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Job Cuts May Help Business in Short Run _ But What About Long Term?
BY: ROBERT NAYLOR JR.
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Corporate America's new attitude that leaner is better is prompting profitable businesses to send tens of thousands of workers to the unemployment lines.

But whether this trend is good or bad for business in the long run is open to debate.

Economists say investors are demanding that once-immense conglomerates shed sideline businesses, become more focused and increase productivity. Some fear the eventual result may be a glut of workers.

''All corporations feel some pressure to do something, to become more efficient in production or delivery of service or whatever,'' said Campbell Harvey, an associate professor of finance at Duke University's Fuqua School of Business.
''From the corporation's standpoint, it's not the profit picture for the next year or this year that counts,'' he said. ''What they're trying to do is maximize the value of the company for shareholders and bond holders, and they're trying to create the best possible competitive structure for the future.''

Just last week, Xerox, the giant copy machine maker, announced it was cutting 10,000 jobs, a tenth of its workforce, hoping to increase productivity. RJR Nabisco said it was eliminating 5,000 positions.

Similar announcements this year have come from such companies as Kodak and AT&T.

Economist Eileen Applebaum of the Economic Policy Institute, a labor-funded Washington think tank, said Wall Street is off the mark in insisting that companies trim their payrolls.

''We have a financial community that only sees to the end of its nose,'' she said. ''If the purpose of the economy is to provide jobs and wages to that part of the population that wishes to work, then we have an interest in having companies that are expanding, that are raising profits by improving their competitiveness.''

If the trend toward downsizing is not reversed, she said, ''the level of employment we will be able to sustain in this economy will be too small relative to the size of the population.''

John Silvia, a vice president and economist with Kemper Financial Services in Chicago, said tough global competition is forcing companies to focus on those lines of business where they're among the biggest and best.

''Competition is so difficult on a global scale that unless you are one of the two or three top suppliers in any particular area you're out of business,'' he said.

''Right now, Wall Street wants companies that are focused,'' Silvia said. ''What that means is that you jettison all the little businesses that are sometimes profitable, but don't meet your required return on capital.''

Silvia said while many major corporations are trimming their payrolls, smaller companies are picking up the slack.
''You always get the announcement of some big company cutting back 1,000 or 10,000 workers,'' he said. ''The problem is you don't get all the announcements of 500 companies all adding 20 workers.''

Applebaum said investors often are too impatient with companies trying to increase productivity through cooperative efforts with employees.

''You use your earnings to invest in your workers and you reduce your dividend payout. Then your stock price plummets and the stock analysts say, 'Sell. This is not a good company because the dividend rate went down,''' she said.

Economists say layoffs, handled poorly, can backfire on companies because they can destroy the morale of the remaining workers and wreck productivity.

''It's better to do one layoff and make it clear that there's nothing else in the works immediately, and that combined with this layoff is a series of programs to increase the productivity of the remaining workers and to get their input,'' Harvey said.
Still, he said, companies must consider whether they can better compete by trimming down.

''The trend toward just being big for big's sake is gone,'' he said. ''I think the future is toward more specialty.''
SECTION HEADING: Finance;

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