United Joins the Scrap Pile; Air Travel Gone Without LaRouche Plan

by Anita Gallagher

United Airlines, the second-largest airline in the United States, is on the brink of a savage Wall Street asset-stripping bankruptcy, with the Airline Transportation Stablization Board's 2-1 vote on Dec. 4 to deny United a $1.8 billion Federal loan guarantee. The shrinkage of U.S. air traffic capacity, and revenue, has accelerated with United's fall. A collapse of the whole air transport network is looming without a Federal policy reversal: swift protective and re-regulative action.

Months ago, it was USAIR. Now United is at the head of the sad line of major airlines taxiing toward a black hole into which 100 airlines have disappeared, bankrupt, since Jimmy Carter and Congress imposed airline deregulation in 1978. Of those hundred, 92 are dead, and the others—TWA, for example—mutilated beyond recognition.

But the airlines' general death struggle was betrayed most directly by Continental Airlines CEO Gordon Bethune, who told the *Washington Post,* "Our life was at stake here. If these guys had gotten another two years of running room with government money, we'd have probably not made it ourselves, or some of us wouldn't. We still may not." President George Bush also said he "respected" the ATSB's decision.

As a precondition of the desperation loan guarantee, all United's unions were asked for "givebacks" that totalled $5.2 billion out of their wages and benefits over five and one-half years. The revote by the International Association of Machinists (IAM) mechanics on Dec. 5, on accepting a 7% wage cut, was cancelled after the ATSB decision, since the "package" was simply a grab for the ATSB loan.

LaRouche: This Is No Solution

Lyndon LaRouche, Democratic Presidential pre-candidate for 2004, said of the alternatives United and its unions are currently considering, "The key thing here, is there's no solution, because none of these proposals on concessions, are going to solve the problem. The concessions that are demanded, would not save the airline. Because, . . . to the degree that United were saved by this kind of concession, that would mean that United would go into a price competition, under the new conditions, with other airlines, which would cause a chain-reaction collapse of the whole system. Therefore, this will not work, and that should be recognized. It just won't work. So you're trying to get an unworkable solution to an impossible problem. The only thing that works, is a general bankruptcy and reorganization of the airlines, on a regulated basis, as an alternative."

The share of the nation's airplanes piling up unused in desert storage fields has reached more than 10% of all commercial aircraft, since Air and Space *magazine published this story in its September 2002 issue.*

LaRouche's bankruptcy reorganization has nothing in common with Wall Street asset-stripping. LaRouche, in his Thanksgiving Message (*EIR,* Dec. 6), stated that "No escape from a world depression is possible unless there is a regroupment involving both parties" to rally behind missions, such as his "Super-TVA" of infrastructure-building to restart our national economy. That, he said, requires "a prerequisite, a clearing of the terrain by a single, simply stated piece of general legislation, which a) states that we are presently gripped by a deadly emergency, a national systemic physical-economic collapse for which 'fiscal austerity' is inherently counterproductive; and b) stipulates that laws on the books which would prevent recovery programs such as those of the 1933-64 interval, must be suspended for the duration of the present national economic emergency."

Airline deregulation is a prime example of such laws.

An Orgy of Cuts

LaRouche's opponents on Wall Street say, "Cut more": As of Dec. 5, the talk is that United should double unions' "givebacks" to $9 billion, and double the projected 2003 cut in its seat capacity to 12%—on top of the 25% capacity United has already cut since Sept. 11, 2001.

In rejecting a loan guarantee for United—whose grace period on $920 million in overdue debts expires Dec. 12—the members of the ATSB—Federal Reserve Governor Edward Gramlich, Treasury Undersecretary for Domestic Finance Peter Fisher, and Transportation Department General Counsel Kirk Van Tine—said, "The Board believes that the business plan submitted by the company is not financially sound. . . . Specifically, the plan is based on unreasonably optimistic revenue projections. The Board believes that with a more reasonable revenue forecast, United's revenues and costs still would not be aligned, even with the benefit of all proposed cost reduction initiatives."

In other words, $5.2 billion in cost reductions is way behind the pace at which revenue is falling! And revenue is falling for all the airlines, as American, Delta, Continental, Northwest, and others—which lobbied hard *against* the loan guarantee for United—well know, since they are on the brink of bankruptcy themselves.

To propitiate this Wall Street-think, offerings of "cuts" accelerate every day:

- 1,100 flight attendants from American, announced Dec. 3;
- 2,500 more employees from U.S. Airways, announced Nov. 27, along with $200 million in work-rule changes;
- 9,000 United employees furloughed in November;
- 352 more United pilot furloughs; 18% of United officers cut, announced Dec. 3.

But, despite these cuts, every major carrier is losing money even faster, except for Southwest, with its already-limited terminals and routes. As of July 2002, some 120,000 airline employees had already been laid off (see **Table 1**), and the airlines are sinking faster than ever. In a depression, the demand that would come from consumers must be replaced by government credit for infrastructure building and job creation, to put "demand" back into the economy. This can and must be done; the financial and monetary system must be put through a bankruptcy reorganization, but the economy is not bankrupt, as LaRouche put it on Dec. 5.

Take the case of U.S. Airways, the seventh-largest U.S. carrier. After Sept. 11, 2001, it laid off 20% of its employees: 11,400 jobs eliminated. With cutbacks, revenue continued to fall; so, on June 10, 2002, U.S. Airways asked the ATSB for a $900 million Federal loan guarantee, promising to obtain another $1.3 billion in, primarily, employee concessions. U.S. Airways had difficulty getting the unions to agree to this new round of insanity. On July 10, the ATSB approved the Federal loan guarantee, conditional on the givebacks being voted up.

By Aug. 11, revenue was falling so fast, that U.S. Airways filed for bankruptcy. According to bankruptcy court negotiations, Retirement Systems of Alabama (RSA), Alabama's public employee pension system, will acquire an approximate 36% ownership of the airline for a mere $240 million investment. On Nov. 27, U.S. Airways announced 2,500 more layoffs, and demanded another $200 million in work-rule concessions. These work-rule changes would include eliminating mechanics and utility employees from receipt and dispatch of

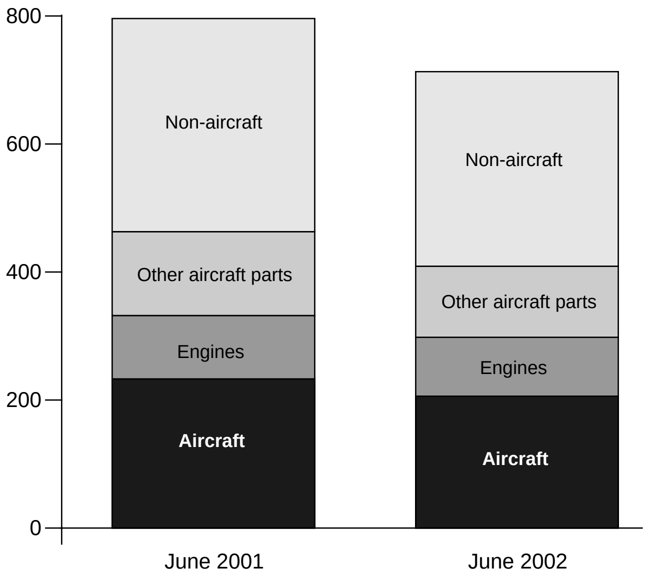
TABLE 1

Overview of Eight Largest U.S. Airlines, and Industry Employment

Carrier	Current No. Employees	Workforce Reductions 9/01-8/02	Deferred Aircraft Deliveries '02 '03	Retired Jets '01 '02	Current No. Fleet Aircraft	Average Age of Fleet (Yrs.)	Capacity Reduction (%)	No. Passengers 2001 (Millions)	Revenue Passenger Miles 2001 (Billions)
American	122,000	27,000	35 67	83	833	10.8	9	80.7	108.3
United	86,000	20,000	43	99	543	8	13	75	117
Delta	60,000	13,000	16 23	50	814	9.1	15	104.9	102
Northwest	45,700	10,000	6	39	442	12	20	54.1	73.1
Continental	60,000	6,000	67	49 11	352	5.2	17	44.2	61
Southwest	35,000	—	Plans +10	3 6	368	8	—	64	44.5
U.S. Airways	40,000	11,400	33	161	280	9.1	38	56	46
America West	13,900	—	17	11	145	10	—	20	19
Total Airline Industry Employment 7/01-7/02*	1,167,000	120,000							

*Source: Bureau of Labor Statistics. Sources: Airline corporate data; 2001 Annual Reports.

FIGURE 1
Total Employment in the U.S. Aerospace Industry Dropped 83,000 in One Year
(Thousands)



Source: Aerospace Industries Association.

aircraft; discontinuing the use of mechanics to de-ice aircraft; contracting daily maintenance checks out to vendors, among other unsafe, "ValuJet-type" proposals. On Dec. 3, U.S. Airways reported a $45.6 million net loss for October, because of plunging revenue. On Dec. 5, RSA Chief David Bronner announced, "We are retrading the deal," and got majority control of the U.S. Airways Board.

This year, the Air Transport Association is predicting that airlines will collectively lose $9 billion, up from $7.7 billion last year.

United Bankruptcy a Tidal Wave

A United bankruptcy would be the fifth-biggest in corporate history, rivalling that of the telecom Global Crossing, the financial press reported—ignoring the fact that Global Crossing was of no use to the productive economy. Boeing, which has one jet order from United, would shrink further beyond its tens of thousands of layoffs since 2001, along with GE and other engine producers (see **Figure 1**). Already, more than 10% of the entire U.S. jet commercial fleet is parked in various desert spots, out of service.

Wall Street says United would need to reduce its labor costs not by 7%, but between 20-25%, and cut its debt costs between 15-20% to be competitive with an airline like Continental—which has been through *two* asset-stripping bankruptcy reorganizations, and is still losing money. United, the sharks think, could come back from bankruptcy, having shed its financial liabilities and its high labor costs, and become a powerful weapon to force more cuts on every other airline—the logic of deregulation.

But, this does not address why United's revenue for the first nine months of 2002 is 26% lower than in 2000. Revenue collapses in a depression. United has lost upwards of $4 billion in two years. As LaRouche said when the ATSB was created, the airlines were heading for bankrutpcy well before Sept. 11, because of the ongoing financial collapse.

United has been unable to get financing from the capital markets. Had it received the Federal loan guarantee, the other airlines would have gone bankrupt. Scotty Ford, chief negotiator for United's mechanics union, singled out Continental, Northwest, Delta, and American Airlines as lobbying against United's loan. After the ATSB denied the loan, Prof. Sam Peltzman of the University of Chicago told CBS, "This is the end. It's been defeated by American Airlines, apparently." Peltzman noted that American is a candidate for ATSB help.

But neither American nor any other major carrier can get ATSB help, because the deadline for loan applications passed on June 30. The ATSB told American early on, "not to apply, we couldn't apply, and we didn't," according to American spokesperson Mary Frances Fagen.

Give Up Illusions of Recovery

When unionists, elected officials, and others are confronted with LaRouche's plans to put the financial system into bankruptcy, the lack of leadership in the political parties and trade union movement has led them instead to looking for "deals" that will pay off "when there is a recovery." Thus, in 1994, when United—then the nation's largest carrier—was under attack from deregulated upstart airlines, its pilots and mechanics unions accepted stock in place of wage increases. United thus became the largest majority employee-owned public company in the world, with 55% of its stock in its unionists' hands. That stock, worth $100 per share in the late '90s, sold for $1 a share on Dec. 5, when Standard & Poor's rated it "Default"—its lowest rating. In a United bankruptcy, the majority owners of the worthless stock are employees, who had no wage increase for six years, and whose new "industry-setting standard" contracts of 2001-02 have been overtaken by the events of the crash.

Similarly, state legislatures cobble together such paper "solutions" to shortfalls every day, projecting revenue that doesn't exist in a depression, only to see such schemes fall apart the next day.

It is time to face reality, and follow the approach of LaRouche's "Super-TVA"—re-regulation, freezing the debt, putting the financial system into bankruptcy, and creating national credit issuances for the expansion and modernization of the transport system and other hard and soft economic infrastructure.

That is what is necessary to save the air transportation system of the United States, which is otherwise now in a death spiral echoed in rail transport, in state budgetary collapses, and throughout a depression-wracked American economy.