“Endangered: Trust and Decency”

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Pensions are dying out as companies put profit - and CEO perks - ahead of funding workers' retirements

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Once upon a time, not too long ago, American workers could look forward to their retirements with a degree of confidence that, whatever else might befall them, they could count on two sources of income - Social Security and their pensions. Social Security is under attack by those who would privatize the system, but it remains in place for now. Pension plans, however, are fading fast.

When Verizon announced earlier this month that it would freeze the pension plan for some 50,000 of its managers, the communications giant joined a roster of companies shedding what they see as a financial burden in an era that requires increasing flexibility. Verizon's new plan, which allows its managers to expand their 401(k) contributions, is expected to save the company around $3 billion, even counting the additional matching contributions that the company will have to pay into 401(k) plans.

The freeze may not prove to be financially devastating for most of the affected employees, but it is a sign of a fundamental shift in our expectations about retirement income. While workers of a previous generation counted on a dependable retirement annuity based upon their years of service, today workers' retirements hang increasingly on the fate of the stock market. Until recently, that would have been unthinkable - and for many it still is.

The pension plan appears to be a victim of shifting corporate economics, as companies seek to streamline costs and unload expenses. A company pays far less into 401(k) plans than into pensions. Verizon actually is in a much stronger position than some other companies, such as United Airlines and Bethlehem Steel, which have defaulted on their pension plans and pushed their obligations onto the Pension Benefit Guaranty Corp., the federal agency that insures pensions.

But shifting economics alone doesn't explain why so many companies with traditional pensions are in crisis and why workers are paying the price. There is a moral dimension to the crisis that cannot be overlooked.

During the boom years of the 1990s, corporations took advantage of loopholes in the pension law that allowed them to underfund their pension plans. In any given year, only about 20 percent made the maximum contribution. When the stock market turned downward in 2000, the companies' pension plans lost money on their investments and went deep in the red. Rather than make up the shortfall, the companies hung their workers out to dry.

When United Airlines, one of the companies that took advantage of these loopholes, declared bankruptcy last
spring, it defaulted on its pension obligations to more than 100,000 retired workers. These obligations, amounting to $8.4 billion, were added to the teetering financial structure of the Pension Benefit Guaranty Corp., making United's problems the problem of every American. Meanwhile, United's chairman and chief executive, Glenn Tilton, had already socked away $4.5 million of United's money in his own personal retirement trust, where it couldn't be touched.

These aren't merely business or legal issues; at heart they are also moral issues. As companies strive to become more and more efficient, they risk becoming less and less human. For many companies, workers have become commodities to be liquidated for the sake of securing ever-higher profits. Employees become liabilities on a profit and loss sheet, and their pensions simply another resource to be squandered, or another burden to be shed.

As a teacher of business ethics, I've grown used to hearing the quip, "Business ethics? Isn't that an oxymoron?" And for many Americans this is indeed so. There are the realm of work and the realm of morality, and never the twain shall meet. Yet this is a deeply flawed understanding of both business and morality. Business is a social practice that needs to rest on a foundation of morality.

As Adam Smith knew well, capitalism functions best when built upon systems of trust and obligation that bind us together, both because of our self-interest and despite our self-interest. It is not, as many in corporate America so often claim, that the sole moral responsibility of a business is to make a profit for its shareholders, but rather that, because we are bound together in mutual responsibility, profit-making is possible.

Of course, Smith also knew that the realm of business was often most liable to violate the relationships of trust on which free enterprise depends. Capitalism may be a virtuous economic system, but capitalists are often the most vicious of citizens - as the pension crisis demonstrates. Corporations sacrifice the retirement benefits of their workers at the altar of efficiency and profit, while paying CEOs ever increasing - though seldom deserved - benefits. Such bad faith devastates the trust upon which the whole system depends.

Pensions are the product of promises made to workers by the companies that employ them. They are a form of social contract that pledges retirement security in exchange for worker loyalty. The fact that these companies no longer value that loyalty does not absolve them of their obligations, and the fact that the law may absolve them of legal responsibility does not absolve them of moral responsibility. United Airlines and other companies may have placed themselves on a firmer financial footing, but they have lost ground morally and called into question the fidelity of the practice of business itself.

Furthermore, by making their private pension obligations the responsibility of government, these companies have made this a question of public policy, so that it may become necessary for us as a nation to begin to rethink what role we want government to play in the insurance of pensions. What regulations should government be permitted to place upon corporations in exchange for insuring their pensions? If corporations prove themselves incapable of self-regulation, they should not be surprised when the American people begin to demand that the government take a tougher stance.

Once, strong unions could serve as a check on the untrammeled exaltation of corporate profit. By pitting the self-interest of workers against the self-interest of their bosses, unions were able to wrest many concessions from business - including pensions. Today, unions are too weak to fight effectively against the continuing erosion of the benefits for which they fought so hard.

Without the countervailing self-interest of workers to balance the self-interest of corporations and their executives, the only guarantee that businesses can offer to their workers and to America is rooted in their own
virtue, and that is a thin reed on which to hang the aspirations of workers and their families.

Yet this is where we find ourselves. There may come a day when guaranteed pensions are mentioned in the same sentence as dinosaurs and dodo birds. Unless the unions emerge from their condition of lassitude or government rediscovers the palliative influence of regulation, it is only the sense of moral responsibility within corporations that will preserve retirement benefits in any form whatsoever.

We probably cannot count on companies to change how they view their social responsibility, so as a society, we must change the way we view corporate responsibility.

Too many Americans accept the idea that business must be amoral and anti-social, whereas what we need is a vision of business as a part of society, governed by principles of trust, decency and dignity. When the people begin to demand morality in business, businesses will begin to act morally.

In Sweden, companies are signing on to the Swedish Partnership for Social Responsibility, which brings together government, labor unions, businesses, and nongovernmental organizations in an effort to combat corruption and improve living and working conditions of all Swedish workers. Similar initiatives are taking place across the developed world. Companies that participate are finding that it costs little but reaps benefits beyond the bottom line, in terms of improved morale, better products, reduced legal fees and increased consumer confidence.

Such an initiative may be exactly what we in the United States need.

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