Just after the New Year, Hostess Brands filed for bankruptcy. Formerly called Interstate Bakeries Corporation, the company had previously filed for bankruptcy protection in 2004. It emerged from what became the most protracted bankruptcy process in history in 2009 and renamed itself Hostess Brands. The resolution of that previous bankruptcy filing was secured through major concessions by the company’s unionized employees in exchange for equity in the company, infusions of cash from GE Capital and three private equity companies— one of which, Ripplewood Holdings acquired a 50% share of the company—and the termination of public trading of the company’s stock.

Now, just two years after emerging from that historically protracted bankruptcy process, the company is filing for bankruptcy again. Analysts estimate that the company has between $500 million and $1 billion in assets, and the company’s management claims that its biggest liability in securing further investment financing is the $942.2 million that it owes to the Bakery and Confectionary Union and Industry International Pension Fund.

So this bankruptcy filing might seem to illustrate the seemingly oft-repeated situation in which unionized employees demand unreasonable benefits from a company and ultimately drive it into bankruptcy.

But there is a lot more to this tale.

Before going any further, I feel the need to acknowledge that one has to applaud Hostess Brands for actually having unionized employees.

Yet one cannot help but conclude that there is great merit in the unions’ forceful denunciation of management’s claim that the employee pension fund is the primary cause of company’s insolvency. The unions argue, instead, that the company’s insolvency can be attributed to poor management, and there are, in fact, several aspects of the story that very pointedly support this view.

First, although the company does make some more “healthful” products, it renamed itself Hostess Brands to emphasize its products with the greatest name recognition— Twinkies, Ho-Hos, Ding-Dongs, and Wonder Bread. That strategy might have made great sense in the 1950s and 1960s, when those brands were among the most popular in America. But it ignores the fact that, in the 2000s, those brands have about the same consumer appeal as Spam.

Second, although this company (or, more precisely, its major component companies) has been profitable since the 1930s, in the early 1980s it was bought by DPF, a
computer-leasing company that was pushed out of that business because of anti-trust claims brought against IBM. Formerly privately held, Interstate Bakeries became publicly traded, and over the next two decades, its stock price was kept high by a series of mergers and buy-outs that would require a spreadsheet to track. By the way, in both the mid-1980s and the mid-1990s, the unions made major concessions on their pension and health-care benefits because the management asserted that the company’s continued profitability depended on such concessions. In other words, the company’s management has long emphasized the expansion its holdings and the sustained payment of high dividends to stockholders over both the continued refinement of its product line and the commitments made to its workers.

Now the major owners of the company, the private equity firms, are demanding that the unions agree to major reductions in, if not the complete dissolution of, the company’s pension liabilities. Recognizing the way in which private equity firms have operated—the way in which the assets of struggling companies have been leveraged for highest short-time profit at the cost of their long-term viability—the unions have refused to make these concessions. In other words, the unions recognize that this company is doomed, and they refuse to participate in what has to be described as the end-game in the looting of its assets.

The unions will be demonized in some quarters for this stand. But the following two paragraphs, which appeared in an article in the *Cincinnati Business Examiner* on the 2009 bankruptcy resolution, suggest that the unions have been anything but antagonistic toward this company:

“All of IBC’s 423 union locals ratified revised labor agreements that allowed IBC the flexibility to adjust to the changing market, IBC said in the release. In addition, all of IBC’s secured lenders voted in favor of the reorganization plan, which a Kansas City bankruptcy court approved on Dec. 5.

‘I want to thank IBC’s employees for the sacrifices they have made and our union leaders for their commitment to our company and saving jobs,” [then CEO Craig] Jung said in the release. ‘Their actions made possible the financing required to execute a business plan that will build competitive advantage and secure our company’s future.’”

What is happening now at Hostess Brands is indicative of what has happened at any number of companies across America over the last three decades and, indeed, what has happened to the Social Security trust fund over that same period. Up until 1980, the Social Security trust fund was untouchable. Then, in order to cover ballooning federal budget deficits, the surplus revenues in the trust fund were raided to make those budget deficits seem smaller. Over the last three decades, hundreds of billions of dollars in surpluses, generated during the peak earning years of the baby boomers, were spent on anything and everything else that the federal government has thought important than maintaining the viability of the trust fund. This looting of the trust fund is all the more problematic when one considers the compounded interest that those billions in surpluses would have earned over those three decades. At a point of comparison,
consider the truism that a person who has the foresight and the means to invest $50,000 at age 20 will retire with over $1 million—if he or she can resist touching the money over those intervening decades.

So the current, often-repeated assertions that Social Security is an unsustainable entitlement—that it is a Ponzi scheme—reflect a tendency to declare financial hardship whenever it comes time to honor long-term financial commitments to workers and to ordinary Americans. Those who have redirected the monies that should have funded those commitments bristle at any suggestion that they should be held to account, that they have misappropriated those monies. In fact, they usually choose, instead, to characterize themselves as the “real” victims, bemoaning the fact that any tarnishing of their reputations may make their firms less profitable or their political careers less credible.

But, like the “unfunded promises” calculated to show the looming crisis in Social Security funding, the pension liability accumulated by Hostess Brands is more a projected liability than an actual, current liability. So the crisis is more convenient than pressing for those who want to unburden themselves of the liability, to desert their commitments. Moreover, in both cases, one has to ask why the commitments have gone unfunded or have been so grossly underfunded for so long that they have become so large—that they have become so seemingly unmanageable, even by the managers who will insist that they have more than earned the very generous compensation that they have received. In both cases, the simple truth is that the money was spent on a whole host of other things that represented a higher priority for those doing the spending.

In the late 1990s, Hostess Brands made record profits. Stockholders received unprecedented dividends, and the corporate leadership was rewarded with dramatically increased bonuses. To sustain those dividends and bonuses, the company kept buying other companies—presumably, at least in part, with monies that should have gone into the employee pension fund.

If Hostess Brands is soon dissolved, one wonders how its substantial assets will be divided. The union pension fund has been described as the company’s largest liability, and yet one guesses that as the assets are distributed, those workers and former workers will again be at the back of the line. To quote Mitt Romney, I’ll bet you $10,000 that the workers again walk away with nothing beyond the empty promises of the management with whom they have tried to negotiate in good faith.

Those workers will be further victimized in the snide criticisms of “pro-business” mouthpieces who believe—and would like to convince the rest of us to believe—that despite pro-labor “propaganda” to the contrary, corporate raiders are paragons of American values rather than vicious caricatures of those values. Sustaining this self-serving point of view requires a wrenching re-definition of the "common good." It requires that American workers be regarded as parasites if they vote for collective bargaining and if they have the temerity to expect what they have been promised.