

CHAPTER 6

THE END OF RETIREMENT

Of all the statistics that show how the rules are changing for middle-class Americans, here is one of the most alarming: since 1985, corporations have killed 84,350 pension plans—each of which promised secure retirement benefits to dozens or hundreds or even thousands of men and women.

Corporations offer many explanations and excuses for why they are cutting down a vital safety net for Americans, but it all comes down to money. The money saved by not funding employee pensions now goes for executive salaries, dividends, or some pet project of a company's CEO. Congress went along and even compounded the betrayal by pretending that the change was in employees' best interest.

What this means is that fewer and fewer Americans will have enough money to take care of themselves in their later years. As with taxes and trade, Congress has been pivotal in granting favors to the most powerful corporations. Lawmakers have written pension rules that encourage businesses to underfund their retirement plans or switch to plans less favorable to employees. These rules deny workers the right to sue to enforce retirement promises. Lawmak-

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ers have also written bankruptcy regulations to allow corporations to scrap the health insurance coverage they promised to employees who retired early—including workers who were forced into early retirement. Congress has enacted legislation that adds to the cost of retirement. One by one, policies that once afforded at least the possibility of a secure retirement to many seniors have been undermined or destroyed, while at the same time Congress has allowed corporations to repudiate lifetime-benefit agreements.

Pensions were once an integral part of the American dream, a pledge by corporations to their employees: for your decades of work, you can count on retirement benefits. In return for lower earnings in the present, you were promised compensation in the future when you retired. Not everyone had a pension, but from the 1950s to the 1980s, the number of workers who did rise steadily—until 1985. Since then, more and more companies have walked away from pensions, reneging on their promise to their employees and leaving millions at risk.

Before today's workers reach retirement age, decisions by Congress favoring moneyed interests will drive millions of older Americans—most of them women—into poverty, push millions more to the brink, and turn the golden years into a time of need for everyone but the affluent.

For all of this you can thank the rule makers of Wall Street and Washington who have colluded to rewrite the rules on retirement in ways that will

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harm millions of middle-class Americans for decades. Here is what they have done:

- In addition to the 84,350 pension plans killed by corporations since 1985, companies have frozen thousands of other plans, meaning that new employees are barred from participating or benefit levels are frozen, or both. Freezing a pension plan is often the first step toward eliminating it.
- The congressionally touted replacements for pensions—401 (k) plans—have insufficient holdings to provide a serious retirement benefit. This even though millions will be depending on them.
- As companies have killed or curtailed pensions for employees, executive pensions have soared, largely because they are based on executives' compensation—which has ballooned in recent decades.
- At some companies the only employees who have pensions are the corporation's executives.
- The 401 (k) plans promoted by corporations and Congress that have replaced pensions as the main retirement plan for many employees are uninsured, and they are less secure and cost more to administer than traditional pensions, but they have provided a windfall of fees for Wall Street.

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- Workers' pensions are insured by the federal Pension Benefit Guaranty Corporation (PBGC), but the agency faces mounting deficits, raising the question of whether it will be able to fully honor all pensions that may be defaulted by private companies in the future.

The result of these changes is that America has devolved into a land of two separate and decidedly unequal retirement systems—one for the have-mores and another for the have-lesses, whose numbers are exploding. Those who have less aren't just the poor, whose later years have always been a struggle; now they include large numbers of the middle class—men and women, individuals and families, who once eagerly awaited retirement, but now fear what those years will bring. People like Kathy Coleman of Ave Maria, Florida.

Like millions of others who once looked forward to that time, retirement isn't on Kathy's radar. She didn't expect this. Kathy grew up in St. Clair Shores, Michigan, the daughter of a tool and die engineer. She graduated from Wayne State University in Detroit with majors in art and interior design. She married, had two sons, and started a career in interior design. After her sons were grown and she was single again, she moved to Florida and went to work as the cultural and social events director at the exclusive Polo Club of Boca Raton. She arranged concerts, coordinated speakers and excursions for members,

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prepared the annual budget and monthly reports, and helped create the club's annual calendar of events.

In 2005, intrigued by a new town that Domino's pizza founder Tom Monaghan was building near Naples on the west coast of Florida, she relocated, taking a job as conference director for Legatus, an organization of wealthy Catholic business leaders that Monaghan had founded. She wrote marketing copy and articles for the Legatus website and helped coordinate the group's conferences, including an annual pilgrimage to Rome for an audience with the pope. She bought a new home in the community of Ave Maria, near the university of the same name, which Monaghan had also founded. On a quiet street, the three-bedroom house made an attractive place for her sons and their families to visit. It would also be a good place to retire.

Two years and eight months later, Kathy and some of her coworkers lost their jobs at Legatus. It was a blow that caught them by surprise. One distraught employee later committed suicide. Kathy brushed up her résumé and began looking for work, assuming that with her years of experience in a wide range of jobs, it would be only a matter of time before she found one. But there was nothing. To make her mortgage payment and meet other expenses, she withdrew savings and started tapping into her 401(k). At a time when she would have liked to have been putting money away for retirement—she was in her sixties—she had to dip into her nest egg just to keep

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a roof over her head. At one point she worked at three part-time jobs and took an online course to become a real estate sales associate. She also organized a career counseling class at a local church to provide practical tips and moral support for others like herself.

With her financial situation growing increasingly dire, she ultimately took a job behind the deli counter of a grocery store. The woman who had helped arrange visits to the pope was now slicing ham and cheese. She learned how to close the store for the night—how to take apart and clean the slicers, tidy up cabinets and coolers, and disassemble the metal over floor drains so they could be mopped. “I hadn’t worked in anything like this since I was in my teens,” she said. Eventually she qualified for the company’s health plan, and in her first year she got a raise—a fifteen-cent-an-hour increase that put her up to \$10.40 an hour.

If things had worked out differently, Kathy, sixty-three, might be thinking of retirement. Instead, simply holding on to her house is her most important priority. She renegotiated the mortgage and lowered the monthly payment with a forty-year mortgage. Unlike earlier generations of Americans who often left their debt-free homes to their children as an asset, Kathy will never be able to do that. Instead of saving in her later years and retiring the mortgage, she will be making payments to her bank as long as she lives if she stays in her house. Even after renego-

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tiating her mortgage, money is still tight because her earnings are only one-third of what they once were. Having pulled money out of her 401 (k), and being in no position to replenish it from her modest earnings, Kathy is just trying to get by while she continues to look for a job in which she can use her talents and experience. In the meantime, she's focused on the present: "I'm not living in the future anymore."

A few miles west of Kathy, in the wealthy seaside town of Naples, retirement looks very different to Bruce Sherman.

Sherman was a money manager who headed Private Capital Management, a Naples-based investment firm that caters to wealthy individuals. He made a lot of money over the years for his clients and himself, but his last big deal had lasting repercussions.

He was the money manager who in 2006 brought down Knight-Ridder, the nation's second-largest newspaper chain, which included the *Philadelphia Inquirer*, the *Miami Herald*, and the *San Jose Mercury News*. After gaining control of 19 percent of Knight-Ridder's stock, Sherman in 2005 demanded changes in the company's management, and when the response of company leaders didn't satisfy him, he decided to sell off all the shares he controlled.

But Sherman controlled such a large bloc of stock that if he dumped it into the market, its value would plummet. To preserve Private Capital Management's investment, Knight-Ridder had to be sold outright, through auction or otherwise. So Sherman decided

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“to bully the company into putting itself up for sale,” according to the *American Journalism Review*.

To the surprise of its employees and the journalism world, Knight-Ridder caved and sold the company for \$6.5 billion. The buyer was a smaller chain, McClatchy Newspapers, which in turn sold off a number of former Knight-Ridder papers to help offset the purchase price. The sale set off a chain reaction as investors fled the field, dumping their holdings in other newspaper stocks.

Every newspaper in the former Knight-Ridder chain has suffered greatly since Sherman's brief foray into the newspaper business. The troubles affecting former Knight-Ridder properties are part of an industry-wide trend that has hit all newspapers in the Internet era. But Sherman's acquisition of a large bloc of the company's stock on behalf of his clients served to drive up the company's stock price in excess of its value and was a contributing factor to the papers' later weaknesses in dealing with debt. Every former Knight-Ridder paper has gone through layoff after layoff, killed pensions, frozen benefits, mandated unpaid furloughs, or taken other harsh measures to try to remain viable. To be sure, newspapers had financial problems before Sherman, and they still do, but the run-up in the debt of Knight-Ridder papers that he provoked has saddled them with huge liabilities that have compounded their problems.

None of that concerns Sherman. He retired from

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Private Capital in 2009. This gave him more time to play golf and spend time with his grandchildren, he told a local reporter. It has also given him time for charitable events. One of his interests is the annual Naples Winter Wine Festival, which raises money for a local foundation to support programs for underprivileged and at-risk children. One of the highlights of the Naples social season, the festival often imports famous wine experts and notable chefs to entertain the wealthy attendees. Sherman and his third wife, Cynthia, were cochairs of the 2011 festival.

When not on the golf course or at a charitable event, Sherman can be found in his 12,050-square-foot penthouse at the Regent, a luxury high-rise condominium overlooking the blue waters of the Gulf of Mexico. He and Cynthia purchased the place for \$9.5 million in 2003. Though it had been built only the year before, they called in a decorator who had worked with Steven Spielberg to spruce it up, according to local press accounts. The Regent has about everything one could want in a gated community: guest suites, an auto-spray car wash, a beachfront pool, and massage and exercise rooms. In his spacious penthouse, Sherman told a local reporter that he'd set aside one room for a special purpose: an office to manage his investments.

TURNING BACK THE CLOCK

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For many Americans, the changes that would affect their retirement years arrived by stealth. The number of Americans covered by guaranteed pensions had risen steadily from 1950 to 1980: 10.3 million in 1950; 23 million in 1960; 35 million in 1970. By 1980, a total of 28 percent of the private workforce was covered by a defined benefit pension plan. This was the gold standard for retirement because a pension plan guaranteed retirees a fixed income for life.

But then Wall Street and corporate America decided that enough was enough: deeming pensions too costly for corporations and their stockholders, they began to kill pensions and shift employees into cheaper plans that paid employees less money.

From a peak of 112,000 defined-benefit plans that provided retirees with a guaranteed monthly income in 1985, the number plunged to 27,650 in 2011. By then, only 3 percent of private workers were covered solely by such plans.

More significantly, virtually no companies are creating these plans anymore, and only a few provide them to new employees. Fortune 500 companies are among those killing or freezing their defined-benefit plans by the score. In 1998 a total of 67 percent of the top one hundred Fortune 500 companies offered defined-benefit plans. By 2010 the figure had plunged to 17 percent, according to Towers Watson, the global consulting firm. Typical of the attitude toward pensions was Hewlett-Packard, long one of the most admired U.S. companies, which pulled the plug on

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guaranteed pensions for new workers. A spokesman said the company had concluded that “pension plans are kind of a thing of the past.” In that, Hewlett-Packard was merely part of a corporate trend.

Major companies that have restricted their defined-benefit plans in some manner include Anheuser-Busch, Caterpillar Inc., CIGNA, DuPont, Kimberly-Clark, Kraft Foods, Motorola, R. R. Donnelley & Sons, Sunoco, and 3M. The nation’s largest employer, Walmart, does not offer such pensions. At the current pace, human resource offices will turn out the lights in their defined-benefit section in the next few years. At that point, individuals will assume all the risks for their own retirement.

The shift away from guaranteed pensions was encouraged by Congress, which structured pension and retirement plan legislation in a way that invited corporations to abandon their defined-benefit plans in favor of defined-contribution plans—increasingly 401 (k)s—in which employees set aside a fixed sum of money toward retirement. Many companies also contribute to these plans, but some don’t. In either case, the contributions will never be enough to match the certain and long-term income from a defined-benefit plan. What’s more, once the money runs out, that’s it. If people live longer than expected, get stuck with unanticipated expenses, or suffer losses of other once-promised benefits, they will have little besides their Social Security to sustain them.

The move out of pensions and into 401 (k)s was an

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intentional strategy to substantially reduce corporate costs. It was sold as a plus for employees, as part of what former President George W. Bush referred to often as the “ownership society” in which people would take charge of their own finances and all other phases of their economic lives and not depend on other parties to possibly dictate their financial future. Bush’s Treasury secretary, John Snow, was an especially avid proponent: “I think we need to be concerned about pensions and the security that employees have in their pensions,” Snow told a congressional committee in 2004. “And I think we need to encourage people to save and become part of an ownership society, which is very much a part of the president’s vision for America.”

Of course, it’s much easier to own a piece of America when you have a pension like Snow’s. When he stepped down as head of CSX Corporation—operator of the largest rail network in the eastern United States—to take over Treasury, Snow was given a lump-sum pension of \$33.2 million. It was based on forty-four years of employment at CSX. Unlike most people, who must work for forty-four years to receive a pension based on forty-four years of service, Snow was employed at CSX for just twenty-six years. The additional eighteen years of his CSX employment history were fictional, a parting gift from the company’s board of directors.

At the same time as corporate executives are paid retirement dollars for years they never worked, hap-

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less employees lose supplemental retirement benefits for a lifetime of actual work. Betty Moss was one of thousands of workers at Polaroid Corporation—the maker of instant cameras and film then based in Waltham, Massachusetts—who gave up 8 percent of their salary to underwrite an employee stock ownership plan, or ESOP. It was created to thwart a corporate takeover and “to provide a retirement benefit” to Polaroid employees to supplement their pension, the company pledged. It didn’t happen. Slow to react to the digital revolution, Polaroid began to lose money in the 1990s. From 1995 to 1998, the company suffered \$359 million in losses. As its balance sheet deteriorated, so did its stock price, including shares in the ESOP.

In October 2001, Polaroid sought bankruptcy protection. By then, Polaroid’s shares were nearly worthless, having plummeted from \$60 in 1997 to less than the price of a Coke in October 2001. During that period, employees were forbidden to unload their stock, based on laws approved by Congress. But what employees weren’t allowed to do at a higher price, the company-appointed trustee could do at the lowest possible price—without even seeking the workers’ permission. Rather than wait for a possible return to profitability through restructuring, the trustee decided that it was “in the best interests” of the employees to sell the ESOP shares. They went for nine cents. Just like that, the \$300 million retirement nest egg of six thousand Polaroid employees was

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vaporized. Many lost between \$100,000 and \$200,000.

Betty Moss spent thirty-five years at Polaroid, beginning as a file clerk out of high school, then working her way through college at night and eventually rising to be senior regional operations manager in Atlanta. “It was the kind of place people dream of working at,” she said. “I can honestly say I never dreaded going to work. It was just the sort of place where good things were always happening.” One of those good things was supposed to be the ESOP, touted by the company as a plan that “forced employees to save for their retirement,” as Betty recalled. “Everybody went for it. We had been so conditioned to believe what we were told was true.” Once Polaroid entered bankruptcy, Betty and her retired coworkers learned a bitter lesson—that they had no claim on benefits they had worked all their lives to accumulate. Although the federal PBGC agreed to cover most of their basic pensions, the rest of their benefits were canceled—not only the ESOP accounts but also their retiree health care and severance packages.

The retirees, who were generally well educated and financially savvy, organized to try to win back some of what they had lost by petitioning the bankruptcy court, which would decide how to divide the company’s assets among creditors. But Polaroid’s management undercut the employees’ effort. Rather than file for bankruptcy in Boston, near the corporate offices,

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the company took its petition to a bankruptcy court in Wilmington, Delaware, that had developed a reputation for favoring corporate managers. There Polaroid's management contended that the company was in such terrible financial shape that the only option was to sell rather than reorganize. The retirees protested, arguing that Polaroid executives were undervaluing the business so that the company could ignore its obligations to retirees and sell out to private investors.

The bankruptcy judge ruled in favor of the company. In 2002 Polaroid was sold to One Equity Partners, an investment firm with a special interest in financially distressed businesses. (One Equity was a unit of Bank One Corporation, now part of JPMorgan Chase.) Many retirees believed that the purchase price of \$255 million was only a fraction of Polaroid's value, and there is evidence to support that view: the new owners financed their purchase, in part, with \$138 million of Polaroid's own cash.

Employees did not leave bankruptcy court empty-handed. They all got something in the mail. Betty Moss will never forget the day hers arrived. "I got a check for \$47," she recalled. She had lost tens of thousands of dollars in ESOP contributions, health benefits, and severance payments. She and the rest of Polaroid's other six thousand retirees were being compensated with \$47 checks. "You should have heard the jokes," she said. "How about we all meet at McDonald's and spend our \$47?"

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Any doubt as to how badly employees had been cheated by the company and the bankruptcy court was quickly dispelled when Polaroid emerged from court protection. Under a new management team headed by Jacques Nasser, former chairman of Ford Motor Company, Polaroid returned to profitability almost overnight. Little more than two years after the company came out of bankruptcy, One Equity sold it to a Minnesota entrepreneur for \$426 million in cash. The new managers, who had received stock in the postbankruptcy Polaroid, walked away with millions of dollars. Nasser got \$12.8 million for his 1 million shares. Other executives and directors also were rewarded for their efforts. Rick Lazio, a four-term Republican from West Islip, New York, who gave up his House seat for an unsuccessful Senate run against Hillary Rodham Clinton in 2000, collected \$512,675 for a brief stint as a director—an amount nearly twice the \$282,000 paid to all six thousand retirees. The \$12.08 a share that the new managers received for little more than two years of work was 134 times the nine cents a share handed out earlier to lifelong workers.

Bankruptcy court's shunting aside Polaroid's workers in favor of the company's executives and new owners was all too typical of how other institutions also treat ordinary citizens on retirement matters. Washington has a long history of catering to special interests on pension legislation and regulations, dating back to 1964 when the Studebaker Corporation

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collapsed, junking the promised pensions of four thousand workers not yet eligible for retirement.

For years the carmaker had published brochures spelling out its promise to employees: “You may be a long way from retirement age now. Still, it’s good to know that Studebaker is building up a fund for you, so that when you reach retirement age you can settle down on a farm, visit around the country or just take it easy, and know that you’ll still be getting a regular monthly pension paid for entirely by the company.”

It took Congress ten years to react to Studebaker’s betrayal by writing the Employee Retirement Income Security Act (ERISA) of 1974. It established minimum standards for private retirement plans and created the Pension Benefit Guaranty Corporation to guarantee them. President Gerald Ford hailed the measure when he signed it into law that Labor Day: “This legislation will alleviate the fears and the anxiety of people who are on the production lines or in the mines or elsewhere, in that they now know that their investment in private pension funds will be better protected.”

The biggest winners under the bill weren’t working Americans, however, but money men. Congress wrote the law so broadly that it allowed corporate raiders to dip into pension funds and remove cash set aside for workers’ retirement. During the 1980s, that’s exactly what a cast of corporate raiders, speculators, Wall Street buyout firms, and company executives did with a vengeance, walking away with an

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estimated \$21 billion earmarked for workers' retirement pay. The raiders insisted that they took only excess assets that weren't needed.

Among the pension buccaneers: Meshulam Riklis, the onetime partner of Carnival Cruise founder Ted Arison. A takeover artist, Riklis skimmed millions from several companies, including the McCrory Corporation, the former retail fixture of Middle America that is now gone; and the late Victor Posner, the Miami Beach corporate raider who siphoned millions of dollars from more than half a dozen different companies, including Fischbach Corporation, a New York electrical contractor that he drove to the edge of extinction. Those two raiders alone raked off about \$100 million in workers' retirement dollars—all perfectly legal, courtesy of Congress. By the time billions of dollars were gone and the public outcry so loud that even Congress could not ignore it, lawmakers in 1990 rewrote the rules and imposed an excise tax on money removed from pension funds. The raids slowed to a trickle.

During those same years, the PBGC published an annual list of the fifty most underfunded pension plans. In spotlighting corporations that had fallen behind in their contributions, the agency hoped to prod companies to keep current. Corporations hated the list. They maintained that the PBGC's methodology did not reflect the true financial condition of their pension plans. After all, as long as the stock market went up, the pension plans would be ade-

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quately funded. Congress agreed with this specious reasoning and in 1994, to please corporate America, voted to keep the data on the underfunded pensions of individual corporations a secret.

When the PBGC killed its top fifty list, David M. Strauss, then the agency's executive director, explained, "With full implementation of [the 1994 pension law], we now have better tools in place." PBGC officials were so bullish about those "better tools," including provisions to levy higher fees on companies that ignored their commitments to their employees, that they predicted that underfunded pension plans would become a thing of the past. As a story in the *Los Angeles Times* put it, "PBGC officials said the act nearly guarantees that large underfunded plans will strengthen and the chronic deficits suffered by the pension guaranty organization will be eliminated within 10 years."

The prediction was wildly off. Instead, pension deficits soared and ten years later the deficit was \$23.5 billion. Since the PBGC no longer publishes its top fifty list, anyone looking for remotely comparable information must sift through voluminous company reports to the SEC or the Labor Department, where pension-plan finances are recorded, or turn to independent reports, such as one compiled in 2011 by UBS that identifies twenty-five of the most underfunded pension plans. The names were familiar: Ford Motor Company (\$11.4 billion); Whirlpool Corporation (\$1.5 billion); Lockheed Martin Corporation

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(\$10.4 billion); United States Steel Corporation (\$1.9 billion); and Raytheon Company (\$4 billion). All told, according to Credit Suisse, publicly traded companies in 2011 were confronting a combined pension shortfall of \$458 billion.

In reality, the deficits in many cases are worse than the published data suggest, which becomes evident when bankrupt corporations dump their pension plans on the PBGC. Time after time, the agency has discovered, the gap between retirement holdings and pensions owed is much wider than the companies reported to stockholders or employees. For example, the giant Cleveland steelmaker LTV Steel Corporation reported that its plan for hourly workers was about 80 percent funded, but when it was turned over to the PBGC, there were assets to cover only 52 percent of benefits—a shortfall of \$1.6 billion that the PBGC had to assume.

How can this be? Thanks to the way Congress writes the rules, pension accounting has a lot in common with Enron accounting, but with one difference: it's legal. By adjusting the arcane formulas used to calculate pension assets and obligations, corporate accountants can transform a drastically underfunded system into what appears to be a financially healthy plan, even inflate a company's profits and push up its stock price. Ethan Kra, chief actuary of Mercer Human Resources Consulting, once put it this way: "If you used the same accounting for the operations side [of a corporation] that is used on pension funds,

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you would be put in jail.”

The PBGC lists of deadbeat pension funds served another purpose. They were an early-warning signal of companies in trouble—a sign often ignored or denied by the companies. “Somehow, if companies are making progress toward an objective that’s consistent with [the PBGC’s], then I think it’s counterproductive to be exposed on this public listing,” complained Gary Millenbruch, executive vice president of Bethlehem Steel, a perennial name on the top fifty.

Time proved Millenbruch wrong. The early warnings about Bethlehem’s pension liabilities were right on target. When Bethlehem Steel later filed for bankruptcy, the PBGC found that its pension plans were short \$3.7 billion. The company that was once America’s second-largest steelmaker no longer exists. Contrary to the assertions of company executives, PBGC officials, and members of Congress, one company after another on the 1990 top fifty disappeared, many offloading their unfunded pensions on the PBGC.

Having seen how easy it is to unload a pension plan, more and more corporations are trying to do just that. In what threatened to be the largest company abandonment of its workers, AMR, the parent of American Airlines, filed for bankruptcy protection in November 2011 and asked a federal judge for permission to kill four pension plans covering 130,000 American workers and retirees.

The company asked that the PBGC assume respon-

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sibility for paying benefits to American's retirees. If approved, the plan would have cost American's retirees \$1 billion in lost benefits because of caps imposed by Congress on the amount that PBGC can pay individual retirees.

After years of the PBGC rolling over to accommodate pension-killing corporations, the agency's new director, Joshua Gotbaum, decided to make a stand on American's plans, warning the airline that before it took such a "drastic action as killing the pension plans of 130,000 employees and retirees, it needs to show there is no better alternative. Thus far, they have failed to provide even the most basic information to decide that."

In what has to be chalked up as a modest victory for workers, American backed down from its plan to terminate all pensions and announced that it would instead freeze them. The details of what that may ultimately mean are not clear at this stage, other than that the plans will be preserved—at least in a reduced form. The issue is not likely to be fully resolved until American exits bankruptcy sometime in the future.

American was but the latest large airline attempting to jettison its employee pension plans. In the last decade, four big carriers—United, US Airways, Delta, and TWA—walked away from their employee plans and shifted the responsibility to pay retirement benefits from themselves to the PBGC.

When the PBGC takes over a retirement plan, it covers retirement checks up to a fixed amount—

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\$55,000 in 2011. But it will only continue to do this until the agency runs out of money, a distinct possibility given its looming liabilities. The PBGC's financial position has rapidly deteriorated. In 2000 the agency operated with a \$10 billion surplus. By the end of 2011, that had flipped to a \$26 billion deficit—the highest in PBGC's thirty-seven-year history.

The Government Accountability Office (GAO) says that the PBGC's insurance funds are at “high risk” and the agency faces increasing challenges to meet its obligations. “PBGC's premium base has been shrinking as the number of defined benefit pension plans and active plan participants has declined rapidly,” GAO said in 2010. With so many plans being canceled, the number of companies that pay premiums to PBGC has dropped precipitously; by 2011, only half as many companies paid premiums as fifteen years ago.

PAYING THE PRICE

The ease with which companies can eliminate or reduce their pension obligations is taking a toll on workers. Forty-nine-year-old Robin Gilinger, a United flight attendant for twenty-five years, is very worried. Before United entered bankruptcy, she had been promised a monthly retirement check of \$2,184. Because of givebacks arising from the bankruptcy, that's down to \$1,082, or \$12,884 a year—a poverty-

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level income even before inflation takes its toll in coming years. Though she has a few years before she could take early retirement, she wonders if even the reduced benefit will be there. Her husband lost his pension in a corporate takeover. Like many Americans, Robin is not sure she'd be able to take early retirement even if it were an option, given how small the benefit would be. The dream of early retirement, once such a motive force in the middle class, is gone for almost everyone these days. Robin, who lives with her husband and teenage daughter in Mount Laurel, New Jersey, has concerns that mirror those of middle-class Americans everywhere. "It's scary. What if something happened to my husband or if I got disabled?" she asks. "Then I'm looking at nothing. Above all, what's frustrating is that we were told we were going to get our pension and we're not. The senior flight attendants, the ones who've worked thirty years, they're worried how they're going to survive."

Robin believes the government did a poor job of looking out for United employees. "Our pensions were unfairly taken," she said. Since the United bankruptcy, the company has done well, she said, and even remitted payments to PBGC, but she and her fellow workers are still going to receive less. "This was security for us and now that security is gone," she said. "I think the future just means working a lot harder for less."

Each time the PBGC takes on another failed pen-

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sion plan, it makes the pension insurance program more expensive for the businesses that remain. That in turn prompts other companies to unload their plans. The PBGC receives no tax money. Its revenue comes from investment income and premiums that corporations pay on their insured workers. As a result, soundly managed companies with solid retirement plans are compelled to pick up the costs for plans in mismanaged companies as well as in those that just want to eliminate their employee benefits.

If the PBGC were to run out of money, the agency could require a multibillion-dollar taxpayer bailout. The last time that happened was during the 1980s and '90s, when another government insurer, the Federal Savings and Loan Insurance Corporation (FSLIC), was unable to keep up with a thrift industry spinning out of control. The federal government eventually spent \$124 billion. Unlike the FSLIC, which was backed by the U.S. government, the PBGC is not. That means that Congress could turn its back on the retirement crash if it chose, a distinct possibility given the budget-cutting obsession of Capitol Hill deficit hawks whose own pensions are guaranteed by taxpayers. By the agency's estimate, that would translate into a 90 percent reduction in the pensions it currently pays—so retirees covered by the agency would receive no more than ten cents for every dollar that has been promised them.

At the heart of the retirement scenario engineered by the ruling class that will leave millions of Ameri-

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cans with far less than they will need in their later years is the now-ubiquitous 401(k). Just over three decades old, 401(k)s are corporate America's and Washington's answer to the pension. There is nothing wrong with 401(k)s as such if they are used as tax-sheltered savings plans or as a supplement in retirement, but as the principal retirement benefit for most Americans they fall hopelessly short.

To begin with, 401(k)s were never supposed to take the place of pensions. They were created in 1978 as a tax break given by Congress to corporate executives who wanted to defer part of their salaries and cut their tax bills. At the time, federal income tax rates were much higher for upper-income individuals—the top rate was 70 percent. (Today, as we discussed in Chapter 5, it's half that.) It wasn't until several years later that companies began to make 401(k)s available to most employees. Even then, the idea was to encourage saving and supplement retirement, not to create a substitute for pensions. By 1985, assets in 401(k)s had risen to \$91 billion as more companies adopted plans, but that was still only about one-tenth of what had been set aside in guaranteed pension plans.

All that changed rapidly as corporations discovered they could fatten their bottom lines by shifting workers out of defined-benefit plans and into uninsured 401(k) plans. In effect, employees took a hefty pay cut and barely seemed to notice. Proponents of 401(k)s pointed to a changing economy in which

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employees switch jobs frequently. They maintained that because defined-benefit plans are based on length of service and an average of salaries over the last few years of work, they don't meet the needs of twenty-first century employees. But Congress could have revised the rules and made the plans portable over a working life, just like a 401 (k), and retained the guarantee of a fixed retirement amount, just as corporations do for their executives.

As it is, 401 (k) portability often impedes efforts to save for retirement. As job-hoppers move from one employer to another, many succumb to the temptation to cash out their 401 (k)s and spend the money. Others, when they lose their jobs, are forced to tap into their 401 (k)s for money to live on—something they wouldn't be able to do with a pension plan. Studies show that 401 (k)s also fail because “workers do not save consistently enough, and when they do, they do not tend to save substantial sums,” according to a report by the Center for American Progress.

A total of \$3 trillion is in 401 (k) accounts. But look beneath that number and you'll see why they are no substitute for pensions. By 2011 the average balance in a 401 (k) account was \$60,329, according to the Employee Benefit Research Institute (EBRI). But even that modest number does not reveal how inadequate these accounts are for most Americans. Their median value was \$17,686—meaning that half the 401 (k) accounts held more, and half less. Nearly one in four accounts had a balance of less than \$5,000.

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For most Americans, the amount in their 401 (k) account would pay them a retirement benefit of less than \$80 a month for life.

But to Wall Street and corporate America, their effort to move millions of Americans out of pensions and into 401 (k)-style plans could not have gone better.

In almost every year since 1978, Congress has passed legislation encouraging the shift to 401(k)s, while doing nothing to shore up pension programs. This legislative action doesn't stem from lawmakers' deep-seated philosophical leanings. It has happened because Congress was paid to do so. Changing the rules of the game has been on the to-do list of every major corporate lobbyist for years. The amount of money that just one industry—securities and investment—has invested in Congress over the last two decades tells the story of why the corporate world got its way.

From 1990 to 2012, the financial industry—which includes stockbrokers, investment houses, brokerage firms, and financial planners—contributed \$875 million to members of Congress, mainly Republicans, according to the Center for Responsive Politics. And that's not all. From 1998 to 2011, the period for which data are available, the securities and investment industry spent an estimated \$900 million lobbying Congress and federal agencies. All that money—at least \$2 billion over the last two decades—flowed into Washington from just one industry to

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buy favors and influence policy.

For the industry, it was money well spent. Corporations saved tens of millions of dollars by eliminating pensions, and the substitution of 401(k)s created a profitable new industry in the financial sector. The proliferation of 401(k)s led to a proliferation of financial planners. Studies show that the administrative costs of 401(k)s are higher than traditional pensions, in part because there is so much overhead as a result of an army of players grasping for a piece of the \$3 trillion industry. Even more distressing, the returns of 401(k)s have been, with some exceptions, inferior to those of pensions. Not to mention all the losses suffered during the great crash.

“This is what’s wrong with our country,” says Robin Gilinger, the United flight attendant who lost nearly two-thirds of her pension. “I think the American public sees it, but they don’t know how to stop it. We all see little things. We can see what’s going on and how the well-off are manipulating what’s happening to us. And there’s nothing we can do. So every day you live, hoping to make change, but what change can you make? It’s very frustrating.”

So it is that, in the end, all but the most affluent senior citizens will have to join the ranks of those like Betty Dizik of Fort Lauderdale, Florida, who is into her seventh decade as a working American. She’s had no choice. Betty did not lose her pension. Like most Americans, she never had one, nor did she have a 401(k). After her husband died in 1968, she held a

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series of jobs managing apartments and self-storage facilities, tasks that brought her into contact with the public. “I like working with people,” she said. But none of the jobs offered a pension.

Her monthly Social Security check comes to \$1,200. That barely covers her supplemental health insurance, car insurance, and out-of-pocket expenses for medications to treat her heart problems and diabetes. To buy gas for her car and pay rent, utilities, and other living expenses, Betty continued to work long after the age of sixty-five. For years one of her jobs was with Broward County Meals on Wheels, which provides meals to seniors, some younger than she. But by the time she turned seventy-five, driving one hundred miles a day was too much for her, and she gave up the job to work for H&R Block, the tax return service, where she had also worked part-time in varying capacities for years.

She did a little of everything for H&R Block. She was the receptionist and the cashier, the person who opened and closed the office and “took the money to the bank.” She worked at H&R Block for nearly twenty years until she was laid off in 2010. By then she was eighty-three. Even so, Betty still needed to work, so she began applying for jobs. When she showed up for interviews, she figured “somebody will hire me because I’m good. I can read. I can write. I can do computers. I am definitely a senior tax preparer, and I am a good manager. I have run offices for many, many years and been complimented on how I

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run my offices and how my people produce.” But in two years she’s had only two interviews, and at one she was told, “You’re just too old.”

A widow, she lives alone in an apartment building for seniors. Her four children pay her rent, but she is reluctant to accept anything more. “All my children are great, but I do not like to ask them for anything,” she said.

She doesn’t have much hope that Washington will help seniors like her. “They don’t understand what it’s like to worry: Are you going to be able to make it every month, to pay the telephone bill, the electric bill? How much are you going to have left over for food and other expenses?” Her key to getting by each month is forcing herself to live within a strict budget.

“On the third, I get my Social Security,” she said. “On the fourth, I’m broke. I go on and pay all the bills and do what little shopping I have to do, and then I stay home the rest of the month. And I’m not alone. There are a lot just like me.”

And thanks to the people who make the rules in America, there will be millions more like her in the future.

CHAPTER 7

DEREGULATION: ECONOMIC CHAOS

It was rare enough for the nation's top banking regulators to be in the same room together with the chiefs of the industry that they regulate, but what captured everyone's attention was the chainsaw.

Standing around a tall stack of *Federal Registers* draped in red tape, the group had assembled on the morning of June 3, 2003, in the offices of the Federal Deposit Insurance Corporation (FDIC) in Washington to declare war on excessive banking regulations, which they claimed were stifling business.

Like those groundbreaking ceremonies where politicians lift a shovel of earth and pose for photos, the banking executives had come prepared for a photo op. Four of them—James McLaughlin of the American Bankers Association, Harry Doherty of America's Community Bankers, Ken Guenther of the Independent Community Bankers of America, and John Reich, the FDIC vice chairman who was the architect of the antiregulation crusade—came sporting long-handled pruning shears. They gathered around the stack of regulations in front of a wall emblazoned every few inches with the words CUTTING RED TAPE in big red letters, and they pre-

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tended to trim away at the pile as cameras recorded the scene.

But the undisputed star of the show was the fifth member of the group, James Gilleran, director of the Office of Thrift Supervision (OTS), the federal agency charged with regulating the nation's savings and loan associations. Gilleran was an impassioned foe of government regulations. In his tenure at OTS, he would cut one-quarter of the agency's staff, drastically reducing its oversight ability. To drive home his point on this day, the beaming Gilleran had brought along a chainsaw, and when he jubilantly placed its blade atop the stack of documents, he made it clear to everyone where he stood. "Our goal is to allow thrifts to operate with a wide breadth of freedom from regulatory intrusion" was how he put it later.

Of course, we all know how this worked out. The lack of oversight of companies peddling various kinds of mortgages was a main cause of the financial meltdown in 2008. One of the worst offenders was the OTS, headed until 2005 by Gilleran.

In the annals of bad government agencies, the OTS stands alone. This is the agency that permitted thrifts to peddle home equity loans to homeowners with dementia who could neither understand them nor afford them. It looked the other way when thrifts refused to comply with federal financial laws that were intended to keep them solvent. It allowed lenders to falsify federal reporting documents. It refused to rein in the reckless lending practices that

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steadily pushed the thrift industry toward a catastrophic fall. It rubber-stamped requests from thrifts, no matter how harebrained, like one from a small bank in the hills of West Virginia to open a branch in upscale Palm Beach Gardens, Florida; ultimately it collapsed. The refusal of the OTS to oversee the industry caused some of the biggest bank failures in U.S. history, including that of Washington Mutual, the largest ever recorded. The agency couldn't even supervise its own officials, one of whom, a regional director, permitted an imperiled thrift, IndyMac, to backdate a capital infusion to make it appear that the company was healthy.

By the end of the George W. Bush era, the OTS was such a monumental disaster that the only solution was to get rid of it and assign its functions to another office in the U.S. Treasury Department. Congress duly merged it with the Office of the Comptroller of the Currency and other divisions. On October 19, 2011, the OTS ceased to exist. But the damage it presided over was not so easy to hide.

The mind-set that brought the banking chiefs together around a chainsaw that morning was a hallmark of the Bush years, when the antigovernment movement long in the making reached full flower. The phrase "get government out of . . ." was everywhere, with the last word filled in according to one's interest: *Get government out of the housing industry. Get government out of health care. Get government out of the economy.* And so on. Government restrictions, we

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were told, were hamstringing job creation, business development, and entrepreneurship. Regulations concocted in Washington were said to be the biggest obstacle preventing America from achieving its potential. No one stopped to ask the simple but necessary question: Who benefits from the absence of government? Who really enjoys the absence of supervisory regulations?

For the corporate chiefs and other members of the economic elite, having fewer government regulations and laws gives them a freer rein to run the country as they see fit. Their argument goes like this: just leave business and investment alone and everything will work out best. Sure, there are excesses that lead to setbacks; the 2008–2009 recession would qualify. But, deregulators say, such blips are only temporary and the benefits of leaving the economy alone far outweigh the harm done by constraints. Issues such as the minimum wage, the lack of health care for millions, unfair trade competition that kills jobs in the United States—well, those are issues for the market to sort out, not the government. Any intervention in the market by government, the ruling class claims, is destined to fail because it upsets the natural order of things.

For much of the twentieth century in the United States, that view was tempered by the belief that there should be policies that both benefit industry, by establishing a stable and predictable business environment that enables companies to succeed and cre-

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ate jobs, and protect the public interest by helping all classes of Americans to prosper.

From the 1970s onward, the decade when wages, benefits, and so many other economic benefits enjoyed by middle America first began to erode, the deregulators started to gain the upper hand and upset the balance. The wealthy and their supporters founded influential think tanks such as the Heritage Foundation and the Cato Institute. Many more would follow. Ideas propounded by these free-market, antigovernment groups began to receive more credence. Their reports were picked up by the mainstream media, which treated their conclusions as if they were widely shared by the public, although they represented the goals of only a sliver of the populace—the very rich. Funded by corporate chieftains, wealthy Americans, and right-wing ideologues, the think tanks were one of the most important early steps in their plan to remake the country.

As the “no government” ideas of the ruling class gained momentum, basic industries such as airlines and trucking were deregulated, with disastrous results for the industries and the families they once sustained. Nevertheless, deregulators pushed on, with cataclysmic consequences for the housing and mortgage industries, and they continued to lobby for unrestricted free trade to prevent any interference in their ability to ship jobs offshore.

Deregulation is one of the greatest triumphs of America’s ruling class, but for middle-class workers

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and their families the fallout has been devastating:

- The average earnings of airline flight attendants, adjusted for inflation, have declined 31 percent since 1983, based on data from the Bureau of Labor Statistics and the Association of Flight Attendants. Attendants earned \$27,160 on average in 1983, according to the association. If their pay had kept pace with inflation, they would earn \$61,000. BLS estimated their annual earnings at \$41,720 in 2011. That means that since 1983, over nearly two decades, they have lost almost \$400,000 in earnings.
- Trucking deregulation, which was enacted to spur economic growth, has caused unprecedented instability in the trucking industry: 43,863 trucking companies have gone out of business since 1990. If truck drivers' annual earnings had kept pace with inflation, they would earn \$65,000, adjusted for inflation. Their annual wage in 2011 was \$39,830, according to BLS. A trucker working steadily during this time would have lost half a million dollars.
- Abuses in the deregulated financial industry, coupled with other factors, will have caused millions of Americans to lose their homes by 2014.

With isolated exceptions, the economic elite who

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populate Wall Street, corporate executive suites, and law firms have suffered none of the pain we see in the middle class. Their pay only goes up. A survey by the Institute for Policy Studies (IPS) found that, even after adjusting for inflation, CEOs at fifty companies that laid off the largest number of workers from the beginning of the crash until 2009 walked away with almost \$12 million each in 2009.

THE HAVOC BEGINS

The popular perception is that Ronald Reagan was the great deregulator, but airline and trucking deregulation was pushed through Congress by his Democratic predecessor, Jimmy Carter. Many other prominent Democrats who professed concern for working people, including the late senator Edward Kennedy, bought into deregulation and jumped on the bandwagon. It was a mark of how ingeniously the ruling class and like-minded economists and supporters in the media framed the issue: legislation that would unravel the comfortable middle-class lifestyles of hundreds of thousands of Americans was presented as beneficial to the country.

President Carter spoke for politicians from both parties when he signed the airline deregulation bill in 1978: “It will also mean less government interference in the regulation of an increasingly prosperous airline industry.”

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Backers said the Airline Deregulation Act would stimulate competition, reduce fares, and open up air travel to more Americans. For a brief spell it looked like that might happen. Freed to set fares and schedules, airlines embraced deregulation. New airlines began service, and existing carriers extended routes to new points. Fares went down. Service went up. Competition increased.

It didn't last. In an unregulated market, those with the financial muscle to dominate soon did—the big airlines swallowed the little airlines. New airlines found that they lacked the financial resources to compete. And many long-standing airlines were grounded by excessive competition.

In 2012, there is less competition in the airline industry than before deregulation. In 1978 the ten largest airlines accounted for 88 percent of the revenue from passenger miles flown by U.S. flag carriers. Three decades later, there aren't ten large airlines left in the United States, and the three largest—American, United, and Delta—control two-thirds of domestic air travel. In many markets, airlines have little or no competition, and prices reflect it. In 1977 it cost as little as \$86 to fly round-trip from Philadelphia to Pittsburgh; in 2011 the cost was \$530—the equivalent of \$160 in 1977 dollars.

As predicted, deregulation sparked the birth of many new air carriers, but few survived. The chronic rise and fall of so many airlines has kept the industry in a constant state of upheaval. Since 1978, an esti-

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mated 150 low-cost carriers have gone into and *out of* business. New airlines that were once portrayed as deregulation success stories have either collapsed or been absorbed by rivals. In the airline industry, the unregulated free market has been eating its own.

The industry has been hit by wave after wave after wave of bankruptcies since 1978. Pan American, founded in 1927 and the flagship of U.S. carriers, went bankrupt and was liquidated. Eastern Air Lines, also founded in 1926, went bankrupt and was liquidated. Braniff, founded in 1928, filed for bankruptcy three times before it was liquidated. Midway Airlines, founded in 1976, ended up in bankruptcy court and was liquidated. Trans World Airlines, founded in 1925 and one of the nation's most glamorous airlines for decades, went bankrupt and was liquidated. Most of the surviving major airlines—Delta, United, US Airways, Continental, and American—have paid visits to bankruptcy court, some more than once.

Under airline deregulation, bankruptcy costs, operating losses, and other factors have cumulatively drained tens of billions of dollars out of the industry since 1978. Some fares went up, not down. Competition became destructive, not productive. Service was cut back. The increase in air travelers was lower in the decade after deregulation than in the decade before it. Airline travelers overall have fewer choices, and they are often more expensive.

Airline workers have had an even harder time. Since 1978, their wages have gone down, their bene-

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fits have been cut, and many have lost their jobs. They must work more hours to earn the same pay. Under pressure from management, work rules have been watered down so that crews for some airlines only have a few hours of rest between international flights—something that wasn't allowed years ago. A study by Demos, a New York think tank, concluded in 2009 that Department of Transportation data showed labor costs falling by one-third on average between 2001 and 2006 for five major airlines—US Airways, United, Delta, American, and Northwest.

For pilots, the cuts have been even deeper. Chesley “Sully” Sullenberger, the heroic US Airways pilot who ferried 155 jet passengers to safety with his remarkable emergency landing in the Hudson River in 2009, saw his pay cut by 40 percent and his pension terminated in the years leading up to his sensational landing. In testimony before Congress in 2009, Sullenberger blamed airline deregulation for placing “pilots and their families in an untenable financial situation.”

Robin Gilinger, the United flight attendant we met in Chapter 6, has watched her earnings and those of her coworkers steadily decline over the twenty years she has worked for the airline.

“I’m making less than I made fifteen years ago,” she said. “And I’m working more.”

For Robin and other airline employees pounded by deregulation, United’s bankruptcy filing in 2002 allowed the airline to shred its labor agreements with

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employees and cut their wages.

“We still are living underneath our bankruptcy wages right now,” she said. The only bright spot for her is that because of her seniority she’s not worried about losing her job, but the working atmosphere in a once glamorous field has deteriorated markedly.

Despite having negotiated substantial givebacks, employees are constantly pressed by management to give up even more. Robin said the company is pushing for workers to accept more changes in their work rules that some fear could jeopardize safety. The pressure pits worker against worker, she said, as current employees fight over United’s dwindling resources. However it is finally settled, she said, the result will be the same.

“They’re making the worker work more to make less.”

By nearly every measure, airline deregulation has failed. No one has summed up the adverse consequences better than the longtime head of American Airlines, Robert Crandall, in a 2008 op-ed piece:

Our airlines, once world leaders, are now laggards in every category, including fleet age, service quality and international reputation. Fewer and fewer flights are on time. Airport congestion has become a staple of late-night comedy shows. An even higher percentage of bags are lost or sent to the wrong airports. Last-minute seats are harder and harder to

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find. Passenger complaints have skyrocketed. Airline service, by any standard, has become unacceptable.

Nonetheless, the rule-makers hold firm to their contention that deregulation has worked. A paper published by the Cato Institute twenty years after airline deregulation confirmed its unwavering belief in the process: “Despite the criticisms, airline deregulation has provided—and continues to provide—enormous benefits to the average traveler.” The Cato paper went on to contend that whatever problems the airline industry had did not stem from “too much reliance on market forces, but from too little.”

One of those “market forces” in play will drive down wages even further. The major airlines are rapidly shifting maintenance work on jet aircraft to repair shops offshore. The next time you are on a plane, you might wonder where the aircraft underwent its last major overhaul. Chances are it was at a repair shop in El Salvador, Brazil, or somewhere in Africa. An audit by the inspector general of the U.S. Department of Transportation in 2008 found that 27 percent of heavy airframe maintenance on the largest carriers is outsourced to repair shops outside the United States, many in developing countries. This is the most extensive type of maintenance performed on jets, and it often entails a complete teardown of the aircraft’s fuselage over a period of weeks.

The Federal Aviation Administration (FAA) has

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certified about seven hundred repair shops in seventy countries to work on American jets. Because the FAA's inspections budget is so tight, the agency basically relies on the airlines to police themselves. Even when the FAA does inspect one of these offshore facilities, the plant is alerted ahead of time that inspectors are coming.

Mistakes made in some of these offshore repair shops have caused a few close calls. In January 2009, a US Airways jet flying to Phoenix made an emergency landing in Denver after the pressure seal around the main cabin door began to fail. Authorities later determined that mechanics at a repair shop in El Salvador had installed the seal backward. In another incident, workers at the same El Salvador facility accidentally crossed the wires that connect cockpit gauges to the plane's engines. The mistake was caught by an airline employee before takeoff, avoiding a potential disaster.

Crucial safety work is offshored solely to save money on wages. Airline mechanics in the United States are among the higher-paid blue-collar workers, earning on average \$55,000 a year, according to BLS data for 2010. Many earn \$100,000 or more. At overhaul bases in Central and South America, mechanics earn only a fraction of that. There are still about 117,000 of these good-paying jobs in the United States, according to the Labor Department in 2011. The department estimates that employment in that sector will be mostly flat in the next few years. But if

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past outsourcing trends are a guide, and if current policies remain the same, that prediction will turn out to have been wildly optimistic.

In trucking, it's been a similar story. Deregulating the industry was a chief goal of the free-market think tanks and their advocates, who contended that it would make trucking more efficient and produce savings. President Jimmy Carter signed the trucking deregulation bill in July 1980 using words that sounded much like those he had employed two years earlier when he deregulated airlines: "The Motor Carrier Act of 1980 will eliminate the red tape and the senseless overregulation that have hampered the free growth and development of the American trucking industry."

Rather than correct the defects in the regulatory system, Congress threw out the entire system—an overreaction somewhat akin to responding to flawed calls in a football game by eliminating all the referees instead of merely replacing them.

As promised, the law unleashed new competition—on a scale even more destructive than in the airline industry. New trucking companies surged onto the highways by the thousands—and then abruptly ceased to exist. The 43,863 trucking companies that have failed in the last two decades include only companies with five or more trucks. No one has any idea how many smaller trucking companies have come and gone since 1980.

Nearly every large trucking company that was in

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business at the time of deregulation has either foundered, merged with a competitor, or downsized. Most of those remaining are perilously close to collapse.

The nation's largest trucking company, YRC Freight, is typical. YRC was formed in 2003 by the merger of two of the oldest and most venerable companies in the history of American trucking, Yellow Corporation and Roadway Express, whose roots go back to 1924. Both had struggled for years amid the rapacious price wars set off by deregulation. The merger created a huge company with 36,000 employees and \$6 billion in revenue by 2010. But even that didn't work. From 2008 to 2010, YRC lost \$1.9 billion. The company avoided bankruptcy court in 2011, at least temporarily, by restructuring its debt and shedding thousands of employees.

The fragile state of the trucking industry has had a dramatic impact on the lives of drivers and their families. Working conditions are more stressful and pay is lower. Like flight attendants, drivers must work more hours to earn the same money. Many are paid according to how many miles they drive, not how long they're on the road. As a result, some have to work as many as eighty to ninety hours a week, living out of the cramped cabs of their trucks and being away from home for weeks at a time. Adding to the stress is the fact that the operating margins for many trucking companies are so narrow that companies cut back on maintenance and replacement of trucks.

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Truckers' blogs are filled with references to unsafe trucks that are constantly breaking down or posing hazards on the highways.

One of the organizations on the front line of this issue is the Owner-Operator Independent Drivers Association (OOIDA), representing 150,000 independent truckers and drivers on matters from safety to legislation. Sandi Soendker, the editor in chief of *Land Line*, the association's magazine, has seen deregulation up close in her twenty-five years with the association. Throughout that time the industry has been in upheaval, but by 2012 even some old-line trucking companies that managed to survive the cutthroat practices unleashed by deregulation in years past were going under. "We are dealing with this every week," she said.

Soendker said that some companies collapse so suddenly that they leave their drivers stranded:

The companies have been hanging on as long as they can. But when they go under, they'll have drivers out on the road delivering a load. They stop to fuel up, and the fuel card doesn't work. They call the company, but nobody answers.

They are out on the road hung out to dry—with a truck that is not theirs, with a load that is not theirs, and puzzled as to why they can't get through to their dispatcher. What is this guy going to do just to get home? Meanwhile

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at home, their paycheck has either bounced or never arrived.

She said the chronic instability of the industry has a ripple effect. When a trucking company fails, she said, “everybody gets hurt. Not only the driver behind the wheel but the shipper. How does he get his money?”

Soendker confirmed that even the drivers who have continued to find work have lost ground. “What you get paid for being a truck driver is pitiful,” she said. “And it hasn’t gotten better for a long time. Everything costs so much more. So if you are making the same amount of money, or just a little bit more, it’s costing you five times as much as it did two years ago. Suddenly that little bit of money that you started making is gobbled up by the expenses.”

The sword of Damocles for many U.S. truckers is the provision in the North American Free Trade Agreement (NAFTA), the free trade agreement with Mexico, that would allow commercial trucks from Mexico to use U.S. highways. Implementation has been held up for years by legislation, litigation, and safety concerns, but once the remaining litigation is disposed of, Mexican trucks will begin streaming onto U.S. highways.

Many U.S. companies have operations in Mexico that manufacture products for the American market, so one can only imagine the volume of truck traffic that will eventually pour into the States from Mexico.

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One doesn't need to be a mathematician to understand what will happen. Mexican truck drivers earn about one-third of what U.S. drivers earn.

Even so, the ever-optimistic U.S. Department of Labor says that truck driving is one of the most promising sectors for job growth in coming years.

The deregulation of airlines and trucking has been a catastrophe to the men and women in those industries. It has depressed wages and benefits, engendered chronic job insecurity, and unleashed destructive competition. But because it has saved shippers and consumers a few bucks, that makes it an unqualified success to the deregulators.

UNLEASHING THE BANKS

As successful as they were in remaking those once-stable industries, the real prize for deregulators was money itself: the deregulation of banking.

Proponents included President George H. W. Bush, who predicted in 1991 that banking deregulation would create "a U.S. financial system that protects taxpayers, serves consumers, and strengthens our economy." The reality turned out to be quite different.

Financial deregulation in the United States nearly brought down the global economy in 2008. Wall Street and the banks have since recovered, thanks largely to huge bailouts from taxpayers, such as the

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Troubled Asset Relief Program (TARP), and capital infusions from the Federal Reserve. But millions of Americans who lost their jobs, their homes, and their retirement savings during the collapse did not receive a bailout and will not recover.

The law that caused a great deal of harm was the Financial Services Modernization Act of 1999, the brainchild of then Texas senator Phil Gramm, the high priest of deregulation in Congress for many years. The law removed regulatory barriers between banks, securities companies, and insurers so that they could sell each other's financial products. In effect, the law let banks become stockbrokers as well as bankers, and it allowed stockbrokers to also become bankers. "I believe that this [law] is the wave of the future," Gramm said upon its passage. After he left the Senate, Gramm became a vice president of UBS, the Swiss banking giant, one of the banks that benefited from the Financial Services Modernization Act. UBS, it should be recalled, later was investigated by the IRS and Justice Department authorities for its role in offshore tax evasion schemes. The bank later agreed to pay \$780 million to the United States to settle claims that it had helped cheat the U.S. Treasury out of tax revenue.

The 1999 law repealed parts of the Glass-Steagall Act, which was passed in 1933 to rein in the financial industry excesses that helped cause the Great Depression. Glass-Steagall had worked just fine for decades, but banks hated it because it barred them

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from selling stocks and mutual funds. Gramm hated it because he said it interfered with the free market. “Government is not the answer,” he said after Glass-Steagall was repealed. “We have learned that freedom and competition are the answers. We have learned that we promote economic growth and we promote stability by having competition and freedom.”

Along with two laws passed in the early 1980s that would later open the door for exotic mortgages and other lending instruments, the Gramm legislation gave a powerful boost to the deregulation movement in financial services and mortgage lending. The law came along at a time when the mortgage industry was being transformed. Whereas in the past a lender who provided a mortgage held on to the loan and collected interest from the homeowner, now an independent broker arranged the loan, collected a fee, and passed the loan on to someone who bundled it with other mortgages for sale to investors, just as if the mortgages were bonds that guaranteed a solid return.

Before the mortgage industry was deregulated, a lender was careful to make sure the homeowner could repay the loan; otherwise, he'd be stuck with a foreclosed house. But in the new world made possible by Congress, the loan originator didn't care. He got his cut off the top and passed the liability down the line. What did the mortgage broker care if the loan he'd arranged went bad? He'd already been paid.

This change in the way the business operated opened the door to untold abuses by the financial

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cowboys and hucksters who gravitated to the field. Fraudulent credit reports, hidden interest charges, usurious loan rates—all of these were by-products of the gold rush to generate more and more loans. The more loans, the more fees. This frenetic activity helped power an entirely new market in so-called subprime mortgages—loans to homeowners with below-par credit or few assets were charged higher rates of interest for their loans, which then generated much larger fees for the lenders. By the time Gramm's bill was passed, the subprime market had grown to \$150 billion—a 600 percent increase in just five years. In the next decade, it would grow ten times more.

So in 1999, at a time when the industry needed more oversight than ever by federal regulators, the message out of Congress couldn't have been clearer: allow Wall Street, banks, the financiers, and everyone else connected with this go-go industry to continue conducting their business without any interference.

Legal aid lawyers and consumer groups saw clearly what was happening and warned Congress that the run-up in subprime lending and other abuses in the mortgage field were paving the way for an impending collapse, but the industry poured millions of dollars into campaign contributions to lawmakers to deflect opposition. Among the recipients of the industry's largesse was Bob Ney, a Republican congressman from Ohio, who was chairman of the House Financial Services Committee's housing subcommittee. Ney, a

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figure in the Jack Abramoff lobbying scandal, later went to jail after pleading guilty to charges of conspiring to defraud the federal government and falsifying financial disclosure forms.

The lenders, in the best Washington tradition, created a lobbying committee with a friendly-sounding name—Coalition for Fair and Affordable Lending. It had little to do with fairness, but a lot to do with bad loans. Its membership was loaded with subprime loan companies, and they had just the right lobbyist: Wright Andrews Jr., a former senatorial aide who, as one commentator later put it, had “developed a niche representing some of the least sympathetic and most predatory players in the financial industry.” From 2003 through 2007, the Coalition spent \$6.7 million lobbying, with \$3.2 million going to Andrews’s law firm.

Every attempt by consumer groups and lawyers for mortgage victims to amend the law and impose more stringent regulations on lenders failed.

The rest is history. Since 2007, an estimated 12 million home foreclosures have been filed; at least 4 million Americans have lost their homes, and millions more are in danger of losing theirs; the average price for existing homes in the United States has dropped more than 20 percent, and more than \$5 trillion in home equity has vaporized.

WRECKING LIVES

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It is possible to see how financial deregulation is playing out up close in the real world in a one-story stucco building just off busy Del Prado Boulevard in Cape Coral, Florida. Tucked into the center of a row of storefronts is the headquarters of the Invest in America's Veterans Foundation of Cape Coral. Started in 2009, it was sparked by the work of a group of veterans organized by Ralph Santillo, a veteran from New Jersey who relocated to Cape Coral decades ago. A home builder, Santillo had been driven out of business by the collapse of Florida real estate. While fighting his own financial demons, he kept running into other veterans who were also increasingly desperate. They had lost jobs as well as their savings and feared they were about to lose their homes. "The stories were heartbreaking," he said.

Together with other veterans, including Donald Graf, a retired advertising man from New York, they formed the foundation as a service agency for veterans in southwest Florida. In the beginning, Santillo operated out of his home or the trunk of his car until grants from local businesses enabled the foundation to lease the office on Del Prado. Since then, the place has quickly become a magnet for troubled veterans in Cape Coral and the surrounding area.

On any given day, the office is buzzing as veterans come in seeking counseling and volunteers answer a steady stream of phone calls from other former service personnel in need. A disproportionate number of former military personnel—an estimated 60,000—

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have settled in the area. It has two attractions: a climate beneficial to those with service-related ailments and affordability.

Santillo said the foundation soon found that it has to deal with a whole catalog of ills—veterans who can't navigate Veterans Administration (VA) procedures to claim benefits, others who don't even know they are entitled to VA assistance, and still others who are desperate to find work. The lack of jobs is especially traumatic for younger veterans, many of whom served multiple tours in Iraq or Afghanistan only to return home and find there's no work for them.

“This is a lost generation for jobs,” said Graf. “These kids are not being hired, and everything politically is being done to stop that because some states are using expanded child labor laws to use teenagers without having to compensate them for their work. And they want seniors to work longer. So all the jobs veterans would get are not there for them.”

As grim as things are for young veterans, foundation volunteers realized that some older veterans were in even more trouble. With service dating as far back as the Korean War, some veterans were on the verge of losing their houses. They became victims of predatory mortgage practices—a by-product of deregulation. Santillo recalled that most of those who refinanced or took out home equity loans were just trying to get money to survive.

“They're living on a fixed income, usually just

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Social Security, sometimes a little pension,” he said. “All their costs are going up—insurance, taxes. Most times when people refinanced they used that money just to keep up with their bills and pay their mortgage. So there was no real benefit. It was not like people were going to get rich and live off the money.”

Many didn't realize the potential ramifications of the loans they were assuming. “There was stuff out there like no-interest loans or loans where you paid 1 percent interest,” Santillo said. “Then all of a sudden you find out two years down the road you are paying \$5,000 a month. Some of these were usurious. They would have put you in jail for that years ago.”

But thanks to deregulation, nobody went to jail. Nobody broke any rules because that's what deregulation means: there are no rules to break. Instead, mortgage brokers and banks were rewarded with lucrative fees in the new mortgage industry that was playing out in Cape Coral and a thousand other places like it across America.

In Florida the process was exacerbated when thousands of ex-cons looking for a way to make a quick buck surged into the Florida mortgage industry and began writing mortgages. A *Miami Herald* investigation in 2009 found that 10,529 persons with criminal records worked in Florida's mortgage industry from 2000 to 2007. Of those brokers, 4,065 had committed major crimes—fraud, bank robbery, racketeering, or extortion.

Despite widespread evidence that the foreclosure

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crisis was in part a result of runaway greed by an out-of-control, unregulated industry, Congress and Washington pundits have since contended that the crisis was caused by the federal government's overzealous attempt to promote homeownership. Under this theory, by easing up on the rules for granting mortgages, the government allowed people who didn't really have the income or assets to buy their first homes. It's a convenient way to shift the blame away from Washington and Wall Street, which caused the calamity to the victims who paid the price.

Most of the victims facing foreclosure who have talked with Santillo, Graf, and other foundation volunteers in Cape Coral are not first-time homeowners. Many had owned homes for years, but found themselves in financial trouble after unscrupulous salesmen signed them up for exotic mortgages with hidden interest clauses that were ticking time bombs. When the interest rate shot up, many lost their home.

John Aguiar is a veteran of the Gulf War, a former intelligence analyst for the Army who took part in Operation Desert Storm in 1990. After graduating from high school in Chicago, he trained at the U.S. Army's legendary intelligence training post at Fort Huachuca, the secretive enclave in remote southern Arizona, where he learned the intricacies of signal intelligence and mapping. After Saddam Hussein invaded Kuwait, John was deployed to Iraq to provide reconnaissance for the infantry.

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When his tour of duty ended, he returned to Chicago and married Syrena, his high school sweetheart. They bought a house in suburban Chicago, where their daughter and son were born. In 2002, with John concerned that his job might not be secure, they moved to Cape Coral, where Syrena's parents lived. John was a midlevel manager in the trucking industry, a field that had become chronically unstable after Congress deregulated the industry in 1980. Only months after he and his family moved to Florida, his former employer—Consolidated Freightways, one of the nation's oldest long-haul truckers—filed for bankruptcy and went out of business.

In Cape Coral the Aguiars bought a lot and built a house that reflected their values and their way of life. It was nothing fancy: a one-story Cape rancher with three bedrooms, two baths, and a two-car garage. There were no granite countertops, no Jacuzzi—just the basics, in keeping with what they could afford. “We didn't do lavish things,” said Syrena, “but we sank everything into the place. This was the home we had always wanted.” It was where they planned to raise their kids and retire. To support the family, John landed a job with a building materials company.

Their troubles began when the city of Cape Coral hit them with an unexpected bill for \$20,000 to connect to the city's water and sewer system. When they built their house, they had been led to believe that city water and sewer were years away, so they had spent \$22,000 to drill a well and build a septic sys-

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tem. To come up with \$20,000 more, they were forced to refinance.

Their original mortgage was a 6 percent fixed-rate loan, but this time the mortgage company substituted an adjustable rate. “I didn’t know it was an adjustable-rate mortgage until it was a done deal,” said Syrena. “Then it was too late.” At first they were able to handle the new monthly payment, which rose from \$1,100 a month to \$1,400.

But the interest rate on the new mortgage continued to climb just as the Florida economy began to falter. Worried that his job in a housing-related field might not be safe, John began moonlighting twenty to twenty-five hours a week on nights and weekends at a Home Depot. Then his company closed its office in his area and he lost his day job.

John and Syrena scraped to pay the mortgage, cutting back on expenses and depleting their savings and retirement accounts. Their monthly mortgage payment soared to \$2,000. “The mortgage payment just kept getting higher,” said John, “and we kept sending out one more payment, one more payment, one more payment, until we could figure out what we were going to do.” They tried to negotiate with their mortgage company to lower the interest rate, “but they didn’t want anything to do with us,” said Syrena.

The Aguiars were swept aside by one of the powerful forces driving foreclosures: the company servicing the mortgage did not own the loan and thus had no

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incentive to offer the family an arrangement that might let them stay in their home until they got back on their feet financially. In 2009, with their mortgage company turning a deaf ear, the Aguiars could no longer come up with the ever-higher monthly mortgage payments and were facing foreclosure. Just before they were to appear in foreclosure court, the mortgage company gave them permission to short-sell their house. It sold fairly quickly—at a loss—and the family moved in with Syrena's parents.

Unable to find work in Florida, John took a job in shipping with a trucking company in Chicago. Syrena and their daughter and son remained in Florida, where the children attended schools that both parents said provided them an excellent education. Meghan, fourteen, hoped to become a veterinarian; eleven-year-old Jacob's goal was to be a robotic engineer. John couldn't visit them for nearly a year after he took the Chicago job, in part because of unexpected medical problems that included a hospital stay for complications from diabetes. So when the family wanted to get together, it usually had to be by phone.

When they had their house in Cape Coral, Syrena recalled, she and John felt like they had everything:

“We had our family. We had good jobs, we had a nice house that we built, we had a dog, we had a cat, and we were happy. And then one day we woke up and everything started going backward on us. We just want to get our lives back together.”

In an earlier time, things would have been differ-