

When Unions Give In

The people who are still on the job are hardly immune to the crunch when a pension plan is dumped, of course. They probably hope to retire themselves some day and enjoy those nice guaranteed pensions. At old-line industries, such as autos and steel, working at the plant is often a family tradition, and current employees may have parents who have retired and face shrunken pensions.

But the terminations are far from the worst thing happening to these workers. In the midst of bankruptcy, “companies are doing so many other things that are unpleasant to employees at the same time, it’s hard to tease out the effect” of the pension loss, says Peter Cappelli, director of the Center for Human Resources at the Wharton School of the University of Pennsylvania. Employees may have their wages cut or be forced to take on more responsibility with no hike in pay. Some of the fringe benefits that made the workplace more pleasant are probably gone. Most important, they’re worried about losing their jobs in the next round of layoffs. Compared with unemployment, what’s so bad about a theoretical pension loss? It won’t pinch their current paychecks. Furthermore, if they look around at benefits elsewhere, they can see that fewer and fewer colleagues are getting guaranteed pensions even at companies that are not in bankruptcy. Throughout the United States, the traditional defined benefit plans are being replaced by less-generous defined contribution accounts (more on that trend in Chapter 3).

That is where the company usually draws a line—between those who are working now and those who are no longer working. If the company pays the full pensions it has promised to everyone as planned, management will say, it will go out of business entirely. If it can save money on the pensions, it will have enough to keep going. Even some unions have come to accept this trade-off. Losing the pensions but keeping most of the jobs is better than losing everything. And in the end, the employees may not have a choice. They lack the clout to stop the termination in bankruptcy court.

All they can do is negotiate the best terms possible. Take for example Unite Here, created in 2004 as the union of two unions, representing some 450,000 workers and 400,000 retirees in the textile, hotel, and restaurant industries. Its headquarters are in the heart of New York’s fashion district, in an airy, modern office done in bright bursts of primary red, white, and blue, with red pillars, slate-blue couches, blue walls, and white walls. In stark contrast, an antique Singer treadle sewing machine stands on display in the lobby.

Among the members of Unite Here are one thousand people at Cone Mills, a manufacturer of denim and home-furnishing fabrics in Greensboro, North Carolina, that started operating back in 1891. Pummeled by low-cost imports from Asia, Cone Mills filed for bankruptcy in September 2003. At that point, the pension plan had only about \$80 million in assets to cover some \$139 million that it had promised in benefits. “Very few players were interested” in acquiring the faltering company, recalls Bruce Raynor, Unite Here’s general president. After all, what smart entrepreneur would still be manufacturing textiles in the United States? “Ill-conceived global rules of trade continue to drive production to the lowest-cost countries with the least amount of rights and the lowest pay,” Raynor snaps. “If it’s simply left to pure economics, we drive production out of the First World into the Third World.” Raynor, of course, vehemently disagrees with the “pure economics” rationale for shifting production to low-cost countries, contending that it’s shortsighted. “The future is having some Western owners who believe in having a global platform that will protect some

measure of Western manufacturing, as opposed to [setting up shop only in] the cheapest places.” Cost is important, he argues, but how about “the technology, the service, fixing any problems?” He acknowledges, however, that not too many businesspeople share that view.

Wilbur Ross is one of the few who does, Raynor feels. After spending nearly a quarter century at Rothschild, running its bankruptcy-restructuring advisory practice and becoming one of Wall Street’s go-to experts in that specialty, Ross had taken the leap to start his own fund for distressed investing—just as the tech bubble burst in 2000. He acquired LTV, then Bethlehem; more important, he kept them running in his International Steel Group. In 2003, he made a bid for textile manufacturer Burlington Industries, which was not represented by Unite Here. Even before the Burlington deal had closed, Raynor heard that Ross might be interested in buying Cone’s assets at auction, hoping to create the same kind of conglomerate in textiles that he’d done in steel. “We were eager to bring in an owner who had respect for unions and a commitment to a global platform,” Raynor says. “There were other players we did not consider committed to the facility, committed to working with the unions. We were hoping to save the plants and the jobs and the wage rates.” The only other candidate Raynor will name is financier Carl Icahn, who indeed has a rougher reputation and who would later beat out Ross for control of another bankrupt textile company, WestPoint Stevens, in June 2005.

Ross paid \$46 million in cash to acquire the Cone assets, and he and Unite Here worked out a deal. According to Raynor, the new owner recalled about two hundred union workers who had been laid off, to bring the Cone workforce back up to one thousand. Raynor said Ross did that by shifting work from nonunion plants he owned elsewhere in the state. The union’s contracted pay levels were untouched. And the pension system was dumped.

Skeptics say that the reason unions often sign on to this sort of bargain with the devil is that unions generally represent active employees, not retirees. Their own members don’t feel the impact. Kaplan, the retired-pilots’ lawyer, is bitter about the Air Line Pilots Association’s acceptance of a termination at US Airways that gave current pilots a replacement defined contribution plan but cost retirees as much as half of their pensions. “They had to make a decision between active workers and retirees, and they decided not to represent retirees at all,” he argues.

Raynor, for his part, asserts that he would not agree to a Cone Mills–type deal in just any situation—not, for example, for his hotel, food service, or industrial cleaning members, which don’t face competition from low-cost imports. At Cone, he says, “that was a deal we made as a consequence of saving a thousand union textile jobs in North Carolina. I was not happy with [giving up the pension]. I would rather have given up nothing. But that was worth the trade.”