WorldCom spearheads US job cuts

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29 June 2002

Layoff notices went out to 17,000 WorldCom employees Friday. In a now familiar scene, hundreds of workers carrying their belongings in cardboard boxes left work for the last time at WorldCom's offices across the US, including 1,300 in Virginia and 1,000 in Dallas and hundreds in Mississippi where the company is headquartered. The latest layoffs follow another 3,700 jobs cut in April.

The nearly bankrupt telecommunications giant, whose officials concealed $4 billion in expenses in order to inflate earnings reports, is the latest US company to wipe out thousands of jobs after being accused or indicted for illegal business practices. Enron cut 4,000 jobs; another 8,500 lost their jobs at accounting firm Arthur Andersen; and Tyco eliminated 15,000 employees in February. On Friday, Xerox Corporation, already in the midst of downsizing thousands of jobs, announced it had misreported more than $6 billion in revenues over the last five years.

WorldCom's demise is expected to have widespread consequences throughout the US and world economy. Several major corporations, which hold large amounts of WorldCom debt, announced they would face big losses. American Express said it would write down its WorldCom debt of about $90 million, resulting in a pretax investment loss in the second quarter of $75 million to $80 million. Similarly, General Electric executives told Wall Street analysts yesterday that GE would reduce the value of its $209 million of WorldCom bonds to about 20 cents on the dollar, leading to a $110 million write-down in the current quarter. In addition, real estate corporations that lease property to WorldCom and its subsidiaries face the loss of millions in unpaid rent.

The same week WorldCom's subpoenaed executives were sending out thousands of pink slips several other corporations announced major job cuts. Cell phone and semiconductor maker **Motorola** announced Thursday it would cut another 7,000 jobs, or 3.5 percent of its workforce, as part of its massive two-year restructuring plan. By 2003 the company plans to reduce employment to 93,000, down from 150,000 in August 2000.

About 3,000 of the job cuts will come from the Motorola's wireless infrastructure business, with most of its operations in North America, followed by Europe and Asia.

"This comprehensive restructuring purposefully returns Motorola to approximately its mid-1990s size, the era prior to the excesses of the telecom and dot-com booms," said Christopher Galvin, Motorola's chairman and chief executive.

Although the company's stocks rose on news of the layoffs, Wall Street analysts said the number of job cuts needed to be even larger. "My gut reaction is that it probably won't be far enough," said Vivian Mamelak, an analyst with New York-based Arnhold & S. Bleichroeder. "If the revenue growth they need doesn't occur they're going to have to continue restructuring." Mamelak said. Two weeks ago, Standard & Poor's downgraded Motorola's corporate credit rating to two notches above junk status.

Meanwhile, computer maker **Hewlett-Packard**, which had previously announced plans to cut 15,000 jobs, said it would furlough 4,000 contract workers in its information technology department for three weeks, while officials evaluate projects and decide how many workers will be let go permanently.

Wall Street investment firms **Goldman-Sachs** and **Morgan Stanley** announced they had cut 991 jobs and 1,337 jobs respectively over the last three months. The cuts came as the *New York Daily News* reported that Wall Street companies could cut as many as 35,000 jobs, or 10 percent of their workforce, in the coming year due to the ongoing decline in the stock market. "Everyone is looking at cutting," said Reilly Tierney, an analyst at Fox-Pitt Kelton. Merrill Lynch, which eliminated 15,000 jobs last year, is likely to cut more this year, Tierney said.

Other job cuts this week include technology companies **Cereva Networks** (140) and **Cnet Networks** (200). Challenger, Gray & Christmas, a firm that tracks layoffs, said dot.coms had laid off 684 workers in June, for a total of more than 150,000 layoffs over the last 24 months.

The firm also reported that the average tenure of discharged managers and executives had fallen to under five years and nearly one in every three discharged managers does not even make it to his or her two-year anniversary. “We are witnessing a profound change that will permanently do away with the 10-year pin and other commemorative gifts for longer service. It is getting to the point where a person’s career at a specific company will be measured in months, not years,” said John Challenger, the firm’s CEO.

“It used to be that job cuts were a rarity at most companies, occurring once every few years, if at all. Companies would make one big job-cut announcement and the remaining employees could rest assured that their jobs were relatively secure for the next several years. Now it is rare when a sizeable company goes 12 months without announcing workforce reductions,” Challenger said.

The lack of job security is undermining consumer spending, which accounts for two out of every three dollars generated by the US economy. The New York-based Conference Board, which conducts a widely followed survey of 5,000 consumers, said its consumer confidence index fell to 106.4 this month from 110.3 in May. That was the second-biggest drop since the terrorist attacks of September 11. The confidence index is seen as a crucial predictor of consumer spending. Consumer spending also fell in May—for the first time in five months—due in large measure to a falloff in new car sales.

Lynn Franco, director of the Conference Board’s research center, attributed the eroding confidence level to “weak labor market conditions, generally soft business conditions, and waning public confidence in questionable business practices.”

The board found that 23.1 percent of US consumers said jobs are now “hard to get,” up from 21.8 percent a month earlier. The percentage of consumers expecting fewer jobs to be available in the next six months rose to 14.2 percent from 13.6 percent.

While the news media widely reported that the US gross domestic product grew at a rate of 6.1 percent in the first quarter, economic growth remains heavily dependent on a one-time buildup of inventory and a huge increase in military spending by the Bush administration. With the ongoing mass layoffs and corporate scandals many economists are predicting that the GDP will grow at a rate of 2.5 percent or less in the current quarter.