Microsoft announces 7,800 layoffs

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9 July 2015

Microsoft announced on Wednesday that it will be eliminating 7,800 positions, some seven percent of its workforce, in order to restructure its phone business. They have also announced that they will be writing down $7.8 billion in assets associated with their acquisition of some lines of business from Nokia last year.

The cuts come shortly after the latest US jobs report showed the lowest labor participation rate since 1977 and demonstrate that even highly profitable technology companies are paring back employment. By all measures, Microsoft is making substantial profits. It recorded $5 billion in net income last quarter and is currently sitting on cash reserves of more than $90 billion.

The announcement was made in advance of Microsoft's fourth quarter earnings report, which is scheduled for release on July 21. In the third quarter Microsoft sold 8.6 million units of its smartphone, the Lumia, an 18 percent increase over a year ago. At the same time Microsoft’s overall phone revenue dropped 16 percent and it failed to gain a market share compared to the major phone developers Apple and Google.

These layoffs follow on the heels of last year's job cuts of 18,000, the largest in the company's history, also focused on their phone development. The stock market responded favorably then, boosting Microsoft’s five percent over the course of a week. The current announcement saw no real movement on the market, with Microsoft stock losing six cents.

The nearly 26,000 jobs Microsoft has cut over the past two years have all been tied to their acquisition of Nokia's mobile unit for $7.2 billion. The announcement of a $7.6 billion write-down means that Microsoft now considers the assets it gained worthless. This isn't the first time Microsoft has spent billions of dollars to acquire a company, only to consider the venture a total loss.

In 2007 Microsoft bought aQuantive, a digital advertising company for $6 billion, only to write down $6.2 billion of assets in 2012. These vast sums spent on acquisitions followed by mass layoffs are a sign of the parasitic nature of the speculation driving the current economic “recovery.” While major tech companies have been reaping enormous profits since the 2008 crash, they are reinvesting little in production, which they consider too risky and unlikely to produce the returns demanded by the stock market.

As of May of this year, the top five US tech companies were sitting on an unprecedented cash hoard of $430 billion. Apple has the most with $178 billion, followed by Microsoft's $90.2 billion. Google, Cisco, and Oracle round out the list with $64.4, $53, and $44.7 billion respectively.

Meanwhile, there has been a sharp growth of “activist investor” funds, which buy controlling shares in a company and turn a quick profit by increasing dividends and initiating stock buybacks. The size of these funds has increased from $20 billion ten years ago to $120 billion today.

Instead of investing in production, they are paring down their less profitable departments in order to increase investor returns. Microsoft has been a central figure in this trend. In 2007, Microsoft paid $0.41 per share but in 2014, that figure nearly tripled to $1.15. This has been coupled with a $40 billion stock buyback program at the end of 2013. Microsoft is far from alone in this.

Apple announced last April that it was expanding its stock buyback program to $200 billion, to be used before 2017. In the stagnating global economy, investors are finding the highest returns in these short-term looting operations that extract wealth through the destruction of jobs and production. In addition to stock buybacks, they also engage in asset stripping mergers

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and acquisitions.

In 2014 tech companies spent a combined $214 billion in these deals, which is near the records set in 1999 and 2000 as part of the dot-com boom. Since 2009 a total of $900 billion has been spent on tech mergers and acquisitions, with 60 percent of that coming from five major companies: Facebook, Google, Microsoft, Oracle, and SAP.

Moreover, very few of the current mergers involve new or high-growth companies. Only 10 percent of the $900 billion spent on tech mergers and acquisitions since 2009 were “growth” transactions according to *Business Insider*. Instead they are acquiring low-growth established companies.

After the acquisition of one of these companies, as in the case of Nokia, employees are laid off to cut expenses, the company stock gets a bump and the cycle begins again.

In 2014 the tech industry laid off 60,000 workers, the largest jobs cuts in the sector since 2009.

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