US corporate profits up 13.9 percent on cost-cutting and low wages

Barry Grey
9 May 2017

Former Obama administration officials joined the Trump administration and the media in hailing the April employment figures released Friday as proof that the US economy has reached “full employment” and essentially completed its “recovery” from the Great Recession.

According to the Bureau of Labor Statistics, the US economy added 211,000 private-sector non-farm jobs in April and the official jobless rate dropped to 4.4 percent, the lowest level in more than a decade.

“JOBS, JOBS, JOBS!” tweeted President Donald Trump. “Great news,” Labor Secretary Alexander Acosta said on Twitter, adding later in a statement, “The steady and sustained increase in job creation equals new paychecks for American workers and income for American families.”

Jason Furman, the chief economic adviser in the Obama administration, said, “The momentum in the job market is really impressive.” The *New York Times* wrote that the report showed “a labor market closing in on full capacity,” particularly in “the country’s flourishing urban centers.”

On Monday, Cleveland Federal Reserve President Loretta Mester, speaking in Chicago, said, “We have met the maximum employment part of our mandate and inflation is nearing our 2 percent goal.”

The message from the ruling elite is clear: This is as good as it gets.

To present the jobs report as proof of a healthy economy, certain aspects of the report itself had to be downplayed or ignored, including the fact that average job creation so far this year, 185,000 a month, is actually lower than in 2014 and 2015. Even more significant, the number of people not in the labor force actually rose by 162,000 last month, and the proportion of the population in the labor force fell by a tenth of a percent. At 62.8 percent, the labor force participation rate remains only marginally above a four-decade low.

While the share of prime working age Americans (25 to 54) who are employed rose in April, it remains well below the level at the peak of the last economic cycle and even further below the level in 2000. This means there are millions of working-age people who have been effectively excluded from the job market as a result of decades of factory closures and mass layoffs, a process that has intensified since the 2008 financial crash. These millions of people, living on the edge of society, are not even counted in the official unemployment rate.

Moreover, the vast bulk of the new jobs created in April were once again in the cheap-labor service sector, where many workers receive poverty-level wages. The statistic that is perhaps most revealing about what is being presented as the “new normal” for a healthy economy is the miserable year-on-year average wage increase of 2.5 percent, barely above the official inflation rate.

Even in 2006 and 2007, annual wage growth for non-managerial workers of 4 percent or more was normal. That has been cut almost in half.

On Saturday, the same day the *Wall Street Journal* reported the April employment figures, the newspaper featured a front-page article on US corporate profits in the first three months of 2017 that pointed to the real driving forces of the new “full employment” economy. Profits at S&P 500 companies surged an estimated 13.9 percent in the first quarter, the biggest quarterly profit gain in five years.

At the heart of the profit bonanza, the *Journal* explained, was a relentless and ongoing drive to cut costs by holding down wages, cutting jobs and slashing spending on new plants and equipment. US big business, the newspaper wrote, was reaping “the benefits of years of belt-tightening” under conditions of a pickup in demand.

Because of the continuing focus on slashing costs, profits rose nearly twice as fast as revenue. Spending on equipment and buildings, i.e., productive investment, rose by a mere 1.5 percent in the first quarter. Half the sectors of the US economy actually cut capital spending from a year earlier.

The *Journal* provided some examples. Caterpillar, the heavy machinery giant, reported a quarterly sales increase of about 4 percent, while doubling its profit, excluding restructuring costs. The company has cut its global workforce by at least 16,000 since late 2015, a reduction of roughly 10 percent. It has closed or announced the shutdown of plants in South Carolina, Florida, North Carolina, Illinois and Belgium.

The energy sector, partially recovering from the oil price collapse of previous years, saw a 31 percent rise in revenues from the year-ago period. Based on its ruthless cost-cutting over the past two years, including the elimination of over 200,000 jobs, the sector enjoyed a profit boost of 647 percent.

Exxon Mobil, whose former CEO Rex Tillerson is now Trump’s secretary of state, reported a doubling of its profits in the first quarter, while its capital expenditures dropped by 19 percent, as it “remained disciplined in its investment.”

Much of the cash being taken in by the top corporations on this entirely regressive basis is being funneled to big shareholders in the form of dividends and stock buybacks.

On Sunday, the *Financial Times* devoted its “The Big Read” page to an article extolling the achievements of 3G Capital, an investment fund that partnered with Warren Buffett to buy the food conglomerate Heinz in 2013 and merge it with Kraft Foods two years later. What the newspaper called “The lean and mean approach of 3G” has resulted in more than 10,000 Heinz and Kraft workers—one-fifth of the work force—being laid off and seven factories closed down.

3G’s “brutal but disciplined attack on costs” produced a 58 percent surge in profits within two years, and a profit margin of 28 percent. This compares to an average profit margin in the food industry of 16 percent.

Such is the utterly parasitic secret to the much-touted “recovery” in the US economy and job market. A combination of speculation that feeds off of the destruction of productive forces and ever greater exploitation of the working class benefits a new aristocracy by impoverishing ever broader layers of the US and world population.