Save the Airlines, Re-Regulate Now!

by Anita Gallagher

The major U.S. air carriers, led by bankrupt United Airlines, are heading into a meatgrinder of destruction—the only difference in their fates, being which one is first on the conveyor belt. This destruction of the nation's essential transportation infrastructure must be stopped at once, by a sweeping change in national policy—re-regulation of air travel for the general welfare—to save the airlines from internecine, gladiator-style combat, where asset strippers harvest the carcasses.

Democratic Presidential pre-candidate Lyndon LaRouche warned in an Aug. 24, 2002 webcast, "We are losing our rail system, the last vestige of it. We are also in the process of crippling, and virtually destroying our air traffic system. . . . If this were to occur . . . then the United States ceases to be an integrated nation. . . . It is no longer a unified, efficient national economy." Yet an airline representative on Feb. 19 told *EIR*, after being briefed on the reregulation of the airlines, "I've never heard anyone suggest that before." LaRouche's approach must be taken, before time runs out for the airlines.

The Specter of United's Liquidation

"Vultures Are Circling United Airlines," reads Neil Weinberg's headline in *Forbes* magazine on Feb. 18. "UAL's [United Airlines] Chapter 11 reorganization may just turn into an outright liquidation. Lenders, lessors and competitors are ready to pick up the pieces." Similarly, *Fortune*'s John Helyar wrote on Feb. 2, "Absent progress, United could soon begin a spiral from Chapter 11 [bankruptcy protection] into Chapter 7: liquidation."

Since filing for bankruptcy on Dec. 9, United has been in negotiations for $2.56 billion annual givebacks from its unions. It is also presumed to be shedding lease costs by renegotiating 309 (about two-thirds) of its leased planes, as well as its real estate leases; planning another 6% capacity cut in 2003, and shutting down maintenance facilities and ticket reservation offices, among other measures. Other airlines are lining up to self-destruct in in the same mode: For example, American Airlines spokeswoman Tara Baten told *Fortune*, "Anywhere United might get a cost advantage on us, we will try to pursue savings in that area as well."

But, truth is stranger than fiction for the "true believers" of the cost-cutting doctrine: It has not worked at United, nor anywhere else. In 2002, the major airlines lost over $9 billion. A leading cost-cutter, Continental Airlines CEO Gordon Bethune posed the paradox in *USA Today* Jan. 21: "We're beating the hell out of the competition, but we're still losing a ton of money." Industry revenues were off 20-25% from the "recession" year 2001, says Dave Swierenga, chief economist for the Air Transport Association. Despite the huge cut of 80,000 jobs and 10% in industry capacity, industry costs are only down by 5%, according to *USA Today*'s Dan Reed. Swierenga doubts such large savings are possible: "I've never known of any company that cut its costs by that much without cutting its revenues by as much or more, cancelling out the benefit."

The airline industry case thus parallels that of state governments cutting their budgets, only to find their revenues had dropped even faster. A recent study by Families USA found that every $1 million cut in Medicaid spending would cause $3.4 million to be lost in business activity. Or, one could look at the "consolidation" of the steel industry—a goal often set for the airlines: With the sales of LTV Steel, and the sale of Bethlehem Steel to asset-strippers like Wilbur Ross, steel production is reduced, wages and pensions are lowered, and the "legacy" health benefits promised to retirees and their spouses, abandoned. But the companies are *still* not earning a profit. The pensions of US Airways pilots have been reduced 75% through US Air's bankruptcy proceedings, and the pensions of United's retired pilots are now threatened.

United is asking its union workforce to give back 34% of its wages and benefits each year, for $2.56 billion in savings; American Airlines has asked its unions to give back 25% of wages and benefits, to save $1.8 billion (while Moody's downgraded the bonds of its parent, AMR, to junk status); Delta, where only the pilots are unionized, has asked its pilots to reopen their contract well ahead of its 2005 expiration for large givebacks. Northwest, the fifth-largest airline, says labor must contribute much of the $1.5 billion a year in additional cost cuts the company needs. One union representative fears all the major airlines will soon be bankrupt, and replaced by low-budget carriers with pay scales and labor schedules thrown back to the 1960s.

Even Southwest Airlines, the only major airline to turn a profit last year, had its flight attendants picketting at Love Field in Dallas Feb. 14, over demands that they work longer hours with fewer breaks. On Jan. 9, the CEOs of major airlines appeared before Sen. John McCain's (R-Ariz.) Transportation Subcommittee, pushing for binding arbitration to stop any airline strikes.

Now, fit the airlines' finances into the real financial picture. As LaRouche stated in his Feb. 15 speech, "The Aftermath of January 28th," sometime between Spring 1999 and Spring 2000, the United States "had already entered what is a terminal collapse of the world's present monetary-financial system"—a hyperinflation; and, for monetarists, "the alternative to a hyperinflation is a hyper-*de*flation—a collapse beyond belief." LaRouche's alternative is a New Bretton Woods financial system, and a Federal Super-TVA to restart production, on the model of Franklin Roosevelt's Reconstruction Finance Corp. Revenues of airlines and other firms and government entities will continue to drop like a stone without productive job creation.

The Same Old 'Song'

But, instead of support for LaRouche's candidacy to generate a recovery, the airlines are instead trying to court diminishing numbers of fliers, whose incomes are also falling.

Glenn Tilton, United's CEO, is on a national tour to sell employees on a plan to hive off 30% of United's business into a no-frills airline that flies point-to-point, like competitors Southwest Airlines, Jet Blue, and Air Tran (the reincarnation of the notorious ValuJet), instead of using the hub-and-spoke system. "The mainline United Airlines would be getting smaller, and we would create a separate operation" offering flights nationwide," Tilton said. United estimates that it competes with low-cost carriers on 72% of its domestic routes.

"The State of U.S. Transporation Today," the above drawing by Peter Breughel the Elder might ironically be retitled. The "consolidation" of the nation's airlines by bankruptcy is going on simultaneously with the breakup and destruction of the physical air-travel system. The remaining airlines are trying to "help" each other into bankruptcy and liquidation.

Airline Pilots Association spokesman Paul Whiteford attacked the idea of a new carrier "gutting out the airline," along with the Airline Flight Attendants, since employees of United's low-cost carrier would work at pay scales comparable to Southwest's. However, on Feb. 17, United's largest union, the International Association of Machinists (IAM) District 141 (ramp workers) head Randy Canale wrote union members that such a low-fare operation "could prove to be the only viable alternative to a competitively irrelevant, shrinking UAL" (United's parent). In his letter, Canale also warned, "The union has repeatedly reported that UAL must dramatically reduce its costs, including labor costs, in order to survive bankruptcy. Yet some members still fail to grasp this simple, obvious truth—we all must sacrifice, or UAL fails." Meanwhile, the unofficial slogan among some IAM members is "Highest pay till the last day."

Third-largest Delta Airlines will launch its low-cost carrier, Song Airways, on April 15, which will serve the Northeast and Florida, where low-cost Jet Blue has cut into one of its major markets. Delta, Continental, and United have all tried, and failed, at low-cost subsidiaries in the past; American Airlines is also considering a low-budget carrier.

Without the measures LaRouche has proposed, the airlines will die. The fallout will be extraordinary. Boeing is basically writing off the year 2003. In the third quarter of 2002, it wrote off $250 million of unpaid lease income. Its $11.5 billion lease exposure, at a time 1,500 planes are parked in deserts, is huge. Many non-aviation corporations were advised by their accountants to buy planes to get the double tax benefits of depreciation and interest on loans. Banks CIT Group and Morgan Stanley have $3.9 and $4.8 billion exposures, respectively, while seemingly unrelated companies, such as GE, Walt Disney, and Pitney Bowes also have large exposure. American Insurance Group (AIG) alone has $24 billion in airplane leases. In the past month, more than a dozen companies have announced that their earnings will be reduced by hundreds of millions of dollars because of lost lease income from U.S. Airways and United Air Lines.

Globally, at least $1 billion has been lost on airplane leases in the past year, according to Jeremy Kahn of *Fortune*, and $20 billion or more could be be lost in the current conditions, he estimates. It is actually much worse.

The fallout from dying airlines on cities is enormous. Paul O'Connor, executive director of World Business Chicago, said: "United is our fundamental infrastructure for connecting with the rest of the world, and it establishes our ability to serve as an operational center for companies in North America." That whole system is at stake, he told the *Washington Post* Jan. 30. To take another snapshot, United represents a whopping 63% of the airline traffic in Denver, another of its hubs.

Once again, it's as LaRouche said: Without air traffic infrastructure, America ceases to exist as an integrated nation, and an efficient economy. It's time to re-regulate, and reorganize the financial system.