

What Lies Ahead: Permanent Job Losses, Poverty in America, Financial and Political Instability

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On July 6, 2020 I posted my extended view and analysis why the 3rd quarter US GDP would falter-and lead to a W-shape recovery, as it typical of all Great Recessions. The current recession's scenario was compared with 1929-30 and 2008-09, and 8 reasons were given why the US current economic rebound (not recovery) would falter. In this follow-on post a somewhat longer term scenario is added to the prior shorter, 3rd quarter view. It's an addendum and sequel to the prior post, focusing on the more permanent impacts on the economy that will continue well into 2021 and beyond. Here's the addendum piece, "What Lies Ahead"

The US economy at mid-year 2020 is at a critical juncture. What happens in the next three months will likely determine whether the current Great Recession 2.0 continues to follow a W-shape trajectory—or drifts over an economic precipice into an economic depression. With prompt and sufficient fiscal stimulus targeting US households, minimal political instability before the November 2020 elections, and no financial instability event, it may be contained. No worse than a prolonged W-shape recovery will occur. But should the fiscal stimulus be minimal (and poorly composed), should political instability grow significantly worse, and a major financial instability event erupt in the US (or globally), then it is highly likely a descent to a bona fide economic depression will occur.

The prognosis for a swift economic recovery is not all that positive. Multiple forces are at work that strongly suggest the early summer economic 'rebound' will prove temporary and that a further decline in jobs, consumption, investment, and the economy is on the horizon.

A Second Wave of Permanent Job Losses

Through mid-June to mid-July, the COVID-19 infection rate, hospitalization rate, and soon the death rate, have all begun to escalate once again. Daily infections consistently now exceed 60,000 cases—i.e. more than twice that of the earlier worst month of April 2020. Consequently, states are beginning to order a return to more sheltering in place and shutdowns of business, especially retail, travel, and entertainment services. The direction of events cannot but hamper any initial rebound of the economy, let alone generate a sustained economic recovery.

Exacerbating conditions, a second wave of job layoffs is clearly now emerging—and not just due to economic shutdowns related to the resurging virus.

Reopening of the US economy in June resulted in 4.8 million jobs restored for that month,

according to the US Labor Department. That number included, however, no fewer than 3 million service jobs in restaurants, hospitality, and retail establishments. These are the occupations that are now being impacted again with layoffs, as States retrench once more due to the virus resurgence underway. But there's a new development as well: A second jobless wave is now emerging in addition to the renewed layoffs due to shutdowns not only of the resumed service and retail occupations, but reflecting longer term and even permanent job layoffs across various industries.

Household consumption patterns have changed fundamentally and permanently in a number of ways due to both the virus effect and the depth of the current recession. Many consumers will not be returning soon to travel, to shopping at malls, to restaurant services, to mass entertainment or to sport events at the levels they had, pre-virus.

In response, large corporations in these sectors have begun to announce job layoffs by the thousands. Two large US airlines—United and American—have announced their intention to lay off 36,000 and 20,000, respectively, including flight attendants, ground crews, and even pilots. Boeing has announced a cut of 16,000, and Uber in just its latest announcement, a cut of 3,000. Big box retail companies like JCPenneys, Nieman Marcus, Lord & Taylor, and others are closing hundreds of stores with a similar impact on what were formerly thousands of permanent jobs. Oil & gas fracking companies like Cheasepeake and 200 other frackers now defaulting on their debt are laying off tens of thousands more. Trucking companies like YRC Worldwide, the Hertz car rental company, clothing & apparel sellers like Brooks Brothers, small-medium independent restaurant and hotel chains like Krystal, Craftworks—all are implementing, or announcing permanent layoffs by the thousands as well.

Reflecting this, since mid-June new unemployment benefit claims have continued to rise weekly at a rate of more than 2 million—with about 1.3 million receiving regular state unemployment benefits plus another 1 million independent contractors, gig workers, self-employed receiving the special federal government unemployment benefits. The latter group's numbers are rising rapidly since mid-June.

As of mid-July no fewer than 33 million are receiving unemployment benefits, with another 6 million having dropped out of the labor force altogether and no longer even being counted as unemployed. Unemployment therefore remains at what will likely be a chronically high number, at around 40 million—with about 25% of the US labor force unemployed—as renewed service-retail sector layoffs, plus new permanent layoffs, both loom on the horizon.

Added to the growing problem of renewed service layoffs and the 2nd wave of permanent layoffs in the private sector is the growing likelihood of significant layoffs in the public sector, as states and cities facing massive budget deficits are forced to lay off several millions of the roughly 22 million public sector workers in the US. This potential public employee layoff wave will accelerate and occur sooner, should Congress in summer 2020 fail to bail out the states and cities whose budgets have been severely impacted by the collapse of tax revenues while facing escalating costs of dealing with the health crisis. Estimates as of last May are that the states and cities will need \$969 billion in bailout funding this summer—roughly two-thirds for the states and the rest for cities and local governments.

The resurgence of layoffs from all these sources is a sure indicator that the economy's rebound—let alone recovery—is in trouble. Rising joblessness means less wage income for

households and therefore less consumption and, given that consumption is 70% of the economy, a slowing of the rebound and recovery. Problems in consumption in turn mean business investment suffers as well, further slowing the economy and recovery. Exacerbating the decline in personal income devoted to consumption due to unemployment is the evidence that even those fortunate enough to return to work after spring 2020's economic shutdown are doing so increasingly as part time employed—which means less wage income for consumption compared to the pre-COVID period before March 2020.

Overlaid on these negative prospects for employment, consumption, business investment is the intensification of economic crisis-related problems.

Rent Evictions, Child Care & Education Chaos

There is an imminent crisis in rents affecting tens of millions. At the peak in April, it is estimated that roughly one-third of the 110 million renters in the US economy had stopped making rent payments due to the COVID-related shutdowns of the economy. The CARES ACT, passed in March, provided forbearance on rental payments, although perhaps as many as 20 states failed to enforce it. That forbearance directive expires at the end of July, with as many as 23 million rent evictions projected in coming months. A major housing crisis is thus brewing, as well as the second wave of job layoffs.

A combined education-child care crisis is about to occur almost simultaneously. The K-12 public education system is approaching chaos, as school districts plan to introduce remote learning on a major scale in order to deal with the renewed COVID-19 infection and hospitalization wave. The heart of the crisis is that tens of millions of US working class families dependent on two paychecks to survive economically cannot afford to accommodate school district practices for remote learning—especially for young children in the K-6 grade levels. Even if such families could afford to pay for expensive child care, the current US child care system is far from being able to accommodate them. Many minority and working class households, moreover, lack the computers and networking equipment, or even the requisite skills to set it up, to enable their children participate in remote learning.

Several forces are driving the shift to remote learning: school district fears of liability actions by parents if children become ill, the significant cost of ensuring disinfected classrooms, the lack of classroom space to allow distance learning on site, and the growing concern of teachers regarding their own exposure to infection. At least 1.5 million public school teachers are over age 50 and have health conditions that put them at greater risk of serious infection, should they attend closed-in classroom environments.

The child care plus K-12 education crisis will likely erupt within months on a major scale. Chaos in education is around the corner.

This fall, higher education—colleges and universities—will also experience chaos of their own kind. While distance learning will not be as serious an implementation problem as it will in K-12 levels, costs from the pandemic will force many smaller, private colleges into bankruptcy, consolidation or closure. Public colleges' funding problems will require them to sharply reduce available services. Remote education will create a two-tier system of higher education—educational services delivered remotely and those of a more traditional nature on campus; or a hybrid of both.

However, demand for higher education services will likely decline sharply in the short term,

during which higher education will experience a devastating decrease in tuition and other sources of college revenues. Some estimates show a third of freshmen plan to take what's called a 'gap year': i.e. accept entrance but not attend for a year. That's a massive revenue loss. Some estimates foresee a 15%-30% decline in new student attendance, with another 5%-10% decline in transfer students, and a similar decline of 5%-10% in continuing students. In addition, the attendance by international students, the 'cash cow' for most colleges, will also decline sharply due to the Trump administration's new rules.

Still other developments will sharply reduce college revenues. Students forced to attend classes via remote learning will demand lower tuition. One can expect a wave of legal suits as students seek to 'claw back' full tuition expenses. Other secondary sources of college revenues—from fees, on-campus room and board, endowment earnings and gifts, and sports revenues—also spell a looming revenue crunch.

A wave of college consolidations and closures is inevitable. And with student loan debt at \$1.6 trillion it is unlikely that the federal government will introduce new aid through that channel. Nor will States increase their subsidization of public colleges, given the severe state budget deficits on the horizon.

In short, the economic crisis is about to assume more socio-economic dimensions and character: rent, child-care, education chaos will soon overlay the continuing unemployment problem and worsening recession. Social and political discontent, frustration, and anxiety are almost certainly to rise in turn in coming months as a consequence.

Global Recession & Sovereign Debt Defaults

The weakness of the global economy is yet another factor likely to ensure the US economy's W-shape trajectory. As noted previously, with 90% of other countries in recession, global demand for US exports will remain weak or declining. In addition, global supply chains have also been severely disrupted by the health crisis, or even broken, and will not be restored soon. The global economy is suffering from deep problems of both demand and supply. This too is a unique historical event. Never before have demand and supply problems occurred congruently. Together, they increase the potential for a global depression.

Commodity producing economies have been hard hit, especially oil and metal producing countries. Many were in a recession well before the COVID health crisis. Global trade in general had stagnated, registering little to no growth in 2019, for the first time since modern records were kept. Many countries had over-extended their borrowing, expanding their sovereign debt loads during the last decade. This was money capital borrowed largely from western banks and capital markets (i.e. shadow banks).

Now, with global trade flat and declining, and prices for their export goods deflating in price as well, these debt-extended countries cannot earn sufficient income from exports in order to pay the principal and interest on their debt. As a result, several countries in the worst shape may soon default on their debt payment to western banks, hedge funds, private equity firms, and so on. Debt defaults potentially mean the same western financial institutions that loaned the funds now experience financial crises in turn. In such a manner, financial instability events abroad are often transmitted to the domestic US economy through its banking system. It would not be the first time, moreover, that foreign bank crashes have spilled over the US and rest of the world economy and in the process significantly exacerbated a recession already underway.

Theoretically, countries experiencing severe sovereign debt crises could borrow from the International Monetary Fund. However, the IMF has nowhere near the funds to accommodate multiple large sovereign defaults that occur simultaneously. Nor is it likely that the US and Europe will increase the IMF's funding to enable it to do so. Once it becomes clear the IMF cannot handle a crisis of such potential dimensions, the global capitalist economy will slip even further toward global depression.

The further deterioration now already occurring in economic relations between the US and China may also potentially impact the Great Recession in the US, and ensure its continued W-Shape recovery. Trump's trade pact with China signed December 2019 has proven thus far a colossal failure. The president declared at the deal's signing it would mean \$150 billion in China purchases of US goods in 2020—especially farm products, oil & gas, and manufactured goods. At mid-year, China has purchased only \$5 billion of the agreed \$40 billion in farm products and only \$14 billion of \$85 billion in US manufactured goods. Trump's promised \$150 billion was never agreed to by China, even before the Covid pandemic struck the US economy in 2020. China never agreed to a dollar value of purchases of US exports, but announced it would purchase based on conditions in 2020-21. Trump's \$150 billion was typical Trump misrepresentation of a deal never made. At best China would purchase perhaps \$40 billion in agricultural goods—i.e. about the level of its purchases before Trump launched a trade war with it in March 2018. Failure to deliver his exaggerated public promise in 2020 Trump turned on China and embraced further his anti-China hard line advisors on trade and other matters. The former 'trade war' with China will likely transform now, in the wake of Covid, into a broader economic war with China. Furthermore, the deterioration of relations with China, set in motion by the current recession and the collapse of global trade, shows signs of spilling over to other political and even military affairs.

Permanent Industry Transformations

The COVID health crisis is accelerating the transformation of entire industries and sectors of the economy, US and global. As noted above, household consumption patterns are already changing fundamentally and will continue as changed even after the health crisis passes. Entire industries will shrink as a consequence. Company consolidations and downsizing are inevitable in airlines, cruise lines, and even public land transport. So too will companies fail, consolidate and restructure in the hospitality, leisure and hotel industries, in mall-based retail establishments, inside entertainment (movies, casinos, etc.) to name but the obvious. Sports and public entertainment companies are struggling to redefine their business models and how they bring their 'product' to the public for consumption. Even education—public and private—is undergoing a radical shift. Not so obvious is similar fundamental change in oil & energy industries, and later as well in manufacturing as supply chains are slowly returned to the US economy.

Not only will these changes significantly (and often negatively) impact employment levels and wage incomes, but business practices as well. Already businesses are instituting new cost cutting practices under the pressure of the health crisis and shutdowns. These practices will become permanent. And since much of the practices and cost cutting will focus on workers' pay and benefits, more of what economists call 'long term structural unemployment' will result—in addition to the current 'cyclical unemployment' occurring due to the current recession.

An historic consequence of the current Great Recession precipitated by the COVID-19 health

crisis is the accelerating introduction underway of what some call the Artificial Intelligence revolution. AI is about cost-cutting. It's about new data accumulation, data processing and statistical evaluation, to allow software machines to make decisions previously made by human beings. AI will eliminate millions of low level decision-making by workers in both services and manufacturing. A 2017 report by the business consulting firm, McKinsey, predicted no less than 30% of all workers' occupations will be severely impacted by AI by the end of the present decade. 30% of jobs will either disappear or have their hours reduced significantly. That means less wage income and less consumption still.

The important linkage to the current Great Recession 2.0 is that the introduction of AI by businesses will now speed up. What McKinsey formerly predicted for the late 2020s decade will now take place by mid-decade. The economic consequences for the next generation of US workers, the late Millennials and the GenZers will be serious, to say the least. After decades of the permeation of low pay, low benefits 'contingent' part time and temp jobs since the 1990s, after the impact of the 2008-09 crash and aftermath on employment, after the acceleration of 'gig' jobs with the Uberization of the capitalist economy since 2010, and after the even more serious negative economic effects of the current Great Recession 2.0, the tens of millions of US workers entering the labor force today and in coming years will have to face the transformation of another 30% of all occupations. The future does not portend very well for the 70 million millennials and GenZers. US neoliberal economic policies and the Great Recession 2.0 is accelerating the long term structural unemployment crisis of both the US and the global capitalist economy.

Return of Fiscal Austerity

The US federal budget deficit under Trump averaged more than a trillion dollars annually during his first three years in office. The federal national debt at the end of 2019 was \$22.8 trillion. As of July 2020 it has risen to \$26.5 trillion—and rising. Earlier projections in March were that it would increase by \$3.7 trillion in 2020. That has already been exceeded. So, too, will projections for 2021, or another \$2.1 trillion. The deficit and debt will likely rise to more than \$4 trillion in this fiscal year and another \$3 trillion in 2021. That means the current national debt within 18 months will reach \$30 trillion. And that's not counting the debt level rise for state and local governments, already \$3 trillion; nor the debt carried on the US central bank, the Federal Reserve, balance sheet which is scheduled to rise another \$3 trillion at minimum.

The point of presenting these statistics is that the US elites, sooner or later, will introduce a major austerity program. It will likely come later in 2021. And it will make little difference whether the administration that time is headed by Democrats or Republicans. It will come and it will target social security, Medicare, Medicaid, Obamacare, education, housing, transport and other social programs.

A The first Great Recession provides a historical precedent. Obama's recovery program in January 2009 provided for \$787 billion in stimulus. But the joint Republican-Democrat austerity agreement introduced in August 2011 took back nearly twice that stimulus, or \$1.5 trillion, in 2011-13. That austerity contributed significantly to the W-shape recovery from the 2008-09 economic crash and contraction—i.e. the first Great Recession. With the current deficit surge of \$6 trillion to date, likely to increase to \$9 to \$10 trillion, the US economic elites will no doubt pursue a new austerity regime at some point within the next few years. That austerity will, like its predecessor, ensure at best a W-shape recovery typical of Great Recessions. At worst, it may prove the final event that pushes the US economy into another

Great Depression.

Financial Instability

Those who deny that the US and global economy have already entered a second Great Recession offer the argument that the 2008-09 crash and recession was caused by the banking and financial crash of 2008-09, and therefore, since there has not yet been a financial crash, the economy at present is not in another Great Recession. But they are wrong.

Great Recessions are always associated with a financial crisis, but that crisis need not precede the deep contraction of the real, non-financial economy. The COVID-19 pandemic has played the role of a financial crash in driving the real economy into a contraction that is both quantitatively and qualitatively worse than a 'normal' recession. Furthermore, a subsequent banking system-financial crash is not impossible in the coming months, although not yet likely in 2020.

The preconditions for a financial crisis are in development. It won't be precipitated by a residential mortgage crisis, as in 2007-08. But there are several potential candidates for precipitating a financial crash once again. Here are just a few:

- The commercial property sector in the US is in deep trouble. Commercial property includes malls, office buildings, hotels, resorts, factories, and multiple tenant apartment complexes. Many incurred deep debt obligations as they expanded after 2010 or just kept operating by accruing more high cost debt when they were unprofitable. Today they are unable to continue servicing (i.e. paying principal and interest) on their excessive debt load. Many have begun the process of default and chapter 11 bankruptcy reorganization. Banks and investors hold much of the commercial property debt that will never be repaid. Excess derivatives (credit default swaps) have been written on the debt. A debt crisis and wave of defaults and bankruptcies in 2020-21 in the commercial property sector could easily precipitate a subprime mortgage-like debt crisis as occurred in 2008-09. And derivatives obligations could transmit the crisis throughout the banking system—as it did in 2009. Regional and small community banks in the US are particularly vulnerable.
- The oil and gas fracking industry, where junk bond and leverage loan debt had already risen to unstable levels by the advent of the COVID crisis. The collapse of world oil and gas prices—which began before the COVID-19 impact and continues—will render drillers and others unable to generate the income with which to service their debt. Already more than 200 companies in this sector are in default and bankruptcy proceedings. Again, regional banks that financed much of the expansion of fracking in Texas, the Dakotas, and Pennsylvania will be impacted severely by the defaults. Their financial instability could easily spread to other sectors of banking and finance in the US.
- State and local governments, should Congress fail to appropriate sufficient bailout funding in its next round of fiscal spending in July 2020. State and local governments are capable of default and bankruptcy—unlike the Federal government, which is not. The US has a long history of state defaults associated with the onset of Great Depressions. This time around, state financial instability will quickly spill over to public pension funds, and from public to private pensions, and from there to the municipal bond markets with which state and

local governments raise revenue by borrowing to fund deficits.

- Global sovereign debt markets, as previously noted. Defaults on massive debt accumulated since 2010 by many countries could result in serious contagion effects on the private banking systems of the advanced economies, including the US, Europe, and Japan. Should the IMF fail to contain a chain of sovereign debt crises that could follow in the wake of the current Great Recession, a chain reaction of defaults across emerging market economies in particular has the potential to precipitate a global financial crisis.

History shows that financial crises often originate from unsuspected corners of the economy. The above candidates are the 'known unknowns'. There may also lurk in the bowels of the capitalist global financial system still more 'unknown unknowns'—i.e. what are sometimes called 'black swan' events.

Political Instability

The US and other countries are on new ground in terms of potential political instability. The piecemeal curtailment of democratic and civil rights has been progressing at least since the mid- 1990s. In the 21st century it has been accelerating, both in the US and across the globe. Recent years have seen a growing public confrontation between contending wings of the capitalist elites and their political operatives. Institutions of even limited capitalist democracy are under attack and atrophying. And now political instability is growing as well at both the institutional and grass roots levels. One should not underestimate the potential for even more intense political confrontation among elites, or between segments of the US population itself, from having a negative impact on the current economic crisis and 2nd Great Recession. A Trump 'October Surprise' or a November 2020 constitutional crisis are no longer beyond the realm of the possible, but even likely.

The expectations of both households and business may serve as transmission mechanisms propagating political instability into more economic and financial instability. Political instability has the effect of freezing up business investment and therefore employment recovery. It has the further effect of causing households to hoard what income they have and raise the savings rate—at the expense of consumption. It also leads to government inaction on the policy necessary to provide stimulus for recovery.

On a global front, political instability may even assume a global dimension. History in general, and US history in particular, reveals that US presidents seek to divert public attention from domestic economic and social problems by provoking foreign wars. Targets for US attack, in the short term, are Iran and Venezuela—especially the latter, which is more susceptible to US military action. But tomorrow, in 2021 and after, it could well be Russia (Ukraine or Baltics US provocations), North Korea (a US attack on its nuclear facilities) or China (a US naval confrontation in the South China sea)—irrespective of the unlikely success of such ventures.

Like another financial-banking crash, a major political instability event—domestic or foreign—could easily send an already weak US economy struggling in the midst of a Great Recession into the abyss of the first Great Depression of the 21st century.

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