Major Airlines Will Go Bankrupt Without LaRouche's Re-Regulation

by Anita Gallagher

American Airlines, the largest airline in the world, will follow United, the world's second-largest carrier, into bankruptcy by May, if it fails to gain $1.8 billion in wage and benefit cutbacks from its unions, according to an official of its pilots' union.

American's cash will run out by May 25, a website for members of the Allied Pilots Association said, based on losses of $5 million per day. Even $1.8 billion in givebacks might not be sufficient to avert bankruptcy, and if the negotiations take longer than two months, American's chances of bankruptcy are "100%," the official said. Capt. John Darrah, president of the 13,500-member Allied Pilots Union, denied that the leak was the union's official position, but acknowledged American faces "an extremely difficult situation."

The only difference between bankrupt carriers and those still in the black, is simply the amount of cash reserves they have left to lose.

Thus, it is clear that there is no "business model" that would work: no amount of labor givebacks, capacity cuts, or pension nullification that would make the airlines break even. The only thing that will work is financial reorganization of the entire economy on the Franklin Roosevelt model, and re-regulation of the airlines—as Democratic Presidential pre-candidate Lyndon LaRouche stated in an Aug. 24, 2002 webcast. The alternative, LaRouche said, is the collapse of the United States as "a unified, efficient national economy." Or, as LaRouche told a town meeting in Pine Bluff, Arkansas on Feb. 23 (see *National*), the financial collapse is beyond what anyone will admit, but the good news is, there's a way out, if we do things differently.

Iraq War Means No Airlines

The price of jet fuel has increased by 50% since December, mainly because of fears of a war with Iraq. After labor, fuel is the second-highest expense for the airlines. Even financial analysts warn that an extended war with Iraq, or another "terror attack" that would be attributed to that war, could pull the plug on the airline industry. In 1991, Eastern Airlines shut down *two days* after the United States started its air attack on Iraq, and within ten months of the end of that war, Midway Airlines and Pan American Airways folded. Because of its shaky credit rating, United has been unable to buy any long-term fuel contracts, known as "hedges."

This is the backdrop against which United must meet monthly cost-cutting targets set by its Debtors-in-Possession, the first of which occurred on Feb. 28. United has been out-performing the cost-reduction plan since its Dec. 9 bankruptcy filing, so, as the London *Financial Times* put it, "They have a cushion of a couple hundred million." But, if there is a protracted war, they would "start burning through it."

Even without war, the performance targets for United become progressively steeper. Under the U.S. Bankruptcy Code, United has only until March 15 to negotiate voluntary givebacks worth $2.56 billion annually from its unions; if the unions do not agree, United will file a "1113" motion, permitted in corporate bankruptcies, to nullify all its current labor contracts.

The unions, which own 55% of United because of their bailout of the firm in 1993, do not appear to be close to accepting these cuts. The pilots and flight attendants fiercely oppose the proposed low-cost carrier—codenamed "Starfish"—which United wants to hive off to compete with the Southwest/Jet Blue model, and which would pay far below current United payscales.

Doug Hacker, United's executive vice-president for strategy, told employees in Denver in late February, "The core of our problem is that virtually all of our routes on the global route network lose money." Cost-cutting alone would make about 70% of United's routes profitable, and the low-cost carrier would bring the remaining 30% to breakeven, Hacker said, according to the *Denver Post.*

Other "unthinkables" being considered by United are sale of its Pacific routes (Hawaii and Asia), as well as closing three (Los Angeles, Denver, and Washington-Dulles) of its five hubs (Chicago and San Francisco would remain open), United Senior Vice President Gregory Taylor testified on Feb. 24 in Bankruptcy Court. Without Pacific travel, much of its Denver and Los Angeles business would evaporate. The Pacific routes are considered the "crown jewels" of United, having some of the highest load factors in its route system; in addition, United grew from Hawaii routes, and provides—with 25% of U.S. mainland travel capacity to Hawaii—more than any other airline.

All the airlines are lined up like lemmings, ready to jump off the same cliff. Northwest Airlines, the fifth-largest carrier, is demanding that its pilots reopen their contract two years ahead of schedule and take a 20% pay cut (rolling back their wage scales to pre-1996 levels), as part of a plan to stop its losses with $1-1.5 billion in cost cuts.

All these disastrous plans and the cost-cutting number-crunching accompanying them, are being put forward as part of testimony in United's hearings in U.S. Bankruptcy Court in Chicago, U.S. Airways' bankruptcy hearings in the Eastern District of Virginia, and perpetual giveback negotiations at every other airline. None will work alone, or in combination. Instead of finding a way out by "doing things differently," as LaRouche said in Pine Bluff, this is just so much fiddling while Rome burns.