Hostess unions line up with Wall Street asset strippers

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A week after a US bankruptcy court approved the liquidation of Hostess Brands, a slew of private equity firms and buyout specialists are seeking to cash in on the carve-up of the 82-year-old baked goods maker. On November 21, Hostess announced it was locking the gates at its 33 bakeries and hundreds of other facilities around the US, getting rid of its 18,500 workers and canceling payments to its pension funds.

Among the companies reportedly bidding for the Hostess' assets are Flower Foods, private-equity firm Sun Capital Partners, liquidation firm Great American Group and C. Dean Metropoulos & Co., whose owner last month said that "shedding the complications of the unions and old plants makes it even more attractive."

The players involved also include the trade unions, particularly in the Teamsters and the Bakery, Confectionary, Tobacco Workers and Grain Millers (BCTGM), which are functioning essentially as instruments of rival private equity and hedge fund interests.

The maker of Twinkies, Wonder Bread and other well-known brands first filed for bankruptcy in 2004, after years of declining sales and shortsighted decisions by corporate executives. The company's debtors, pointing to "health care and pensions costs required to be paid under the various collective bargaining agreements," insisted that workers give up major concessions.

In response, the Teamsters, BCTGM and other unions accepted concessions worth $110 million a year, including work rule changes and "modifications" in the health and welfare plan that would leave pensions badly underfunded. The company also closed 21 plants through the 2000's and reduced its workforce from 35,000 employees to 18,000, with the BCTGM-represented workforce cut in half to 5,000.

The company came out of bankruptcy in 2009 under the control of private equity firm Ripplewood Holdings and two hedge funds, Silver Point Capital and Monarch Alternative Capital. According to several sources, Ripplewood's entry into Hostess was facilitated by the relationship of its CEO, Timothy Collins, with the Democratic Party and Teamsters union.

New York Times business columnist Andrew Ross Sorkin wrote, "When Mr. Collins originally looked at Hostess, he was trying to make investments in troubled companies with union workers. He was convinced that he could work with labor organizations to turn around iconic American businesses, and he hoped Hostess would become a model for similar deals.

"Early on, Mr. Collins sought out Richard A. Gephardt, the former House majority leader, who had become a consultant on labor issues, to help Ripplewood acquire Hostess and work with its unions. Mr. Collins had previously been a donor to Mr. Gephardt's election campaigns, according to an article in Fortune magazine this year that described the relationship. It was Mr. Collins's relationship with Mr. Gephardt—a Democrat and longtime friend of labor—that helped make the deal happen in the first place."

Collins relied on the former Missouri congressman to work with Teamsters and other unions to extract deep concessions from workers. In return, Gephardt's son, Matthew, was appointed to the Hostess board at $100,000 a year and the Gephardt Group became an equity owner.

The "labor advisory services" provided by the Atlanta-based Gephardt Group helped cement the alliance of the corporate asset strippers and union bureaucrats against the workers. A case study on Gephardt's web site showed how this was done at Spirit AeroSystems, a top aerospace supplier in Wichita, Kansas that was spun off from Boeing in 2005 to cut costs. Last year, the Machinists' union rammed through a 10-year contract for nearly 13,000 workers that bans strikes, ties a portion of workers' pay to company performance and limits raises to four 1-percent hikes over the course of a decade. Gephardt, who was put on the Spirit board of directors, said the deal was "a ground-breaking approach" for both sides.

Significantly Collins got his training at the Wall Street investment house Lazard along with two other financiers—Steve Rattner and Ron Bloom—who were both involved in the wave of bankruptcies and mergers in the airlines and other industries in 1980s and 1990s that left millions of workers without jobs and pensions. Rattner—who has connections to Monarch Alternative Capital, another equity owner of Hostess—went on to oversee the historic attack on auto workers during Obama's 2009 restructuring of General Motors and Chrysler. Bloom would spend two decades as an advisor to the United Steelworkers union when the USW was working with Wall Street to consolidate the steel industry, at the cost of tens of thousands of jobs, before becoming Obama's "manufacturing czar."

At Hostess, the unions told workers the new financiers would reinvest money saved through concessions, modernizing the company's plants and trucks, investing in new technology that other baking companies were employing and developing new products that would increase revenue in the face of the national trend away from sugary snack foods.

Predictably, the "pro-labor" Wall Street investor did none of that. Instead Ripplewood loaded up the company with more debt, and the money robbed from workers went to executive bonuses and other payouts. Even as sales and revenue declined, the Hostess CEO was awarded a 300 percent raise. Other top executives were given raises ranging between 35 and 80 percent.

In January 2012 Hostess was back in the bankruptcy courts. With the backing of the federal judge, the company debtors demanded an eight percent wage cut, a shift of another 20 percent of health care costs onto employees and the elimination of the eight-hour day. The company also demanded the closure of another 10-12 plants. It unilaterally stopped paying its pension obligations.

The Teamsters, which is largest union at Hostess, pushed through the wage and benefit cuts over the opposition of its 6,700 workers in September. In return, the Teamsters were given seats on the Board of Directors, a 25 percent share of company stock and a $100 million claim in bankruptcy.

Among Bakery workers, however, there was a sense that enough was enough. After seeing their wages fall from $48,000 to $34,000 in the first bankruptcy, they were confronted with another reduction to $25,000, with significantly higher out-of-pocket expenses for insurance. They were determined to take a stand against the financial criminals who had looted the company.

To the union executives—including Teamsters President James P. Hoffa who brought home $372,489 last year and BCTGM President Frank Hurt who pocketed $262,654—the resistance of the workers was a threat to their financial dealings with Wall Street.

When Bakery workers voted by 92 percent against the contract and struck, Teamsters officials denounced the walkout as a threat to the company and urged the Bakers union to hold a secret ballot to end it. For their part, the BCTGM officials argued that distribution costs from Teamsters truck drivers and deliverymen were still "out of line with the market" and would have to be cut further or the company would run out of money.

In a filing with the bankruptcy court earlier this week, the Bakery union said that when its advisors met with company representatives earlier this summer, "they were prepared to recommend to the BCTGM leadership that it accept concessions if, but only if, the Company (a) marked its distribution costs to market, (b) established a sustainable capital structure, (c) developed a plan for new revenue, and (d) gave meaningful successorship rights to the BCTGM."

As this shows, the BCTGM officials had no principled opposition to concessions. Facing stiff opposition from rank-and-file workers, however, they calculated that another round of concession demands from a discredited management that had driven the company into the ground might result in a rebellion against the union. In the end, Hurt and the other BCTGM officials figured a new owner who would take over at least part of the company's assets might serve their future interests better.

The experience at Hostess makes it clear that the trade unions are thoroughly hostile to the interests of the workers they allegedly represent. Workers cannot defend themselves against the rapacious demands of the corporate and financial elite unless they build new organizations, independent of the corporatist trade unions, the Democratic Party and the bankrupt capitalist system they defend.

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