Business Briefs

New Economy

Info-Tech Sector Lost Half-Million Jobs in 2002

According to a report by the American Electronics Association (AEA) made public on Nov. 19, the information technology sector of the American economy lost 540,000 jobs during 2002. Its employment dropped 8% to 6.0 million in 2002, from 6.5 million workers in 2001. In addition, the AEA warned that more than 200,000 jobs will be lost during 2003 in electronics manufacturing, communications services, software, and engineering and tech services. All but three states lost IT jobs in 2002, led by California and Texas.

The largest decrease in jobs was in electronics manufacturing, which fell by 233,000 jobs (or 13%), more than half of all tech jobs lost between 2001 and 2002. This reflected the general, ongoing breakdown of U.S. industry and the industrial labor force.

In its report, the AEA denounced budget-cutting in education and in research and development. AEA's president and CEO William Archey lamented the "decline in basic research, particularly in technology, by the Federal government. We worry that we have eaten the seed corn of Federal research of 20 and 30 years ago; that is not being replenished."

Electricity

Declining Power Prices Are Closing Plants

Megawatt-hour prices falling from their hyperinflated, Enron-ized 2000-02 levels are causing deregulated American power companies' plants that are not making a profit, to be shut down. Just as an unseasonal series of hail storms in California and wind storms in the Midwest and Atlantic Coast left more than 1 million people without power in early November, unregulated independent power producers were shutting down "unprofitable" generating plants. Due to "low wholesale prices," older power plants are "too expensive" to run, compared with newer gas-burning plants. Producers also complain that there is excess capacity.

Examples: American Electric Power has mothballed nine plants, and expects to close another one this month. Houston-based CenterPoint Energy's subsidiary Texas Genco Holdings will mothball almost 3,000 megawatts of gas-fired plants, due to low wholesale prices. International Power PLC, located in London, is considering mothballing some of its seven U.S. power plants, in Massachusetts, Texas, and Georgia, which generate 4,700 megawatts of power.

Deregulation has taken the responsibility for ensuring reserve margins for power out of the hands of state regulators, and left such decisions to "the market."

Maastricht Treaty

Showdown at Meeting of EU Finance Ministers

A showdown loomed at the Nov. 25 meeting of European Union finance ministers, after German Finance Minister Hans Eichel, backed by Economics Minister Wolfgang Clement, repudiated the latest request by EU Finance Commissioner Pedro Solbes for another deep Federal budget cut in Germany. Solbes had demanded in Brussels, on Nov. 18, a further budget cut of 4 billion euros, in FY 2004, under Maastricht Stability Pact rules, and had threatened Maastricht sanctions against Germany otherwise. Germany's resistance is backed by France, Belgium, Luxembourg, and maybe also Italy. Former European Central Bank Governor Wim Duisenberg warned the deadlock could "make the Stability Pact fail." Numerous European dailies echoed Germany's *Die Welt*, Nov. 19: "The Stability Pact is dead, even if everyone is insisting that it is still alive."

Infrastructure

S. Africa Approves Massive Public Works

In an address to the National Council of Provinces Nov. 12, South African President Thabo Mbeki announced that his cabinet had approved a business plan for the promised public works program that is to create 1 million jobs. He said the plan would be implemented in phases.

Mbeki said the program "will draw significant numbers of the unemployed into productive employment, so that workers gain skills while they are gainfully employed and increase their capacity to earn an income once they leave the program."

Workers will "upgrade rural and municipal roads, municipal pipelines, storm water drains and paving, fencing of roads, community water supply and sanitation, the maintenance of government buildings, housing, schools and clinics, rail and port infrastructure and electrification infrastructure," according to *Business Day* Nov. 12.

The government first announced the program at the Growth and Development Summit in Johannesburg on June 7, responding to the pressure of the Congress of South African Trade Unions.

Derivatives

BIS Reports a $41 Trillion Jump

The Basel-based Bank for International Settlements reported on Nov. 12 that outstanding financial derivatives contracts, worldwide, jumped by $41 trillion, or one-third, in the 12-month period through June 30, hitting a level of $170 trillion officially. The huge rise was "driven strongly" by increased use of derivatives by financial institutions with mortgage holdings (i.e., the giant U.S. mortgage companies known as Fannie Mae and Freddie Mac).

The notional value of the global over-the-counter (OTC) derivatives market surged from $127.5 trillion at the end of June 2002, to $169.7 trillion at the end of June, rising in all categories except gold. In particular, there was "vigorous growth" in interest-rate swap contracts, the largest single group of derivatives, the BIS said. Foreign exchange derivatives, "an area which had not seen double-digit growth since the BIS began collecting these statistics," shot up by 20% in the first half of 2003. Precious metals derivatives, a "normally quiet" category, jumped by 31% in notional value in the first six months of 2003.