Daschle proposes to bring back the entrepreneur

by Richard Freeman

Whether he fully realizes it or not, Senate Minority Leader Tom Daschle (D-S.D.), in tackling the issue of the role that corporate America must play in the revival of the dying U.S. agro-industrial economy, is directly taking on the far broader issue of the post-industrial paradigm shift imposed upon the United States by the City of London and its Wall Street allies and dupes over 30 years ago.

The character of the corporation changed dramatically for the worse, with British introduction of the post-industrial society policy in 1963. This fostered speculation over productive investment, and unleashed the rock-sex-drug counterculture. America's paradigm was shifted, replacing optimism with pessimism. The change began in the 1960s, with the growth of the offshore unregulated Euro-dollar market. It grew with the decoupling of the dollar from the gold standard in August 1971. But it was a series of ordered changes in the 1975-82 period, spanning Henry Kissinger's last years as secretary of state in the Ford administration, through the Presidency of Jimmy Carter, and then through the George Bush-influenced economic policy of the Reagan administration, which eradicated the corporation as we knew it.

Changes in the corporation and in the economy run in parallel: Every change that worsens the economy, does the same for the corporation.

As the 1970s deregulation of financial markets, the transportation grid, and so forth, proceeded, normal economic and business relations were deliberately broken up. What the followers of Sen. Phil Gramm (R-Tex.) and Rep. Newt Gingrich (R-Ga.) like to call the "laws of the market"—or the "laws of the jungle"—ensued. Nineteenth-century American System of Economics methods were ridiculed, as chaos took over. Riotous free-for-all markets, governed by huge flows of hot money, became the norm. Into this environment, the British unleashed their asset-strippers, the alliance of top financiers and outright organized-crime members. The biggest criminals, such as Michael Milken of Drexel Burnham Lambert, Henry Kravis of Kravis Kohlberg Roberts, and Alan "Ace" Greenberg of Bears Stearns, became the business leaders.

By 1984-85, at the very moment that the Burgmaster machine-tool company was being destroyed through a leveraged buy-out (see preceding article), these forces began to gain the upper hand. The financial media anointed Milken as America's best businessman. In 1984, *Forbes* magazine featured a cover story entitled, "A One-Man Revolution." *Business Week* magazine, with Milken on its cover, quoted Harvard business professor Samuel Hayes comparing Milken to J.P. Morgan, and ran an editorial headlined, "Junk Bonds Deserve a Little Respect." For the London-run *Institutional Investor* magazine, the headline said it all: "Milken the Magnificent."

Over the next ten years, things became worse.

Within this setting, the corporation became the slave to a policy of looting itself, for two main objectives: 1) making expensive debt-service payments on mountains of piled up leveraged buy-out (LBO) debt; and 2) keeping up the artificially inflated price of the company's stock. If the company did not continue this looting policy, then Wall Street and the City of London would whack its stock price.

We briefly examine three phases of this process: the deregulation of the financial markets, deregulation of the transportation grid, and deregulation of the tax system.

Deregulating the financial markets

On Aug. 15, 1971, President Richard Nixon took the dollar, the world's reserve currency, off the gold standard, which had been adopted by the 1944 Bretton Woods conference. The international fixed exchange-rate currency system, in which all currencies were pegged to gold, and backed by a combination of gold and dollars, made it possible for imbalances in trade among nations to be settled in gold. Nixon's actions shattered this system. A floating exchange rate system was introduced, which bolstered the offshore, unregulated Euro-dollar market to almost $1 trillion by the mid-1980s. This became a source of hot money to destabilize governments.

Moreover, whereas up through 1971, the value of U.S. hard commodity merchandise trade equalled 80% of the dollar volume of all dollars traded on the international foreign exchange markets, by 1995, it constituted less than one-half of one percent. The dollar financial market was delinked from the U.S. physical economy. By the time this process reached maturity in the early 1990s, speculators like George Soros often had more say about the fate of the dollar, than did America's elected government.

Next, on June 4, 1975, America's brokerage house/securities "industry" was officially deregulated, as bill S.249 was signed into law. Fixed rates and fixed rate commissions were ended between both the broker-dealer and the small investor, and between the broker-dealer and the corporate client. Business was now thrown into a free-for-all. The import of this critical legislation is explained elsewhere in this *Feature.* It made it possible for firms with strong supplies of organized crime funds, such as Drexel Burnham Lambert and or Kohlberg Kravis Roberts, to dominate Wall Street. They started making junk bonds, leveraged buy-outs, and other exotic instruments the dominant financial instruments of the late 1970s, the 1980s, and the 1990s.

Third, and most important, is the Depository Institutions Act, which was signed into law on Oct. 12, 1982. It perhaps caused the most far-reaching damage of the three. The act was sponsored by Sen. Jake Garn (R-Utah), and Rep. Fernand St Germain (D-R.I.), and hence came to be called the Garn-St Germain Act. The act deregulated the entire banking system: the commercial banks and the savings and loans institutions. Vice President George Bush had been the head of a White House financial regulatory reform task force, which studied, recommended, and oversaw the banking deregulation.

The provisions of the act are detailed in the article on p. 47. It allowed S&Ls to invest up to 40% of their assets into commercial real estate, and another 30% into consumer loans. Moreover, since Federal Reserve Board Chairman Paul Volcker had sent interest rates into the stratosphere, S&Ls which were earning only 5% on their home mortgage loans, but paying 15-18% on deposit accounts, were strong-armed to invest in high-return real estate deals to recoup what they were losing on deposits. A regulated banking system became a thing of the past.

With the proliferation of LBO financings, thanks in part to the 1975 deregulation of the securities industry; with the increase in real estate partnerships, thanks in part to the liberal provisions for these partnerships provided for in the Kemp-Roth Tax Act of 1981; and with the ability to rig the fake appreciation of stocks, thanks to the legislation that cut capital gains tax rates; the S&Ls and commercial banks were enticed and/or threw themselves into an orgy of speculative investment.

Of course, there were predictable consequences. Since deregulation in 1982, more than 700 thrift institutions folded, and the cost to the taxpayers to bail them out was $400 billion, one of the costs that "free enterprisers" from the Mont Pelerin Society are always mum about, when they talk about "utilizing the invisible hand of the free market." The bailout to the commercial banks, from 1989 through 1994, disguised as a policy by Fed chairman Alan Greenspan to allow banks to borrow through the discount window at 3.5% and then buy U.S. government treasuries paying 6.5% with the borrowed money, easily totaled $100 billion. Since 1982, the number of local and regional banks that serve communities and industry has shrunk by 30%. America is being forced toward adopting the model of Britain's banking system, where the top four clearing house banks control 60% of the banking system's assets.

Even worse, the banking system, addicted to derivatives and other exotic instruments, is now entirely geared toward speculation: In 1982, the commercial banking system made 38% of its loans to the category "commerce and industry," that is the real economy; today, the corresponding figure is only 21.8%, a collapse by almost half.

Deregulating transportation and taxes

The second big phase of destruction was the deregulation of the transport grid. Details of this are presented in the case studies below.

The net effect of the deregulation was to sharply contract the size of the grid, leaving entire regions unprovided for, while increasing the cost to the economy for moving goods. Simultaneously, because of a commitment to cost-cutting, safety features and maintenance were cut, increasing the density of deadly accidents.

As for the deregulation of taxes, deregulation began with the Steiger Act of 1978 (which took effect in 1979), which cut the top capital gains tax rate from 49 to 28%. Since 1979, quite to the contrary of what tax-resisters say, the federal tax rate has been repeatedly cut. The sharpest cuts were for the most speculative activities of a handful of blue-blood wealthy families and parasites.

For example, in 1981, the Economic Recovery Tax Act (ERTA), often called the Kemp-Roth Act, was passed. Among its provisions, it:

• reduced the top tax rate on capital gains further to 20%;

• reduced the maximum tax rate on investment, or "unearned" income—income from interest and dividends—from what was then a rate of 70% to 50%;

• increased, gradually, from $175,625 to $600,000 (by 1987), the total amount of reported estate and gift earnings that would be exempt from estate and gift taxes. *By 1987, less than 1% of all estates would be taxed*;

• created a bonanza for "investment partnerships." "Passive investment partnerships" were set up, whereby, one could invest $1 in it, and get back $2 to $4 in tax losses to apply against one's taxes;

• reduced taxes for leasing;

• reduced overall income taxes by 23% over three years.

With the exception of the last-mentioned tax cut, all tax cuts benefitted primarily the rich speculators, and even the last cut helped the wealthy the most. The tax system was being deregulated, so that speculative arrangements came out on top.

Driving this process forward, was the continuation of Volcker's high-interest-rate policy by Alan Greenspan, who replaced Volcker as Federal Reserve chairman in 1985. Between 1979 and 1990, the U.S. bank prime lending rate averaged 11.9%. Speculation prospered; production collapsed.

The asset-stripper mob

This string of initiatives by the Executive branch, the Congress, and the Fed, opened the door for the asset-strippers, and decimated whatever was left of the American industrial corporate sector. For example, during 1975-90, Drexel Burnham Lambert, floated nearly 60% of the almost $200 billion in junk bonds floated. Junk bonds were high-risk, high-yield bonds that were floated to raise funds for corporate takeovers.

Here is a typical case of a Drexel Burnham-funded hostile takeover: In 1987, Drexel floated $50 million in junk bonds for Doskocil, a midwestern meat producer, to complete a hostile takeover of Wilson Foods, an Oklahoma City meat packer six times larger than Doskocil. Doskocil had annual sales of $215 million; Wilson had sales of $1.3 billion; Doskocil had 900 employees, Wilson Foods had 5,500; Doskocil had 5 plants, compared with Wilson's 12.

In January 1989, Doskocil formally took control of Wilson Foods, firing the president, chief executive officer, and more than 100 salaried employees. The huge, high-interest debt that Doskocil incurred to buy Wilson Foods, proved too large for Doskocil. It fired workers, closed plants, and cut wages. Ultimately, on March 5, 1990, it filed for bankruptcy protection.

By 1985, Michael Milken was helping corporate raider Carl Icahn make an $8.1 billion bid for Oklahoma-based Phillips Petroleum, an oil company ten times the size of Icahn's holding company. Milken asserted, with no backup documentation, that he could mobilize the entire $8.1 billion from his pool of "offshore investors" in 96 hours, to secure a hostile takeover. Corporate managers were given the choice: Either cave in to Milken's "friendly" takeover offer, or lose everything via the hostile takeover route.

But who, or what, was Drexel Burnham Lambert? Everybody was told that it was an investment bank run by Michael Milken, but that was a fairy story: Drexel was run by the highest levels of City of London finance, and their own extensive apparatus of organized crime.

In the 1960s, the biggest money-laundering machine in the world was the Geneva, Switzerland-based Investors Overseas Services, whose president was Bernie Cornfeld. IOS was actually owned and run by Baron Edmond de Rothschild, a billionaire, from his Geneva-based Banque Privée. IOS ran hundreds of millions of dollars worth of flight capital weekly, and laundered casino and drug money for National Crime Syndicate boss Meyer Lansky, a patron of the Anti-Defamation League of B'nai B'rith (ADL). During the 1960s and early 1970s, IOS was also the largest single investor in the U.S. stock market.

During this period, IOS's lead investment bank was none other than Drexel investment bank, which was called at the

General Dynamics downsized as stock price soared

In 1991, William Anders assumed the chairmanship of General Dynamics, a Fortune 100 company, and America's second largest aerospace-defense firm. General Dynamics possessed sophisticated technological assets, which could be used either for defense production or conversion to high-technology industries that America desperately needs. Immediately, Anders began asset-stripping the company. His goal: to force up its stock price, and to pay out the cash inflows from the sale of its divisions as huge lump sum dividends to stockholders and himself.

Anders started tearing the company apart in September 1991, when he sold General Dynamics' computer division to Computer Sciences Corp. In 1992, in quick succession, he sold, in January, its Cessna unit to Textron, Inc.; in May, its missile division to Hughes Aircraft Co.; and in September 1992, its electronic division to the Carlyle Group of Frank Carlucci. In January 1993, he sold its jet fighter division, which is anchored by its Fort Worth, Texas factory, which manufactures the radar-evading F-22 and the F-16 fighters, to Lockheed Corp. for $1.525 billion.

In two years, Anders had sold off so many assets, that had he reduced sales revenues from $10 billion to $3.5 billion, a cut of 65%, and reduced its labor force from 55,550 to 20,100, a cut of 64%. One might think that Wall Street would have been horrified.

Quite the opposite. In 1991, when he took over the company, General Dynamics's stock hovered at $25 per share. With each sale, the price went higher. As rewards to himself and company stockholders, Anders paid out huge special dividends, including a one-time payment of $75, tax-free, for each share of General Dynamics stock. No wonder Wall Street wanted to get aboard this ride. General Dynamics stock peaked at $118 per share, a nearly fivefold increase.

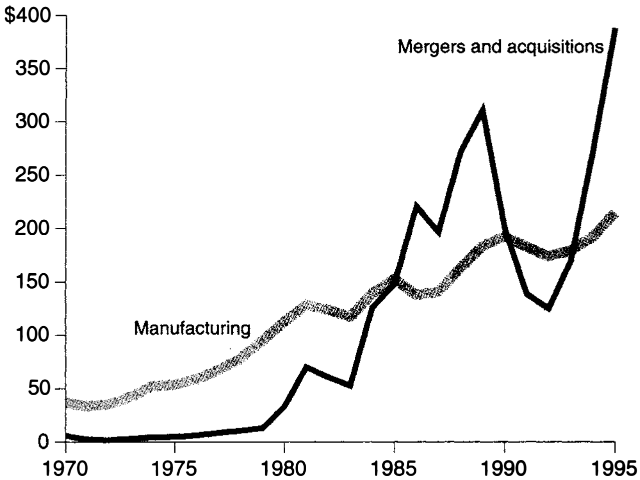
Anders was given stock options, some of which would be worth something to him, only if he kept General Dynamics's stock price above a certain level. He did that. Over two years, he pocketed $44 million in base pay salary, and benefits from exercising his options, special share payouts, etc. Two dozen other senior officers benefitted to the tune of $15 million. An additional nearly $700 million was siphoned from the company and paid to stockholders. In early 1993, Anders stepped down as the chief executive officer of General Dynamics, having downsized the company to a nub. Many of the divisions that Anders sold, when merged with the company that purchased them, were faced with the shutting down of capacity, the firing of workers, and other rationalization.

Anders earned the name of "Terminator" while at General Dynamics, but Wall Street rallied to his cause. One executive stated, "If I was a stockholder of Westinghouse and Anders showed up as CEO, I'd buy [more stock]."

FIGURE 1

Mergers and acquisitions versus new manufacturing plant and equipment

(billions $)

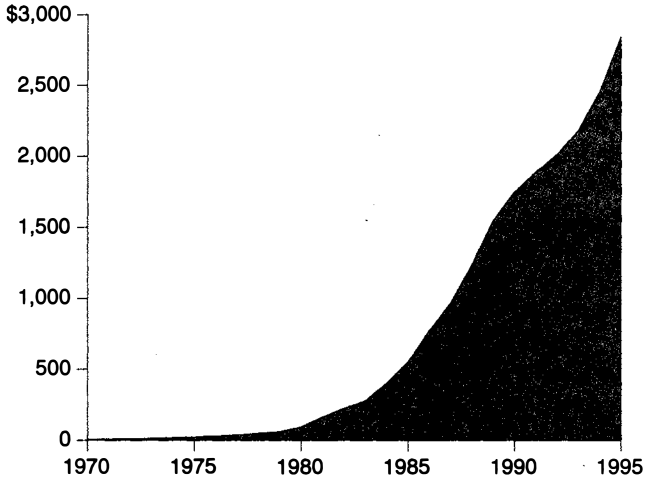


Sources: *M&A Almanac,* published by IDD Enterprises; U.S. Department of Commerce, Bureau of the Census.

FIGURE 2

Cumulative volume of mergers and acquisitions activity, 1970-95

(billions $)



Source: *M&A Alamanc.*

time, Drexel Harriman Ripley. Drexel epitomized the alliance of two of the most powerful British assets in the United States: the House of Morgan, which in 1871 had merged with Drexel; and the Harriman family, which made its initial fortune as the personal brokers for the takeover by Prince Edward Albert (later, King Edward VII) of some of the American railroads.

Eventually, IOS was scrapped, courtesy of a $260 million ripoff, nominally executed by Dope, Inc. financier Robert Vesco, but, actually orchestrated from behind the scenes by Wall Street lawyer, and then-ADL national chairman, Kenneth Bialkin. Key assets and personnel of the old IOS were transferred directly to Drexel.

Once the junk bond frenzy got under way in the mid-1970s, Drexel turned again to Anglo-American financial circles, to recruit a clientele for its risky paper. The money was anted up by the United Fruit Company, America's biggest illegal narcotics importer. "Milken's Monsters," as they came to be known, included: Saul Steinberg, Carl Lindner, Meshulam Riklis, and Max Fisher. These front-men for offshore, unregulated, hot money—i.e., United Fruit and the Lansky crime syndicate—provided Milken with the capital for his assault on America's eroding industrial base. And, in effect, the looting of the American corporate sector served as a vehicle for laundering tens of billions of dollars in dirty money through the American economy.

It was a devastating one-two punch: First, City of London and Wall Street assets and dupes within the government deregulated the U.S. economy; and then, frontmen for Dope, Inc. moved in and asset-stripped corporate America nearly out of existence, building up the biggest financial bubble in history.

Demolishing the corporation and the economy

Figures 1 and **2** show, for the period 1970 through 1995, the level of American mergers and acquisitions. In 1970, the total annual volume of M&As was $6 billion. The level did not break $10 billion M&As per year until 1976; it did not break $50 billion until 1981. But after that, it went straight up. It crashed in 1990, after Milken was arrested, and Drexel Burnham Lambert was liquidated. But, with KKR, Bear Stearns, and others picking up the slack, using the private placement market to float the debt, rather than junk bonds, M&As surged to an all-time record level of $388 billion in 1995.

Figure 1 also compares, on an annual basis, the dollar value of M&A activity, and the spending by America's entire manufacturing sector for new plant and equipment. The change in the relative ratio accurately reflects the change in America's priorities since 1970. In 1970, America spent six times as much for new manufacturing plant and equipment as for mergers. In 1986, the roles started to switch. By 1995, M&A activity was nearly twice that of spending for plant and equipment.

Figure 2 shows cumulative merger and acquisition activity over the period 1950 through 1995. By 1995, the cumulative 25-year total for M&As had absorbed a breath-taking $2.85 trillion. During this time, America was not building new nuclear power plants, or developing magnetically levitated trains, but *did* complete 55,000 buy-outs, which brought no economic benefit.

The debt service would bleed America dry. For comparison, during the period 1970 to 1995, according to the Flow of Funds Accounts of the Federal Reserve Board of Governors, the total debt of all nonfinancial business—that is all companies that are not banks, insurance companies, etc.—rose from $670.3 billion to $4.459 trillion, representing an increase of $3.789 trillion. Not all financing of mergers and acquisitions was financed by debt—some financing involved cash and stock—but a considerable portion of all M&A activity was financed by debt. Thus, between 1970 and 1995, a very sizeable percentage of the increase in the debt of nonfinancial businesses, $3.789 trillion, was accounted for solely by the increase of M&As by $2.85 trillion.

In 1995, on total nonfinancial business debt outstanding of $4.459 trillion, the interest debt service reached roughly $356 billion. On the basis of this, every three years, more than $1 trillion will be siphoned from nonfinancial businesses to meet the debt service. Half that amount or more is due to the interest cost of leveraged buy-outs.

Artificial stock market boom

During the same period, especially since 1980, an artificial stock market boom, having no relation to the shrinking real economy, was created (see box on General Dynamics). The same post-industrial society policy changes, and the same asset-stripper mafia, that manipulated the LBO boom, rigged this boom.

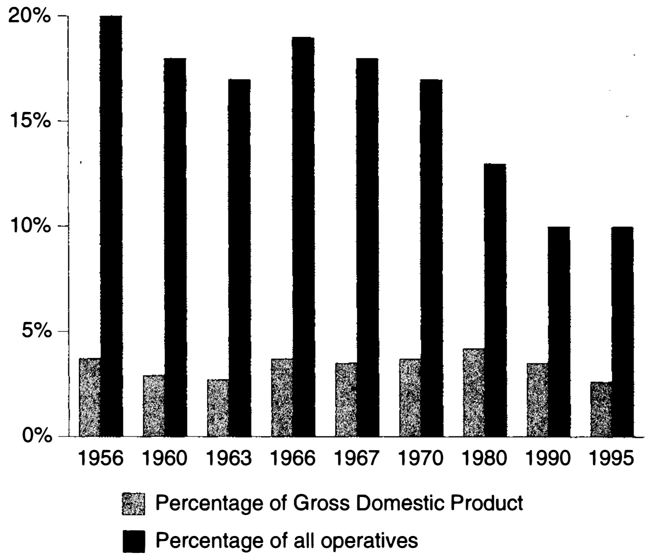
Mergers and acquisitions have a second function, in addition to the one described above: They artificially "bull up" the value of stock. When a takeover occurs, it not only raises the stock price of the targeted company, but of all the stocks in the company's industry group.

The employment of stock index options, like the Standard and Poor 300, or the Money Market Index, traded on the Chicago exchanges, were created expressly to artificially updraft the stock market.

The 1978 Steiger Act, reducing the capital gains top tax rate from 49% to 28% also added to the stock market binge. Capital gains tax rate cuts have historically not only reduced the capital gains tax that someone pays, but have also raised the value of stock markets.

The boom is underscored by the Dow Jones Industrial Average of 30 stocks, which rose from 847 on June 1, 1980, to 5,585 today. Even more telling, the Wiltshire 5000 Index measures the market capitalization for all stock exchanges in the United States. In 1971, the value of total stock market capitalization was $949 billion. As of March 15 of this year, it was $6.32 trillion, a more than sixfold increase. But this is only a paper appreciation, not something that represents real wealth. Yet, once a corporation's stock is fictitiously appreciated, it is expected to maintain its price range, and make dividend payouts, special share offerings, etc., even if that means wiping out the corporation by firing its workers and idling its plant and equipment. If the dividend yield is maintained at the same ratio, the higher the stock price goes, the more in dividends has to be sucked out from the corporate treasury.

FIGURE 3
Manufacturing investment and employment



Sources: U.S. Department of Labor, Bureau of Labor Statistics; U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census.

Most companies, driven by officers drawn from the nation's business schools, whose compensation is tied to the stock price, are obsessed with maintaining a high stock price.

In January 1996, Robert Allen, chief executive officer of AT&T, announced 40,000 layoffs, the latest installment in 123,000 worker firings, actual and planned, that his company will have carried out since 1990. This represents a whopping 30% of AT&T's 1990 workforce. AT&T is still paying off $7.5 billion in LBO debt connected with its 1991 takeover of NCR Corp. After AT&T announced the firings, the value of AT&T stock soared. CEO Allen earns an annual salary of $3,362,000. He then made more than $5 million from the resulting increased value of his stock and options.

A similar story can be told for hundreds of companies, and by millions of workers across the country. They are fired and then rehired—maybe at the same company, maybe at another—at two-thirds the pay, with half or less of their previous health and other benefits.

As the firings escalate, the manufacturing sector starts to disappear: **Figure 3** shows that in 1990, the ratio of the manufacturing workforce to the total labor force, at 10%, was one-half of what it had been in 1956, while the investment in new plant and equipment as a percent of Gross Domestic Product—a measure of the capital intensity of manufacturing—plunged 33%.

The higher purpose of the corporation, to build the American economy in the service of the nation's "general welfare," has been lost. The republican corporation, which built this nation, has been obliterated. It can only be restored by eradicating the post-industrial society. This is the challenge that Sen. Tom Daschle, and others in the Democratic Party leadership, must be prepared to accept, if their plans to revive the American Dream are to succeed.

Case Study No. 1

Lorenzo, deregulation decimate the airlines

by Richard Freeman

In 1983, corporate raider Frank Lorenzo placed Continental Airlines, which he had purchased only two years earlier, into bankruptcy. He justified his action, saying that this "was deregulation at work." His assessment was absolutely correct. But Lorenzo did not stop there.

In 1986, Lorenzo's holding company, Texas Air, purchased America's third largest air carrier, Eastern Airlines. The resulting airline became America's biggest, carrying one-sixth of all U.S. passenger air traffic. Over the next four years, Lorenzo, joined by Drexel Burnham Lambert's Michael Milken and Minnesota mobster Carl Pohlad, asset-stripped Eastern. By March 1989, Eastern was placed into bankruptcy. In 1990, a bankruptcy judge deposed Lorenzo as Eastern's owner. On Jan. 18, 1991, a hemorrhaging Eastern, having lost more than $1 billion, and having been shrunk by 80%, was liquidated and permanently closed.

Three days later, a separate bankruptcy court liquidated Pan American Airways. Eastern and Pan Am, which were founded in 1929 and 1927, respectively, along with United, American, and Trans World Airlines, were the five pioneer airlines which opened up the United States to commercial air travel. Shortly thereafter, two mid-sized U.S. air carriers, Braniff and Midway airlines, were likewise liquidated. America's air system was being taken apart.

These liquidations are the tragic outcome of the 1979 implementation of deregulation, whose purpose was to take-down the U.S. air grid. British oligarchy-linked speculators turned airlines into toys, purchasing and trading them back and forth, at escalating levels of debt. They loaded debilitating levels of debt onto the back of an airline that they bought in a leveraged buy-out (LBO), and then, in order to pay the interest on the debt, pillaged the airline's plant and equipment, fired its labor force, and sold off its assets—all the while justifying such actions in the name of competition and "cost-saving." Today, leaders of this takeover crowd still hold on to some of America's battered airlines: TWA is owned by gangster-linked green-mailer Carl Ichan; NorthWest Airlines is owned by takeover artists Al Chechy and Gary Wilson; and USAir is owned by a joint partnership of British Airways and Warren Buffett. Buffett loots USAir by forcing it to pay an 11% dividend-yield on preferred stock which he owns. USAir has the highest level of accidents of the majors in the U.S. airline industry.

But the key to the change for the worse in the airline industry, was the series of maneuvers taken in 1971-90 by Lorenzo, who served as the instrument of the British oligarchy to demolish the airline system. Lorenzo spearheaded price-cutting wars, LBOs, and hostile takeovers. Because of his City of London-Wall Street backing, and the fact that, by the mid-1980s, he owned the largest U.S. airline empire, many competitor airlines either had to imitate his predatory asset-stripping actions, or find themselves out of existence. Several of Lorenzo's "competitors" had similar dispositions.

Lorenzo, who was mentally unbalanced, presented himself as a model "Wall Street tough guy," "a bottom-line sort of guy." Once dubbed the "most hated man in America" because of his union-busting and destruction, at the height of his power he was nonetheless the poster boy of the *Wall Street Journal* and *BusinessWeek* and *Fortune* magazines, as well as of the Bush wing of the Republican Party. They lauded him as the embodiment of the "modern" corporate chief. Lorenzo's history unlocks the story of the demolition of America's air transportation grid.

Deregulation slows airline growth

In 1929, Eastern Airlines's predecessor began, as did many other U.S. airlines, as an entity to deliver the U.S. mail. For a while, it was owned by General Motors. Eventually transformed into a passenger airline, it established a route along the East Coast of the United States. Another pioneering U.S. airline was Pan Am, which travelled between Florida and Cuba, and branched out into other areas. Its founder and guiding spirit, Juan Trippe, called Pan Am the "chosen instrument" of the U.S. government, and wanted it to be treated and regulated like the Postal Service, the telephone system, or a public utility.

In 1938, the Civil Aeronautics Board (CAB) was created to regulate the airline industry; it was modeled on the Interstate Commerce Commission, which had been created in 1887, and which regulated the railroads, the trucking industry, and shipping. But there were some important differences. During this period, the airline industry was a struggling infant industry. The CAB had a dual mission. Many of the airlines were principally concerned with carrying mail. The CAB either channeled monies to airlines, in return for service deliver-ing the U.S. mail, or else directly subsidized the airlines. Its second mission was to regulate airlines: especially as commercial airline traffic became a going concern after World War II, the CAB made sure that carriers extended routes to as many cities as possible across the United States, at fair prices.

The CAB served the nation well. One side of this is evident from the explosive rate of growth of the commercial airline industry before deregulation. A key measure of the airline industry is the "revenue passenger-miles flown," taken on a *per-capita* basis, in order to take into account a growing population. During the 1950s, the compounded rate of growth in increase of revenue passenger-miles flown per capita, was 11.2% per year. But the airline industry was still in its infancy, so one might expect a high rate of growth. Over 1960-78, the last year before the airline industry was deregulated, this measure still increased at a compounded rate of 8.5% per year. This contrasts sharply with the shrunken 3.4% annual compounded rate the airline industry has registered since deregulation, in 1979, through 1995. Even the supposed 3.4% growth rate is deceptive, because it is based on heavy price discounting to selected passengers. Without the selective discounting, the rate would be lower.

During the late 1970s, before deregulation, some of the airlines had financial difficulties. But what many so-called authorities deliberately refuse to look at is the cost of fuel, which, depending on price, ranges from one-tenth to one-fifth the cost of operating an airline. The first oil hoax, in 1973, quadrupled the price of oil, from $3, to $12 per barrel; the second oil hoax of 1978-79 tripled it again, to $36 per barrel. However, the price of jet fuel, at the producers' level, has fallen over 1980-81 through 1995, by 56%, giving the airline owners an unearned windfall.

Harvard's concept of 'business management'

In 1940, Frank Lorenzo was born in Queens, New York City. He graduated from Columbia University, and then from Harvard University with a master's degree in business administration, and he expresses Harvard's concept of "business management." In 1969, Lorenzo formed a consulting-leasing firm, called Jet Capital Corporation, which served as his prized vehicle for taking over and looting airline companies.

Lorenzo's first break came in 1971, when Chase Manhattan Bank contracted him to reorganize a small Texas airline. The airline was pompously called Texas International Airlines, Inc. (TXI). Its routes were largely confined to southwest Texas, but it did travel to Veracruz and Tampico, Mexico; thus "international" was added to its name. Most people who were familiar with it, called it "Tree Tops Airline."

However, Chase Manhattan knew to whom it was referring Lorenzo. TXI was owned by Carl Pohlad of Minneapolis, one of the dirtiest mobsters in America, and an inheritor of the organized crime-linked Kid Cann Minneapolis mob. Pohlad, who is the second largest stockholder of the Minneapolis-based First Bank Systems, over the years has speculatively snapped up ownership or significant shares in 30 banks across the United States. He is also close to the drug-linked Anti-Defamation League of B'nai B'rith.

Lorenzo and his Jet Capital organized a $35 million recapitalization of TXI, with Jet Capital taking over TXI, its first airline purchase. In turn, Pohlad became the second largest stockholder in Lorenzo's takeover vehicle, Jet Capital, and would be a major force behind Lorenzo for the next 20 years. Eventually, the giant, Morgan-linked Equitable Life Insurance Corp. also became a Jet Capital stockholder.

In 1974-75, Lorenzo broke TXI's unions. Then, in 1977, he received approval from the CAB (several of the CAB board members had gotten cozy with the airline financiers) to introduce half-price fares, which were called "peanut fares." Thus, two years before airline deregulation took effect, Lorenzo was already implementing the model for deregulation: cutthroat fares based on busting the union and asset-stripping the company. This was done not with regard to keeping fares permanently low, but, rather, introducing the maximum amount of chaos in the air transport grid.

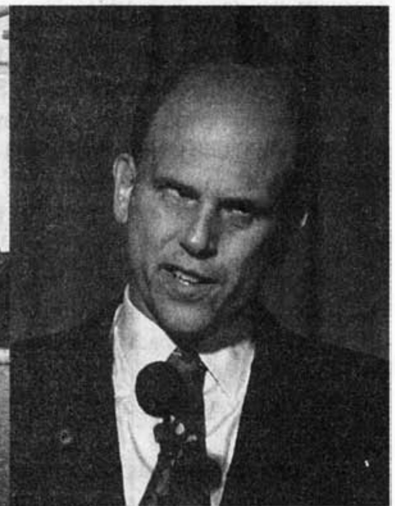
The takeover of Continental

In 1978, the airline industry was deregulated, which took effect in 1979. The deregulation allowed easy entry for upstart airlines, even with minimal capitalization. It also allowed fares to be lowered. No longer would fares be set to cover the cost of production and provide something extra as a fair rate of profit to reinvest in expanding and technologically upgrading the level of production.

Lorenzo was the pioneer of deregulation. In 1980, he launched New York Air. It offered low fares based on two practices: first, it was the first major, explicitly non-union airline; second, it held investment to a minimum, buying mostly aged planes. It traveled the Boston-to-Washington, D.C. corridor, offering fares low enough to take away business from Eastern Airlines, its competitor, which was already established on this route.

In 1981, Lorenzo, backed by Pohlad, launched a no-holds-barred, hostile bid for Continental Airlines. Lorenzo's TXI was tiny compared to Continental, then America's eighth-largest passenger carrier. But Lorenzo was helped by Wall Street bankers, who hammered down the value of Continental's stock, to the point that the total value of Continental's stock was worth less than its fleet of planes, a near-impossible situation. Continental offered very good service, and was staffed with dedicated, loyal employees. But the downturn of Texas's economy, where Continental did most of its business, had put Continental in tight financial straits.

In the face of Lorenzo's onslaught, which included many dirty tricks, Continental finally conceded defeat. On Aug. 9, 1981, in his office at the Los Angeles Airport, Alvin Feldman, Continental's chief executive officer, put a gun to his head and shot himself.



Eastern Airlines employees on strike against Frank Lorenzo's union-busting policies, March 1989. Lorenzo joined with Drexel Burnham Lambert's Michael Milken (inset), and Minnesota mobster Carl Pohlad, to asset-strip Eastern, which was eventually placed in bankruptcy.

Continental put into bankruptcy

In August 1983, Lorenzo moved to make Continental a non-union airline. Backed by a favorable ruling by a compliant judge, Lorenzo put Continental Airlines into Chapter 11 bankruptcy, under the U.S. Bankruptcy Code. The purpose of the move became clear: Continental declared that bankruptcy voided a binding contract that it had signed with its three unions. In response, the workers struck, but, by hiring scabs, Lorenzo broke the unions. When the workers came back to work, their wages were cut in half. Lorenzo said that this was "deregulation at work." (In 1984, Congress rewrote the law to remove the bankruptcy loophole that Lorenzo used, but this provision is still abused.)

Right after Lorenzo acquired Continental, his prized takeover vehicle, Jet Capital, set up a "ponzi scheme" holding company, Texas Air. Jet Capital obtained an issue of stock with special voting rights, which enabled it to always control Texas Air, even though Jet Capital would eventually own only 3% of Texas Air common stock. Continental and New York Air were folded into Texas Air, and other purchased airlines would likewise be folded in.

Texas Air began borrowing heavily. While Continental was still in bankruptcy, Texas Air, which was not in bankruptcy, borrowed $1 billion to buy 38 planes for Continental.

Then, in 1985, Texas Air decided to borrow more. It had already been working with Drexel Burnham Lambert, the drug-linked investment bank that was leading the mergers and acquisitions boom that was asset-stripping corporate America. In 1985, Drexel's Milken, who championed Lorenzo, floated a blizzard of high-risk bonds and financial paper to the tune of $1 billion, to enable Lorenzo to take over the airline industry. Immediately, Lorenzo picked up People's Express and Frontier Airlines, two deregulation, low-cost, start-up airlines. He then made a bid for Eastern Airlines, which startled everyone: Eastern was America's third largest airline, which, with more than 40,000 employees to Continental's 12,000, was more than three times Continental's size. Continental was the mainstay of Lorenzo's air empire.

But, by 1986, Lorenzo acquired Eastern. This involved significant shenanigans by Wall Street, which squeezed Eastern's admittedly stupid board of directors, led by its then-chairman, Frank Borman. The purchase price for Eastern was an unbelievably cheap $615 million. Compare this to the fact that Eastern's plant and equipment, including planes, terminal facilities, reservation system, etc., was worth more than $2.5 billion. On top of this, Lorenzo only paid $256 million of the $615 million purchase price for Eastern out of his own money; the rest came from Eastern itself, in payments it paid over to Lorenzo, which was then applied to the purchase.

Lorenzo lost no time in integrating People's Express, Frontier, and Eastern as divisions within his ponzi scheme holding company, Texas Air. When the dust had settled, through hostile takeovers financed by Milken, et al., Texas Air had catapulted to become America's biggest, and the world's second largest airline, after Russia's State-owned Aeroflot. It handled one-sixth of all U.S. passenger traffic. It now employed over 50,000 workers, with 451 planes, and was earning $7 billion in annual revenues.

But Texas Air paid dearly for its high-roller hostile takeover game. By 1986, its debt exceeded $4.5 billion; by 1988, it would exceed $5.5 billion. It had a very high interest rate. For example, in May 1988, when Lorenzo's subsidiary, Eastern Airlines, was desperate for cash, and he was already starting to lose his sheen on Wall Street, Texas Air borrowed $200 million in a private placement, but was forced to pay a 17.25% rate of interest.

Lorenzo's airline empire began imploding in upon itself. Lorenzo wanted to get a quarter-billion dollars per year in wage give-backs from his labor unions, but he could not get it, because, from 1987 until early 1989, he could not provoke his unions into a strike. He resorted to several asset-stripping operations.

However, other British-linked takeover artists were simultaneously applying the same techniques to their airlines. With Lorenzo's airline desperately intensifying the deregulation price wars in an attempt to stay afloat, it created destruction for everyone. The airline industry as a whole was pushed, starting 1985, and for nearly a decade afterward, into an impossible situation.

Bloodletting hits the industry

Holding companies normally take money from a subsidiary, through dividends that the subsidiary pays on stock to the holding company. But the banks that loaned money to Lorenzo's Eastern put a restriction on such payments, as a way of ensuring that Lorenzo would not take all the profits out of the company and then put it into bankruptcy, leaving Eastern's creditors holding the bag. To get around this restriction, Lorenzo resorted to asset-switching. He carried out bloodletting against Eastern, in the form of pillaging its resources and selling off assets. A few examples portray this.

- In March 1987, Texas Air stripped out Eastern's computerized reservation system, called System One Direct Access (SODA), a bank of computers which gave more than 5,000 travel agents worldwide instant access to Eastern's flights and fares. This was one of Eastern's biggest moneymakers, a major tool to pull in passengers and profits. Texas Air set up a subsidiary, called System One Holdings, Inc., and Eastern was forced to sell its SODA system to it for only $100 million, even though outside investment bankers and consultants estimated the true worth of SODA to be $250-450 million. Texas Air then charged Eastern $10 million per month in fees for a computer reservation system that was once its own. The looted money was used to hold up Lorenzo's empire.
- Lorenzo unloaded mountains of worthless paper onto Eastern. According to writer Aaron Bernstein, "When Texas Air bought People Express in late 1986, it picked up $100 million in notes from the nearly bankrupt carrier. The notes, which carried no rating from Standard & Poor, a company that rates bonds, were so risky that they probably would have fetched much less [perhaps one-fifth of their face value] if sold on the open market. Texas Air, however, sold $30 million of them to Eastern for $25 million, even though it had paid less than $21 million to buy this set of notes in the first place. Texas Air walked off with a $4.4 million profit. Eastern was left $25 million poorer, holding a piece of paper of dubious value."
- Eastern was forced by Texas Air to sell six A-300 jets to Continental. Continental, which was in terrible financial shape, paid $162 million for the planes, though it paid only $95 million of this in cash. The remaining $67 million was in the form of a Continental promissory note. Continental then sold the jets to someone else for $169 million in hard cash. On the deal, Eastern lost $7 million, and was left holding $67 million in promissory notes of doubtful value.
- Texas Air created a new company called Texas Air Fuel Management, Inc., to buy fuel for all its airlines. Eastern paid on the order of $1 million a month just for the service—not the fuel—which brought Eastern no benefit. This siphoned off approximately $12 million per year.
- In early 1987, Lorenzo's chief hatchet man, Philip Bakes, announced that he would institute a 30% cut in Eastern's total labor bill of $1.7 billion—a wage cut of $510 million per year. According to an internal company memo, baggage handlers, who were earning $16 per hour, would have their wages cut to $3.85 per hour at Orlando, Florida's airport, and $5 per hour at New York's LaGuardia Airport.
- Between late 1986 and 1987, with Texas Air stock trading near an all-time high of $50 per share, Lorenzo unloaded his Texas Air stock, raking in $7 million. Even though he would eventually own less than 200 shares of Texas Air stock, through rigging special voting rights, he would still control the company.
- Texas Air began stripping down Eastern by selling off its airport gates, at ridiculously low prices, just to get cash to hold Texas Air and its bankrupt divisions afloat. On July 22, 1988, Texas Air ordered Eastern to close its Kansas City hub, one of its major sub-hubs, and eliminate flights to 14 cities. The move wiped out 4,000 jobs, 12% of Eastern's workforce at that time.
- Lorenzo even tried selling Eastern's East Coast Shuttle, its most profitable operation, for a pittance, but was blocked by a federal district judge. He still charged Eastern $5 million in fees for his attempt to sell the shuttle.
- According to the estimate of Farrell Kupersmith, an accountant working for Touche Ross, a major accounting firm, Lorenzo successfully made off with $750 million of Eastern's assets.
- In the course of a lawsuit, Eastern's unions uncovered a

four-page confidential memo, entitled "Chunks," which listed eight additional Eastern assets that could be sold off.

When Lorenzo took over Eastern, it alone had a 260-plane fleet, 42,000 employees, and 1,500 daily flights. As a result of his asset-stripping, firings, etc., by the end of 1988, after only two full years, it had a 200-plane fleet, 29,000 employees, and 1,000 daily flights, a reduction of 23%, 31%, and 33%, respectively.

Lorenzo funneled proceeds from asset sales to prop up remaining operations. And, as a result, *debt and expenses grew larger relative to the shrinking asset base.* As one source put it, "Lorenzo was burning up the furniture just to heat the house."

The two dogmas of the takeover binge, which transformed the American corporation, were to: 1) use debt liberally to take over other companies; and 2) use draconian cost-accounting measures, including budget-cutting, to keep the company operating. This was usually done by calculating out "per unit costs," and then reducing unit costs, without regard to what effect this would have on the total industrial enterprise. Lorenzo's operations refuted the worth of that Harvard Business School dogma.

Analysts use a measure called available-seat miles (ASMs) to judge an airline's costs on a unit basis. This measures the total number of miles an airline's planes could fly, multiplied by the total number of seats it has available to be sold. In 1986, Eastern's capacity was nearly 15 billion ASMs, and its cost per ASM was 7.4¢. Through 1987 and 1988, Lorezno's steady sale and closure of assets slashed ASMs to 11 billion. This downsizing produced a relentless upsurge in costs, which reached 9.6¢ per ASM by the end of 1988.

The more capacity that Lorenzo slashed, the higher Eastern's unit costs rose. It became a self-feeding cycle. The axioms and postulates of Frank Lorenzo were sending Eastern straight to destruction.

In March 1989, Lorenzo entered bankruptcy court with Eastern Airlines. He fully expected a bankruptcy judge to allow him to walk out on his debts and to allow him to cut wages further and sell off more assets. On April 18, 1990, Bankruptcy Court Judge Burton Lifland ruled, "The time has come to replace the pilot to captain Eastern's crew. . . . Eastern's owner/manager as personified by the chairman of the board of both the parent and the debtor [Frank Lorenzo] is not competent to reorganize the estate." Lorenzo was deposed.

Eastern was put into receivership to be administered by a court-appointed trustee. But it could only survive over the next nine months by selling off more of its profitable routes. By Jan. 18, 1991, when Eastern finally was liquidated, it had run more than $1 billion in losses, and its share of the U.S. airline market had shrunk from 16% down to 3%.

Because Lorenzo's Texas Air combine, which included Eastern, Continental, People's Express, Frontier, and New York Air, had been the biggest in the United States, it set the rules and terms for the rest of the airline industry. Even if an airline chief were not inclined to imitate Lorenzo's Texas Air example—and many airline owners were not so inclined—they were forced to adopt many of Lorenzo's tactics to stay competitive.

By 1992, airline deregulation had forced 117 U.S. airlines to file for bankruptcy.

Whereas, before deregulation, there were often direct routes between cities, and usually, at most, one stop-over, after deregulation, with the development of airline hubs, a traveller could have three or four plane-changes before reaching his or her final destination. Trips might now take twice as long. The time lost in extra travel cost the American economy tens of billions of dollars annually. And many cities are now excluded from the air grid.

Over 1990-94, the airline industry lost $13.1 billion. This loss equalled the cumulative amount of profits that the airline industry had earned from 1920 until 1978. The losses meant that the industry, on balance, paid no taxes for these years, and, because of loss carry-forwards, may not pay them for a few more years.

Meanwhile, over 1979-95, the average age of the airline fleet has skyrocketed, from 9 years, to 14 years, an increase of 56%, representing deregulation's steadfast policy of disinvestment. The number of mechanics per plane for maintenance has been cut, contributing to the continuing saga of deadly air disasters.

Case Study No. 2

Destruction of the rail grid leads to accidents

by Richard Freeman

On March 4, thirty-seven cars of an 89-car Wisconsin Central Ltd. freight train derailed inside the town of Weyanwega, Wisconsin. The train was carrying 15 propane tank cars, containing 1 million pounds of propane, shipped liquefied and under pressure. One of the propane tank cars ignited and exploded into flames, destroying a nearby feed mill and creating a huge fireball. In rapid succession, three more propane tank cars caught fire, setting fire to buildings along the path of the train. The town's 1,700 residents were asked to abandon their homes, originally for five to seven days. But more than one week later, the wreck was still ablaze. Highly trained firefighting crews brought in from Texas painstakingly built an earthen pit, in which to siphon off and burn non-ignited fuel. Residents have now been told it may be a month before they are allowed back to their homes.

This was the seventh major train disaster in the United States since Feb. 1, involving both freight and passenger trains. On Feb. 17, after the fourth crash, investigators for the Department of Transportation's National Transportation Safety Board reported that they could find no conceivable link among the four accidents. Such a patently incompetent statement rests not so much on the credibility of the individual investigator, but on the employment of the faulty Sherlock Holmes-style, empiricist methodology of investigation. Going through all the nitpicking details is necessary, but it should not prevent the investigator from looking at the fundamental reason for the accidents, which is painfully manifest: the British oligarchy-linked financiers' systemic pillaging of the rail system and its infrastructure over the past 30 years.

This looting included the rape of the New Haven Railroad and the Penn Central. Toward the end of the 1960s, the Penn Central, which represented the merger of the Pennsylvania Railroad and the New York Central, was both America's largest passenger and freight railroad. Wall Street speculators picked the line clean, and threw it into the lap of the U.S. government to bail out in 1970, at huge expense. Eventually, the government spun off its freight division into Conrail, and maintains the passenger service as Amtrak. While such depredations went on, they were limited, to some extent, in scope.

The Staggers Act

But in 1980, President Jimmy Carter pushed through a plan to deregulate the railroads introduced by Rep. Harley Staggers (D-W.V.), and thus rail deregulation came to be known as the Staggers Act. It lifted all restraints to unbridled speculation. After all, the London-linked rail speculators, including prominently the Morgans and Harrimans, could now say, "It's the law, we're entitled to do it, we're supposed to have unrestrained free competition."

During the 1980s and 1990s, year by year the amount of track in operation was shrunk. Tens of thousands of miles were ripped up, and many of these rail lines would never be operative again. Rail workers were fired in droves. One didn't have to be a super investigator—one could read about the carnage in the newspapers. In just the operations of the Class I rail carriers, which are the major railroads which operate 75-80% of all of America's rail service: over 1980-95, roughly 59% of Class I rail carriers' workforce has been laid off, 34% of its track shut down, and 34% of its locomotives and 45% of its freight cars abandoned.

On balance, the members of America's rail cartel, which control the rail grid—Union Pacific, Southern Pacific, CSX, Norfolk Southern, Burlington Northern Santa Fe, Consolidated Rail (Con Rail, now a private operation)—have not built net a single mile of new track. America's rail network was built through the dirigistic use of the resources of the State, by Abraham Lincoln, and using the Leibnizian "American System" of economics. Today's rail barons only know how to tear down. The accidents are a lawful result of this process.

Destroying the ICC

The most significant change wrought by the Staggers Act, is that it allowed the rail industry to disregard procedures which had been in effect for 83 years, since the 1887 creation of the Interstate Commerce Commission (ICC), which gave the rail service a mission of building the nation. It introduced a concept which the financiers had been pushing for, to make the railroad a super-profit-earning instrument, to enrich a few stock and bond holders.

Before deregulation, railroad rate-setting bureaus, in which railroads participated under the supervision of the ICC, set rail rates at levels that allowed a rate of return that covered capital and operating costs, including a fair wage to labor, and some profit, for technological improvement and expansion. The railroads had to agree on a rate for a particular zone of the country, and get the ICC's approval. After deregulation, a railroad company could raise its rate up to 180% of its operating cost, without getting prior ICC approval. It only needed approval, if it went above that level. A spokesman for the Association of American Railroads (AAR), which represents the Class I carriers, explained on Feb. 28, that 130% of operating costs is breakeven. So, 180% is more than 38% above breakeven.

But deregulation allowed, not only the freedom to set rates, but the freedom to seek whatever rate of return on investment one wanted, free from ICC scrutiny and oversight.

An AAR spokesman explained on March 3 that, prior to 1980, no specific rate of return was aimed for, but records show that an average annual return on net investment of 5-7% was realized in years which did not have significant economic downturns. He said that today, the industry is shooting to get an industry-wide 12.2% rate of return, double the level of the 1970s. In 1995, the rail industry was the favorite of Wall Street, as rail stock prices rose 20%. Thus, the purpose of the higher rate of return is not to improve the railroad, as is readily seen, but rather, to give out bigger dividends, to get the stock price higher, and to make rail stocks a better investment play for speculators and derivatives dealers, who will suck wealth out of the railroad.

Deregulation brought other changes. The ICC had established for the rail industry a series of necessary procedures, such as preventing preferential rates for large shippers (which is something the Morgan and Harriman interests had so badly abused during the nineteenth century), setting fair rates for both the railroad and the shipper, guaranteeing that enough rail cars were allocated to small communities, etc. With the Staggers Act, all of that went out the window. For example, railroads began signing preferential agreements with large customers. Using preferential agreements, the rail industry went, for example, from hauling 40% of all autos transported, to 70%. At the same time, the railroads freely abandoned less profitable lines.

The rail industry sought to generate more revenue ton-miles, not by expanding the rail net, but rather by employing objectionable policies within a shrinking rail net. Key in this is increasing the number of trips. The frequency of trips of a single freight train increased from 15.8 trips per year in 1980, to 22.3 trips per year in 1994. The rail industry made more trips serving its bigger customers, but traveled fewer routes, and left out some customers altogether. Second, is going longer distances. In 1980, the average length of rail haul was 615.8 miles; in 1994, it was 816.8 miles, an increase of 33%. Even if everything else remained the same, this greater distance per trip would increase a rail company's revenue ton-miles by 33%.

But, perhaps the biggest reason for the longer hauls is that, because of Environmental Protection Agency proscriptions against high-sulfur coal, found predominantly on the East Coast of the United States, the rail industry now hauls more low-sulfur coal, for example, from Powder Basin, Wyoming. This increases average length of haul, revenue ton-miles, and revenues. Yet, this is absurd. This is a profits-driven, EPA-driven policy. It is a wasted use of the railroad.

Moreover, costs were further driven down by slashing labor and capital formation costs, and reducing safety expenditures to the bone. The rail system was being operated at below the "energy of the system," that is, below the basic labor and capital input costs needed for reproduction of the enterprise as a whole. It was just a matter of time before an avalanche of accidents occurred.

The Silver Spring crash

The rail disaster on Feb. 16, in Silver Spring, Maryland, was the most deadly crash of the recent wave of accidents, and best illustrates the points involved. The accident involved five infrastructural breakdowns, any one of which, had investment been made to correct it in advance, would have averted the accident, or at least the deaths. These breakdowns are not accidental: *They are the result of deliberate policy decisions.*

In this accident, a Maryland Rail Commuter Service (MARC) train, pushing three carloads of commuters, rammed into an Amtrak train, the Capitol Limited, which was heading toward Chicago. The accident killed 11 people and injured 26 (all the casualties, three crew members and eight passengers, were on the lighter MARC train). On this rail line, there was a parallel set of tracks. The Amtrak Capitol Limited was crossing from one set of tracks to the other. The MARC train was moving forward on that other set of tracks. Key points highlight the causes of the crash:

- It appears that in snow conditions, with impaired visibility, the engineer of the MARC train, which it is claimed was travelling at 63 miles per hour, went through a yellow warning-light signal to "slow down." However, it is not clear that the signal was functioning.

Furthermore, there exists a technology from the 1920s, the "automatic train stop system," which brings a train to a halt if it has passed a restrictive signal. The system will automatically trigger a mechanism that will override the train's manual controls and cause the train to brake.

In 1920, in response to a series of deadly train wrecks, the U.S. Congress passed the Signal Inspection Act. This gave the ICC authority to require railroads to install automatic stop systems. In 1947, the ICC ruled that such systems had to be in place on all railroads that wanted their trains to travel faster than 80 mph.

The MARC and Amtrak systems do not own the track over which they travel. That track is owned, administered, and maintained by the CSX rail system (formerly the Chesapeake and Ohio Railroad). MARC and Amtrak lease the track from CSX. But the Richmond, Virginia-based CSX is an asset-stripper. It steadfastly refused to spend the money to install an automatic train stop system on this line.

- The Amtrak train into which the MARC train rammed, had two locomotives. Its lead locomotive, an older General Motors model, had tanks containing thousands of gallons of diesel fuel mounted beneath the locomotive *in an exposed fashion.* When the crash occurred, the exposed fuel tanks ruptured, drenching and incinerating the lead passenger car of the MARC train. The eight passengers who died did not die from the impact, but rather, of smoke inhalation and from the intense fire.

The second locomotive was a newer General Electric model which had fuel tanks mounted behind a special protective panel. Had Amtrak spent the money to ensure that its first locomotive was also of the newer model, it is likely that those passengers would be alive today.

- Once the MARC train (apparently) ran the yellow signal, it could still have been stopped by a second, red stop signal. But the MARC engineers could not see the red signal until after the MARC train came around a sharp bend—and by that point there was only 1,800 feet in which to stop the train. Originally, there had been a signal at the bend in the road, but it had been torn down—and CSX never replaced it, because it cost too much money.
- At the moment the crash was taking place, the MARC headquarters' computers falsely showed the MARC train safely parked far from the site of the accident.
- A third and fourth set of tracks are desperately needed in the immediate vicinity of the Washington, D.C.-Northern Virginia-Eastern Maryland corridor. CSX refused to build them.

CSX has aggressively built itself up, however, through mergers, cost-cutting, and speculation. During the 1970s and 1980s, CSX was a high flyer, investing in North Sea oil, Caribbean resorts, and Washington Beltway real estate. It also bought up and stripped other rail systems, so that today it owns and operates 18,779 miles of trackage in 20 states, and has nearly $5 billion in annual rail revenues, making it America's second biggest railroad. CSX's board includes three bankers from top banks in the eastern United States, and Sir Denis Thatcher, the husband of former British Prime Minister Margaret Thatcher. He is there because he can get CSX contracts in Europe and Asia, according to a CSX spokesman. He also delivers one lecture per year to the top executives of CSX, which one CSX executive called "breathtaking."

The media have blamed the accident on the MARC train's crew, all of whom died, and so cannot defend themselves. While one cannot completely exonerate them at present, what is known is that no alcohol was found in their bodies, each of them had more than 25 years experience, and none of them had a blemish on their safety records.

In February, four other rail crashes also occurred:

- On Feb. 1, a freight train with a cargo of dangerous chemicals derailed in a mountain pass near Devore, California, and erupted into flames, killing two crew members and closing the main highway between Los Angeles and Las Vegas, Nevada.
- On Feb. 9, two New Jersey Transit commuter trains collided, killing two crew members and one passenger.
- On Feb. 15, a Burlington Northern freight train slammed into a Canadian Pacific railroad office building in a rail yard in East St. Paul, Minnesota, derailing 6 locomotives and 44 freight cars, and injuring nine people.
- On Feb. 21, a Southern Pacific freight train carrying sulfuric acid down a steep Colorado mountainside, derailed near the city of Aspen. The engineer and student engineer died; 27,000 gallons of the poisonous acid spilled out.

In March, in addition to the March 4 train derailment in Weyanwega, Wisconsin there occurred:

- On March 1, six locomotives and five rail cars of a 29-car Southern Pacific freight train derailed in an industrial section of Los Angeles.

All of these other accidents can likewise be traced to a collapse of infrastructure.

Safety ignored

These accidents reflect a policy decision to neglect safety. Take the Feb. 15 Burlington Northern crash. Several experts stated that this accident would have been averted had the train company installed a piece of equipment known as two-way end of train (EOT) devices. But the British-run "Big Six" rail companies have run a so far successful, 10-year campaign to block the use of EOTs.

EOTs are installed at the back of trains. If the brake line or some other feature of the train's braking system is blocked or inoperative (for example, because of improper air pressure, on which most train brakes work), then the train engineer can activate the EOT and still stop the train. (EOTs are separate from, but complementary to "automatic train stop systems.") But the rail companies, which have been stripping down the rail system, said EOTs cost too much money. After one particular nasty train wreck, the Federal Railway Administration (FRA) of the Department of Transportation said in a report that for the cost of this wreck, the company could have paid for 500 EOT devices for its trains.

Leroy Jones, national legislative representative and vice president of the Brotherhood of Locomotive Engineers, and who has fought to have rail companies install EOTs, pointed out in a Feb. 29 interview that it took more serious train accidents, and constant petitioning of the FRA by his union, before Congress passed the Rail Safety Enforcement and Review Act in September 1992. That act mandated that by Dec. 31, 1993, the FRA would come forward with guidelines to be promulgated for rail companies to adopt EOT. "It is now 1996, and the FRA has not come forward with those guidelines," he said.

Jones reported that FRA guidelines do not even require that all train radio systems work. "In response to the recent accidents, the FRA said that all engineers must report aloud the color of every signal they come to. But the radios on which they are to report may not work. Every 16-year-old has a cellular phone, or radio, but the trains don't guarantee that theirs will work," he said.

As to the relationship between the sharp reduction in the railway workforce (slashed by 59% from 1980 until 1994) and safety, Jones asserted: "When you remove workers, you remove an extra set of eyes on the train. When you travel, that becomes extremely important, because often an engineer can't see everything because of all he has to do." Moreover, he said, to compensate for the firing of so many workers, the remaining workers are worked long hours, at irregular schedules. They could be told to work 60- to 70-hour weeks, back-to-back double shifts, and irregular hours. "You can be called to work one day at noon, then the next day at 9 a.m., and the following day at 9 p.m., to work through the night. Your body gets messed up. It's like having constant jet lag."

Asset-stripping

Because of asset-stripping, the American rail grid over the last 70 years has witnessed the tearing up, literally, of the system that the American System of economics built. Among the major Class I rail carriers, which control 75-80% of all American rail track: In 1929, there were 229,530 route miles of track in operation. This was reduced to 164,822 miles by 1980; but today there are only 109,332 miles of track left, which is a contraction of 34% since 1980 (and 52% since 1929).

In 1980, there were 458,000 railroad workers employed; by 1994, there were only 190,000, a drop of 59%. Many of the workers forced into early retirement were 50-65 years old; most were skilled, such as engineers or trainmen, with 30-40 years experience. In an insane drive to squeeze out profits, rail crews per train, which were manned by four workers, have been reduced to three and even two workers. All of this contributes to accidents. In 1980, in the United States, there were 28,094 locomotives in operation; in 1994, the figure was 18,505, a plunge of 34%. In 1980, there were 1,068,114 Class I carrier-owned freight cars in operation; by 1994, that was down to 590,930, a collapse of 45%.

By 1995, after years of relentless mergers, six giant rail lines, all dominated by the British and each with annual revenues greater than $1 billion, monopolize the rail grid: the Union Pacific, CSX, Burlington Northern Santa Fe, Southern Pacific, Consolidated Rail (Con Rail), and Norfolk Southern. They dominate 91% of the revenue and 87% of the track-miles of the Class I rail carriers, which in turn run the lion's share of the rail industry. But it does not end there. The Union Pacific is pressuring the U.S. government to allow it to buy out the Southern Pacific, which would make Union Pacific America's biggest rail line, 60% bigger than its nearest competitor.

In the 1890s, the Union Pacific was taken over by the Harriman family, working at the behest of England's Prince Albert, later King Edward VII. During the late 1920s and early 1930s, Averell Harriman helped finance Adolph Hitler's rise to power. Today, seated on Union Pacific's board are British agent of influence and former U.S. Secretary of State Henry Kissinger, who has been knighted by Queen Elizabeth II; and James Robinson III, former chairman of the alleged money-laundering American Express Company.

The demolition of the national rail grid has created bottlenecks across the country. Due to rail downsizing, thousands of cities and towns in the United States have no rail service, and many farmers have only one rail line on which to transport their grain. During the winter of 1994, entire rail transport systems broke down because of the cold, and during the summer and winter of 1995, grain piled up in the Midwest, and could not be delivered because there was not sufficient rail tanker and hopper car carrying capacity to move it.

The seven rail catastrophes since Feb. 1 are a warning, that the rail grid is so pulverized that it has reached the point that deadly accidents, which are preventible, are instead happening with increasing frequency.

A history of the push for deregulation

by Richard Freeman

This chronology documents the disastrous deregulation of the U.S. economy, focusing on five areas: securities-brokerage firms (1975), airlines (1978), trucking (July 1980), railroads (October 1980), and commercial banking and the savings and loan institutions (1982). This covers the principal forms of transportation and finance for the nation.

1. Brokerage-securities firms

On June 4, 1975, America's brokerage house-securities firms were officially deregulated, as S. 249 was signed into law. Key provisions included:

• Fixed rates and fixed-rate commissions were ended between both the broker-dealer and the small investor, and between the broker-dealer and the corporate client. Business was now thrown into a free-for-all. This allowed a spate of "discount" brokerage houses, working on the margin, through offering lower fees, to emerge and take over business that major investment houses had previously had on a fixed-fee basis. At the same time, the institutional relationship between broker-dealers and corporate clients, some of which had gone back decades, was ended, or at least put up for competitive bidding.

Many moderately upper-tier, medium-tier, and lower-tier investment firms/brokers-dealers collapsed. A wave of bankruptcies of brokerage firms-investment banks ensued, which led, over 1975-82, to the disappearance, through merger or failure, of 15-20% of the brokerage firms-investment banks on Wall Street. This resulted, first, in the creation of giant firms, such as Shearson Hayden Stone-Loeb Rhodes-Lehman Brothers-Kuhn Loeb-E.F. Hutton-American Express, which became known as Shearson Lehman Hutton. Second, into this environment of extreme chaos, second-tier investment banks, such as Drexel Burnham Lambert, with access to sizable drug- and dirty-money funds, could suddenly introduce new product lines, such as junk bonds, and shape the geometry of the investment banking world toward speculation.

Drexel Burnham Lambert and Kohlberg Kravis Roberts (KKR), the takeover specialist investment bank which was formed in 1976, joined by Bear Stearns, Morgan Stanley, Crédit Suisse First Boston, and others, introduced the junk bond-centered leveraged buy-out (LBO), which became the dominant activity on Wall Street. This was accompanied by heavy debt financing of company takeovers, the stealing of corporate treasuries of targeted companies, and asset-stripping. A brokerage firm-investment bank either adapted to this reality, or was likely to disappear.

• The law also directed the Securities and Exchange Commission to review within 90 days "stock exchange rules that limited a member's ability to transact business in another market." If it found such a rule "inconsistent with industry competition," the SEC could start proceedings to "revoke the rule within another 90 days." Firms were no longer restricted to one market.

2. Airlines

In 1976, Georgia Gov. Jimmy Carter's campaign for President was backed by Trilateral Commission moneybags David Rockefeller, of Chase Manhattan Bank, and by the New York Council on Foreign Relations. Carter adopted the CFR's "controlled disintegration of the economy" as the motif of his administration. According to *Congress and the Nation, Vol. V,* "Some of President Carter's biggest legislative victories [1977-80], as well as some significant unfinished business, were in the . . . transportation field. The President's major transportation victories were deregulation of the airline, trucking, and railroad industries. The new laws pared away years of federal regulations."