EIR Economics

Airlines Bankrupt: When Will Government Step In?

by Anita Gallagher

Two leading United States airlines announced sweeping changes in air travel Aug. 11 and 13—route cutbacks, flight cutbacks, replacing large jumbo jets with the modern equivalent of prop planes, cancellation of all new orders for large planes. The shrinkage called up visions of air travel from the 1950s—waiting in a deserted airport for a prop plane's one flight out and back per day. Most Americans had no idea, when they accepted airline deregulation, that they were going back to the early ages of air travel. But they were warned, and that is exactly what they are now getting.

Lyndon LaRouche, Democratic Presidential pre-candidate, demanded on Aug. 13, "When will the government step in?" LaRouche called for immediate government re-regulation of the airlines to ensure that the physical infrastructure of air transport is not dismantled, and the skilled workforce to run it is not furloughed, or reduced to low-skill pay.

On Aug. 11, U.S. Airways, the sixth-largest airline in the United States, had filed for Chapter 11 bankruptcy, and announced plans to drastically downsize its planes and flights. With 40,000 employees, it is the largest air carrier east of the Mississippi River, where more than 60% of the population of the United States lives. Last year it carried 56 million passengers to 200 destinations in 38 states, as well as Europe, South America, and Canada.

Two days later, American Airlines, the world's largest carrier, preemptively initiated a self-cannibalization and shrinkage plan, trying desperately to please the Wall Street financial speculators who have sold off its stock: retiring 83 planes, reorganizing its "hub" system by scrapping multiple flights at peak hours, trading big planes for smaller, regional aircraft, while laying off another 7,000 employees.

Besides demanding government intervention to re-regulate the airlines, LaRouche reacted to the proposed dismantling of the air transport sector by commissioning a physical assessment of the state of the airline industry today. LaRouche emphasized that he did not mean an accountant's nominal statistical report, but a real picture of the physical sector. The railroads and the ports should also be included in this physical survey of air transport, he insisted, because all three are public utilities. The reality of their physical function cannot be ignored, except at great risk.

Therefore, Federal action to re-regulate air, rail and port infrastructure must happen, and it must happen now—before the government is presiding over industrial corpses, LaRouche emphasized. The airline industry is part of the public utilities of the United States, and thus represents an important part of the economic national security of the nation.

LaRouche also noted that, in tandem with his success in taking his Presidential campaign—as the most electable candidate since Dwight Eisenhower—to the streets, sane forces around the world are now putting such government-backed infrastructure-building proposals into action (see *EIR*, Aug. 16, "Europe Governments React to LaRouche Campaign, Reality").

Unions Forced To Give Back Wages

U.S. Airways filed for Chapter 11 after negotiating $465 million in contract concessions—"givebacks"—from its pilots, and $76 million in givebacks from its flight attendants—an average of 25% of their annual salary through 2008 is to be forgone. The givebacks were approved by 3-to-1 margins. The International Association of Machinists' (IAM) mechan-

This publicity photo of bankrupt U.S. Airways Corporation's CEO, David Siegel, inadvertently suggests reality: The American air carriers are rapidly shrinking and going back toward the profile of air travel in the 1950s and 1960s. This is what deregulation has wrought.

ics and fleet service workers will vote on givebacks before the end of August, to put together an annual package of $950 million in wage givebacks. The U.S. Airways pilots also gave up their "no furlough" contract clause.

Even though the wage concessions—which are a condition for the attempt to get Federally guaranteed loans—seemed on track, the company filed for bankruptcy because it could not get its lessors and vendors to cancel surplus aircraft leases and return excess aircraft outside of Chapter 11.

Now, U.S. Airways can scrap its larger planes, and consolidate routes that will use smaller regional jets. It is now negotiating with regional jet manufacturers Embraer and Bombardier for up to 200 firm deliveries, and 300 options, for the small regional jets. These will lead it back to the old "point-to-point" system of the 1950s, and otherwise the inefficiency of feeding passengers into its hubs of Pittsburgh, Philadelphia, and Charlotte, North Carolina, where they will face long waits for connecting flights.

Without the government re-regulation LaRouche has called for, at the end of the gutting of this airline, the predatory airline reorganization firm Texas Pacific stands ready to buy up 38% of U.S. Airways—which listed assets of over $7.8 billion in its bankruptcy filing—for the pittance of $200 million.

At the same time, American Airlines appears to be trying to beat Wall Street to its own carcass, by laying off another 7,000 employees by March 2003, and grounding its fleet of medium-range aircraft, to save $1.1 billion annually. Some $5 billion in capital spending has already been cut or deferred since 2001.

American will cut back flights from its "spokes," or feeder airports, to its main hub, Dallas-Ft. Worth, which arrive at "peak" times, and instead stagger the flights, so that American can use fewer planes and fewer gates. Passengers from smaller cities flying into hubs for connections will face a long wait for their next plane. These off-peak flights will lack passengers, and be eliminated next.

Boeing in Further Layoffs

But the real shocker is that American has deferred 35 aircraft deliveries in 2002, and, according to the company's Aug. 13 press release, "will seek every opportunity to defer or cancel new deliveries going forward." American's flight capacity will be 9% less in November, than it is now. The airline has already cut its fleet types from 14 to seven, and will retire its 74-jet Fokker 100 fleet, and the nine Boeing 767s it acquired from TWA, in November 2002.

Thus, while the events of Sept. 11 grounded airplanes for a short period, Wall Street's hit will ground the airlines for good.

United Airlines, the world's second-largest carrier, requested a $1.8 billion Federal loan guarantee in June. But, on Aug. 14, CEO Jack Creighton announced, "The world has changed." United amended its application (which was reportedly headed for rejection), and set a 30-day limit to either get the concessions voluntarily, or file for Chapter 11. Without LaRouche's alternative, either course means gutting its fleet and labor force. United has already cuts its flights by 20%, laid off 20,000 employees, and retired 99 planes, including its entire 737-200 fleet. United's employees own the majority of its stock, whose value would likely be wiped out in bankruptcy.

Boeing Corp., the largest aircraft maker in the world, is hard-hit by American Airlines' cancellation of 35 jets, and its attempt to cancel 67 more Boeing jets scheduled for delivery between 2003 and 2008. Boeing will slash its jet aircraft production to half of what it produced in 2001. It now plans to deliver 380 jets in 2002, and lower production to between 275 and 300 in 2003.

Months ago, Boeing announced the layoffs of nearly 30,000 highly skilled aerospace workers before the end of the year—18,000 in Washington State alone. With membership in the Seattle-based IAM District 751 just about half 1999's levels, the union now goes into daily, non-stop negotiations prior to voting on Boeing's last, best offer before the Sept. 1 contract expiration.