanent state of economic insecurity for tens of millions of workers. This point was underscored on June 5 by Jack Guynn, president of the Federal Reserve Bank of Atlanta, in a speech before a group of bankers at the Atlanta Treasury Management Association. Guynn, one of the ten officials on the Fed's Open Market Committee, which sets interest rates, said the US economy had a competitive advantage over other economies because even the most prosperous and profitable corporations were willing respond to "market signals" and carry out "painful restructuring."

"In Western Europe, Guynn said, the "objective of labor practices in many of these countries is to provide workers with *certainty* —with the assurance that their jobs and their paychecks will be there tomorrow, no matter what." But in the US, he boasted, "there are almost no guarantees that you'll have your job next month."

Guynn made it clear that corporate America's continued good fortunes depended on the Federal Reserve's ability to maintain a climate of economic uncertainty for American workers, and thereby keep labor costs down. At the same time he stressed that big investors, including those from overseas who have been critical in maintaining the stock market boom, had to be shielded from a similar uncertainty. For them, Guynn said, it was crucial that the Fed guarantee the "certainty" that their profits would not be undermined by significant wage increases. "Whether it's an automobile factory or government bonds," he declared, "investors know that the Fed will not allow their investments to be eroded by inflation." Guynn concluded his speech by saying he was "encouraged" by the June 2 reports of increased unemployment and minimal wage gains.

Much has been said about the Federal Reserve's intention of engineering a "soft landing" of the US economy—a slower rate of growth which avoids an outright recession. But once deflationary measures are taken, the results are not easily contained. With the US recording record trade and balance of payments deficits every month, the Federal Reserve is in a far weaker position than in past periods to lower interest rates later in order to prevent a slide into a full-scale recession. Were the Fed to initiate a major decrease in interest rates, the result could be a flight of capital out of American markets, a panic on US stock exchanges and a loss of confidence in the American dollar that could whipsaw throughout the international financial system.

A recession would have wrenching social and political consequences. Tens of millions of American workers already depend on overtime or a second or third job to support their families. The loss of a job—under conditions in which personal debt has reached record levels—would be devastating. Moreover, a sharp decline in the stock market would threaten the pensions and savings of large numbers of workers, middle class people and retirees.

Over the last two decades the Republicans and Democrats have all but eliminated the social safety net. Already—in the midst of supposedly booming economic times—tens of millions of workers lack health insurance, and millions more earn poverty-level wages. A significant downturn will raise the specter of destitution before tens of millions of Americans.