Deregulation, Bailouts and Job Loss: The Century's Second Supply-Side Slump

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If this front-page analysis by the *o n* on March 27th appeared overdramatic to some, concern over the economy's direction only intensified one week later when the government released its latest employment figures. The national economy lost 80,000 jobs in March, the worst decline in five years. It marked the third straight month of severe declines, totaling 232,000 fewer jobs in the year's first quarter. The unemployment rate shot up to 5.1% in March from 4.8% the month before. That large an increase has only been recorded in the past during postwar recessions. Then, just days later, it was revealed that a "prolonged and severe economic downturn could not be ruled out," in the opinion of the Federal Reserve Board's last leadership meeting.[2]

The country is already in recession, according to two-thirds of Americans questioned nationwide in the CBS News/New York Times public opinion survey in late March. A majority said that they were very concerned or somewhat concerned that they or another household member might be out of work or looking for a job in the next 12 months. One of every five "personally has friends or relatives who have filed for bankruptcy or have had a foreclosure during the past year." And four out of five felt that "things in this country have pretty seriously gotten off on the wrong track."[3]

Signs of the slump's highly unequal impacts abound. Job losses have so far been concentrated among lower-income, non-college-educated workers and racial/ethnic minorities. In the 12-month period ending in March, the jobless rate jumped from 6.9% to 8.2% among high

Those still employed have seen little increase in their average wages, after adjustment for inflation, since 2001. What belated real wage growth there has been ended last summer: for all of 2007, the average real weekly wage fell 0.9%.[4] In February, rising costs for food, energy and health care pushed up wholesale price inflation by the steepest amount in a quarter century, and overall consumer prices were 4% higher than a year ago. Squeezed by prices increasing faster than their paychecks, the typical American family's median income failed to keep up with the rising cost of living last year.[5] With unemployment and foreclosures rising at a time of wage decline, more families are slipping into the ranks of the poor and near-poor. One clear indication is the sharp rise in people applying for food stamps. By December, the number of food stamp recipients broke previous records in 14 states. The Congressional Budget Office projects the number to rise to 28 million nationwide this year – more than at any time in the food stamp program's entire 48-year history.[6] And the soaring prices of bread, rice, dairy, and other staple foods, here and abroad, are forcing more and more working class people to seek help from overstretched food banks for the first time.

But the highest-income groups continue to pull away from the poor and the middle class. A new report on 200 companies with revenues of $6.5 billion or more found that average compensation for their chief executives rose to $11.7 million last year. CEOs with as little as two years on the job enjoyed, on average, a 5% pay raise in 2007, thanks to "discretionary bonuses" not linked to their company's performance.[7] One among many examples drawing shareholder and employee ire is struggling Ford Motor Co. Ford lost $2.7 billion in 2007, and last fall it demanded and won major wage and pension sacrifices from its unionized workers. Yet Ford paid its top five executives $60.7 million in compensation last year. CEO Alan Mulally alone received $21.7 million.

New York's Slowdown

The New York Metropolitan Area recovered more slowly from the 2001 recession than most of the nation and year-end economic statistics have raised some hope that it might now take longer than other areas to fall into recession. The pace of production in New York City, as measured by Gross City Product (GCP), began slowing in the spring of 2007, declined to 2.5% growth in the July–September third quarter, then ended the year with fourth-quarter GCP growth of just 1.1%. Still, this was nearly twice the national growth rate (0.6%) in the fourth quarter.

Job growth in New York was also stronger than the national rate last year: the city added 53,400 net new jobs in the 12 months through last December, 1.4% higher than in December 2006. Nationwide, job growth over the same period was a slower 0.9% (Table 1).[8]

However, early in 2007, several high-profile layoffs began raising concerns about a coming slowdown. One was Manhattan-based Citigroup's announcement that it planned to slash 10,000 to 12,000 jobs worldwide in 2007. Another 14,000 positions would be cut through attrition or relocation of employees from New York, London and Hong Kong to low-cost cities here and abroad. As the credit crunch worsened in mid-summer, job growth appeared to peak in financial services and some other key sectors like leisure and hospitality. At year's end, financial turmoil was clearly threatening more Wall Street income and employment losses. In the first week of 2008, Citigroup and Merrill Lynch both announced that each had run up losses of almost $10 billion from October through December. Now Goldman Sachs Group and Lehman Brothers each appear set to cut at least 5% of their employees. Far deeper layoffs are expected at borough. The fact that, at the same time, the number counted as employed was little changed indicates that more job seekers were entering or reentering the labor force, but failing to find jobs.

In contrast, while Long Island also recorded more residents officially counted as unemployed (+8,900) during 2007, the total number of employed persons actually fell far more (-16,800). The difference is attributable to the fact that 7,900 dropped out of the active labor force – whether out of discouragement with their job search prospects or other reasons. Since labor force dropouts are not included in the official unemployment count, the local unemployment rate rose less than it would have ot

Investment banks are now being allowed to borrow at the Fed's heavily government-subsidized discount rate, currently just 2.5%. In other words, the Fed has, with few if any strings attached, gifted wealthy investment banks far cheaper credit than millions of anxious middle-class households are being offered. According to the Wall Street Journal, the banks are now "clamoring" to take advantage of the Fed's generosity. Lehman Brothers has repackaged $2.8 billion in unsold loans (a so-called collateralized loan obligation, or CLO) to obtain a low-interest Fed loan. It was thus "able to turn loans that had been mostly shunned by investors for months into cash it could use to finance its business."[15]

What are the big banks being asked to sacrifice in return for these federal benefits? Treasury Secretary Henry Paulson, himself a long-time Wall Street banker, recently unveiled sweeping proposals that would supposedly give federal regulators new authority over the entire financial system, not just banks and insurance companies but also other entities like hedge funds and private equity funds, now operating virtually without regulation. Critics, including state bank regulators and at least one former Republican chairman of the Securities and Exchange Commission, immediately challenged the proposal as further pro-bank deregulation disguised as get-tough regulation. Instead of strengthening current government oversight and enforcement, the White House proposal bows to long-held Wall Street demands to replace

Table 1
Number of Nonfarm Jobs (in thousands) by Place of Work: 2000–2007

Table 2 source: Establishment data (not seasonally adjusted) from US Dept. of Labor & NY State Dept. of Labor.
Note: the data reflect regular revisions made by Dept. of Labor.

Table 2
Civilian Labor Force, Employment & Unemployment:
New York City, Long Island & All U.S., Dec. 2006–Dec. 2007
(in thousands, not seasonally adjusted)

	Labor Force		Employed		Unemployed		Unemp. Rate	
AREA	Dec. 2007	Dec. 2006	Dec. 2007	Dec. 2006	Dec. 2007	Dec. 2006	Dec. 2007	Dec. 2006
U.S.	153705.0	152572.0	146334.0	146081.0	7371.0	6491.0	4.8%	4.3%
NYC	3849.1	3807.6	3650.7	3653.9	198.4	153.7	5.2	4.0
Brooklyn	1083.2	1070.9	1023.0	1023.9	60.2	47.0	5.6	4.4
Bronx	513.3	506.3	477.8	478.3	35.5	28.0	6.9	5.5
Manhattan	914.8	905.9	873.6	874.4	41.2	31.5	4.5	3.5
Queens	1103.3	1092.6	1052.7	1053.7	50.6	38.9	4.6	3.6
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Figure 1
NYC Job Growth by Industry: Dec. 2006– Dec. 2007
(in thousands of jobs, and percent change)