

US corporate profits soar on layoffs, wage cuts

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US corporate profits are soaring in the midst of the deepest economic slump since the Great Depression, on the basis of a ruthless policy of using mass unemployment to slash wages and heighten the exploitation of American workers. In order to make the impoverishment of the working class a permanent feature of American life, companies are hoarding vast amounts of cash rather than hiring workers and expanding output.

These are the conclusions that flow from a *Wall Street Journal* analysis of second-quarter 2010 corporate profits, reported in the newspaper's Monday edition under the headline "Propelling the Profit Comeback: Retooling, Downsizing." The article gives statistics showing that US corporate profits are surging despite stagnant and even falling revenue, sharply increasing the percentage of revenue represented by profit.

None of the other major industrialized nations has registered a rise in corporate profits in the aftermath of the financial panic of September 2008 comparable to that in the US. Not coincidentally, none has witnessed mass layoffs on the scale seen here.

This difference points to the critical role played by the Obama administration. It has rejected any serious measures to create jobs and thereby fostered an economic environment of permanent mass unemployment. It gave the signal for a nationwide offensive against the wages and conditions of US workers when it forced General Motors and Chrysler into bankruptcy and insisted on tens of thousands of layoffs and unprecedented wage cuts as part of a government bailout of the auto bosses.

Among the statistics reported by the *Journal* are the following:

- The Commerce Department estimates that for all US companies, second-quarter after-tax profits rose to an annual

rate of \$1.208 trillion, an increase of 3.9 percent from the first quarter and a 26.5 percent rise from a year earlier. This is the highest annual rate on record, although it does not take inflation into account. As a percentage of national income, after-tax profits were the third highest since 1947, surpassed only by two quarters in 2006, at the height of the last boom.

- Companies in the Standard & Poor's 500 stock index reported second-quarter profits of \$189 billion, 38 percent higher than a year earlier and their sixth highest quarterly total ever, without adjusting for inflation.

- This year's second-quarter profits at S&P 500 companies were 10 percent higher than in the second quarter of 2008, prior to the financial panic, even though revenue was down by 6 percent. Out of every dollar of sales, companies kept nearly 8.4 cents as profit, up from 7 cents in the 2008 quarter.

- Cumulative profit at technology firms rose 33 percent in the second quarter compared with the same quarter in 2008, though revenue increased by only 7 percent.

- In the consumer discretionary category, which includes the finance and auto industries, net margin—the percentage of revenue that represents profit—more than tripled between the second quarter of 2008 and the corresponding period this year.

As the *Journal* notes, "To achieve that performance, companies laid off hundreds of thousands of workers, closed less profitable units, shifted work to cheaper regions and streamlined processes."

The article singles out a number of companies that sharply increased their profits by means of cost-cutting and downsizing, including Texas Instruments, video game maker Electronic Arts Inc., Starbucks, Coca Cola, Ford Motor Co. and industrial parts maker Parker Hannifin. All reported

higher profits despite flat or declining sales as compared with 2008, the newspaper notes.

“Despite the hefty profits,” the *Journal* says, “executives aren’t expected to boost spending on new employees, products and equipment anytime soon.”

John Riccitiello, chief executive of Electronic Arts, which slashed its video game releases by nearly half and laid off 2,000 of its 9,800 employees, is quoted as saying, “We’ve focused on permanent changes that won’t have to be undone as sales improve.”

At Parker Hannifin, profits more than quadrupled from a year earlier while sales grew only 25 percent. Its CEO is quoted as saying the firm plans no significant new hiring “for the foreseeable future,” and will instead stretch its work force by using part-timers and adding weekend shifts.

The turnaround at Ford is even more staggering. In the second quarter of 2008 the company posted an \$8.7 billion loss. This year, even though sales remain 15 percent below 2008 levels, Ford reported a second-quarter profit of \$2.6 billion, its fifth consecutive quarterly profit.

Far from this upsurge in profits arising from a general expansion of production and employment, it has been achieved almost entirely from the destruction of jobs and the use of mass unemployment to blackmail workers into accepting wage cuts and speedup.

As *Financial Times* commentator Tony Jackson writes in a column published Monday, “Among the many puzzling phenomena of the post-crisis world, one of the oddest is the astonishing rebound in American corporate profits.” Noting that US corporate profit as a proportion of total national output is “back at record levels in spite of the financial crisis,” Jackson attributes this fact to the “division of the pie between capital and labour.”

Also on Monday, the *New York Times* published a front-page article on the immense cash hoard being piled up by US corporations as a result of the Federal Reserve’s near-zero interest rate policy and the increase in profits. The estimated \$1.6 trillion of cash in corporate coffers is not being used to hire more workers. To the extent that a portion of this money is being invested, it is largely going for such parasitic purposes as stock buy-backs (which drive up share values without producing any real value) and mergers and acquisitions, which inevitably result in more job-cutting and downsizing.

These statistics provide a only a pale indication of the human suffering and social devastation at one pole and ever more obscene enrichment of the financial aristocracy at the other resulting from the failure of the capitalist profit system and the drive by the ruling class, spearheaded by the Obama administration and backed by both big business parties, to impose the full brunt of the crisis on the working class.

What is involved here is not a temporary downturn, after which conditions will improve for the masses of people, but rather a fundamental realignment of class relations based on a drastic and permanent lowering of working class living standards.

To carry through this offensive, the ruling class relies on the collaboration of the trade unions to suppress working class opposition. In the United Auto Workers union and the AFL-CIO and Change to Win union federations the Obama administration and the corporate elite have accomplices whose only concern is to secure for the union bureaucracy a cut in the spoils of the class war being waged against working people.

The Socialist Equality Party urges workers to carry out a rebellion against these corrupt, right-wing organizations and establish independent and democratic rank-and-file action committees to fight against layoffs, plant closures and wage cuts. These committees should spearhead the struggle to unite all sections of workers and young people and mobilize the power of the working class.

This is a political fight against the Obama administration, both big business parties and the capitalist system which they defend. We urge workers and youth to read the SEP program, “The Breakdown of Capitalism & the Fight for Socialism in the United States,” attend the public meeting in their area and make the decision to join the SEP.



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