30 Years 1979-2009

LABOR notes

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Free Markets in Free Fall

Too Big to Fail? Take it Over.

We're at the point where the question is not whether to nationalize the banks, but how.

This in a country where just a year ago such a viewpoint would have been laughed at—all the way to the bank.

But today, the chilling depth of the recession has everyone looking to solutions formerly unthinkable for free-market enthusiasts.

Nationalization is on everyone's lips, from Republican Senator Lindsey Graham to former Federal Reserve chairman Alan Greenspan to the AFL-CIO.

What does nationalization mean? Basically, it can mean government providing goods or services. Where that's a service that's familiar—like public schools, or medical care for seniors—it's easy to understand and not scary. In 1965, we nationalized health care for those over 64 years old, whether we called it that or not.

When "nationalization" is a more active word, though, where the government actually takes over services or production that used to be private, people get nervous. Do we want government sticking its paw into that hive?

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Says Elaine Bernard of the Harvard Trade Union Program, "The problem with nationalization is the government." The government's reputation for inefficiency and corruption, built up by 30 years of heavy propaganda demonizing public services and lionizing the market, sows distrust about public takeovers.

But people have often made the decision that some services are too important to leave in the hands of market forces. Fire protection, public schools, and health care (in every industrialized country except the U.S.) are all functions that citizens have said they want run for public benefit, not for profit.

In this year of calamity, we can hunker down and hope the higher-ups will figure out a way to make the pain stop. Or we can turn crisis into opportunity and imagine a whole different type of medicine.

This month we look at the potential of a publicly owned bank, and recent experiences with a city-owned electric company and national rail service. And we envision an agenda for the auto industry that doesn't separate global warming from the equation. ❑

—Jane Slaughter

David Crane/Los Angeles Daily News/ZUMA Press

Los Angeles teachers and parents held a sit-in at a school board meeting, demanding that the proposed layoff of 10,000 employees—mostly teachers—be shelved.

Teachers, Parents Say No to Layoffs

by Alex Caputo-Pearl, UTLA member

With the Los Angeles School Board preparing to lay off 10,000 employees, 200 angry parents and teachers converged on a mid-day board meeting March 10, refusing to leave until the layoffs were shelved. The majority of cuts would hit classroom teachers.

The board walked out, leaving police to clear the room until 60 parents and teachers remained, willing to risk arrest to oppose the layoffs. The layoffs would balloon class sizes and make recruiting for hard-to-staff schools even more difficult. "The District wants to take some of our best teachers," said Marvin Carter, 17, a student at Crenshaw High School. "Reminds me of taking from the poor and giving to the rich."

First in line for layoffs are newer teachers on probation, who are often deeply involved in programs reshaping public schools. The United Teachers Los Angeles (UTLA) union organized the civil disobedience as part of a fight around class size and the status of newer teachers.

They're drawing on community support to face the crisis. At the school board protest, parents and teachers stood and delivered before dozens of reporters. Van To, a second-year teacher at Crenshaw High, said teachers "literally save lives" as mentors in high-needs schools. Parents and grandparents from the community group ACORN reminded the crowd that working-class families like theirs depend upon public services.

Despite their show of strength, the protestors learned the board retired to private chambers to vote 5-2 in favor of the layoffs. The legality of their secret vote is in question.

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Banks, Cars, Railroads, Utilities: A Labor Notes Special Report

It's Time to Nationalize the Banks. Permanently.

by Mark Brenner

Jim West/jimwestphoto.com

Bank of America's Washington office adopted a patriotic theme for the inauguration of Barack Obama.

Billionaire fraudster Bernie Madoff may be behind bars, but his business model is alive and well. How can we keep high-flying bankers from pulling the same kind of bait-and-switch with taxpayers?

Experts— from Nobel Prize-winning economists to Alan Greenspan, the libertarian former Federal Reserve chairman—admit that some kind of nationalization for failing banks is the best way out of this mess.

But nationalization can mean many things. If the government takes over, whose interests are protected? Who pays for the losses? As the AFL-CIO executive council concluded, "Government intervention must be structured to protect the public interest, and not merely rescue executives or wealthy investors."

The best way to protect the vast majority of Americans who don't live the Wall Street high life is to create a federally run bank out of today's insolvent institutions.

It would be cheaper, safer, more democratic, and more transparent.

And it should be permanent. We can't leave what Warren Buffett called "financial weapons of mass destruction" in private hands any more.

Bankers are working hard to protect their gravy train. "Nationalization would be a disaster," said Bank of America CEO Kenneth Lewis, who's pulled down $223 million since 2001, and whose company got $45 billion of bailout money with no strings attached.

Lewis hopes scare tactics will keep us from asking the simple question: How can we force the people who got us into this mess to eat the losses—and to ensure that it doesn't happen again?

WHAT'S A BANK FOR?

If banks didn't exist to make big money for the already-rich, what would they do? They would be a place for people to keep their money safe, even see it grow. They would lend money to other enterprises, both public and private, to keep people working and start useful businesses.

Inventing lighter-than-air financial instruments —that today look more and more like get-rich-quick schemes—doesn't have to be part of the picture.

In other words, we need a bank whose purpose is to serve the public rather than to create megamillionaires. And that bank has to become a permanent institution, like Social Security or Medicare.

Many bank nationalization schemes being floated assume the government will take over the lemons, fix them up with taxpayer money, and then sell them back ASAP to rich investors. As the *New York Times* approvingly quoted one D.C. economist: "Nobody in their right mind wants the government to be in the banking business any longer than it needs to be."

That scenario puts the same people, with the same motivation to fly high and wide, back in charge. We'd end up in the same position again later on, because the lure of billions to be made wheeling and dealing is just too great.

Other models don't put the whole economy at risk. For example, the nation's credit unions, which operate as not-for-profit banks, emerged from the financial meltdown largely unscathed.

They pay higher interest rates for deposits and charge lower interest rates on credit cards and mortgages. Some even set aside funds for socially valuable investments which may never be money-makers. Why not scale up these principles?

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Wall Street Doesn't Deserve Another Chance

We shouldn't pay for Wall Street's recklessness—and we also need to ensure it never happens again.

Most nationalization backers say that after we clean up the current mess we should return banks to private hands and go on as before, so long as we restore regulations.

But Wall Street has too much money and influence for regulations to stick. In the last decade alone Wall Street spent more than $5 billion lobbying to keep regulations as far away as possible. And it made good use of the lobbyist-turned-regulator revolving door to ensure the fox was always guarding the henhouse.

A second reason not to settle for half-measures is that the globalization of financial markets makes the risks too great. It's not just the U.S. that's hurting now, but the whole world. From the 1980s Third World debt crisis to the meltdown of Asian economies in the late '90s, footloose financial firms have left a trail of destruction around the world. They don't deserve another chance.

Autos: Government Wastes an Opportunity

by Jane Slaughter

Jim West/jimwestphoto.com

We could use this moment to create good blue-collar jobs and craft an industrial policy that meets the nation's needs, not the whims of hedge fund managers.

"You never want a serious crisis to go to waste," said Rahm Emanuel, President Obama's chief of staff.

But that's what he and his boss are doing with the auto industry—throwing billions at a sinkhole, making workers pay for their bosses' mistakes, and relying on the finicky market to work some magic.

Where's the "yes, we can" in that?

As of now, the federal government sees just one answer for Detroit's automakers: restoring the Big 3 to profitability.

Everyone's ears are open. With sales plummeting 41 percent last month and no bottom in sight, Detroit's automakers could shutter upwards of 30 factories and still meet current demand. Auto workers face tens of thousands of job losses and billions of dollars in benefit cuts. A million retirees and their families could lose health care.

We could use this moment to create good blue-collar jobs and craft an industrial policy that meets the nation's needs, not the whims of hedge fund managers. To build a health care system that works to keep people healthy, not ration their care. To construct a transportation system where the most convenient way of getting from point A to B doesn't trump keeping the planet alive.

These ideas sound far out today. So did nationalizing the banks, six months ago.

"This crisis provides the opportunity for us to do things that you could not do before," Emanuel said. Let's take him at his word.

INTERLOCKING PROBLEMS

While the Obama administration has plans—even ambitious ones—to address the nation's ills, the flurry of ideas don't hang together.

We'll patch up highways and build some more, all while reducing auto emissions. With one hand we'll throw auto retirees off of health care and with the other we'll subsidize insurance companies to expand coverage. The hip bone's not connected to the thigh bone.

The problems are interlocking and the solutions must be, too.

The auto industry is the prime example of knotty problems so tangled you're tempted to take out a knife: The product pollutes. Employer-provided health care costs a ton, and a million people depend on it.

'You never want a serious crisis to go to waste,' said President Obama's chief of staff. But that's what he and his boss are doing with the auto industry—throwing billions at a sinkhole, making workers pay for their bosses' mistakes, and relying on the finicky market.

A two-tier wage structure will send new hires to the poorhouse. There's a reputation (not always deserved) for poor quality. The industry depends on highways and bridges we've failed to maintain. Those highways feed sprawling suburbs brimming with foreclosed homes.

But instead of looking at solutions that could address these problems at the same time, "success" for the auto bailout is defined simply as "profits." That means executives will be free to continue their same roll of dice in the marketplace, with more carbon-spewing vehicles and a few hybrids for show, with fewer and poorer workers, and with retirees axed from health insurance. (The last two, by the way, are government bailout demands.)

Why not try a solution that doesn't rob Peter to pay Paul?

MAKE A PLAN

Other manufacturing countries created an "industrial policy" after World War II. That meant incentives for the private sector to invest in national priorities, and where they wouldn't, the government would do the incubating.

The U.S. never had an industrial policy, but proponents of the idea said we needed a comprehensive strategy to make sure we were investing wisely. It's no accident that Spain and Denmark make the world's wind turbines now, and that France and Japan make its railcars.

Instead, firms in the U.S. chased the fatter profits of SUVs, so when the gods of the market failed, industrial towns were stuck with mothballed plants. Hundreds of abandoned factories littering Detroit testify to the fact that the market doesn't magically redeploy resources to better alternatives.

The companies can't see past the end of the next quarter's profits (or losses), so the time is again ripe for an industrial policy. Like the Autoworker Caravan group said to Congress in December (autoworkercaravan.org), that means converting factories to produce what we really need—wind turbines, solar panels, mass transit, high-speed trains.

In other words, now's the time to build a transportation and energy sector that can wean us from oil. That would require the government to make sure we're producing what people need, not what the market can profit from. It's the only hope of keeping the good jobs around, and replacing the ones already lost.

At the same time, single-payer health care for all would keep health costs from being a burden on any particular section of the economy. (GM alone now spends $5 billion per year.)

A revamped industry shouldn't be captained by the Wagoners and Mulallys who drove old auto down. Enough of the MBAs. It needs workers, environmentalists, engineers at the helm.

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Train Wreck: the Privatization of British Rail

by Kim Moody,
National Union of Journalists, UK

Faced with an ailing railroad system 50 years ago, Britain's Labour Party government bit the proverbial bullet and nationalized the country's rails. It created an integrated passenger rail service called British Rail in 1948 that was affordable and reasonably efficient, if marred by occasional delays. Studies applauded BR's safety record. The most common complaint was the sandwiches.

BR was viewed as an essential public service, but generations of service cuts starting in the 1960s and accelerating in the '80s under the Conservative Thatcher government laid the tracks for full privatization.

Between 1993 and 1997, the system was dismantled and sold off, piece by piece. The result was a profit-seeking rail system that, according to the *Guardian* newspaper, has "punctuality problems, chronic overcrowding, and terrible consumer satisfaction ratings."

The once-integrated system became a fragmented web of 100 separate profit-taking outfits. There were 25 operating companies, three regional firms that owned the trains, and 13 that maintained the tracks. One big private company, called Railtrack, owned but did not maintain or repair tracks, bridges, and stations. Service and maintenance were separated, with dire consequences.

In the 30 years before privatization British Rail saw only one fatal accident due to track failure. In the five years after privatization, there were five fatal accidents caused by signal failures, troubles with new safety equipment, and track problems. Between 1998 and 2004, 39 track maintenance workers were killed due to lax safety.

North West Evening Mail

Before British Rail was privatized in the 1990s, the most common complaint was the sandwiches. After privatization, several fatal accidents followed, like this 2007 crash.

The operating companies blamed Railtrack, which contracted repairs to maintenance firms, which subcontracted them to construction companies with no rail expertise. No one took responsibility. In grudging recognition of the need for government involvement, Railtrack was replaced by a public non-profit corporation, which brought some maintenance work "in-house."

UNFAIR FARES

Fare increases under nationalized British Rail were infrequent and modest, if only because the politicians didn't want to take the blame. Today, under the privatized system, they are an annual ritual and they are large—6 to 11 percent this year. British passenger fares are on average 50 percent higher than in the rest of Europe. A round-trip day fare costs more than three times that on France's still-nationalized and highly efficient railroad.

Under nationalization the whole system issued only seven types of tickets. The privatized setup, in contrast, was an impenetrable jumble of 70 fares, conditioned by 776 qualifications and restrictions.

In response to passenger anger, in 2008 the system was simplified to three types of tickets—but most of the eliminated fares were the discount deals. Rail watchdogs said some fares doubled and even tripled, pushing passengers into carbon-spewing cars and planes.

SUBSIDIES FOR THE PRIVATIZED

No national passenger rail service in the world is profitable. British Rail was government-subsidized, but the funds were put into the system. The companies that bought the pieces of the rail system now pocket portions of that taxpayer money.

Today the government is still subsidizing rail service, to the tune of $5.6 billion a year, about 50 percent of operating costs. This is a far higher level than British Rail ever received. The Labour government wants to reduce subsidies to 25 percent of total costs, which means that the private companies will try to keep profits high by increasing fares and gouging their workers.

At the time of privatization, one railroad manager reported that government ministers "told us in private that they wanted to break up the unions, but of course they did not say so in public." The largest railroad union, the Rail, Maritime and Transport Workers, struck against privatization, but could not stop it.

Instead of bargaining with one employer, the unions now bargain with scores of different companies that have cut jobs and gone after union contracts.

It has taken years for rank-and-file activists and stewards to rebuild. In 2002 they organized the Campaign for a Fighting and Democratic Union and elected a reform leader, Bob Crow, as general secretary. They set a course for more militant action, including a coordinated strike of 12 of 21 companies over safety issues after a train crash.

They continue to fight for re-nationalization, too. This February, protesting more cutbacks, Crow said, "What is supposed to be a public service has become a crude mechanism for converting huge sums of passengers' and taxpayers' money into profits. It is time to bring rail operations back into the public sector where they belong." ❑

Auto Industry

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To be honest, for too long too many workers went along with the companies' strategy to churn out SUVs as long as it meant lots of overtime.

But today there are plenty who have been slapped awake by the crisis and would be glad to lead us in a different direction.

We missed our last big chance when the Cold War ended in the early 1990s. The "peace dividend" promised to convert unneeded defense plants and make good jobs a political priority.

Industry resisted, lobbyists shrieked, and we gave up too quickly. Let's not make that mistake again. ❑

Los Angeles: Public Power Kept the Lights On

by Elizabeth McCarthy

When California's energy crisis hit in 2000-01, the state's three privately owned utilities suffered serious power shortages. Flashlights and batteries flew off store shelves, a nervous lawmaker at the state Capitol passed out candles, and brightly lit malls were dimmed.

In contrast, electricity flowed from the publicly owned Los Angeles Department of Water and Power without interruption. In fact, the country's largest public power agency had power to spare. It even made several hundred million dollars selling excess electricity.

Jim West/jimwestphoto.com

Not covered by the 1998 deregulation law, the publicly owned Los Angeles Department of Water and Power was able to keep the lights on during California's 2000-2001 energy crisis.

Why the difference?

Energy was deregulated in California in 1998, but the LA Department of Water and Power and public power agencies in other cities were not covered by the new law. Los Angeles watched its private utility brethren reap billions of dollars in profits under deregulation.

A couple of years later, though, the tables turned. The energy market went haywire, unfettered power prices shot through the roof, and private utilities ran out of money. Only the publicly owned companies—which stood on the sidelines while investor-owned utilities chased profits in the wild west of deregulation—emerged unscathed.

LA consumers could laugh all the way to the light switch, at least for a time. Though they'd avoided suffering during the brownouts, LA residents paid their own price for the deregulation fiasco, when their public power agency decided to play the entrepreneurial game and gouge new customers.

To take advantage of its situation and rake in some cash, the manager of the public agency ran its dirty power plants in and outside smoggy LA at full tilt, and even fired up retired ones.

Air quality went south.

Los Angeles taxpayers got slapped with big fines for exceeding pollution caps and had to pay millions in refunds for overcharging the private utilities, with more still in court. ❑

[Elizabeth McCarthy edits California Energy Circuit, www.californiaenergycircuit.net.]

Nationalize the Banks. Permanently.

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Why would a government bank be any better than one run by millionaires? It's understandable to fear that such a bank would become a personal checking account for politicians and their friends, and that its investment decisions would be subject to political pressures. While it's hard to imagine more shady self-dealing than we've seen with banks in private hands, public ownership means setting a higher standard.

Ultimately, the only way to keep a public bank honest *is* public pressure, coupled with strong mechanisms of accountability and transparency. Just like with everything else the government does, politicians are only as honest, and responsive, as we make them (see page 11 for more on that).

WHY IT WOULD WORK

This is a cheaper way to go. We've already spent $700 billion shoring up banks, and the Obama administration has set aside another $250 billion just in case. Creating a "bad bank" to buy up toxic assets could ultimately cost $2 trillion, the *Wall Street Journal* reports.

The Congressional Oversight Panel found that 22 percent of the first bailout installment went towards buying stock in the bailed-out banks at inflated prices. That inflation cost $78 billion.

Unless the government changes the incentives and takes over broke banks, they'll keep selling worthless assets to the government for as much as they can get away with. A real nationalization would force them to swallow their losses.

As the AFL-CIO executive council noted March 5, "The debate over nationalization is delaying the inevitable bank restructuring, which is something our economy cannot afford."

This is a more transparent way to go. It's hard to imagine misplacing $350 billion, but that's what bankers told Congress in January. Bankers said they couldn't account for their gift from taxpayers, and Washington sent the second half of the bailout package into the financial Bermuda Triangle anyway.

A public system is much more transparent. The Federal Deposit Insurance Corporation (FDIC), the government agency that insures bank deposits nationwide, can account for every cent of the money it's used salvaging failing banks in the past year.

This is a safer way to go. Regular commercial banks and investment banks were separated until Congress, under relentless lobbying, removed the firewall in 1999. Regular banks were more conservative in their investments, and investment banks took bigger risks, sometimes scoring larger returns. Blending the two types of banks opened everyone up to pervasive risks, with the desperate consequences we see now.

Credit unions haven't suffered in the current meltdown, because they are run under different principles with a different objective: to serve the members. A permanent public bank would have the same objective for taxpayers.

This is a more democratic way to go. Almost everyone acknowledges that we've given the banks our money thus far without any say in how they're run. Should Wall Street executives have showered themselves with $18 billion in bonuses at the end of 2008?

They got them because the banks remain in private hands, and because the stock we've bought is mostly non-voting. Public ownership would halt the excess, and open access to credit on affordable terms, something our lackluster economy needs.

TOO BIG TO BE PRIVATE

If the banks are big enough to put our whole economy at risk, then they're not only "too big to fail"; they're too big to be private.

We need banks. But we don't need private bankers. It's like health care: we need nurses, doctors, hospitals, and clinics, but we don't need insurance companies.

Over the last 30 years we gave bankers the steering wheel to our economy, through deregulation and a supreme faith that the market knows best. They've driven our economy off a cliff. Why hand them the keys again? ❑