Layoff announcements point to global recession

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The head of the International Monetary Fund, Horst Koehler, confirmed on Monday that the organisation's forecast for world economic growth for this year will be only 2.7 percent, down from an earlier prediction of 3.2 percent, and well below the growth rate of almost 5 percent last year.

Even this figure may now be considered on the high side with warnings that consumer confidence in the US will weaken significantly following the terrorist attacks on the World Trade Center and the Pentagon. A sharp drop in consumer spending could well be the trigger which sends the American economy into recession, following growth of only 0.2 percent in the second quarter.

Even before the terrorist attacks, the warning bells were being sounded that the global economy faced its most serious downturn since the early 1970s, and possibly in the entire post-war period.

The downward trend has been revealed by the wave of layoff announcements in recent weeks as companies around the world seek to slash costs in the face of declining profits and in some cases outright losses running into billions of dollars. Indeed, the most significant feature of the gathering slump is its global character as a review of the main industries and geographical centres of the world economy reveals.

During the latter part of the 1990s, the proclamations of a "new economy" centred on the rapid expansion of the information, technology and computer industries. It is here, however, that the job destruction has been the most severe.

In the technology sector Japanese companies **Toshiba** and **Fujitsu** have announced job cuts of 18,800 and 16,400 respectively. **JDS Uniphase Corp** and **Philips** are set to axe 16,000 and 10,000 jobs respectively over the course of this year. Other major cuts include: **Cisco Systems** 8,500, **Compaq** 6,000, **Hewlett-Packard** 6,000, **Corning Inc** 7,800, **Infineon** 5,000, **Gateway** 4,600, **NEC Corp** 4,000 and **Equant NV** 3,000.

In the telecommunications sector the cuts have gone even deeper. Included in the announcements are: **Motorola** and **Nortel Networks**, 30,000 each over the course of 2001, **Ericsson** up to 22,000, **Lucent** 15,000-20,000, **Alcatel** 14,000, **Siemens** 10,000, **Marconi** 10,000, **ADC** 9,500, **British Telecom** 6,000, **Avaya** 5,000, **NTL** 4,300 and **WinStar Communications** 2,950.

But the job cuts are not confined to the communication and information technology sectors. Tens of thousands of jobs have also been eliminated in electronics and engineering, including **Hitachi** 14,700, **ABB** 12,000 and **Kyocera Corp** 10,000.

Major financial sector cuts include: **Charles Schwab** up to 5,800, **J P Morgan** at least 5,000, **American Express** up to 5,000 and **Citigroup** up to 5,000.

Retail job losses include: **Procter & Gamble** 9,600, **Marks & Spencer** 4,390 and **Gap** 2,090. Other major job losses have been announced at **AOL Time Warner** 7,900, **Air Canada** 7,900, **Deutsche Post** 7,500, **Deutsche Bahn** 6,000, **Isuzu Motors** 9,700 and **Ford** up to 5,000.

These figures indicate that the slump spans a range of industries. The same picture emerges from an examination of the world economy on a geographical basis.

In the United States, the unemployment rate last month jumped to 4.9 percent, the highest since 1997. The jobless total rose by more than half a million, while employment fell by one million or more than 30,000 jobs lost every day.

Manufacturing employment fell by 141,000 in August, bringing the total number of industrial jobs eliminated since July 2000 to more than one million. The unemployment rate for industrial workers has increased sharply over the past year from 3.5 to 5.7 percent.

More than 400,000 corporate job cuts have been announced over the spring and summer in the US with the job destruction moving beyond manufacturing and high-tech sectors. The construction industry alone shed 61,000 jobs between March and July. For the week ending August 4, the number of workers drawing benefits rose to 3.18 million, the highest level since September 1992, at the end of the previous US recession.

When the signs of a downturn began to emerge at the beginning of this year the most common pronouncements from the various pundits and forecasters was that it would take a “V” form—a downturn followed by a rapid recovery.

No one seriously believes that any more. In the words of John Challenger, president of the Chicago outplacement firm Challenger, Gray Christmas, which tracks corporate job cuts: “There is no evidence reported by any industry of anything that could be called a significant, sustainable rebound on the horizon for this year. They simply wouldn’t be making cuts at this level if they saw business turning around.”

For the past decade, since the collapse of its sharemarket bubble at the beginning of the 1990s, the Japanese economy has been virtually stagnant, and is now entering its third recession in a decade, following the announcement of a 0.8 percent contraction in the economy for the second quarter.

But for the most part Japan has not experienced major job cuts. That has now changed irrevocably.

Electronics and engineering companies have cut their payrolls by tens of thousands in the past few weeks, amid signs that this is only the beginning. A report on the car industry, where Nissan, Mitsubishi, Mazda and Isuzu are presently cutting 42,000 jobs following announcements last year or earlier this year, has indicated that Japan’s auto industry could lose another 143,000 workers over the next four years.

The total number of workers with jobs in Japan has been falling at an average of 178,000 per month for the past five months, lifting the unemployment rate to a postwar record high of 5 per cent. Some reports indicate that if the number of “discouraged” workers—those that have lost their job but do not register—is taken into account then the real figure is closer to 10 percent.

Regulations and government spending have protected whole swathes of the economy, including the construction industry, which employs about one in ten of the workforce. That is about to end under the Japanese government’s “restructuring” program.

According to Hiroyuki Matsui of the Japan Federation of Employers’ Association, the rise in employment “is a structural problem, so it is not a temporary phenomenon. The trend may gather pace but it will not slow down.”

When the downturn in the US economy became apparent earlier this year, the president of the European Central Bank, Wim Duisenberg, shrugged it off with the claim that Europe would not be adversely affected and that growth predictions remained on target.

Since then all the indicators have pointed to a slowing of the European economy, with the downturn concentrated in Germany, which accounts for around 30 percent of the eurozone output.

European growth in the first half of the year 2000 was 3.5 percent, slowing to 2.5 percent in the second half and to a mere 2 percent in the first quarter of 2001.

One important trend indicator is the growth rate for investment in equipment, which is down to its lowest level in five years and increased by only 1 percent in the first quarter of this year.

In France, the growth rate for the first quarter dropped to 2 percent from a level of 2.5 percent in the last quarter of 2000, while in the Netherlands it fell to 1.2 percent from 2.4 percent.

In Poland, which until now had been regarded as the “miracle” of the former Eastern bloc because of its persistently high growth rate of between 4 and 6 percent from 1993 to 2000, the growth rate has fallen to just 2 percent, creating major budgetary problems for the government.

German growth rate forecasts have been persistently corrected downwards. In August the five German State Institutes for Economic Research estimated that growth would be between 1.2 and 1.5 percent. Then on September 3 one of them broke ranks and announced that its estimate was down to 1 percent. In the first half of the year the German economy grew only 0.6 percent—the lowest level since the beginning of 1997—and in the second quarter the growth rate was nil compared to the first three months of the year.

In addition to the European companies previously listed, **DaimlerChrysler** plans to axe 26,000 from its workforce of 416,000. Other cuts include: **Swissair** 1,300, **Ascom** 1,100, **Grundig AG** between 800 and 1000 and **Hochtief AG**, a major construction firm, has lifted its intended sackings from around a hundred to at least 700 out of a workforce of almost 11,000.

Perhaps the most significant feature about the global downturn is that, contrary to previous experiences in the post-war period, it is taking place under conditions of falling interest rates and increased global liquidity. This fact alone indicates that the recessionary trend is an expression of global overcapacity in all sections of industry, and will not be reversed by attempts to provide a financial stimulus through cuts in interest rates and other such measures. This can only mean that further job cuts will take place in the immediate period.