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An experiment in labor recycling: the gameplan for airline employees

Airline deregulation offers the financial group an opportunity to conduct a labor experiment that is perhaps even more fundamental to oligarchical plans than the reversion of the system to a luxury service for a relative handful of individuals in the highest income brackets.

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. This process would become a model to be used in other industries.

The airline labor force is not typical of the workforce as a whole; it is characterized by a relatively transient labor force among certain job classifications, and by expectations on the part of the workforce of boom-bust employment where periods of layoff (or furlough, as it is called in the industry) are common and often lengthy. For example, among flight attendants, average job seniority is only six years, since most attendants are young, single women who often leave their jobs to marry. Other employees, including low-seniority skilled mechanics, machinists, and flight personnel expect to work on an "as needed" basis.

Before the PATCO strike, between the end of 1979 and the summer of 1981, the airlines had furloughed approximately 8 percent of their employees. Ten percent of all pilots had been laid off; at TWA, 1,150 pilots of a total roster of 4,450 had been furloughed. Over the course of the industrywide scaledown, the airlines expect to lay off an additional 20 to 25 percent of the employees, most permanently.

What would an airline employee do, for example, if he or she received a letter like the following one sent from John Truex, vice-president of in-flight services of TWA, dated Dec. 29, 1980:

"Dear Susie:

"We have just completed the financial planning and staffing levels for 1981 and it now appears that we will not have an increase in staffing sufficient to warrant any recall prior to the second quarter of *1982* [emphasis added]."

The letter further says that the industry "continues to respond to the uncertainties of the economic environment, competition, and fuel prices," concluding: "May I wish you the best possible holiday season and a brighter 1981 for all of us."

The 85,000 employees expected to be laid off by Christmas have two choices: either work for another airline that is hiring, or leave the industry. In either case, these workers will be recycled, entering another airline with loss of all seniority, or entering another occupation, usually a lower paid one, at starting salary.

A package that pushes the work force into a free-fall

We continue to believe regulatory reform has benefited the public and the employees and shareholders of United. . . . The freedom to make the decisions which affect our business enabled United in 1980 to:

- Complete a route-restructuring program begun in 1979 and generate a 12 percent increase in average passenger trip length. . . .
- Raise fares and improve the average revenue per scheduled revenue passenger mile . . . a ticket priced at $100 at the beginning of the year sold for $152 at the close of the year. . . .
- Adjust the airline's size to market demand quickly. We dropped certain routes where service could be profitably provided; on other route segments, we reduced frequencies to adjust to the available traffic. . . .

Decreasing available capacity required the unpleasant task of furloughing employees and taking other actions to reduce the payroll. In December 1980, United had approximately 5,200 fewer employees than in December 1979.

—*United Airlines, 1980 Annual Report*

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Courtesy of Pan American

A pre-World War II Pan Am luxury flight.

If, for example, a pilot with average seniority of 14 years and average income of $62,000 a year enters another airline, he will begin at $30,000, the entry-level wage. If an attendant with average six years seniority and average wage of $18,000 a year decides to seek employment at another airline, that attendant will start at the entry level of $10,800.

Many attendants are considering working for foreign airlines like Singapore Airlines or Cathay Pacific, which are actively seeking personnel. Should the attendant decide to work for Cathay Pacific, the airline of Dope, Inc.'s Swire Group, she will receive a beginning wage of $521 a month or $6,250 a year.

To accommodate the recycled labor, the airline financial group has created a number of new, nonunion airlines like PeoplExpress and New York Air; the latter is financed by Chase Manhattan to recycle the resources of Texas International, an 85 percent unionized airline. Francisco Lorenzo, the front man for the operation, simply repainted the Texas International planes, and set up a high-pressure recruiting team with the pitch that rather than suffering from unionization, employees would become part of the New York Air "family," and grow and profit with the airline. As part of the "family" they would be required to work without the work-rules that exist at other airlines.

The large carriers will thus 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 company like TWA will move further toward becoming a hotel, vending-machine, and food distribution company, dumping its routes on the new entrants.

The investment-bank strategy

As the airlines recycle labor down into the regional and local carriers, they have demanded wage reductions, wage freezes, and work-rule changes. More than half the employee contracts come due between now and early next year; the airlines thus expect the fate of the unemployed workers to decide the issue in favor of wage reductions and work-rule abrogation.

Citibank recently demanded that four of the five Pan Am unions accept a 10 percent wage cut as a condition for extending a revolving credit to the carrier. The unions that accepted the cut, in hopes that the carrier would not go under, included the Teamsters.

The industry's financial controllers make no attempt to hide their intent to eliminate the airline unions. Robert J. Joedicke, airline analyst for Lehman Brothers-Kuhn Loeb, said, in a monograph titled "The Goose That Laid Golden Eggs," "The 'closed shop' situation that existed prior to deregulation has evaporated and the necessary gains in employee productivity now required by unionized carriers cannot be achieved solely by acquisition of more efficient aircraft, if the established carriers are to compete successfully with the newer unorganized entrants."

Joedicke notes that even in 1980 the soft employment picture made breaking strikes easier. A PSA pilots' strike in late September was broken when the company solicited strike-breakers and "was deluged by applications from unemployed but qualified pilots, many on furlough from other airlines." Similarly, Continental in December broke a strike of flight attendants who had been working 15 months without a contract.

Joedicke also notes with annoyance that Braniff workers refused to accept a 10 percent wage cut in return for the company's staying in business. In fact, Braniff was being used by the airline industry financial group to beggar its workers with the threat of possible

bankruptcy as a paradigm for the industry.

Yet, says Joedicke, these givebacks will certainly come. Chrysler workers accepted a 13 percent wage cut, and cuts and work-rule changes have already been accepted at Uniroyal, Firestone, Armour, and Conrail.

Joedicke's solution is to replace wage increases and work-rules with profit-sharing plans that encourage employees to work harder. Of special interest to the airline financial group is the Eastern Airlines plan to have workers share their wages with the company when the company does not show a profit but to reap a share in the profits when the company is in the black. But since the financial group controls the amount of cash left in the industry, profit sharing could be an effective way of constantly raising the speed of the treadmill—provided the employees actually believed the industry's reported losses.

Joedicke concludes: "Meanwhile, investors should find it rewarding to consider labor-management developments as they unfold for each airline, new or old, in order to evaluate the companies most likely to succeed financially in the new climate of deregulation. There should be little doubt that a revolution is at hand in a key aspect of this labor-intensive industry."

Meanwhile there remains one last barrier to labor recycling in the industry. Section 43 of the Airline Deregulation Act provides for compensation to longstanding employees if it is shown that deregulation has caused an employment drop of more than 7.5 percent in any airline, and provides for the first right of hire industrywide for laid-off employees.

The Department of Transportation, the agency established in 1966 by the Harriman-Mellon group to dismember the domestic transportation grids, has introduced legislation to abolish Section 43. This is used as a bargaining chip to get a compromise bill which will be introduced shortly by California Democrat Norman Mineta, chairman of the House Aviation Subcommittee, that will create a national labor exchange for laid-off airline employees. Such a national hiring hall will presumably make the process of recycling labor more efficient. In neither the administration or Mineta bill will employees receive what amounts to the extended unemployment benefits detailed in Section 43, but it is just as likely that the 85,000 airline workers would never receive any compensation under the present law. Airlines and administration alike can claim that the massive layoffs are not due to deregulation but to market conditions and the PATCO strike.

There is much irony in the airline industry attack on employee wages and working conditions. Between 1970 and 1980 the industry workforce rose from 279,000 to 339,000 but airline passenger miles increased from 104 billion to 200 billion, indicating a very substantial increase in productivity. Measured another way, total labor costs—including fringe benefits, pensions, and management salaries—declined from 46.2 percent of airline expenses in 1970 to 36.1 percent in 1980. By 1982, after the scaledown and accompanying recycling is substantially completed, labor costs will fall to an estimated 30 percent of total expenses, an incredibly small proportion for a transportation industry.

Union members and pro-deregulation businessmen alike might find the fact that the FAA is guaranteeing the loans used by the new, nonunion entrants to purchase their planes a disagreeable irony. Yet, since deregulation was enacted, federal subsidies to the airlines have soared to record levels. Not only is the government guaranteeing portions of the industry financial group's paper, which will rise rapidly as airlines buy new aircraft, but the government is paying increasing subsidies to keep airlines flying—at least temporarily—to cities where the lines were required to fly under regulation.

Figure 5

Effects of labor recycling on wages of flight attendants and pilots

	Flight attendants	Pilots	
$18,000	Average yearly salary, U.S. major carrier. Seniority: 6+ years	Average yearly salary U.S. major carrier. Seniority: 14+ years	$62,000
$10,800	Average entry salary if unemployed attendant accepts a job at another U.S. airline. Seniority: 0	Average entry salary if unemployed pilot accepts equivalent job at another U.S. airline. Seniority: 0	$30,00
$6,250	Average entry salary if unemployed attendant takes a job with Cathay Pacific Airways. Seniority: 0	Average entry salary if unemployed pilot takes a job with Cathay Pacific Airways. Seniority: 0	$25,000