Braniff, its creditors, and the bitter fruit of air deregulation

by Leif Johnson

In 1978 when the Carter administration rammed through the Airline Deregulation Act, Braniff International Airlines plunged headlong into the scramble for the 1,000 new routes offered by the Civilian Aeronautics Board (CAB). Braniff asked for 624 new routes, got 132 and serviced 75, then bought the 41 planes to fly them at a cost of nearly a billion dollars. Unsatiated, it took options

Braniff carriers grounded at the Dallas-Fort Worth terminal in May.

Harding Lawrence was reportedly the bucaneering type, given to braggadocio and marketing gambles, while his wife went to work on dizzy paint schemes for the aircraft, designer uniforms with 26 changes for the flight personnel, and expensive kitch for the luxury corporate offices rented for $760,000 a month.

But except for the legal battles, the high flying came to a quiet end May 13, when all craft were flown back to the Dallas headquarters and the 9,600 employees were told that the company had absolutely no cash left to pay for fuel, airport fees, passenger food or their last paycheck.

Was it Hardy Lawrence's decision to capture as many deregulated routes as possible that caused the company to fold so abruptly? What is caused by deregulation that allowed individuals like Lawrence to "make mistakes"?

By suspending operations, the airline, the nation's eighth largest with about five percent of U.S. traffic, clearly intends never to fly again, although it filed for reorganization rather than a Chapter 7 liquidation of assets. That brings us to the creditors.

At book value, the airline's 33,657 common stockholders will lose a quarter of a billion. Other losers will be the $39 million preferred shares; the vendors, who were owed about $100 million, the Boeing company, which lost $84 million in the lost sale of three 747 aircraft; United Technologies, which lost $10-$15 million; and the employees, who lost about $15 million in immediate pay and have a $147 million unfunded liability in their pension system.

Then come the secured creditors, holding about three quarters of a billion in debt. Although they are senior creditors, it is very unlikely they will be paid dollar for dollar. The total worth of company's 50 aircraft and other equipment is estimated about $400 million.

The first clue to the Braniff collapse lies in the secured creditors. There were 39 banks and insurance companies among them, including Prudential Insurance, Aetna Life & Casualty, Mutual Life of New York, Connecticut General, American National Insurance of Galveston, Travelers, Equitable Life, Bankers Trust, Citibank, Chase, Morgan Guarantee, Texas Commerce, Continental Illinois, Manufacturers Hanover, Marine Midland, and Chemical Bank.

Except for a heavier-than-usual concentration by Texas institutions, Braniff's creditors are standard airline creditors. Braniff's creditors are many of same that fund all other carriers, including American Airlines, against whom Braniff sparked a violent fare war that dropped both carrier's fares in the Dallas market by as much as 47 percent.

The bank creditors

Why did these creditors allow the cash-strapped Braniff to engage in a ruinous fare battle with the much larger American Airlines? Indeed, why did these worthy creditors allow the fandangoing Lawrence to gobble routes in 1978, pile up huge debts—the creditors' money—and then persist in keeping these routes despite markets conditions? Most curious, why did these creditors allow American to shift its routes to the Southwest from the Northeast, leaving a large number of highly profitable routes with steady load factors (the percentage of seats sold on a flight) as high as 85 percent, or more than 30 percent higher than the industry average? Not only did American abandon highly profitable routes, but it invaded Braniff's route territory, which ultimately brought both ruin to Braniff and large losses to American.

On the Braniff board of directors in 1978 when Lawrence's appetite was said to have overpowered him were three members of the New York City banking and corporate elite: Gustav Levy, senior partner of Goldman Sachs, who was also a director of Gulf Life Holding Company, one of Braniff's current creditors; Mrs. Albert Lasker; and Joseph Cullman III, Chairman of the Board of Philip Morris and a director of Bankers Trust, a Braniff creditor.

As directors who had been on the Braniff board for years before 1978 and had re-elected Lawrence as chairman and as directors of creditor institutions, it is impossible to believe they were unaware of Lawrence's route expansion plan in 1978. There is no evidence to suggest that Lawrence acted in defiance of the wishes of the board and the creditors—certainly he was allowed to continue his policies unmolested. There is no reason to believe that the massive fare-cutting begun by Braniff in November 1981 occurred in defiance of the present board of directors.

The net loss to the senior creditors will be relatively small. If the aircraft are sold, either to other airlines probably involving the same creditors, or to the military, the total loss will be some $300 million. After tax write-offs (which for some institutions might entirely shield the loss or even shelter some other profits), the loss could not be more than $100 million, shared 39 ways. Only the smaller Dallas and Galveston creditors might get substantially hurt.

Why did they let Braniff go?

In the Sept. 15, 1981 issue of *EIR*, we explained that the airline financiers made a decision in the late 1960s to dismantle the national airline network, reducing service by as much as 25 percent, regrouping the national carriers around regional airport hubs and, after the industry was shaken out, raising fares to levels that would further reduce the mobility of the American population, especially in smaller and medium-sized industrial cities in the Northeast and Midwest.

These financiers were carrying out the "Aquarian Age" policy of de-industrialization of the United States. Their tools were deregulation, which wiped out profits in the airline industry and wrecked a stable route structure; environmental controls, which further increased costs; a provoked strike of air traffic controllers, which reduced prime-time business flights; and, most important, a policy of financial usury enacted by the Federal Reserve Board as of October 1978.

A further element, by no means incidental, was an experiment with the industry's 300,000 employees, a "recycling" of the labor force which would set a national pattern of wage concessions, give-backs, loss-sharing, payless paydays for weeks or even months.

Such a process would hit the aircraft manufacturing industry, as ruined carriers like Braniff sold their older jets at a half to a third the price of new aircraft. Even more than computers, aircraft manufacture represents America's flagship export manufacturing industry, with 90 percent of the world's airframes made in the United States.

A case study: Louisville

Louisville, Kentucky, a manufacturing city of 300,000 ranking 49th by population, was a champion of deregulation, especially after the 1970 Civilian Aeronautics Board (CAB) route freeze. When prospects for the 1978 deregulation become favorable, the city petitioned the CAB for a number of "pairs" or non-stop routes to various destinations. The city argued, however, that these routes should be granted to one to three carriers, depending on the route, instead of allowing multi-carrier competition, which they asserted would in many cases provide no service at all; if a route would

Louisville, Kentucky fare history
Top 10 markets

Louisville to:	Non-stop miles	Fare 11/1/78	Fare 5/1/82	Percent increase
Chicago	276	$ 47	$100	113%
New York	653	82	120	46
Atlanta	321	52	111	113
Washington, D.C.	467	67	140	110
Detroit	316	50	108	116
St. Louis	254	45	94	109
Dallas/Fort Worth	737	88	210	137
Pittsburgh	340	58	120	107
Los Angeles	1828	173	315	82
Tampa	733	88	184	109

sustain one carrier on the basis of traffic, but all carriers could enter the route, they would often fail to do so, for if they were successful, another carrier would enter the market, eventually driving both out.

This is precisely what happened. In November 1978, before the effects of deregulation were felt, the city had 105 daily arriving and departing flights. Today that number has been reduced to 83. Worse, the number of non-stop arrivals has declined from 92 to 72 with non-stop departures dropping from 88 to 73. In the city's 50 largest markets, the total number of single pair services available went from 323 to 231, a reduction of nearly 30 percent.

As the number of non-stops declined—American pulled out all its 11 flights a week as part of its route shift to Dallas—business travelers were forced onto one-stop and two-stop flights often involving an extra day and a night's hotel lodging. In a submission to the CAB dated Nov. 18, 1980, C. Prewitt Lane, Jr., Executive Vice-President of Todd Investment Advisors, said, "For many years one was able to leave Louisville early in the morning and arrive at LaGuardia at approximately 9:30. That same afternoon you could leave at times which varied from about 5:30 to 6:45. This provided business with sufficient time to conduct a full business day without the additional cost of a hard-to-find hotel room in that city."

H. W. Nance, President of Serge A. Birn Company, who said he had depended on air service from Louisville since the early 1940s, found: "With the deregulation of air lines, our costs have definitely increased due to: 1) The cutback made by nearly all carriers to cities that they served prior to deregulation in order to serve new markets; 2) Complete elimination of service by some carriers to cities previously serviced; 3) The poor arrangements of departure and arrival times of the remaining flights; and 4) Fare differentials that now exist between short and long flights—New York to Los Angeles can be cheaper than Louisville to New York."

After listing incongruities in flight times and connections, Nance quips, "If you have time to spare, go by air."

Before deregulation, the Regional Airport Authority of Louisville and Jefferson County, in its famous *Louisville Service Case,* asked that non-stops by one carrier be allowed on a Louisville-Los Angeles run and from Louisville to Kansas City. The CAB awarded the Los Angeles run to Hughes Airwest, and the airline announced its plans to start service. In the fall of 1978, when the Airline Deregulation Act was passed and the CAB stated that it would allow multiple entry, the president of Airwest informed Louisville that it would not take the route. Nor would any other. The Kansas City route was never serviced either, because of the CAB's multiple award policy.

According to Marshall P. Arnold, Deputy General Manager of the Regional Airport Authority, many of the routes dropped since deregulation were entirely profitable. He cites one former American Airlines flight that for years had a steady 85 percent load factor, an unusually profitable flight.

The fare pattern

While service has worsened to Louisville, fares have soared. Since Nov. 1, 1978, fares in Louisville's top 10 markets have doubled (see table.) Average coach fares nationally rose from 11.7 cents per mile in the third quarter 1979 to 14.7 cents per mile in the fourth quarter of 1981. But Louisville's fares went from 12.6 cents per mile in Nov. 1, 1978 to 25.3 cents currently.

As the Communities for an Effective Air Transportation System (CEATS) points out, fares from small and mid-sized hubs are subsidizing the fare wars on the far-war runs. The Louisville Airport Authority told the CAB in 1978, ". . . in an attempt to offset losses on highly price-competitive routes, services are reduced and fares increased in noncompetitive markets, thus putting the airline industry into a self-perpetuating downward economic spiral. The only beneficiaries . . . are those passengers traveling in the highly priced competitive markets where air transportation is being virtually given away at the expense of the traveling public in other markets where premium fares are being demanded for inferior service."

Of course, when the industry nationally declines substantially, the special fares like New York to Houston for $145, coast to coast for $199, or New York to Miami for $59 will also disappear.