Productivity rises as US workers see real income cut

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5 September 2008

Corporations continue to slash tens of thousands of positions while workers still on the job are working harder for less money, according to reports on the US economy released this week.

The job-displacement firm Challenger, Gray & Christmas reported that businesses announced 88,736 job cuts in August, up 12 percent from last year. The total number of layoff announcements in the summer months of May to August rose to the highest level in six years, when the economy was recovering from the 2001 recession.

Friday's Labor Department unemployment report is expected to show the loss of up to 75,000 jobs in August—the eighth consecutive month of losses. Reports on weekly jobless claims (up 15,000 to 444,000, the highest spike in five weeks) and a widely followed survey of private sector employers by Automatic Data Processing (ADP) bolstered expectations that Friday's report would show an increase in the official unemployment rate, currently 5.7 percent nationally.

The ADP survey, which generally underestimates actual job losses, reported that private sector employment fell by a total of 33,000 jobs in August. The goods-producing sector cut 78,000 jobs, including 56,000 jobs in manufacturing, which saw its 24th consecutive monthly decline. The generally lower paying service sector added 45,000 positions in August, ADP reported.

Analysts anticipate a continued slowdown in the US economy as corporations confront higher fuel costs, tighter credit restrictions and signs that demand for exports is slowing due to the global character of the recession. In addition, the housing crisis, growth of unemployment and falling purchasing power are undermining consumer spending.

A report released by the US Federal Reserve Wednesday, based on a survey of its 12 district banks, noted that the service sector was "slowing" and the factory sector was "weak." The real estate sector, it said further, showed no sign of bottoming out and lending activity was weak.

The worsening situation was underscored by reports that Ford Motor Company is having the slowest sales since World War II and Delphi Automotive may be forced to liquidate because the giant parts maker failed to find financial backers to help it out of bankruptcy. In addition, the International Air Transport Association said Wednesday that North American air carriers are expected to lose $5 billion this year, leading to a new wave of bankruptcies, consolidations and mass layoffs.

From the standpoint of corporate America and big Wall Street investors, the only "bright" side of the economic situation remains the fact that workers' wages remain stagnant even as consumer prices continue to rise and output per worker has sharply increased.

The Labor Department reported Thursday that non-farm business productivity jumped at an annual rate of 4.3 percent in the second quarter, almost double the initial estimate of a 2.2 percent increase. Compared to the second quarter of 2007, productivity rose 3.4 percent, well above the average 2.5 percent rate between 2000 and 2007. This led unit labor costs to fall at an annual rate of 0.5 percent, also faster than expected.

The *Wall Street Journal* boasted, "Labor costs were up just 0.6 percent from one year ago, an indication that the economic slowdown and weakening jobs market is making it hard for workers to command higher wages." This meant the Federal Reserve Board—which will meet September 16—"can be patient and hold interest rates steady as they assess economic and inflation risks, since high energy prices aren't igniting the kind of wage-price spiral that plagued policymakers in the 1970s and early 1980s."

There is an ongoing debate over whether to increase interest rates because such a move would lead to a further tightening of credit, worsen the position of the dollar and undermine any US economic recovery. Nevertheless the Fed is committed to move swiftly at the first sign of so-called wage inflation.

This has been its policy since the early 1980s, when then-Federal Reserve Chairman Paul Volcker—appointed by the Democratic Carter administration—increased interest rates to 20 percent and deliberately provoked the deepest recession since the 1930s. Plant closings and mass unemployment were used as a battering ram to break the resistance of the working class and roll back wages and living standards.

In 1978, 6 out of 10 labor contracts included cost-of-living adjustments to protect workers from the ravages of inflation. By 1988 that figure fell to 4 out of 10. Today, the unions have abandoned any such demands and the labor bureaucracy has negotiated one contract after another—in auto, telecommunications and other industries—that slashes the real income of their own members.

Airplane manufacturer Boeing, for example, is currently demanding its 27,000 union machinists accept an 11 percent increase in wages over three years, even though the Consumer Price Index rose at a 6.2 percent annual rate in August.

Corporations are also continuing to shift the burden of health care costs and pensions onto the backs of their employees. A survey by the Mercer consulting firm released Thursday said 59 percent of companies intend to keep down rising health care costs in 2009 by raising workers' deductibles, co-pays or out-of-pocket spending limits.

The corporate assault on workers' living standards has enjoyed the active support of both big business parties and will continue whether a Democrat or Republican wins the presidential election in November. It is significant that Volcker—who engineered the frontal assault on the working class in the 1980s—is now a prominent adviser to Democratic presidential candidate Barack Obama.

A recent report by the Congressional Research Service ("Globalization, Worker Insecurity, and Policy Approaches," updated July 31, 2008) noted the results of the decades-long drive to increase the exploitation of American workers.

"While productivity growth or output per worker rose by 71% from 1980 to 2005, the real compensation of non-supervisory workers comprising 80% of the work force grew by 4%. The gap in the manufacturing sector was even greater: productivity rose 131%, while compensation of non-supervisors grew only 7%."

This has produced a vast transfer of wealth from working people to the richest layers of the population. The report continues, "The share of national income accounted for by the top 1% of earners (as reported on tax returns) reached 21.8% in 2005—a level not seen since 1928. In addition to high labor earnings, income growth at the top is being driven by corporate profits which accrue mainly to those with high labor earnings. In 2006, corporate profits totaled 12.4% of national income, a level not reached in 50 years."