Verizon to slash 8,000 jobs

US job cuts, foreclosures mount

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This week brought new indications that any economic “recovery” in the US will not be shared by the working class. Telecommunications giant Verizon announced that it would eliminate 8,000 jobs by the end of the year, new data showed that the foreclosure crisis is continuing to mount, and weekly initial jobless benefit claims rose.

What is emerging is a protracted period of extremely high unemployment and growing social misery, which will be used to further slash wages, increase productivity and lower the standard of living and social position of the working class.

Verizon will reduce its workforce by 8,000 for the second year in a row, after announcing a 21 percent decline in quarterly profits. The staff reductions will come largely through attrition, the company said, and will be focused on its land-line traditional phone service, which a growing number of consumers are abandoning.

Among other layoff announcements, some 1,000 workers will be dismissed from Ormet Aluminum in Monroe County, Ohio on September 1. Only 15,000 people live in the county, which is located close to the border with West Virginia.

The motorcycle manufacturer Harley-Davidson will lay off 398 workers in Milwaukee at the end of September.

The small business web site firm, Intuit, is carrying forward plans to lay off 120 workers nationwide. And Yahoo! CEO Carol Bartz has confirmed that her company's new search engine venture with Microsoft will lead to an as yet unknown number of redundancies.

More widespread job losses appear imminent. Bank of America CEO Kenneth Lewis said this week he intends to close over 600 branches. No time frame was given for the closures, which could affect thousands of workers.

It is anticipated that the other embattled financial giant, Citigroup, will follow suit. As the on-line business analysis journal *24/7 Wall Street* reported, "[T]he financial industry is not done pruning jobs, not by a long shot."

The United States Postal Service (USPS) has said that it is considering shutting down a sizable majority, 3,105 of 4,851, of its post office branches and stations. Citing a growing operating deficit, USPS said the closures would target metropolitan areas.

It is not clear how many layoffs might result, but last year USPS said that 16,000 workers with fewer than six years experience—and hence unprotected by union seniority rules—could face layoffs. If carried forward, this would mark the first mass layoff in the history of the US postal system. Last year USPS reduced its workforce by 41,000 through attrition and a hiring freeze.

A number of industries are likely to pile on further layoffs in the coming months. The biggest blow could come from the retail sector, which continues to be punished by low levels of consumer confidence, which is, in turn, driven by layoffs and the threat of more to come. The Conference Board announced this week that its consumer confidence index fell to 46.6 in July. The fall was more than economists had expected, and marked the second straight monthly decline.

New US Labor Department data show that unemployment increased from May to June in 348 of 370 major metropolitan areas. The Detroit area saw the largest increase, 2.2 percent to 17.1 percent. In Monroe, Michigan, unemployment matched Detroit at 17.1 percent, after the city experienced the third-sharpest increase in the country. One exception was El Centro, California, where unemployment fell by 1.2 percent to 27.5 percent—still the highest rate in the country.

This week's Labor Department number of initial jobless benefit claims, 584,000, exceeded economists' projections and far surpassed the 300,000 to 350,000 threshold required to maintain steady national employment levels. At the same time, the number of people receiving unemployment insurance decreased for the third consecutive week. This is largely attributable to a growing number of workers exhausting their benefits.

While economists anticipate that the rapidity of layoffs will decrease, they agree that a wave of hiring is unlikely. There is a consensus that the official unemployment rate will rise past 10 percent by the beginning of 2010—pushing the real unemployment rate toward 20 percent—and that high unemployment will characterize the US economy for years to come.

Bill Gross, founder of the world's largest bond fund manager, Pacific Investment Management Co. (PIMCO), wrote in a recent newsletter that nominal gross domestic product must grow at an annualized rate of 5 percent to avoid permanent high unemployment. If not, "employment levels become unsustainable, retail shopping centers unserviceable, automobile production facilities unprofitable, and the economy itself heads toward a new normal where unemployment averages 8 percent instead of 5 percent, housing starts total 1.5 instead of 2 million, and domestic auto sales 12, instead of 16 million annual units," he said.

Foreclosures continue to mount, no longer driven by the subprime mortgage market, but by layoffs and wage cuts to homeowners with prime loans. RealtyTrac Inc., which monitors US foreclosure activity, said that foreclosure activity rose to a record level in the first half of the year, when over 1.5 million homeowners received a default or auction notice or had their homes appropriated by lenders.

Obama's plan to reduce foreclosures, the Home Affordable Modification Program (HAMP), aimed to encourage banks to modify loans for a small section of qualified buyers by offering servicers and banks incentives. HAMP offered nothing for millions of homeowners substantially "under water"—those owing more than 105 percent of market value on their mortgages—and it did nothing to reduce principal on loans.

Even its modest aims have failed. This is because banks and mortgage service companies, which process and manage mortgages on behalf of investors, find the delinquency and foreclosure process lucrative due to various fees they exact from homeowners.

Economists have been cheered by some data that suggests the housing market may have hit bottom. Home prices leveled off in May, with the S&P/Case-Shiller index increasing by 0.5 percent. Newly constructed home sales increased by 11 percent in June, according to data from the Commerce Department, while existing home sales increased for the third consecutive month.

Still, the S&P/Case-Shiller index reveals that the year-over-year decline of home values in 20 major metropolitan areas for May was 17.1 percent, and analysts have pointed out that a significant share of the increased home sales were comprised of foreclosed homes bought by speculators.

"If you want a truer picture of the economy's health, you should trust the [declining] consumer confidence figure rather than the new homes sales data," *TheStreet.com* concluded. "New homes that are being sold are not being bought by you and me; they are being bought by investors because prices are rock-bottom and interest rates are still low."

Speaking Wednesday at a town hall meeting in North Carolina, where the official unemployment rate is over 11 percent, President Obama said that the US “may be seeing the beginning of the end of the recession.”

Obama was basing himself on two new reports issued earlier in the day. A Commerce Department durable goods report suggested business spending on investment may have hit bottom. "Big-ticket" durable goods orders fell by 2.5 percent in May. However, excluding transportation orders such as aircraft, durable goods orders rose by 1.1 percent. This, economists believe, signifies a leveling-off in the collapse of manufacturing and may indicate a growth in GDP for the second half of the year.

The second was the Federal Reserve's "beige book," which is based on economic conditions analyzed by its twelve district banks. However, the report was hardly cheering for workers. As the *Wall Street Journal's* "Real Time Economics" noted, "[t]he tone of the beige book was more upbeat this month, unless, of course, you’re looking for a job, a raise or a loan."

The Fed beige book, for example, explained that "weakness of labor markets has nearly eliminated wage pressure and wages [and] compensation are steady or falling in most districts."

The Fed cited a range of methods firms are using to limit compensation, including "cutting or freezing wages or benefit contributions, deferral of future salary increases, trimming bonuses and travel allowances, reducing hours, temporary shutdowns, periodic furloughs, and unpaid vacations." In all twelve districts "labor markets remain slack, with most sectors either reducing jobs or holding them steady and aggregate employment continuing to decline.”

The banks, which have been awarded trillions in cash infusions and guarantees from the Obama administration, continue to hoard cash through "ongoing tightening in credit standards," the Fed report concludes. This confirmed a *Wall Street Journal* analysis published earlier in the week, which found that lending at top banks had contracted by 2.8 percent in the second quarter.

The Fed survey also found that freight and shipping volumes had declined further. Commercial real estate was described as weak in all 12 districts.

“There are a number of factors which suggest that the pace of recovery will be considerably slower than usual,” Bill Dudley, president of the Federal Reserve Bank of New York, said in a speech before the Fed release, citing pressures on household incomes and wealth.

Overall, the new data reveals an economy deep in recession with little prospect of a return to normal for a protracted period. The pace of decline has slowed, but this is not unusual in a serious recession or even depression, and the stabilizing tendencies are very fragile.

Nothing has been done or is being done to address the underlying problems in the US and world economy that produced the crash of 2008. The current crisis is an expression not merely of conjunctural tendencies, but rather of a systemic crisis of the world capitalist system.

Meanwhile, the recession is being used to drive down the living standards of the broad mass of the population and effect a vast redistribution of wealth to the financial elite. No one is even suggesting that wages and living standards will return to pre-crisis levels in the so-called “recovery” that Obama and others are touting.

When Obama and the media speak of recovery, they are referring to the profit margins of the big banks and the share values of the financial elite. The S&P 500 and the Dow Jones Industrial Average have each risen 12 percent since July 10, spurred by rising profit margins of major corporations. These profits are based largely on various cost-cutting measures, chief among them layoffs and wage cuts.