War Drive Pushes U.S. Airlines Into Free Fall

by Anita Gallagher

The drive for war on Iraq by the "chicken-hawks" grouped around Vice-President Dick Cheney has put the entire U.S. airline industry, already on the brink of bankruptcy and liquidation, into free fall.

U.S. Democratic Presidential pre-candidate Lyndon LaRouche's policy must be implemented at once to avoid the colossal economic destruction it would wreak on the U.S. economy: 1) fire the entire "chicken-hawk" crowd; 2) admit that the economy is collapsing; and 3) fix it with Franklin Roosevelt-style measures immediately, while collaborating with other nations for a worldwide economic recovery.

Can It Get Any Worse?

Time is running out to save the airlines and the sinews of economic activity they represent by linking the country together:

- American Airlines, the largest airline in the world, will likely file for bankruptcy "sooner rather than later," according to a March 10 statement by its Flight Attendants union. American is reported to be seeking $2 billion in "debtor-in-possession" financing from Wall Street firms, a customary attempt to line up the capital needed to continue operations in bankruptcy. One Wall Street source termed this "a very high, unreasonable request," noting that American has far less collateral than United Airlines did. The Federal Aviation Agency (FAA) has confirmed that it has stepped up safety oversight at American—a measure that typically follows a carrier's slide into insolvency—in order to ensure that there is no cost-cutting that affects safety.
- United, the world's second-largest carrier, which declared bankruptcy on Dec. 9, asked the Bankruptcy Court on March 11 for another six months to file its reorganization plan, otherwise due on April 8. International Association of Machinists District 141 head Randy Canale also announced on March 10 that it will not be possible for United and its unions to renegotiate new labor contracts, with $2.56 billion in annual givebacks, by the March 17 court deadline. This means that United will ask the court on that date to annul all the current labor contracts—a maneuver allowed under bankruptcy law.

The possibility of United's liquidation is being discussed. United's reorganization plan, and negotiations with its unions, have been complicated by its mistaken belief that it needs a low-budget division, code-named "Starfish," to compete with budget airlines like Southwest.

- Delta, the third-largest U.S. airline, reversed its projection of a rise in passengers and cash-flow this quarter, to forecast a decline in both. War fears are convincing some travellers not to fly, Delta said. Delta announced that it would implement the Orwellian CAPPS II passenger screening program at three yet-unannounced airports before the end of March, which gives passengers a security rating based on running their credit reports, banking history, and criminal history. Because of this Ashcroft-type program, a boycott of Delta has been launched by privacy activists at www.boycottdelta.org.
- U.S. Airways, the eighth-largest U.S. airline, continues in bankruptcy, with its CEO David Siegel terminating the pilots' pension plan as part of its bankruptcy reorganization. U.S. Airways' pilots will lose 75% of their pensions. Commercial airline pilots must retire by age 60. Continental, Northwest, and even budget model leader Southwest, are all pushing for givebacks and/or work rule regressions.

Under the suicidal competition introduced by airline deregulation in 1978, air fares today are lower in absolute, unadjusted dollar figures than they were in 1987, and all the airlines are on the brink of bankruptcy—a process that began well before Sept. 11, 2001. As **Table 1** shows, the airlines are not collapsing because they have failed to cut costs, but because demand has collapsed even faster. As LaRouche has said, it is the role of the Federal government to create demand by issuing credit for productive infrastructure, and create a rational transportation infrastructure through re-regulation, in the interest of the general welfare.

In this escalating financial crisis, the safety of the entire U.S. air network has been called into question by the *USA Today* exposé of Feb. 17, which documented how the faulty

TABLE 1

Self-Imposed Cuts by Six Largest U.S. Airlines

(Year Ended September 2002 vs. 2000)

Category	Reduction	Change
Operating Expenses	$4.5 billon	–5%
Capital Spending	$5.6 billion	–47%
Capacity	$100.1 billion Airline Seat Miles	–13%
Mainline Fleet	240 aircraft	–7%
Headcount	70,112 employees	–16%
Other	Closure of numerous city ticket offices, maintenance facilities, and reservation centers; reduction in inflight services, fuel consumption, commission rates, etc.	

Source: Air Transport Association, March 11, 2003 Report, citing SEC filings of American, United, Delta, Continental, Northwest, and U.S. Airways.

electronics of an in-flight gambling and shopping system installed on Swissair Flight 111 may have caused the plane to crash in September 1998, killing all 229 people on board. Canada's Air Transportation Safety Board found that the wires in the system short-circuited and could have led to a fire.

The scandal is that the FAA is mandated to oversee all modifications on jets; but, lacking the resources, it contracts small private companies to do the checks instead. After the crash, the FAA found problems with the in-flight gambling system and banned it, and revoked the operating authority of the contractor who approved it. The Government Accounting Office announced an investigation of this practice in early March, triggered by the *USA Today* exposé and a letter from Rep. Peter De Fazio (D-Ore.), stating that the *USA Today* story suggested that "the aviation industry was supervising itself without adequate controls and oversight by the FAA." The precarious position of the airline industry makes these charges highly credible.

Iraq War Drive Is 'The Perfect Storm'

On March 11, the Air Transport Association (ATA), representing airlines which carry 95% of the passenger and freight traffic of the United States, issued an emergency report, stating that an Iraq war could immediately lead to "chaotic industry bankruptcies and liquidations," or even "the prospect of a forced nationalization of the industry."

The report, "Airlines in Crisis: The Perfect Economic Storm," offers four scenarios on how much the airlines would lose in an Iraq war. The report concludes that, based on a comparison with the 43-day Gulf War in 1991, the most likely scenario is a loss of $4 billion more than already expected, which would total $10.7 billion for 2003, with 2,200 additional daily flights cut, and an additional 70,000 jobs lost on top of the 100,000 which have already been lost. The tourist industry would lose four jobs for every job lost in the airline industry, and the ATA estimates that every job in the airline industry produces 15 jobs in the broader economy.

Going into the 1991 Gulf War, the ATA points out that the airline industry had five profitable years from 1984-89, earning $3.9 billion in net profits; it had cash reserves, and it could borrow. Following that war, the airlines lost $13 billion, 25,000 jobs, and seven large and medium-sized airlines went bankrupt, with four liquidated (**Table 2**). It took the industry four years to become profitable again.

Today, the ATA report states, the airline industry has lost $18 billion since 9/11; even without a war in Iraq, $6.7 billion in losses are expected in 2003. Fuel prices, for example, which constitute 15% of an airline's operating expenses, are up 108% from one year ago. Both airline cash reserves and credit lines are exhausted. The industry now faces $4 billion annually in "unfunded mandates" imposed on the airlines for insurance and security upgrades.

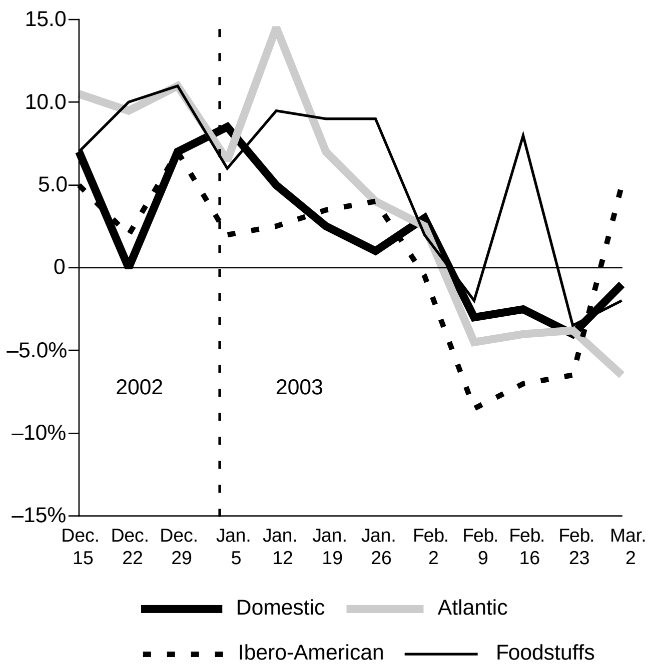
It is clear that neither the self-cannibalization measures of the airlines, nor an industry-wide one-year tax break, nor government help with insurance costs sought by the industry, will work. The airlines won't make it unless the war drive is stopped, the airline industry re-regulated, and the whole bankrupt financial system is reorganized along the lines Lyndon LaRouche has proposed as "A New Bretton Woods Agreement."

TABLE 2
1991 Gulf War Airline Bankruptcies

Airline	Date	Action	Outcome
Continental	12/3/90	Chapter 11	Emerged 4/27/93
Pan Am	1/8/91	Chapter 11	Liquidation
Eastern	1/18/91	Last Flight	Liquidation
Midway	3/25/91	Chapter 11	Liquidation
America West	6/27/91	Chapter 11	Emerged 8/25/94
TWA	1/31/92	Chapter 11	Emerged 11/3/93
Markair	6/8/92	Chapter 11	Liquidation

Source: Air Transport Association March 11, 2003 Report.

FIGURE 1
Air Traffic Plummets as War Threat Approaches
(Percent Change, Year to Year, in Revenue Passenger Miles)



Source: Air Transport Association March 11 Report, citing American, United, Delta, Continental, Northwest, U.S. Airways and America West.