The two Americas: Ronald Perelman's $1.45 billion and the fate of Sunbeam's workers

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The nearly one-and-a-half billion dollars awarded this week by a West Palm Beach, Florida jury—$604.3 million in compensatory damages and $850 million in punitive damages—to billionaire investor Ronald Perelman, at the expense of investment banker Morgan Stanley, is telling about the present state of affairs in America.

The jury awards stem from Perelman's ill-fated sale of Coleman, the camping equipment company, to Sunbeam in 1998. As part of that transaction Perelman, chairman of New York-based Revlon cosmetics, received 14.1 million Sunbeam shares, in addition to $160 million in cash and $500 million in assumed debt. The shares became worthless when Sunbeam, mired in an accounting scandal and other difficulties, went bankrupt in 2001.

Perelman sued investment bank Morgan Stanley, which was advising Sunbeam, on the grounds that it had disguised the appliance maker's troubled finances.

Morgan Stanley will appeal the decision. Philip Purcell, the bank's chief executive, said in a statement: "This court has done a great injustice to the employees and shareholders of Morgan Stanley. We will fight to have this decision overturned and we fully expect to prevail."

The bank is expected to cite the pre-trial decision of Florida Judge Elizabeth Maass who, frustrated by Morgan Stanley's inability to provide critical documents, effectively found it guilty of defrauding Perelman. Apparently the judge shifted the burden of proof to the bank and told jury members they merely had to decide whether Perelman relied on Morgan Stanley's statements in deciding to accept the Sunbeam shares.

Analysts predict that Perelman and Morgan Stanley's Purcell, who is facing an attempt by a group of shareholders to remove him, will reach some sort of settlement, perhaps in the range of $500 million.

The sums of money involved are enormous. Perelman originally asked for $20 million, received $1.45 billion from the Florida jury and may be obliged to settle for only hundreds of millions. A parasitic financial aristocracy rules the US, raking in unimaginable amounts, while broad layers of the population struggle to make ends meet.

Plants close in America, jobs disappear, pensions shrink, governments eliminate social services and no political figure or organization, least of all the trade unions, lifts a finger. Far from evoking an outcry, these daily social atrocities hardly hit the headlines. But the "aggrievement" of a Perelman, already a billionaire, cannot go unsatisfied.

An individual like the Revlon chairman, with deep pockets indeed, can afford to spend years in pursuit of his claim. Meanwhile in February 2005 President George W. Bush signed into law the ironically named "Class Action Fairness Act," which is designed to curb the ability of consumers and workers to seek damages for corporate wrongdoing. The measure, supported by the insurance, banking, retail, pharmaceutical, petrochemical and tobacco industries, will channel most major class action suits from state to federal courts, which have traditionally been more conservative and stingier in such matters and which have been packed in recent years by right-wing, pro-big business judges.

Federal district courts will now have jurisdiction over any class action in which the dispute exceeds $5 million, unless two-thirds of the plaintiffs and at least one of the principal defendants come from any one single state, in which case jurisdiction is granted to the state in question. The new law, hypocritically presented to the public as a blow against "frivolous" lawsuits and the greed of wily trial lawyers, will make it even more difficult for ordinary citizens to confront corporate power in America

Two Americas exist, one inhabited by the wealthy elite, whose members think nothing of dropping $100,000 on a single weekend's amusement, and another composed of the working population, increasingly hard-pressed to pay bills, juggling two or three jobs or already the victims of downsizing and cost-cutting.

The existence of two Americas is underscored by the opposed fates of Perelman and former Sunbeam chief executive Albert Dunlap, on the one hand, and thousands of Sunbeam employees, on the other.

Dunlap, known as "Chainsaw Al," a ruthless corporate turnaround artist, assumed control of Sunbeam in July 1996. The announcement of his presence at the company was enough for the stock to rise by nearly 60 percent, at that time the largest one-day jump in the history of the New York Stock Exchange.

True to his reputation, after less than four months at the helm of the small appliance maker, Dunlap announced plans to eliminate half of Sunbeam's 12,000 employees worldwide, while cutting the number of global plants from 26 to 8—4 domestic and 4 international—and warehouses from 61 to 18. Management and clerical positions were also slashed, from 1,529 to 697 and company headquarters staff was cut by 60 percent, from 308 to 123.

In October 1997 Dunlap announced that his restructuring plan was complete. Eight months later Sunbeam's directors fired him, remarking that they had lost confidence in his leadership abilities. Something more than his "leadership," however, was involved. Sunbeam, under Dunlap, overstated its net income in 1997 by $71.1 million. In February 2001, Sunbeam filed for bankruptcy protection. The company was saddled with bank debts of around $1.7 billion. Bankruptcy filings reported that Sunbeam had assets of $2.96 billion and liabilities of $3.2 billion.

The Securities and Exchange Commission charged Dunlap with

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accounting irregularities. “Chainsaw Al” settled with the SEC in September 2002, neither admitting nor denying allegations, but agreeing to pay a fine of $500,000—from his estimated worth of $100 million. As a *BusinessWeek* commentary noted at the time, “To many observers, the settlement seems little more than the proverbial slap on the wrist—and they’re right. After all, the Dunlap era cost thousands of workers their jobs, resulted in shareholder losses of $4.4 billion, and ultimately led Sunbeam into a humiliating bankruptcy. It’s not much of a comeuppance for a 65-year-old ex-CEO who never has to work again anyway. In fact, he took far more from Sunbeam—at least $16 million in cash—in salary, benefits, and reimbursed taxes.”

As for Ronald Perelman, Dunlap’s partner in the Coleman deal—which many suspected was an attempt by Sunbeam to disguise losses through write-offs—we have already seen that he has not suffered too greatly. Whether $1.45 billion will ever truly compensate him for the pain and suffering of the Sunbeam experience, we will leave for others to decide.

And Sunbeam’s workers? One has to search for hints of their fate. No one in the media has any great interest. Today Sunbeam, a subsidiary of American Household, Inc., has some 3,000 employees remaining in the US, Mexico and Venezuela.

Three of Sunbeam’s closed plants were located in Waynesboro, Georgia, Coushatta, Louisiana and Portland, Tennessee. These are not wealthy communities. They have been made considerably poorer by the plant closings.

In November 1996 the 500 Sunbeam workers in Waynesboro, near the South Carolina border, were still uncertain about their fate. The *Augusta* [Georgia] *Chronicle* reported that the chairman of Burke County’s Industrial Development Authority remained “hopeful.” Jerry Long told the newspaper, “They’re a very good employer for us, and we’d hate to lose them. We’re optimistic, though, that this plant would be kept open. But we haven’t had any confirmation either way.”

The newspaper continued: “Mr. Long said he is optimistic the Waynesboro plant will survive, based on two recent expansions totaling almost 300,000 square feet. ‘They’ve made a sizable investment here,’ he said. ‘We hope the news is good.’ But if the county loses the plant, he said, it would be economically devastating.”

The Sunbeam plant, 471,000 square feet, is currently listed on the Georgia state government’s list of “available buildings”—sale price $2.8 million.

As of the 2000 census, Waynesboro had a population of 5,813 people. The per capita income for the city was $12,151. Some 42 percent of the population and 35 percent of families were below the poverty line. Out of the total population, 61 percent of those under the age of 18 and 29 percent of those 65 and older were living below the poverty line.

On Dunlap’s orders, Sunbeam also closed its operations in Coushatta, Louisiana, in the northwestern part of the state. A recent analysis made by the Coordinating & Development Corporation of Shreveport, Louisiana commented bluntly about the effect of the closure on Red River Parish: “This parish hit rock bottom when Sunbeam Corporation, a large employer in a very rural parish, suddenly closed its manufacturing operations in Coushatta, the Parish Seat.”

This is part of a general trend in northwestern Louisiana: “With an overall decline in employment it should be expected that unemployment would rise, and it has. Between 1999 and 2002, the number of persons unemployed has grown from 12,660 to 18,570, which represents an increase of over 46 percent. Unlike labor force and employment figures, the number of persons unemployed has done nothing but rise each year.”

Coushatta had 2,299 residents in 2000. Median household income was $15,500; the median income for a family, $18,958. Per capita income in the small town was only $10,228. Fifty percent of the population and 45 percent of its families were subsisting below the poverty line.

Portland, Tennessee was also hard hit by Sunbeam’s closure. In November 1996, Fred White, the town’s economic and community development director, told the press that Sunbeam Outdoor Products had already stopped making lawn furniture and barbecue grills, eliminating the biggest employer in his community. “It’s kind of a poor way to do this just before Christmas, but it’s theirs. They own it. We’re just the ones who have to live with it.” White said jobs in the area were scarce and hoped someone would buy the plant and rehire the 500 workers.

We know something more about the fate of the Portland workers, because Barbara Garson, in her book, *Money Makes the World Go Around: One Investor Tracks Her Cash through the Global Economy, from Brooklyn to Bangkok and Back*, recounted their story.

Garson (author of *MacBird*, the political satire of the Vietnam era) noted that the union helped management close the plant. A review of her book in the liberal *American Prospect* explains, “In addition to unemployment compensation, the workers get one week’s pay for every year of service—a severance package courtesy of the union. So the most senior employee, with 33 years of service, would get $8,840 before taxes. ‘It’s a considerable amount of money,’ the union rep says, ‘everything being relative.’”

Six months after the plant closing, Garson revisited Portland “and, not surprisingly, finds many of those she met not doing terribly well, especially those with medical problems and no health insurance. The husband of one of the displaced workers had had a heart attack and needed 16 kinds of medicine. The family had taken a continued-coverage health plan but dropped it because they could not afford the $400-a-month premiums. Their replacement policy provided only $500 worth of drug coverage each year. When the family applied for Medicaid, they were rejected; the wife made too much in her new job—$6.50 an hour.”

And Portland, Tennessee is faring better than Waynesboro and Coushatta. With a population of 8,458, the town’s per capita income was $15,559 in 2000; 14 percent of those under 18 and 14 percent of those 65 and older were living beneath the poverty line.

The $1.45 billion that Ronald Perelman potentially picked up this week is six times the yearly income of the 17,000 residents of Waynesboro, Georgia, Coushatta, Louisiana and Portland, Tennessee combined. This is America in 2005.

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