Will Privatization Derail Pension Crisis Action?

by Paul Gallagher

A June 24 vote by the U.S. House of Representatives surprised the GOP leadership, and showed that the bipartisan membership of the Congress is becoming serious about tackling the worsening collapse of pensions and retiree health insurance, which is hitting millions of older and retired workers. Thirty-one Republicans joined primarily Democratic sponsors in the House, to pass, 219-185, a measure to roll back the bankrupt United Airlines' default on its pension plans. The amendment, which has sponsors and prospects of passage in the Senate as well, would block, for six months, the dumping of any large pension plans onto the troubled Federal Pension Benefit Guaranty Corporation (PBGC). But it is the United Airlines case which shocked Congress into action, through strong efforts by Rep. George Miller (D-Calif.), the ranking Democrat of the House Education and Workforce Committee. United, on May 11, had moved to dump pension plans which had operated successfully for more than 60 years; and its default immediately raised the specter of more airline—and then, much larger, auto—pension defaults coming. Miller sounded that warning, and in early June held an "electronic hearing" on United Airlines, because the House Committee chairman, Rep. John Boehner (R-Ohio), refused to hold one in House chambers.

Congress now recognizes the urgency of action to stop the collapse of pensions. But the chance of constructive intervention will be ruined, if the GOP leadership continues to play with the idea of linking such action to President Bush's notorious schemes to privatize and loot Social Security. That will make any pension protection legislation instantly unworkable. This warning was raised at Ways and Means subcommittee hearings on June 28 by Rep. Lloyd Doggett (D-Tex.).

That the U.S. pensions crisis can potentially devastate the retirement of millions of veteran skilled workers, was graphically shown by the testimony on the United case to Miller's "e-hearing." That the crisis is rapidly worsening, requiring urgent and unpostponeable action by Congress, was shown by a new report released on June 23, the day before the surprising House vote. A study by Watson Wyatt Worldwide consultants showed that the abandonment of pension plans by the largest companies in the United States, is accelerating.

Of America's 1,000 largest companies, about 700 maintained defined-benefit pension plans going into 2003. These large firms' plans included the majority of the 43 mil-

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The failure of the Pension Benefit Guaranty Corp. and the Bush Administration to live up to the law which mandates that the PBGC seek ways to strengthen the defined-benefit system, will wipe out or greatly reduce pensions for United employees. Here, in March 2001, members of the Aircraft Mechanics Fraternal Association picketed in front of the White House.

lion American workers who still had single-employer or multi-employer defined-benefit pensions. But in 2003, the study found, at 45 of these companies, the plans were terminated (defaulted to the PBGC or another insurance company) or "frozen" (allowing no more accruals for workers enrolled, nor any further enrollment of new workers hired). In 2004, the study reported, 71 more companies, or 11% of the total, terminated or froze their plans. In sum, nearly a fifth of the largest pension plans in the economy went down in two years.

The major reasons were: 1) the fall of rates of return on the plans' assets, due to the stock market's plunge since 2000 and Federal Reserve Chairman Alan Greenspan's low interest rate policies; and 2) years of corporations not making new contributions to the plans, justifying this by using "Enron accounting" to fluff up and "smooth" assumed rates of return on the plans' assets. These practices spread during the IT stock-market bubbles of the later 1990s. The example of United's pension plan in 2000 was cited: Its assets earned $21 million that year; but, by Enron accounting, they were booked as earning $740 million! This turned a real loss for the whole company in 2000, into a reported profit.

The U.S. pensions crisis is thus heading toward the scale of Britain's pension emergency, where 75% of *all* remaining defined-benefit plans are frozen, or "closed."

The figures often given for "underfunding" of major corporate pension plans, reflect asset and benefit estimations for decades into the future, and so vary widely even for the same company—a point of much contention in the debate about how to stanch the crisis. But what is unmistakeable, is the dire overall direction. All U.S. corporations' guaranteed pension plans combined, which were $19 billion in surplus ("overfunded") in 1999, within five years were $480 billion underfunded by the end of 2004, according to the same PBGC methods of estimation.

The PBGC was never intended or equipped to absorb the outsourcing and drastic shrinkage of all of American industry. For most of the last three decades' "globalization" and de-industrialization of the U.S. economy, real wages of American workers have stagnated or fallen; while increased pension and health benefits—easier to promise, because they're to be paid decades in the future—have appeared to compensate. The assets of corporate pension plans appeared to grow rapidly in the 1990s IT and "Y2K" stock bubbles, then crashed from 2000-01 onwards. Despite the Bush Administration's "Snow job" about a 2003-04 recovery, the pension underfunding crisis continued to grow worse, indicating the real state of affairs in the economy.

'Globalization' the Problem

Real wages are continuing to fall, at their fastest rate since 1991. Speaking after the June 24 House action, Miller said, "This vote sends a strong message to United Airlines, and any other employers looking to follow United's lead:. . . Dumping pension plans onto the Federal government is not a way to cut your labor costs." He noted the findings of his "e-hearing": Dumping the plans onto the PBGC would *cut 120,000 United workers' retirement pensions by 25-50%*—probably costing them their health insurance as well. These same employees had already taken huge cuts in their wages in recent years because of the carrier's bankruptcy. Including some of the most skilled and longest-standing employees in the American workforce, many of these airline workers will now have only Social Security benefits standing between them and an old age in poverty. Miller said, "The vote shows a growing frustration in both parties with the failure of Republican congressional leaders and the Bush Administration . . . to address the private pension crisis." Republican House Speaker Dennis Hastert, for example, has United's headquarters in his Illinois district, but has never done or said anything to ameliorate the savaging of its employees' living standards.

It will take several months for Miller's amendment to be passed, signed by the President, and take effect. And it only states an intention of Congress to act in this crisis, not establishing what it can and must do.

The fundamental problem is globalized "free trade" (lowest-wage) economics, and the resulting deindustrialization of the United States. Many industrial pension plans in shrinking industries have as many or more retirees as active workers (compare to Social Security's 3.3 employed payers for each beneficiary). The collapse of the industrial pension plans can only actually be reversed by Congress' intervention into the physical economy, with an FDR-styled infrastructure and reindustrialization policy, causing new, younger workers to be employed at rising wages and skills in those sectors. Lyndon LaRouche has introduced this policy outlook into Congress' thinking. Other actions being discussed can only ameliorate the crisis. One example is the proposal at Miller's "e-hearing" that lower-cost, lower-wage companies without pension plans, which have entered economic sectors with a beneficial legacy of established pensions—this applies forcefully to the auto and airline industries—should make Congressionally regulated contributions to industry-wide pension plans. The model is the 1919 Railroad Act's Railroad Retirement Fund.

The misuse of bankruptcy statutes and courts to eliminate pension obligations can also be stopped by Congress. The current double standard of bankruptcy is extremely glaring: Congress just passed bankruptcy reform demanded by the Bush White House, which makes bankruptcy more difficult and mandates some level of continued debt payments even by bankrupt individuals; yet some of the largest U.S. corporations are using Chapter 11 bankruptcy filings to abandon their pension obligations entirely. Legislation to cut off this practice was introduced into the Canadian Parliament, by the Liberal government there, on June 4.

Bush Must Drop Privatization

The progress of Miller's actions is having an impact on the Pension Protection Act of 2005, H.R. 2830, of Education and Workforce Committee chairman Boehner, due to pass the Committee on June 29. Boehner dropped, like a hot potato, the George W. Bush Administration "pension reform" plan he was once supposed to introduce. That plan was exposed, to all, as an attempt to protect the government insurer—the PBGC—from its own growing deficits, shoring it up by methods which would *increase* the rate of abandonment of pension plans. Boehner's committee has acknowledged that this violates the PBGC's statutory purpose, also that of Congress now: "To encourage the continuation and maintenance of voluntary private pension plans for the benefit of their participants."

There has also been a discussion between Miller and Boehner on the crucial matter of allowing the public to see the reports corporations make on their pension plans' funding to the PBGC. Not even employees are allowed to see their employers' PBGC filings, and only a few Members of Congress have been granted access. Miller has insisted that these reports are, in many cases, dramatically different from the *public* reports on the same pension plans, filed with the U.S. Labor Department. Unless these drastic discrepancies are understood, and the "Enron accounting" of pension-plan assets they represent is rooted out, Congressional legislation may inadvertently *increase* the rate of pension collapse, Miller warned Boehner on June 17. And in the Senate as well, Finance Committee chairman Charles Grassley (R-Iowa) wants to make these so-called "4010" reports public.

But, there is a huge monkey-wrench threatening the Congress' work, which came out in hearings in the Ways and Means committee on June 28. That spanner is Social Security privatization. When Representative Doggett warned against it at that hearing, the witnesses present reacted by foreswearing any connection between the pension crisis aid they were urging, and George W. Bush's obsessive, losing drive for Social Security privatization. But Boehner has agreed to turn over his "Pension Protection Act" to be part of Ways and Means Chairman Bill Thomas' (R-Calif.) smorgasbord bill on "retirement." And Thomas may still try to include in *that* bill, the discredited Social Security privatization scheme. If so, it will derail Congress' urgent attempt to deal with the worsening pension crisis.