

August, this dynamic was already, and inevitably, deflating.

Then there is the Great American Tax Cut. Intended to oomph consumer spending, these rebates of \$300 to \$600 per taxpayer, along with the general economic slump, showed up as a whopping \$64 billion monthly Federal budget deficit for August. This was the largest one-month budget deficit in U.S. history — so far.

In the face of all this, millions of Americans still managed to remain in denial, as of the eve of the attack. For example, on Sept. 11 itself, the National Farmers Union had representatives from 24 states in Washington, D.C., on an NFU “National Fly-In” to lobby for a better shake in the next farm bill, under a global system they would not acknowledge was collapsing.

The United Steel Workers and industry representatives were likewise in town to appeal to the International Trade Commission, for special redress, under the presumption the world economy was still intact. Other constituencies have had the same delusions. Cable News Network (CNN) has done its brainwashing part, by characterizing the actual U.S. collapse, as “Recovery.”

But now the terrible events of Sept. 11 re-focus everyone on the fact that *the economy is not a given* (and never was); and government intervention must be planned accordingly.

‘A Devil’s Spiral’

Although offering no solution, in many European capitals there is explicit recognition of the degree of breakdown crisis at hand. On Sept. 19, the London *Financial Times* wrote of a “Devil’s Spiral” in the U.S. economy. The *Times* defines this as a process of self-feeding downward events, where less business activity means falling profits; means more layoffs, less household and corporate income and spending, less “consumer confidence”; which in turn, means even worse business, and falling profits, more layoffs, and so on and on. The *Financial Times* offers no solution.

The demonstration that the LaRouche “Chapter 11” approach—embodying the same principles used during the Franklin Delano Roosevelt period—is what’s required, is seen in the case of the current “Devil’s Spiral” regarding the U.S. air transportation system.

The 100,000 running total of layoffs announced by U.S. air carriers, includes 20,000 by United, 20,000 by American Airlines, 11,000 possible from U.S. Airways, and others. In turn, on Sept. 18, Boeing announced layoffs of 30,000, because of the projected drop in orders for commercial jets. In turn, by Sept. 21, the secondary and tertiary potential for layoffs involved: engine suppliers Pratt and Whitney (supplying 360 airlines worldwide), Rolls Royce, and General Electric Co.; and Fairchild Fasteners, and other parts suppliers.

What is required is citizen-enforcement of government action in the LaRouche/FDR way, to stop the spiralling collapse. Any so-called bailout or “stimulus” package based on saving hopeless financial markets, and resorting to “fix-it” tax breaks, handouts, and other diddles, will fail.

Saving The U.S. Air Grid Is A National Priority

by Richard Freeman

The already serious crisis of the U.S. airline industry has been intensified as a result of the events of Sept. 11. The industry is now on a path of financial liquidation, which could lead to its physical collapse, and destroy America’s air transportation grid.

On Sept. 18, year 2004 Democratic Presidential pre-candidate Lyndon LaRouche denounced the “lunacy in Washington [which] will insist that everything must be wasted in the futile effort to ‘save the market,’ throwing away precious assets for ‘bailout’ of ‘the market.’ ” Instead, LaRouche proposed an “emergency reorganization of the national airline industry” (see box, p. 5).

The U.S. airline grid, which began to be developed commercially in the 1920s, performs an essential function in moving people and goods. It enplanes 670 million passengers per year, and employs 637,000 employees. The biggest nine carriers use 3,956 airplanes; the industry transports tens of millions of tons of freight cargo per year.

While the events of Sept. 11 significantly financially damaged the U.S. and world airline industries, those events only intensified a longer-standing crisis in the industry, which stems from the deep collapse of the U.S. economy. Travel by businessmen accounts for almost two-thirds of U.S. airlines’ passenger revenues. During 2001, as U.S. businesses suffered drops in income, they cut back on air travel, or had their people travel coach rather than first class. As their income fell, individual citizens also cut back on air travel. At the same time, at some airlines, there was a cut in freight cargo traffic.

On Aug. 13, citing a “calamitous” decline in business traffic, Chicago-based Midway Airlines had already filed for bankruptcy reorganization.

Table 1 shows that, in the United States during the second quarter of 2001, all the major airlines either suffered losses, or drops in profits, compared to the second quarter of last year.

The events of Sept. 11 greatly exacerbated the airline industry crisis. In the first week after the attack, airline traffic was restricted by the Federal Aviation Administration (FAA) and by airline executives. However, more ominous for the industry, is that “bookings,” which represent customers’ plans to take future flights once FAA restrictions are lifted, have fallen drastically. For example, Palo Alto, California-based Hewlett-Packard Co., which makes computers, has 88,5000 employees. A Hewlett-Packard spokesman has said that the firm will limit air travel to “customer-critical trips” within a region, and ban intercontinental travel indefinitely.

TABLE 1

Eight Major U.S. Airlines' Profit/Loss Results

(Millions \$)

	2nd Q, 2001	2nd Q, 2000
American	-760	517
United	-356	597
Delta	-114	606
Northwest	-36	252
Continental	137	286
U.S. Airways	31	161
Southwest	291	315
American Airlines	-54	48

Source: *Aviation Week*, July 23, 2001.

Chris Avery, aviation analyst at J.P. Morgan Chase, told the London *Financial Times* that U.S. airlines are planning for a 30-50% fall in demand during the next six months.

The damage is piling up. On Sept. 15, Houston-based Continental Airlines, America's fifth-largest airline, announced that it will cut back flight schedules by 20%, and will lay off 12,000 of its approximately 43,000 workers. CEO Gordon Bethune said that Continental could file for bankruptcy by the end of October if Congress does not provide for immediate assistance to the airline industry. On Sept. 17, Reston, Virginia-based U.S. Airways, America's sixth-largest airline, announced that it will lay off 11,000 of its approximately 42,000 employees, and cut back its scheduled flights by 20%. On the same day, two smaller airlines, American West Holdings and American Trans Air, announced 2,000 and 1,500 worker layoffs, respectively. Therefore, thus far, there have been 26,500 layoffs. Almost all of the largest U.S. airlines have announced or are about to announce cut-backs in scheduled flights of at least 20%, and layoffs. Thus, industry analysts are predicting that by the last week of September, as a first installment, 100,000 of the industry's 637,000 workers could be laid off.

The U.S. airline industry, with \$26.1 billion in debt, is heavily leveraged. At the point that the industry cannot pay that debt, because of collapsing revenues, it could be forced into bankruptcy. The industry has large expenditures. When properly run, it must make large capital expenditures for airplanes, which cost between \$50 million and \$250 million a piece. It also requires maintenance and upkeep on the planes, and this necessitates some skilled mechanics (although under airline deregulation, initiated by President Jimmy Carter, the investment for maintenance and labor has been below the level that competent management would require).

Currently, the nine largest airlines had \$9.4 billion in cash and (liquidatable) short-term investments on hand at the end of June. But when airplanes are idle, the industry burns through \$201 million per day; were that to continue, it would only have 45 days of cash. Thus, **Table 2** shows that were the nine major airlines to be totally shut down, they would have

TABLE 2

Rate At Which Nine Major Airlines Will Burn Through Cash

Airline	Cash on hand (Billions \$)	Daily Cash Burn When Shut Down (Millions \$)	Days of Cash Left When Shut Down
American	1.49	48	31
United	1.28	43	30
Delta	1.51	33	46
Northwest	1.30	23	57
Continental	1.01	21	48
U.S. Airways	1.25	21	60
Southwest	0.97	11	88
America West	0.17	6	28
Alaska	0.47	5	94

Source: *Wall Street Journal*, Sept. 17, 2001.

only between 28 and 94 days of cash left. While they will likely not be totally shut down, partial shutdown, i.e., reduced flight traffic, will eat up their cash reserves, but at a slower rate. They would still be on a path toward bankruptcy.

On Sept. 17, the stocks of every major U.S. airline company plunged. Consider what happened to the largest companies: AMR, parent of American, closed at \$18 per share, a fall of 39%; UAL, parent of United, closed at \$17.50 per share, a fall of 43%; Delta fell 45%; Northwest fell 37%; Continental fell 49%; and U.S. Airways fell 52%. Collectively, on that day, the U.S. airline industry lost \$6 billion in share valuation.

The Path To Take

Some members of Congress have raised the possibility of making grants and/or loan guarantees to financially aid the industry. Aides to U.S. Transportation Secretary Norman Mineta have said that Mineta plans to meet with members of the airline industry soon to discuss its financial difficulties. Congress and the President must be prepared to act.

LaRouche's proposal for "an emergency financial reorganization of the national airline industry" is the critical path that the United States must take. It would reorganize the industry's unpayable debts, and ensure the industry's survival. It would give a directionality to the airline industry, because it would occur within the context of LaRouche's proposal for a bankruptcy reorganization of the devastated U.S. and world financial system, and the sweeping creation of a growth-vectored New Bretton Woods financial-monetary system.

The functioning of the U.S. air transportation grid, of both its passenger and cargo capabilities, is threatened by sharp cut-backs and, ultimately, bankruptcy liquidation. In the course of a top-down bankruptcy reorganization, America must assign first priority to the functioning of its infrastructure, manufacturing, and agriculture, upon which durable survival of the nation depends. It should cease wasting money in an attempt to "bail out the markets."