The financialization of the telecom industry and the Verizon strike

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12 May 2016

In the ongoing Verizon strike, nearly 40,000 workers are pitted against a giant corporation that is the product of the decades-long consolidation of the telecommunications industry and its increasing subordination to giant banks and hedge funds. The sole purpose of this multinational company is, as Verizon's president, Lowell McAdam, has stated, the maximization of returns for its shareholders, dominated by Wall Street and its large financial institutions.

Major institutional shareholders of Verizon stock include: Vanguard Group Inc. (5.65 percent), Capital Research Global Investors (4.17 percent), State Street Corp (3.75 percent), and BlackRock Fund Advisors (2.52 percent). These five major financial firms alone possess over 16 percent of Verizon shares. There are many more similar firms with smaller stakes. Together, they exercise substantial control over the company.

The concessions surrendered by the Communications Workers of America (CWA) and International Brotherhood of Electrical Workers (IBEW) to Verizon after the betrayal of the 2011 strike and the new concessions now being demanded by the company reflect the logic of the corporatist policies of the unions, which subordinate the working class to the insatiable drive by the banks and transnational corporations for ever-greater returns on investment. It is not simply a question of greed, though there is certainly plenty of that. More fundamentally, it reflects the brutal logic of the capitalist system, which, following the end of the post-World War II boom in particular, has become ever more dominated by the banks, hedge funds and other financial institutions.

This has been accompanied by a drive to squeeze ever more profit off the backs of workers. The massive reduction in the workforce over recent decades, increases in the out-of-pocket cost of medical benefits, demands for long-distance relocations, threats to move jobs overseas, and the replacement of experienced, long-term employees with casual labor are among the attacks that Verizon has carried out or is planning to implement. Workers have repeatedly told the WSWS *Verizon Strike Newsletter* of the increasing and often seemingly senseless harassment by the company, which is designed to drive out older, better-compensated workers.

Workers must understand this reality if they are not to be misled by union leaders and both Democratic and Republican politicians who claim that the company can be forced to behave more "fairly" toward its workforce. A review of the history of the financialization of the telecom industry in general and Verizon in particular provides the basis from which Verizon workers and, indeed, the whole working class can draw necessary lessons.

The financialization of the telecom industry was not merely a "bad idea," the product of misguided policies or the result of the greed of a small number of individuals that can be reversed by new legislation. Fundamentally, what happened to telecom is part of the evolution of the capitalist system as a whole following the end of the postwar boom.

For decades, telecommunications services, both domestically and around the world, were provided by government entities or highly regulated private monopolies. The latter was the case in the US, with the majority of the industry being dominated by American Telephone & Telegraph (AT&T), also known as Bell Telephone or "Ma Bell," originally founded by Alexander Graham Bell, the inventor of the telephone. This situation grew out of the early condition of the industry, with multiple, competing companies. Most of these eventually failed. From the early 20th century, AT&T functioned as a near monopoly under government regulation, with other, smaller companies operating under similar conditions in limited areas.

This reflected the concept of "natural monopoly," the understanding that certain industries, such as railroads, telephones, and electricity providers, were most effective and efficient in providing services when they operated single systems within given geographic areas, avoiding duplication of infrastructure and labor forces. Government regulation was intended to insure that such monopolies actually provided services, while limiting the tendency to exploit their exclusive hold over the market. In return for protection from competition, the telephone companies were supposed to provide affordable services to all within their regions, encompassing both more-profitable and less-profitable areas.

The breakup of the telecom monopoly regime began in the 1980s as part of a larger policy of deregulation and privatization that swept the capitalist world at that time, driven by the end of the postwar economic boom. Presented as a way to increase competition, and thus provide better and less-expensive service to customers, this process was, in fact, intended to sweep away all restrictions to the maximization of private profit.

The process began in Britain, where Prime Minister Thatcher separated the telecom system from the British Post Office in 1981 and sold it off in three large tranches beginning in 1984. The 1984 stock sale was the largest in history at that time. The sale price was $22.9 billion with a generous 3 percent bank advisory fee.

Ronald Reagan took a similar approach in the US. Following up on a longstanding antitrust case against AT&T, the business was broken up into eight separate companies in 1984. AT&T (aka Ma Bell) retained the long-distance business, which was, however, opened to competition. The seven regional companies, known as "Baby Bells," became independent providers of local telephone services within their respective regions.

The CWA and the other telecom unions did nothing to defend the more than 600,000 AT&T workers from a move that opened the way to a massive assault on their jobs and benefits. Indeed, the unions' response was to collaborate with the US telecom companies in a bid to slash costs in order to compete with their global competitors. The result has been a never-ending assault on the jobs, wages and benefits of telecommunications that continues to this day.

The Telecommunications Act of 1996, enacted under the Clinton administration with the support of the CWA, eliminated regulation of the Baby Bells and permitted open competition between them and other telecom companies. It was designed to make US telecoms more globally

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competitive at the expense of workers and the public at large. The result has been a further concentration of the communications industry, with the market monopolized by a handful of giant transnational players.

The breakup of AT&T and the creation of a competitive market brought with it wealth, power, and the increasing domination of finance capital. As each of the eight divisions of AT&T transformed itself into a full-service, stand-alone company, they turned to the finance houses for money, advice, and assistance. Rapidly, the logic of the capitalist market led to a re-concentration of the industry, exposing the sham promise that the breakup would lead to increased competition, lower costs, and better service.

A symbol of the increasing financialization was the takeover in 1988 of industrial giant RJR Nabisco by the tiny, little-known private equity company KKR (Kohlberg Kravis Roberts and Company). Two *Wall Street Journal* reporters chronicled this watershed event in a book titled *Barbarians at the Gate*. This process soon engulfed the telecom industry.

The fortunes of the bank analysts who rated the performance of the telecom industry rose rapidly. Two of the top telecom analysts from the beginning of the telecom boom in the 1990s until the bubble burst in 2001-2002 were Dan Reingold and Jack Grubman.

Grubman, in particular, came to dominate the industry. His word moved the market, and he set the course for investment, Initial Public Offerings (IPOs), and mergers that reshaped the industry. He positioned Global Crossing for a blockbuster IPO in 1998 and kept the stock rising afterward. WorldCom was his superstar pick. The small, non-union company grew through two-dozen merger-and-acquisition deals. It merged with MCI to become the second biggest telecom in the country, and was set to merge in a huge deal with Sprint to become the biggest when that was halted by antitrust concerns and the bursting of the telecom bubble in 2001.

When WorldCom went bankrupt July 21, 2002, it was the country's second largest long-distance carrier and its largest mover of Internet traffic. It had $32 billion in debt and claimed assets of $107 billion. CEO Bernie Ebbers had collected $1 million IPO shares worth $11 million. Grubman stage-managed WorldCom stock analyst calls. He attended Board of Directors meetings, and he wrote scripts for Q-and-A reports to the market.

In 1998, under the administration of President Bill Clinton, the Glass-Steagall Act separating investment and commercial banks was repealed. Glass-Steagall had been enacted in the wake of the 1929 stock market crash by the administration of Franklin Roosevelt to curb the speculation that it was felt helped trigger the economic collapse.

Clinton's repeal of Glass-Steagall was carried out at the behest of large financial interests, including the Travelers Group (parent of Grubman's Salomon Brothers investment bank) and Citibank. Grubman's domination of the telecom market was a major prize sought by Citibank in its drive to repeal the law. Grubman, backed by the financial powerhouse Citigroup, was the universally acknowledged master of the telecom industry.

The dissolution of the USSR in 1991 precipitated the biggest worldwide sell-off of nationalized property in history. Dan Reingold explained that he left Morgan Stanley to sign onto Merrill Lynch's plan to become the leading bank cashing in on what it identified as the global privatization of telecom. Reingold personally went to two dozen countries to promote the privatization of state telecom systems.

Reingold collected huge fees for Merrill Lynch, which acquired control of one national telecom system after another. This wealth was turned into the dot.com and telecom boom in the US. It created a bull market in which the banks bought and controlled CEOs with IPO stock. Companies expanded, hired more workers, and merged under the direction of finance houses and their telecom analysts. Economic pundits called it a "New Economy" and claimed the market could never go down. The head of the Federal Reserve, Alan Greenspan, agreed.

The domination of the telecom industry by finance capital and the consolidation of the industry involved concerted attacks on the workforce, including massive layoffs and attacks on wages and benefits, such as the progressive elimination of defined benefit pension plans.

Meanwhile, $65 billion in new capital poured into telecom. The bubble inflated, the companies expanded, hired and overproduced, the banks made super-profits, and the deregulatory legislation passed to induce more competition actually drove mergers and concentration in almost every corner of the market.

When the telecom bubble burst in 2001, 23 companies went bankrupt, over 80 percent of stock valuation was wiped out, and half a million telecom workers lost their jobs. Again, the CWA and other unions did nothing to defend workers. Those firms that remained, including Verizon, continue to be dominated by finance capital.

Verizon is a product of the re-concentration of the telecom industry, resulting from the merger of two Baby Bells—Nynex and Bell Atlantic—plus independent telecom firms GTE and MCI. As has happened in a number of other deregulated industries, such as airlines and the energy industry, the much-touted capitalist panacea of free market competition has, in reality, turned into its opposite—consolidation and monopolization, which benefitted only the financial and corporate elites, along with precipitating spectacular collapses (e.g., Enron).

For its part, the CWA has supported this process. It supported the merger of Bell Atlantic and NYNEX and entered into various agreements with SBC in the 1990s and 2000s to support its merger-and-acquisition activities before state and federal regulators in exchange for card-check and union-neutrality agreements designed to help expand the union's dues base.

The emergence of Verizon as a highly profitable company is the result of a combination of attacks on its workers and "rationalization" (i.e., cuts) of its services to meet the dictates of Wall Street and the financial industry. The company's intransigent stand during the current strike is a reflection of the insatiable drive to maximize profit in an environment of global economic crisis and domination of the economy by finance capital.

According to a recent piece in the *Washington Post*, "Verizon did a $5 billion stock buyback last year to boost its stock price, on top of an already generous dividend. If that money had instead been divided among 180,000 workers, it would have come to $28,000 per person—showing that there's plenty of profit to be shared across the company." This is not the result of a "bad choice." The logic of the capitalist system dictates that those companies that do not do everything possible to "maximize shareholder value" will quickly be abandoned by the financial markets for those that will.

Verizon is a transnational giant subordinated to the demands of financial markets. The crisis of the capitalist system, greatly accelerated following the 2008 crash, means that the drive to maximize profit is now greater than ever. Verizon cannot and will not halt or moderate the attack on its workers. The leaderships of the CWA and IBEW accept this framework. They are committed to enhancing the competitiveness of "their" companies, at the expense of workers in order to protect their own fat salaries and expense accounts.

To counter the corporate assault on their jobs and living standards workers must break free from the unions and their pro-corporate perspective. They must build new, democratically controlled organizations of struggle.

But above all, workers need a new political perspective. The subordination of all aspects of economic life to the insatiable drive of the banks and hedge funds for profit must be ended. This means the struggle for socialism. The Socialist Equality Party calls for the transformation of the banks and transnational corporations, including the telecoms, into publicly controlled utilities under the democratic ownership and control of the working class. To carry this out, the working class needs a political

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party of its own, independent from the Democrat and Republicans, the parties of big business. The SEP and the *Verizon Strike Newsletter* are building the revolutionary leadership for this struggle.

To contact the WSWS and the Socialist Equality Party visit:

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