Merck announces 7,000 layoffs—continued attack on jobs and wages in US

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The pharmaceutical company Merck announced on November 28 that it would lay off 7,000 workers over the next three years, closing down 5 of its 31 production plants. The cuts, half of which will be in the US, represent more than 10 percent of the company's global workforce. The move is only the latest in a series of announcements of layoffs and wage cutting at major American companies.

The 7,000 jobs are unlikely to be the last to be eliminated. Richard Clark, who took over as the company's CEO earlier this year, said that the cuts are "an important first step in positioning Merck to meet the challenges the company faces now and in the future." Merck has not yet released all the details on its cost-cutting plan; however, it has announced that plants in New Jersey, Georgia and Pennsylvania, as well as in Japan and Canada, will be scaled back, sold or shut down.

Merck's difficulties are a manifestation of broader problems plaguing the entire pharmaceutical industry. The company faces the end of patent protection on a number of its key, "blockbuster" drugs, particularly the cholesterol-reducing drug Zocor. According to US law, other companies can produce generic versions of a drug after it has been on the market for a certain period of time. Pharmaceutical companies rely on their patented blockbuster drugs, which they spend billions of dollars to market, for the bulk of their revenues.

The company is also facing numerous lawsuits over its last major blockbuster, Vioxx, which it was forced to recall in September 2004. Much evidence exists demonstrating that Merck attempted to cover up the connection between use of Vioxx and an increased risk for heart attacks. The company has already lost one lawsuit, while another was found in its favor. Before it was recalled, Vioxx was heavily marketed and was used by millions of people for whom it was no more effective than much cheaper over-the-counter medications.

Pfizer, the largest US drug company, announced layoffs earlier this year. While other companies are still pulling in high profits, they face similar problems—a heavy reliance on a few major drugs to boost revenues, combined with growing public distrust. This will likely lead to further layoffs and cost reductions throughout the industry in the coming years.

The announcement at Merck comes on top of a number of recent mass-layoff announcements, including 30,000 jobs slotted to be eliminated at auto giant General Motors and massive wage and job cuts at auto parts manufacturer Delphi.

While October experienced relatively fewer mass layoffs than the summer months, only 56,000 jobs were added, far fewer than the number of new entrants into the labor market. This followed a decline of 8,000 jobs in September, following Hurricane Katrina. Some analysts expect low new jobs figures for the remainder of the year. An Associated Press story from November 28 noted, "For seven of the past nine years, American companies have announced more layoffs in the last quarter of the year than during other months, according to the federal Bureau of Labor Statistics." The jobs figures for November are due out later this week.

US capitalism has focused on eliminating relatively higher-paying jobs, such as those in the auto industry. This has contributed to a long-term decline in real wages, which is expected to continue over the coming year. Workers face rising prices on basic necessities, and home heating costs for the winter will be especially severe.

On the other hand, cutbacks at companies have contributed to generally surging profits and a flow of cash into corporate coffers. A November 27 report by Tom Petruno in the *Los Angeles Times* ("As Profits Surge, Workers Still Wait") gave a sense of these developments. The article noted, "Corporate earnings keep rising at double-digit pace while workers are lucky to get even low-

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single-digit wage increases.... It's a world in which share prices are underpinned by healthy earnings while inflation risks are muted because employee pay isn't in danger of an upward spiral."

The US Federal Reserve has been pursuing a policy of raising interest rates to curb inflation and any signs of wage pressure from workers.

According to the S&P, the third quarter of 2005 was the 14th straight quarter (three and a half years) in which profits for the companies on the S&P 500 rose by more than 10 percent. Meanwhile, wages have been at around 3 percent or lower for most of this period. Real wages for most US workers are actually declining. Petruno notes that "wages and salaries for all private-industry employees rose 2.2% [less than the rate of inflation] in the 12 months ended Sept. 30, according to the government's employment cost index. That was down from a 2.6% increase in the year ended September 2004."

Wage stagnation and decline are expected to continue through next year. Another article in the *Los Angeles Times*, published on November 28, reported that economists expect wage increases to average around 3.5 percent in 2006, just higher than inflation; however, wage increases for most workers are expected to be much lower. "The average is driven up by very high raises—as much as 9%—expected in a few fields with acute staff shortages, including nursing and financial services."

"If you're not in a high-demand position or covered by a union agreement," the *Times* quoted John Putzier, president of FirStep, a human resources firm, "maybe you'll get 1% or 2%, if anything at all."

The continued high profit rates come largely from these cuts being pushed through in wages and jobs, leading to much higher productivity figures—as the remaining workers are forced to work longer hours for less.

Much of these profits are being channeled back into Wall Street and into the hands of big investors. An article in the November 28 *Wall Street Journal* drew attention to the sharp increase in dividend payments and stock buybacks, as corporations share record-high cash reserves with investors. "This year," the *Journal* noted, "the companies in the Standard & Poor's 500-stock index are on track to pay out more than $500 billion to shareholders in the form of dividends and share repurchases, or buybacks, according to S&P. That's up more than 30% from last year's record—and equivalent to nearly $1,700 for every person in the US."

"Currently," the newspaper continued, "US companies are sitting on near-record levels of cash. Among industrial companies in the S&P 500, a grouping that excludes financial firms, which are required to hold hefty reserves, the amount totals nearly $631 billion on the books. That figure represents more than 7% of these companies' market value—the highest percentage since 1988."

The primary factor generating these large profits and cash reserves is not a major surge in economic growth, but rather "deep corporate cost-cutting in recent years," according to the *Journal*. In other words, the protracted assault on jobs and wages has pushed up profits, essentially redistributing funds from workers to the corporate bottom line. Major investors have been clamoring to have this money returned to them, including figures such as hedge fund owner Carl Icahn, who has been pushing companies he invests in to grant larger dividends and buyback programs.

Investors have been helped by cuts in the capital gains and dividend taxes passed in 2003 by the Bush administration with significant support from the Democratic Party.

The glut of cash is regarded by many economists as a sign not of economic strength, but rather the opposite. Corporations are scaling back operations, because there is a general lack of sources for profitable investment in actual production processes. While this downsizing leads to a temporary boost in earnings, the earnings are not being reinvested, which would lead to new hiring and economic growth. Rather, these funds are being redirected to investors or into speculative ventures such as the stock market and hedge funds, as well as the paychecks of executives, which continue to increase. The Christmas bonuses for Wall Street executives are expected to soar this year.

Essentially, the US economy is more and more operating on the basis of parasitism, as a tiny percentage of the population enriches itself in direct proportion to the worsening of conditions for the majority.

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