Airline deregulation endgame: the destruction of labor

by Leif Johnson

On Sept. 15, 1981 *EIR* published a survey demonstrating that deregulation of the U.S. airline industry would cause heavy corporate losses, resulting in dismemberment of the excellent air traffic network the nation had enjoyed since World War II. Entitled "Deregulation Schedules U.S. Airline Service for a Return to the 1930s," the report foretold technological stagnation in the industry, a devolution to regional carriers from national trunk route service, increased fares, reduction in regional and local service, and a "recycling of labor" to enforce wage cuts of 30 to 50 percent.

The ensuing two years have proven *EIR* correct in even the smaller details of our report. In the second part of that survey, "An Experiment in Labor Recycling: the Gameplan for Airline Employees," we said:

"Airline deregulation offers the financial group [that lends to the industry] an opportunity to conduct a labor experiment that is perhaps even more fundamental to oligarchic plans than the reversion of the system to a luxury service. . . . Airlines are now conducting a recycling of labor that, if successful, could reduce wages in the industry by an average of 30 percent and reduce the highest wages by as much as 50 percent. . . .

"The large airlines will recycle labor downward to the newly created 'new entrants' although both groups are, in fact, financed by the same source. To enhance this process it is possible that one or even two major carriers will go bankrupt in the period ahead, or that a major company like TWA will move further toward becoming a hotel, vending machine and food distribution company, dumping its routes on the new entrants."

Such forecasting accuracy was the result of *EIR*'s focus on the essential element of "deregulation," which was and is, the destruction of the industry's wage levels as part of an overall assault on the nation's wage scales, under Federal Reserve Board chairman Paul Adolph Volcker's usurious regime, beginning in October 1979. Extraction of usury from the nation's industries requires cutting other costs, with wages targeted as the "fattest" item to be shorn.

Since September 1981, the airline industry has suffered extraordinary financial losses due to the inefficiencies of a situation in which many carriers fly the same route with half-empty aircraft. The industry has grounded its largest and most efficient aircraft while the older ones are used by "new competitors," and has slashed maintenance, which resulted in at least one major accident—the Air Florida disaster in Washington D.C. Wages have tumbled throughout the industry.

Losses for 1981 were $455 million; for 1982, $733 million; and for the first half of 1983, $540 million. Airlines blame the heavy fare discounting on heavily traveled routes. In 1981, a total of 71 percent of all fares were discounted in some manner; by 1982 it was 78 percent, and according to Eastern Airlines, today between 85 and 90 percent are discounted. (Fares on non-discount routes have, as we predicted, zoomed, in effect subsidizing the discounted passengers.)

With less than a dozen large carriers nationally, why do they embark on such ruinous fare warfare when they could easily agree not to slash fares? Well, say the "old airlines," the new entrants are discounting fares, so we must too. That might be a convincing argument except that the bankers for the industry are the same for the old and the new airlines. Then why haven't the bankers put a stop to the ruin of the industry they finance?

The most remarkable point of the Freddy Laker fiasco was that the London centered banks pulled his plug. Despite the Queen's praise for Laker's business acumen, "Sir" Freddy's operation was a loss from beginning to end, the only purpose of which was to damage the U.S. air transport system with their John D. Rockefeller "free trade" principle of undercutting the market until the competition was ruined.

Aviation Week and Space Technology reported in March 1982 an unnamed "New York banking official" as saying, "The one saving grace for the airlines is their amazing ability to 'scrape up cash' when a situation demands it." He claimed lenders are paying careful attention to whether the carriers are "1) taking remedidal action to bring losses to a halt; 2) cutting costs; and 3) gaining concessions from unions and other employees in work rules and productivity."

Then came the Braniff bankruptcy. The company had been run by a "new breed" entrepreneur, i.e., just another front man for the banking consortia that were enforcing the wage collapse in the industry. "Braniff showed the airline unions that even if they make partial concessions, it may not be enough to keep their jobs," explained an industry analyst at a New York investment bank house. The analyst had no disagreement with how the airline had been run.

"We are not against dereg, we just have to get rid of the dinosaur of the industry—those $100,000-a-year captain's wages and all those high-salaried ground personnel. Seventy-eight percent of our fixed costs are labor," Pola Musto—a public relations spokeswoman for Eastern Airlines—exclaimed recently. Eastern lost $256 million between January 1980 and June 1983, and corporate president Frank Borman sent employees a take-it or-leave-it-letter on Sept. 20 announcing a 20 percent pay cut, vacation, medical, and seniority reductions, with new employees hired on a lower pay schedule. The Wage Investment Program (the previous wage reduction scheme) was replaced by a "profit sharing plan." "God bless you" was the cynical closing of the letter.

A chronicle of the talks between the Continental Airlines employees and Francisco Lorenzo, the head man at Continental Airlines makes conclusive the case that deregulation is pointed primarily at the wages in the industry.

April 1, 1981: The employees' efforts to buy Continental were sabotaged by current Democratic National Committee head Charles Manatt's law firm, Manatt, Phelps and Rothenberg, which represented Francisco Lorenzo in his takeover bid for the airline. The pilots had succeeded in tacking on a stock option plan on the 1981 Economic Recovery Tax Act which passed the Senate but was defeated in the House conference committee by the Manatt firm. Manatt, Phelps and Rothenberg as well as Aiken and Gump, the law firm of Robert Strauss, the former head of the DNC, continue to represent Lorenzo.

Aug. 1982: Pilots accept Lorenzo's "Prosperity Plan" giving back $100 million in wages through 1984.

Jan. 7, 1983: Lorenzo demands flight attendants give back $37 million and pilots an additional $35 million. Pilots ask that all unions, lenders and management meet together. Lorenzo refuses unions access to lenders.

June 9, 1983: Lorenzo demands $45 million from pilots and threatens to lay off mechanics if they strike. Mechanics and maintenance personnel strike and are replaced by outside vendors.

Aug. 13, 1983: Lorenzo produces a "73-hour proposal" demanding $92 million give-back by pilots.

Sept. 14, 1983: Lorenzo increases employee payback demand to $150 million. Flight attendants offer a $42.7 million giveback in first year. Lorenzo terms offer "worthless."

Sept. 23, 1983: Lorenzo tells pilots that "within 24 hours we will all become somewhat constrained in our ability to act."

Sept. 24: 1983, Lorenzo files a Chapter 11 Bankruptcy procedure despite the fact that the company is liquid and has $200 million in working capital. The purpose of the bankruptcy filing, admitted Lorenzo, was to break the union contracts.

Oct. 1, 1983: All flight personnel strike Continental.

If the financial institutions sought deregulation for the purpose of ruining the airlines' wage structures, wasn't this an expensive way of doing so? After all, unintended bankruptcies could occur, and banks could suffer losses.

In fact, it would be highly unlikely that any employee group would offer substantial wage concessions to a company that was making profits. It would be necessary to prove not only short-term but prolonged losses, with the company running cost-cutting operations, to convince the unions to give back as much as 30-50 percent of their salaries (the exact figure demanded by Lorenzo and predicted by *EIR* in September 1981).

But then, even with such wage cuts, airlines cannot become profitable if the discounting continues. What then?

Then the banks discover the need for "re-regulation." According to Fred Thayer, an airline specialist originally from the University of Pittsburgh, the industry should not simply "re-regulate" but should give companies monopolies on routes so that the cutthroat competition would be eliminated. Presumably this would guarantee the outstanding bank loans to the airlines. Thus airlines would be reduced to providing luxury service to those who could afford it, operated by crews working at rock bottom wages.