

## INTRODUCTION

**R**ECSSION, Recovery, the market, profit taking, Dow Jones and NASDAQ averages, GDP, joblessness, factory orders, the Consumer Confidence Index. The phrases tumble out of television, radio, and newspaper reports like a waterfall. Many viewers, readers, and listeners often feel they are drowning in business jargon. What do these terms mean, and what does their movement signify for the economy, for our jobs, for our income? Most of us can make only vague sense of these abstractions, yet they are the fare of everyday news. Is the information conveyed by highly charged economic terms meant to shape our perceptions or to sharpen our understanding? Is the business news, as some critics charge, not about the specifics of the economy, but about selling the virtues of the prevailing economic system and reassuring the perplexed that all is well? How much do most of us really know about how the economy and finance really works? For example,

when we learn from the newspaper, online Web sites, television, or radio business reports that the unemployment rate has “dipped” from 6 percent to 5.9 percent, the one-tenth of 1 percent drop is almost never translated into numbers. How many people does 6 percent represent? To answer this question one needs to know the size of the nonfarm labor force. Do the announcers supply this information? What does a tenth of a percent drop really signify in relation to broad trends? Aside from its effect on the laid-off worker, does the gain or loss of twelve thousand jobs mean all that much for a labor force of 120 million? Besides, if the tenth of a percent drop in the unemployment rate resulted from the withdrawal of workers from the labor force rather than from an increase in jobs, is it good for the economy, or for those still looking for work?

Conversely, suppose stocks lose value even if unemployment drops and there is more work for the jobless. When factory orders dip but the Dow gains, reporters and commentators often remark that the “market shrugged off” the bad news. But if the Dow lost some “points,” the same commentators might attribute this event to the “disappointing” news about industrial activity. And what are we to make of the frequent relationship between layoffs announced by a firm and a dramatic jump in its stock price? Why do investors like a firm that proves to be a relentless cost cutter? If the Dow Jones Index rises coincident with the lowered jobless rate, is this movement a cause-effect relationship or might there be other factors that account for the rise? Will investors even discount the significance of employment gains if they fear inflation that might prompt rising interest rates?

Not so long ago business news was confined to the business pages, far from the purview of all but investors, economists, and professional managers. Today, newspapers like the *Wall Street Journal* and the *Financial Times*, a British business publication, are as likely to adorn the breakfast table as the local news daily. And

to compete with the “trade” papers, national newspapers such as the *New York Times*, the *Washington Post*, and the *Los Angeles Times* have expanded their business sections. Mergers and acquisitions, bankruptcies, business scandals, and dramatic changes in stock quotations are as likely to land on their front pages as a presidential speech, political news, or gossip about the latest Hollywood or pop-music star. What has changed?

One explanation for the ubiquity of business news is that many Americans have become small investors. They have replaced savings accounts with stock portfolios. Millions of Americans now have equity in stocks and bonds and, for this reason, are likely to follow the business news carefully, at least the fate of the firms they have put their money on. With the expansion of private pensions, often in the form of mutual funds, Americans have suddenly discovered they have a “stake” in the system, let alone the stock-and-bond markets. The incentive to pay attention is increased because the money managers who control the mutual funds frequently offer individual accounts over which the member has some discretion among a limited menu of options.

For example, a college professor earning a relatively modest salary whose supplementary pension is tied up in one of the largest of these funds with several million subscribers, Teachers Insurance Annuity Association (TIAA), may have accumulated hundreds of thousands of dollars during the stock-market boom of the 1990s, if she chose to invest her money in relatively risky stocks rather than in the safer but less remunerative bonds and Treasury bills. She might have put some portion of her annuity account into real estate and “social” investments, and another percentage into the stock market. Since these programs are composed of funds contributed by both the subscriber and the institution that employs her, it is not unusual over twenty or thirty years for her to have achieved a retirement income, including Social Security, that exceeds her salary. During the peak of the boom, subscribers’ supplementary

retirement annuities were enough to prompt a good number to retire well before the age when they were eligible for Social Security benefits.

Lunchtime conversations in many workplace cafeterias revolve as much on the latest gyrations of the Dow or of a particular firm as they do on sports or campus gossip. If in the late 1990s some who had heavily invested in stocks gloated over their good fortune, in the past three years such conversations resembled a collective wailing wall as the Dow took a nosedive and, before it hit bottom in early 2003, lost a third of its price; reflecting the so-called dot.com bust, the NASDAQ—the main technology exchange—lost 60 percent. Some who had hoped for early retirement were forced to postpone their plans. A fifty-seven-year-old woman who had hoped to retire early now says she will never retire because she lost so much of her savings during the 2000–2002 bust. Others of retirement age clung to their jobs and transferred their depleted funds to safer bonds and treasury bills. A third group, which had bought houses and apartments that depended on the inflated investment prices or projected retirement income, were obliged to sell their real estate, sometimes at bargain prices.

Another reason for the expanded interest in business news is that in the 1970s, perhaps more than at any time since the post-Civil War era, the United States seemed to have entered a new Gilded Age. Once again, the “business of America is business.” In the late nineteenth century industrial and financial tycoons were virtual folk heroes, presidents of the United States were considered by the voters as little more than servants of big business, and the two main political parties brazenly competed for favors from the high and the mighty—leaders of Wall Street and the steel and food trusts of Pittsburgh and Chicago. This is once more a time of overarching business dominance, not only of the mechanisms of political and economic power, but over the hearts and minds of a considerable portion of the American people.

Even as the gap between rich and poor widens, and journalists and academics analyze the “disappearance” of the middle class, Americans watch with awe and wonder as millions of the best working-class factory jobs evaporate and computer programmers and analysts vainly search for work after the collapse of the dot.com boom. But many of the system’s victims forgive even when they don’t forget, because they believe that one day they, too, shall reap the spoils of America’s unparalleled wealth. Rather than rise up in anger, many have displayed infinite patience as they wait for that wonderful day to arrive. More to the point, if they have experienced bad fortune, they believe they have only themselves to blame, not their employers or the economic royalists who have made “business ethics” an arcane term.

That the CEO and other top officers of the Enron and WorldCom Corporations presided over the pillaging of employee-pension funds while drawing millions in salary and perks detains us not at all; even the workers who have watched their hard-earned pensions melt are mostly hoping for some restitution. Few have taken to the streets or to the media to protest; while there are court suits, most employees have prudently refrained from condemnation or from threatening massive legal action against the perpetrators. Laments like “the road not taken” and “if only I had listened” ring in the ears of the disappointed. The view that small investors should shun the stock market and put their money into safer, if less lucrative, bonds or Treasury bills is today termed foolish by investment counselors who promise their clientele that if they can hold out by absorbing sometimes daunting losses, the market will inevitably turn for the better. And, of course, this is little more than a truism. After two years in the doldrums, in summer 2003 the Dow began to climb once more—strengthened, according to some experts, by the faith of small investors. Many who took the heaviest losses in the 2000–3 recession and stock-market fall have become convinced that, despite the catastrophe, they have

little choice but to reach for the fast buck, the main chance, and the part of the American dream that ignores the harsh reality: In broad terms, few of us will ever get rich or even accumulate a small fortune. For the awful truth is that “small” signifies that the investor has few, if any, resources to weather the troughs of market behavior.

In sum, in a culture that still celebrates the rags-to-riches myth, the stock market has become the middle-class lottery of choice, and the typical small investor has as much chance of making a genuine fortune as any player has of winning the lottery. The lottery bettor risks relatively little when he stands in line at the corner drug- or grocery store and buys a five-dollar ticket. The difference between the two is that millions have, intentionally or not, placed their pension money in the roller coaster we call the “market” in hopes that they get out with their nest egg intact before the inevitable crash.

Conventional economic wisdom took heavy blows in 2003.

By statistical measures—the growth in the production of goods and services in the domestic economy—government officials and corporate economists announced that America came out of a very short-lived recession in November 2001. According to the logic, economic growth eventually translates into more jobs. But from the perspective of job creation, official unemployment statistics seemed to belie the fact of recovery. Two years after government officials and private economists declared a turnaround, official joblessness hovered around 6 percent, or eight million unemployed. Somehow Americans did not believe the forecasters. “Even though the recession ended nearly two years ago,” wrote *New York Times* reporter Steven Greenhouse on September 1, 2003, “polls are showing that American workers are feeling stressed and shaky this Labor Day.” Citing the 2.7 million jobs lost over the previous three years—one million of them since the “recovery”—Greenhouse quotes a number of labor economists, one of whom says that “American workers are doing very badly.” From where the workers stood in most regions, including the South, which

had shrugged off previous recessions, jobs were hard to find. A staple of the regional economy, textiles, had for the past five years joined the exodus of many apparel jobs to Mexico and especially to China.<sup>1</sup>

The story of the migration of Huffy, the world's largest bicycle producer, tells an important part of the story. Five years ago, one thousand unionized Huffy workers put in their last day of work at the company's Celina, Ohio, plant after city and county officials failed in their bid to keep the company from pulling up stakes to move to nonunion Farmington, Missouri, where employees were paid \$2.50 less an hour than Celina's \$10.50 average wage. Still labor costs were too high, at least compared to Nuevo Laredo, Mexico, just across the Rio Grande from Texas, the company's next move. There, workers were paid half the wage of Farmington workers. Two years later the company "cut its ties to Mexico and began importing its bikes almost entirely from China, where workers earn less than 4 percent of what Huffy paid in Celina," or about forty cents an hour.<sup>2</sup>

Still, in his 2003 Labor Day appearance before what Greenhouse described as a "subdued" audience of skilled Ohio union workers, President George W. Bush insisted that the economy was getting better and worker productivity was rising, even as he acknowledged the apparent disconnect between the (weak) economic growth and rising unemployment. Moreover, unlike previous periods, during the more than two years of statistical recovery between fall 2001 and the end of 2003, jobs continued to disappear. Less than a week after Bush's speech the federal Department of Labor announced that although official joblessness had declined one-tenth of 1 percent in August, contrary to economic forecasts that predicted a modest rise of twenty thousand jobs for the month, the economy lost ninety-three thousand jobs.

How to explain the paradox of sluggish but upward growth of the Gross Domestic Product (GDP) and declining official

unemployment amid job losses? Continuing a long-term trend, more than a hundred thousand workers left the labor force in September because they gave up their futile job search. So the total nonfarm labor force—defined by the Bureau of Labor Statistics as those who are working for wages and salaries or are actively looking for work—was smaller, and the percentage of workers seeking paid labor declined slightly. Once again the slippery statistical measures tend to conceal more than they reveal.

On December 6, *New York Times* business writer Louis Uchitelle reported:

The nation's employers displayed an unexpected reluctance in November to hire more workers despite the improving economy and rising demand for what they sell.

Several weeks of bullish economic reports raised expectations that hiring, at long last would break out of the doldrums. Corporate profits rose sharply in the third quarter. Construction spending is up. So are car sales, and consumer spending, after a brief dip, has picked up as well. Overall, the government estimate of economic growth in the third quarter was revised up by a full percentage point last week to 8.2 percent at an annual rate.

But chief executives have held back on hiring, concerned that the third quarter surge would turn out to be an anomaly. . . . Forecasters surveyed by Blue Chip economic indicators agree with the executives: their consensus estimate of economic growth in the fourth quarter is 3.6 percent at an annual rate.

“There is no question that company managers are trying to squeeze every ounce they can from the existing employees before they give in to hiring,” said Nariman Bahraresh, chief economist at Global Insight, a data gathering and forecasting service.<sup>3</sup>



To be fair, October and November witnessed modest job growth. But results hardly justified the cautious official optimism: In contrast to the 1990s recovery when employment rose 225,000 a month for nearly seven years, in the last six months of 2003, economist Paul Krugman stated, “less than 90,000” new jobs a month were added, “even below the 150,000 jobs needed to keep up with the growing working-age population.”<sup>4</sup> But as Jared Bernstein of the Economic Policy Institute observed: “The number and quality of the jobs we are creating are still insufficient to sustain a truly robust recovery,” because many are in low-wage service industries and reflect the growing importance of temp agencies in the employment market. Most of the 150,000 “jobs” added in October were temporary and highly contingent. More than 100,000 of them were “self-employed contractors,”<sup>5</sup> often a euphemism for former employees of companies which, having cut them loose from their pension and health benefits, continued to employ them as contract workers. Some of these jobs were offered on a part-time basis. In contrast to Europe where time unemployed is calculated in the statistics, according to U.S. labor statistics, any part-time employment counts as full-time when unemployment is measured. And November’s 51,000 new jobs, the quality of which remained largely unreported, was sharply below predictions. Meanwhile manufacturing employment continued its long-term slide despite the end-of-year report that new factory orders had increased. All told during the last five months of 2003, as the Bush administration crowed about the recovery, just 278,000 new jobs were created, an average of a little more than 55,000 a month.

We should expect economic growth in the wake of “military” Keynesianism, where public investment, but not in social services, becomes the engine of capital accumulation in production and service industries, and in employment. This type of investment assists the private sector and, in the shadow of rising budget deficits, usually entails stagnation or deep cuts in public spending

for health, education, housing, and even veterans' services, unless an administration is prepared to borrow heavily to maintain public services. Thus, like Ronald Reagan in the 1980s, Bush turns out to be one of the great "big spenders"; only when the Democrats are in the White House do conservatives invoke the doctrine of balanced budgets and other fiscal constraints. Contemporary conservatism is committed to reductions of public goods and privatization of the remainder, transfer payments from the public till to large corporations, and tax cuts for the rich—all of which entail, but only implicitly, that the bill will be paid by the 90 percent of the population that struggles to make ends meet.

In stark contrast to its free-market ideology, taking a page from Ronald Reagan's playbook, the Bush administration, with congressional approval, pumped almost a half-trillion dollars of military spending into the economy during 2003 and proposed to pour billions more in 2004 and 2005 into a new initiative to colonize Mars. Corporations that benefit from accelerated defense contracts—those who make weapons, textiles, or clothing and build facilities and companies that deliver the raw materials; firms such as Halliburton and Bechtel, which have received huge contracts for Iraq reconstruction; and companies that develop and produce software and hi-tech security equipment—have generally reported higher profits, and their shares in the equities markets have risen as well. Yet merchants across the country said the Christmas shopping season, which came on the heels of the announcement that Congress had approved an unprecedented \$487 billion military budget was, with the exception of luxury items, not especially successful; the small rises in revenues were "disappointing."<sup>6</sup> It appears that "middle-class shoppers" were still worried about mounting job losses and, consequently, refrained from ebullient buying.

Were the modest gains in consumption due primarily to an anxiety-ridden public's irrational fears of joblessness? Perhaps the

tepid Christmas 2003 buying season was rooted in a realistic assessment of the economic situation. Consider the lively 8.2 percent third-quarter growth in 2003. On the eve of the buying season, hourly wages rose by a mere two-tenths of 1 percent, but when inflation is factored in, real wages actually declined by three-tenths of 1 percent. This means that whatever gains were made did not benefit the more than 80 percent of the workforce whose income was essentially stagnant. Pop-ups on the computer screen, billboards, and TV and radio ads tell a story of a significant part of the population saddled with stagnant wages and drowning in debt. The ads are for firms that promise to help individuals consolidate their debt by, in some cases, helping them to accumulate more debt (at astronomical interest rates). There might be a boom in the debt-consolidation industry and certainly in high-interest finance companies, but most consumers did not feel the recovery.

The bombshell was delivered early in January 2004. Defying predictions by the administration and most independent economists that December's data would show a 150,000-job growth, the economy added just 1,000 jobs as the unemployment rate declined by two-tenths of 1 percent, a sign that more workers had left the labor force. Some accepted early retirement "in a lean job market," as Louis Uchitelle reported, often leaving good jobs in their fifties despite their recognition that almost none of the pension packages companies offer are enough to live on without supplementary income, and despite their uncertain prospects for finding another job. The *Financial Times* commented that December's job performance cast doubt on the recovery, and citing a number of economists, *New York Times* commentator Edmund Andrews indicated that the Bush administration had run out of options. Poised to raise interest rates on the certainty that the economy was picking up, the Federal Reserve, which had sought to boost growth by lowering them to 1 percent, seemed to have no place to go. Andrews concluded that Bush could only wait.<sup>7</sup>

**D**ESPITE DRAMATIC GAINS following World War II, the rewards of growth and the advent of consumer society were distributed unevenly throughout the U.S. economy. The vicissitudes of capital investment, corporate decisions concerning plant relocation (partly to escape high union labor rates), shifts in energy resources, and technological innovation conspired to widen the gap between rich and poor and between growth and decline. In the midst of the astounding productivity of the agricultural sector, rural communities went into a tailspin from which most have never recovered. From the 1920s through the 1960s, the internal migration of black and white farmers from the South and other leading rural areas to the cities matched the volume of people who immigrated to the United States during the forty years of the turn of the twentieth century. More than forty years ago, presidential candidate John F. Kennedy discovered rampant poverty in the coal-mining areas of the Appalachian mountains—West Virginia, Kentucky, parts of southwestern Pennsylvania, and Tennessee—and growing unemployment in New England owing to the migration of cotton and wool mills to the Southeast. Although Congress had passed “depressed areas” legislation in 1958, the 1960–61 recession deepened the crisis beyond the resources provided by the existing law. An important component of Kennedy’s presidential campaign and his first year in office was to address “pockets of poverty” by pouring billions into public works, job training, and income maintenance in these regions. These measures provided a model for the Economic Opportunities Act, which extended public services, income support, education, and job training to major urban areas, where capital flight and southern migration to the cities had produced a festering field of discontent and potential insurgency.

The insurgency that emerged in many black communities from coast to coast began in 1964, even as the Johnson administration vigorously pursued the contours of Kennedy’s antipoverty legacy, because, while there was federal commitment to address the issues

of urban and rural unemployment, the administration hesitated to provide funds for the expansion of public goods. With the exception of health and elementary education, in the end Johnson's Great Society antipoverty program relied on the private sector to provide jobs for the unemployed. Until America's growing involvement in the Vietnam War, upon which 1960s economic growth depended, this strategy remained more effective at the rhetorical than at the material level.

But macroeconomic trends show only one side of the real jobless crisis. Like the late 1950s and early 1960s when Americans began to wake up to the "depressed areas" problem—the scandalous condition of poverty amidst prosperity—we are currently rediscovering the need to "dis-aggregate" unemployment statistics to find out what is really happening to local communities. A comprehensive report by the Employment Policies Institute on the "local unemployment crisis" for 2002 lists 397 counties and cities with populations greater than ten thousand, totaling more than twenty-six million, whose jobless rates are 9 percent or higher. The unemployment rates range from a high of 25 percent in Maverick County, Texas, to 9 percent in Barbour County, West Virginia. Many counties in California, Texas, Ohio, and Illinois never came out of the recession. And the Southeast—particularly Alabama, North and South Carolina, and Mississippi—registered double-digit unemployment rates, reflecting the exodus of textile mills in the past three years. Only New Jersey among the northeastern states has most of its major cities with more than 10 percent joblessness, although Rochester, New York; Detroit, Michigan; Cleveland, Ohio; Dallas, Texas; Portland, Oregon; and Bakersfield and Modesto, California—among the largest cities in their respective states—have 9 to 12 percent of their official labor force out of work.<sup>8</sup>

This situation points to the danger of basing economic evaluations on abstract categories like the Gross Domestic Product, aggregate unemployment statistics, or investment data. These

measures hide the unevenness of decline and recovery. As I shall argue in Chapter Two, the real problem is that conventional economics does not take into account the complexity and the novelty of the current situation. Although jobless recoveries are no longer unique—indeed the 1991–93 recession exhibited similar characteristics—many communities are suffering more than others. Moreover, the nature of “jobs” has changed. In this book, I will not consider labor or work a real job unless it possesses the following minimum characteristics:

- There is a presumption of *permanence*. Thus, when economic conditions justify layoffs due to slack orders, the employer is committed to calling the worker back when business picks up.
- The job entails *benefits* such as health care, pensions, paid holidays, and vacations.
- Even in nonunion workplaces the employer recognizes that there is, in effect, an informal contract that under ordinary business conditions protects the worker from arbitrary discharge and in matters of promotion. In fact, one of the major spurs to union organization is the failure or refusal of the employer to acknowledge this contract.

In sum, a “job” as opposed to “work” entails genuine protections and perquisites. At the turn of the twenty-first century, in the name of “flexibility,” millions of workers are condemned to temporary, part-time, and contingent employment. But unlike the 1990s when employers in almost every sector of the economy put this labor regime in place, there is no longer plenty of work and almost no new jobs. Many jobs are being transformed into contingent positions, and even these contingent positions are disappearing faster than new hires are being created.<sup>9</sup>

Just as the coal regions of southeastern Kentucky and northeastern manufacturing centers such as Newark, New Jersey,

actually lost jobs during the relatively robust growth of the late 1950s and 1960s, so—largely due to the long-term migration of traditional jobs from the North and Midwest—cities like Cleveland, Rochester, and Detroit were left behind in the hi-tech boom of the 1990s. The case of Rochester, a leading manufacturing center for cameras and electronic equipment such as photocopying machines, was especially painful. The city's major corporations, Eastman Kodak and Xerox, as well as nearby IBM, underwent major restructuring and decentralization of their manufacturing facilities during this period. Thousands of well-paying jobs were exported from the region, and neither federal nor state economic-development programs were able to fill the huge holes left by the exodus. For this was the time of budget balancing, budget cuts, and significant tax breaks by local governments to large industrial corporations, including Kodak. The company accepted the incentives to stay in town but eventually took the money and ran. If President Bush remained anxious for news, by the end of January 2004 there was new cause for hope and despair.

On January 25, the Job Market section of the *New York Times* reported some hiring in industries besides tourism. Its illustrative example: the huge Wall Street firm Merrill Lynch, which “had cut thousands of jobs since 2000,” indicated it would hire 650 financial analysts during 2004. Trucking and some manufacturing employers said they had similar hiring plans. Some might argue that while new hiring was still relatively sluggish, this was encouraging news. But neither Bush nor the employees and citizens of Rochester, New York, rejoiced when Eastman Kodak revealed plans to lay off some fifteen thousand employees worldwide by 2006, about seven thousand in the Rochester area. The company, which once employed sixty thousand workers in Rochester and a quarter million worldwide, has steadily reduced its global and local workforces to a third of their size twenty years ago. In Buffalo, New York, once an important steel, metalworking, and chemical center

whose leading plant, the huge Bethlehem steel mill in adjacent Lackawanna, closed in the late 1990s, thousands of single-family homes were abandoned by workers who were forced to leave the region in search of work. The city government took the houses over and offered to give them away to anyone who showed the ability to rehabilitate and maintain them.<sup>10</sup>

The difference between now and the 1960s and early 1970s is that political will has evaporated to address the problems faced by cities like Rochester and Buffalo. The reasons are not hard to fathom: In the first place, there is little visible protest against onerous economic conditions that have left thousands permanently jobless; in the second place, since the early 1970s, occupants of the White House from both major political parties have adopted neoliberal economic doctrine and renounced the earlier Keynesian policies of public job creation and long-term income supports for the chronically unemployed and underemployed introduced during the New Deal, which were still in effect until around 1973. As a result, aside from responding to intense pressure to extend jobless benefits for thirteen or more weeks on the expectation that the “recovery” will eliminate the emergency, neoliberal policy refuses to put in place any program dedicated to job creation; the federal government may incur a deficit to expand the military in times of war, but under no circumstance will it replicate civilian Keynesianism. Indeed, in 1996, Democratic President Bill Clinton signed welfare-reform legislation designed to end the fifty-year-old program under the assumption that the basic reason people suffer chronic unemployment is personal, not economic.

This book will argue that our country is facing structural joblessness that we can expect will resist real accumulation of goods and services. Joblessness already affects segments of the population that have not suffered structural unemployment since the Great Depression—industrial workers; managerial, professional, and technical occupations; and service employees. In the next



chapters I discuss and account for the befuddlement of most economists and politicians, offer a broad picture of how the economy works in this age of global capitalism, provide an explanation for the jobless “recovery,” offer alternatives to the bankrupt religion of the free market, and offer a political analysis of how the grave situation facing us may be overcome.

