Testimony of

Mr. Morton Bahr

July 22, 2003

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Before
U.S. Senate Committee on the Judiciary

"The WorldCom Case:
Looking at Bankruptcy and Competition Issues"
July 22, 2003

Good afternoon, Mr. Chairman and members of the Senate Judiciary Committee. I appreciate the opportunity to testify before you.

WorldCom's bankruptcy was not the result of honest business mistakes or unforeseen economic conditions. Rather, it was the product of persistent, pervasive, and massive corporate fraud, the largest in U.S. history, estimated at $11 billion and counting. WorldCom's chapter 11 filing cost investors $200 billion, three times the size of Enron.

WorldCom's lies and false financial reports destabilized the entire telecommunications industry. Tens of thousands of employees - not only at WorldCom but throughout the telecom sector -- lost their jobs and retirement savings.

Yet, WorldCom is positioned to emerge from bankruptcy with the strongest balance sheet in the telecommunications industry. This will cause further destabilization and job loss in the struggling telecom sector, and send a message to corporate America that crime pays.

The victims of WorldCom's crimes are legion. Among the largest group of victims are employee pension funds. Public pension funds and jointly-administered Taft-Hartley funds lost at least $70 billion from WorldCom's bankruptcy. Public funds in almost every state suffered staggering losses -- $1.2 billion in California, $393 million in New York, $277 million in Texas, and $23 million in Utah, to cite just four examples. I have attached to my testimony a list of public pension fund losses by state.

State and local governments have been forced to make up for these losses by cutting vital public services. According to the New York state comptroller Alan Hevesi: "Police officers, firefighters, teachers, and other public servants have lost their jobs and public services have been diminished throughout New York State because of these financial losses."

Mr. Chairman, the damage does not stop there. More than 22,000 WorldCom employees lost their jobs and thousands more saw their 401(k) retirement savings decimated. Initially, these laid-off WorldCom employees were left with nothing, even as the new WorldCom Board agreed to pay its new CEO $20 million over three years. The AFL-CIO came to the aid of these non-union laid-off WorldCom employees, and won minimal severance benefits of $5,000 each. WorldCom employees were not the only telecom workers who saw their livelihoods and careers collapse as a result of WorldCom's illegal behavior.

How could an honest company compete with WorldCom's $11 billion in counterfeit earnings? Imagine you are AT&T, or Sprint, bidding against WorldCom. AT&T and Sprint have to price the bid to cover costs, plus a reasonable profit. But WorldCom could lowball the bid, get the contract, and then cover the losses by cooking the books.

When news of WorldCom's fraudulent accounting came out, AT&T's vice chairman was quoted as saying: "We were constantly dissecting all of the public information about WorldCom and we would scratch our heads and try to figure out how they were doing it."

Trying to match WorldCom's cost structure, companies such as AT&T turned to cost cutting. AT&T told us it had to downsize half of the employees who took care of the network to make it line up with WorldCom. During the period of WorldCom's corrupt practices, AT&T eliminated 18,000 non-management jobs represented by CWA.

I have attached letters from CWA leaders across the country who describe the devastating impact of these job cuts on their lives and their families. Let me paraphrase a few of the stories:

From San Antonio, Texas, where AT&T closed a 500 - person bilingual call center of largely female Hispanic employees in 2001. Clarissa Davila, a 32 year-old mother of three, was one who lost her job. She was a cancer patient in remission, who could ill afford the loss of income and especially her health coverage. Another laid-off San Antonio employee lost her health benefits while her husband was awaiting a heart transplant.

From New York City, where AT&T cut 400 frontline jobs during the period of WorldCom's fraud: One employee who was able to save his job by commuting four hours every day died suddenly this winter of a heart attack. His wife attributed it to the strain of traveling so far.

I could go on and on.

Mr. Chairman, as WorldCom's fraud-induced bankruptcy sent the entire telecommunications industry into a tailspin, other CWA-represented telecom companies eliminated an additional 55,000 frontline jobs. Altogether, more than 172,000 jobs have been cut in the telecom sector in the past two years.

WorldCom is using the bankruptcy proceeding to shed more than $27 billion in debt and to avoid punishment for its crimes. Absent meaningful penalties, WorldCom is positioned to emerge from bankruptcy with the best balance sheet in the business. Employees at companies that played by the rules will once again be victims of aggressive cost-cutting, setting off another destabilizing cycle of job loss throughout the industry.

Mr. Chairman, to date WorldCom has received paltry punishment for its crimes. The $500 million SEC cash settlement, plus $250 million in stock, is smaller than the cash penalty imposed on junk bond trader Michael Milken in the 1980s.

Some argue that higher penalties would prevent WorldCom's emergence from bankruptcy, and this in turn would hurt WorldCom's remaining employees and telephone consumers. This argument fails on at least three counts.

First, our bankruptcy laws were not designed to shield criminal companies from punishment.

Second, WorldCom could sell assets to pay higher penalties. There are eager buyers who would continue WorldCom's operations and provide stability to WorldCom's valued employees.

Third, in today's converging telecom marketplace, long-distance consumers have many choices.

Wireless plans and the Bell companies' bundled offerings are the driving force behind price competition, not WorldCom.

No company, including Enron, has done as much damage to the American economy through corrupt practices as WorldCom. The federal government must send a clear message that it will not coddle corporate crime. It is long past time for the Department of Justice to initiate a criminal case against WorldCom, for the federal government to debar WorldCom from contracts, and prevent its unfair use of tax loopholes.