U.S. unemployment: it's approaching double digits

by Lydia Schulman

Everyone has been talking about double digit inflation. But double digit unemployment? Surely Surely things won't get that bad during this recession, say the Carter administration's economic wizards.

The fact is that by any sensible measure of the unemployment rate, we are already pushing the double digit level. The Department of Labor, which recently reported 6.2 percent unemployment in March, has been seriously understating the nation's real unemployment rate by dropping at least one million "discouraged workers"—those who have stopped actively looking for work for the time being—from what the DOL defines as the "labor force," together with a number of other statistical ruses. Moreover, unemployment in the nation's key industrial sectors is already in excess of 10 percent, as a result of Fed Chairman Volcker's tight credit policies.

As of the 63,000 new "temporary" layoffs announced by the Big Three auto-makers on April 4, approximately 225,000 U.S. autoworkers were on temporary or indefinite furlough. This figure represents more than 20 percent of the 1.1 million workers employed in auto, truck, trailer-truck, and parts producing plants, and is higher than the number of workers furloughed during the 1974-75 recession. Upwards of 15 percent of the nation's 4 million-plus construction workforce is out of work; more than ten percent of the steel and rubber workforces have been idled as a result of permanent plant closings and firings; and a growing percentage of the nation's state and municipal employees.

In Michigan, an industrial state that is a prime victim of the Volcker credit crunch, official unemployment is running at a 11.3 percent rate, or double the national average. One family out of ten is presently on welfare. Eighty percent of all new federal benefits in the government's Aid to Families with Dependent Children(AFDC) program last year was claimed by Michigan. These startling figures point up the most troubling dimension of the nation's burgeoning unemployment crisis: the fact that highly skilled labor power is being lost, possibly permanently.

The unemployment crisis is only beginning, however. At this moment, banks across the country, small and large, are retrenching fast on loans to consumers and businesses rather than pay the new penalties imposed by the Federal Reserve. One banker at a small upstate New York bank commented in a recent interview that every bank in his area was not only intensively screening all new consumer loan applicants, but calling in loans to avoid paying the new 15 percent reserve requirements on consumer consumer credit extended above a March 14 base level. This sort of retrenchment means widespread layoffs in the retail and wholesale trade and other service sectors, categories of employment that have been holding up the national average.

The impact of the liquidity crisis

Even more forboding is the evidence that some of our major industries, such as paper, auto, steel, and rubber, are faced with looming liquidity crises. Many economists have now realized that corporate liquidity has deteriorated suddenly and is in worse shape than in 1974, on the eve of the worst recession since the Great Depression. The attentively-watched "quick ratio"—cash and liquid assets to short-term obligations—in the steel industry was 19 percent at the end of last year. compared with 44 percent at the end of 1974; in paper products industry the quick ratio has declined from 37 percent to 29 percent; in auto, from 17 percent to 15 percent; and in rubber from 17 percent to 11 percent. Any further deterioration in the markets of these industries will force them into a further retrenchment merely to keep their heads above water—such as the Ford Motor Company recently initiated.

Following right on the heels of Volcker's moves to restrict credit availability, a series of bills deregulating the nation's transportation and telecommunications industries will deliver the next blow to the nation's seriously weakened economy. The Motor Carrier Reform Act of 1980, which overrides 45 years of stability and safety-ensuring regulation of the trucking industry in one fell swoop, is now expected to be passed by Congress when it convenes in mid-April.

The devastating impact of trucking deregulation on not just the trucking industry but on the whole U.S. economy was the subject of a special report issued by the *Executive Ingelligence Review* last fall, "Trucking Deregulation, A Disaster Worse than Vietnam." Touted as "anti-inflationary" by its advocates—who span the political spectrum from the "ultra-liberal" senator from Massachusetts to "conservative" Milton Friedman and his cronies at the American Enterprise Institute—the real impact of trucking deregulation will be: ferocious price war among the carriers; lethal cutbacks in maintenance and capital spending; the abandoning of all but the most profitable routes, leaving thousands of rural communities out of touch with the rest of the nation's economy; a deterioration of pay scales and working conditions; and a soaring accident rate.

Ironically, another effect of trucking dereg will be the skyrocketing of transport costs, as productivity plummets and many of the "competitors" drop out of the market through bankruptcy. The *EIR* special report on trucking dereg estimated that some 500,000 Teamster jobs are at stake if trucking dereg legislation goes through.

The effect: more unemployment

Bills deregulating rail and shipping and a landmark decision April 7 by the Federal Communication Commission deregulating the telecommunications industry could pave the way for a similar pattern of events in those industries.

Such developments—unfolding now or about to—are barely registered in the government's official unemployment tally.

The DOL reported that 6.4 million workers were unemployed in March out of a work force of 97.7 million: an unemployment rate of 6.2 percent. The DOL tally, however, understates the number of unemployed workers by several million, conservatively speaking. One of the biggest hoaxes in the government's unemployment rate is that it masks the considerable rise in the category of "discouraged" workers, those people who have given up actively looking for work and who have consequently been dropped out of the "labor force."

As the Volcker crunch intensified last fall, the number of workers too discouraged to look for work rose from .75 million in the fourth quarter of the year to 1 million in the first quarter of the current year. These discouraged workers really represent an additional million unemployed. Similarly, the DOL reported that 16.2 million individuals had part-time jobs in March, 3.1 million of whom were working part-time "for economic reasons." It is likely that at least several million of those part-time employees would really like to have better-paying, full-time employment (with benefits, paid holidays, and so forth) but could not find such jobs. Those workers represent another several million hidden unemployed..

Such as they are, the government unemployment statistics began to register a significant development in the nation's employment situation in March. The number of employees on nonagricultural payrolls fell by 140,000 over the month, with construction and other blue collar industries accounting for the entirety of the decline. Until recently, increases in employment in the service sector of the economy had offset stagnation or decline in the blue collar payrolls. In March, employment in the service sector remained unchanged at 64.1 million.

The biggest over-the-month drop in March was in the construction industry, where employment dropped by 135,000. This was the second consecutive montly drop, bringing the total loss of construction jobs over February and March to 200,000.

This development was hardly a surprise in view of the condition of residential construction, which is down more than 35 percent from last year's levels. But commercial and industrial construction are also now being hit by the tight money conditions and obstructive government regulation.

Public Service of New Hampshire reported in late March that continuing financial troubles were forcing it to begin laying off half of the 4,700 workers who are building the Seabrook nuclear facility. Public Service president William Tallman blamed high interest rates and "the unsettled state of the capital markets" as the chief factors in the utility's decision to reduce Seabrook's workforce. By effecting the layoffs, the utility can avoid borrowing the $77 million it needs for construction this year.