As layoffs, foreclosures mount

US Federal Reserve hails prospects for a business recovery

Barry Grey
14 August 2009

The Federal Reserve Board said Wednesday that the US economy was "leveling out," implying that a recovery was at hand, even as new data on unemployment, home foreclosures, home prices and retail sales painted a picture of growing economic distress for tens of millions of Americans.

The upbeat assessment, given by the Fed's policy-making Federal Open Market Committee following a two-day meeting, is indicative of the class policy in response to the economic crisis being pursued by the US central bank and the Obama administration.

The Fed's statement began by asserting that "conditions in financial markets have improved" and went on to declare that although "economic activity is likely to remain weak for a time," its "policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth in a context of price stability."

At the same time, the Fed acknowledged that household spending "remains constrained by ongoing job losses, lower housing wealth and tight credit." In plain language, this means that wages are falling, home prices are continuing to plunge—wiping out trillions of dollars in household wealth—and the banks, which have received hundreds of billions of dollars in government handouts and subsidies, are continuing to withhold credit to consumers and small businesses.

However, corporate profits are likely to continue to revive—on the basis of a deep and protracted decline in the wages, working conditions and wealth of the working class.

The Fed told the financial markets that it plans to stay the course—providing cheap credit and employing "all available tools" to boost the bottom lines of major companies and cover the bad debts of the banks, while doing nothing to provide relief for the millions who are being impoverished by last year's collapse of the speculative financial boom.

Wall Street registered its approval, snapping two days of losses to drive the Dow Jones Industrial Average up by 121 points, or 1.3 percent, to 9,362. The general mood in boardrooms was summed up by Edward McKelvey, an economist at Goldman Sachs, who said of the Fed's report, "They're saying that things are going according to plan, and that the policy is OK."

The Fed announced that it would continue to hold its benchmark federal funds rate—the interest paid on overnight loans between banks—to a range of 0 to 0.25 percent for the foreseeable future. It also said it would end its program to purchase up to $300 billion in US Treasury bonds in October and follow through on its purchase of up to $1.25 trillion of mortgage-backed securities backed by the government-owned mortgage finance giants Fannie Mae and Freddie Mac, as well as $200 billion of the firms' debt, by the end of the year.

Indicative of the "recovery" being orchestrated by the Fed and the Obama administration is the Fed's own projection, which sees the US economy beginning to expand in the second half of this year and gradually picking up speed in 2010. Even if all goes according to plan, the Fed envisions unemployment climbing from its already punishing official level of 9.4 percent to average as much as 9.8 percent through the end of next year. Most economists predict that the official jobless rate will top 10 percent.

Mass unemployment is being used to beat down the wages and conditions of workers and drive up labor productivity—a combination that insures higher profits for big business. On Tuesday, the Labor Department reported that US labor productivity had soared at an annual rate of 6.3 percent in the second quarter of 2009. This compares to an average annual rate of productivity growth of 2.6 percent from 2000 to 2008.

The sharp rise in productivity was the result of record low weekly work hours—caused by furloughs and other cutbacks. Hours worked—and, consequently, wages earned—fell far more rapidly than output. Workers are being forced, under threat of being thrown into the expanding ranks of the unemployed, to produce more while they are on the job.

At the same time, the Labor Department reported that real hourly employee compensation fell by 2.2 percent in the second quarter on an annualized basis. The combined effect of declining wages and rising productivity brought unit labor costs down by a huge 5.8 percent in the three months from April to June.

As one commentator pointed out, the crisis is being used to carry through "structural changes" in the economy. In other words, the lowering of wages, destruction of benefits and intensification of speedup are permanent changes that will remain in place after the recession has been officially declared to have ended.

A number of reports issued this week point to the profound social crisis that is being given short shrift in the government and media celebrations of a gathering "recovery." The Labor Department reported Thursday that first-time applications for state unemployment benefits climbed 4,000 to a seasonally adjusted 558,000 last week. The four-week moving average rose by 8,500 to 565,000. Initial claims will have to fall below 400,000 before the economy stops shedding jobs.

The number of people collecting long-term unemployment benefits slipped by 141,000 to 6.20 million in the week ended August 1, the lowest level since mid-April. However, this is largely the result of workers exhausting their unemployment benefits. The number of people out of work for 27 weeks or longer reached a record 5 million in July, accounting for a third of the unemployed.

More than 14 million Americans are currently out of work, according to government figures, which significantly underestimate the number of workers without a full-time job, and there are six unemployed people for every job opening.

On Wednesday, the Labor Department reported that more than half a million workers were affected by mass layoff actions in the second quarter of this year—a record high for the quarter since the data series began in 1995. Employers initiated 2,994 mass layoff events—defined as those affecting at least 50 workers at a work site. This number was also a record for the quarter. Only 38 percent of the employers said they anticipated some type of recall, the lowest proportion on record.

Among the mass layoffs announced this week:

* Kaiser Permanente, the health care giant, eliminated 1,850 jobs in California on Tuesday.

* Delta Air Lines said it will cut an unspecified number of management and administrative jobs.

* The *Journal News* in Westchester, New York, which is owned by Gannett, the country's biggest newspaper chain, said it will eliminate a total of 70 jobs.

* Hawker Beechcraft, the maker of business jets, based in Wichita, Kansas, notified employees on Wednesday that layoffs and changes in employee benefits are in the works.

The jobs crisis is taking an ever greater toll on the working class. RealtyTrac, which tracks home foreclosures, reported this week that US home loans failed at a record pace in July. The company said there were 360,149 foreclosure filings in July, an increase of nearly 7 percent from the previous month and a jump of 32 percent from July 2008.

The National Association of Realtors reported that while home sales are increasing, prices on existing homes are continuing to fall and were 15.6 percent lower in the second quarter than in the same period last year. The realtor's group said 80 percent of urban areas showed lower house prices.

Finally, sales at US retailers fell in July, reflecting the mounting impact of mass unemployment and declining wages. The negative sales report for July reversed a recent trend of small monthly increases. Economists had forecast a gain of 0.7 percent, but the Commerce Department reported Thursday that total retail sales fell by 0.1 percent.