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# Business Briefs

## Job Loss

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### U.S. Employers Slash Jobs; Lay-Offs Rise

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Employers cut 795,612 jobs in the United States, in 8,114 mass lay-offs, from January-June. In June 2004, employers initiated 1,379 "mass lay-off" actions, resulting in 134,588 new claims for unemployment benefits during the month, according to the U.S. Bureau of Labor Statistics. Each mass lay-off is defined as 50 or more jobs cut from a single establishment within 30 days.

Manufacturing suffered 16% of all mass lay-off actions, and 20% of the initial jobless claims filed in June. Elementary and secondary schools accounted for 19% of all new unemployment claims.

## Debt

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### The Asset Economy Is A House of Cards

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So stated Stephen Roach, chief economist of Morgan Stanley, in a London *Financial Times* editorial July 20. Roach notes that, based on comparisons to income growth in recent decades, a shortfall in real personal incomes in the United States of about \$260 billion has been built up during the last three years. This trend has moved in parallel with the fundamental transition from an "income-driven" to an "asset-driven" U.S. economy. First, there was the "wealth effect" of the stock market bubble, which made it possible "to monetize asset inflation and convert it into consumer purchasing power." After the stock bubble burst, "frothy property markets" had to replace it. But, there is a problem: "The property wealth effect is a far more debt-intensive phenomenon than the equity wealth effect. This shows up in the American consumer's recent debt binge. Household sector debt was up, to 85% of GDP last year, from 70% in 1995." In spite of ultra-low interest rates, "debt service burdens remain near the upper end of historical experience." All of this has led to the "ultimate moral hazard: overly indebted consumers and overly exposed fi-

nancial institutions, both of which are vulnerable to an overdue normalization of monetary policy." With interest rates going back to normal levels and "no guarantee of performance" for the present asset bubbles, the "asset economy" is now heading for "its toughest test."

Roach wrote a separate analysis in the July 22 *New York Times* of the proclaimed "job creation recovery" in the United States in the first half of the year. He showed that in January-May 2004 job creation, low-wage economic sectors accounted for 45% of all the jobs, more than twice those sectors' representation in the economy as a whole; and that in the second quarter of 2004, over 90% of all the new jobs created were part-time jobs!

## Railroads

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### Union Pacific Breakdown Crippling America

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The Union Pacific Railroad system is experiencing breakdowns so serious that goods arrive weeks late, wrecking the operating systems of hundreds of American companies, according to the *Wall Street Journal* on July 22. Created by Abraham Lincoln and Henry Carey as the leading part of the trans-continental railroad project, which began operating in 1869, the Harriman financier family took control of it in the 1890s.

Following the Jimmy Carter-directed deregulation of American railroads in 1980, the Union Pacific went on a predatory takeover spree of other rail lines, which culminated with its 1997 take-over of the Southern Pacific. Today, the banker-run Union Pacific controls one-third of all U.S. rail freight volume. However, it spent the minimum on rail track in heavily trafficked corridors and cut its work crews and staffing to the bone. Now, there is breakdown:

- The Houston-based Lyondell Chemical Company reports that it now takes seven days, instead of the usual two, to move its goods around Houston. The company reports that it has lost \$1 million due to this, and last Spring it cut some production lines.

- The Tempe, Arizona-based Miller Wholesale Lumber Co. reports that a series

of orders on the Union Pacific, which should have taken ten days, have taken about a month to deliver. Union Pacific even tried shipping the lumber by truck, because it couldn't get the lumber there by rail. Glenn Miller, who owns the company, and who has lost \$200,000, said, "This is a nightmare."

- Recently, in Los Angeles, the Union Pacific had no locomotives to move 100 railcar-long trains, containing imported electronics, cars, and other cargo. So, the company shunted the trains onto a branch line next to a high-school football stadium, where they sat for days.

- Overall, the average speed of trains run by the Union Pacific is down to 21 miles per hour.

- For this year's grain harvest, there are already predictions that the Union Pacific, with its inability to handle its current load, will cause a worse crisis than in 1997, when grain sat piled up for months all across the American farm belt because the Union Pacific collapsed.

## Housing

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### Housing Bubble Out of Control in L.A. County

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The median price for buying a home in Los Angeles County soared to \$414,000 in June, according to the *Los Angeles Times* July 13. It was the 12th consecutive month that the price rose at least 20% year over year. The price for a home in June 2004 was 32.3% higher than in June 2003.

While the *Times* reports that this "steep run-up in prices, over the last two years in particular, has prompted concern that the region's housing market, a major engine of the economy, may be caught up in a speculative bubble," the article does not investigate the effects of this exploding housing inflation on L.A. County's growing number of poor and unemployed, who are increasingly unable to afford housing in southern California.

The Commerce Department reported that housing starts tumbled 8.5% in June, to the lowest level in 16 months, amid rising interest rates. Permits for new housing projects fell by 8.2%—the largest monthly drop in more than ten years.