Domestic Credit by Richard Freeman

Nose dive for the airlines

Between deregulation and interest rates, six of the largest carriers could crash by autumn.

It is possible that by autumn, as many as six of the nation's top air carriers could be in bankruptcy court. In 1981, only three of the top 10 airlines made profits (American, Delta, and Northwest), and one of these did so only because it sold off some of its assets. But high interest rates on top of the deregulation introduced in 1979, which has cut air traffic by some 12 to 15 percent, is now taking more out of the airlines every day than they can continue to sustain.

If one or two large airline companies were to go under, worried bankers would call in loans against others, and this could quickly lead to a wave of bankruptcies throughout the economy, such as has not been seen since the 1930s.

The problems of the airlines are mounting daily. Braniff Airlines, the eighth largest American line, announced March 2 that it will pay its workers only half pay for the week ending March 5, and hopes that it will have enough cash to pay the remainder the following week. Edward Daly, who owns the medium-sized World Airways, announced March 1 that, "I'm not running scared, but if I don't get relief I will be out of business. It might be a week or a month." World Airways laid off 2,500 workers Feb. 12.

The airline industry registered a net loss of $350 million in 1981. But the airlines got $389.6 million in capital gains in 1981 from selling assets, including hotels, to raise cash. They also got $165.7 million from the sale of tax loss credits to other companies; by rewriting pension provisions to delay payment into funds, they knocked $59.3 million off pension costs. On top of this, the airlines wrung several hundred million dollars in concessions from its workforce. Without these measures the industry would have lost $1 billion to $1.2 billion in 1981. The airline's lobbying association, the Air Transport Association, reported at the end of February that the airlines will lose $350 million during the first quarter of 1982 alone.

The combined effects of high interest rates and deregulation are demonstrably the cause for the airlines' demise, as *EIR* predicted in our Sept. 15, 1981 survey. For example, Tiger International's 1981 operating profit (i.e., before deduction for interest rates) was $133 million, which was more than wiped out by Tiger's $195 million in interest debt service for the year.

Deregulation, boosted as an injection of free-enterprise competitive vigor for the airlines by followers of quack economist Milton Friedman, has produced rigor mortis. Under deregulation, the regulated fares and pre-assigned routes have been ripped up. Every air carrier is "free" to fly wherever it may choose.

As a result, two state capitals—in Delaware and New Hampshire—have no air service at all any longer, as well as 50 other cities. Nor has this lowered fares. From the third quarter of 1979 to the third quarter of 1981, air fares rose 60.7 percent.

However, while outlying routes have had fares jacked up, certain well-traveled routes have seen intense and suicidal episodes of price-cutting. For example, one-way coach fare from New York to Florida for February is $77, while from coast to coast the fare is only $148. But at these prices the airlines admit that to break even they would have to carry more passengers than there are seats.

Take the example of Pan American Airlines, the largest U.S. international airline, and overall, America's third-largest passenger carrier. Despite selling its profitable Intercontinental Hotel chain to Grand Metropolitan Hotel chain of Britain for $348 million, Pan Am ran a $20 million loss in 1981. And it is losing $1 million per day in 1982, because while it needs to fill 71 percent of its flights to break even, it is flying with only 60 percent of its seats occupied.

In fact, the only reason why the banks have not moved in to foreclose on 6 of the top 20 airlines, according to one analyst, is that "the banks would end up repossessing planes, and they aren't worth anything in today's depressed market."

One direction the airlines are taking is to begin liquidating themselves into the military. TWA recently sold off 39 of its old 707s for use in troop transport. If this continues, the number of planes flying, and the number of airline companies running them, will be greatly reduced. The U.S. air transportation grid will be dissolved.