Crisis in the US airlines industry: the case for public ownership

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With US Airways' decision to file for bankruptcy on September 12, the crisis in the US airline industry has reached a new stage. The seventh-largest airline in the country now joins United Airlines, the second-largest, in Chapter 11 court proceedings. The country's third-largest carrier, Delta Airlines, is threatening to declare bankruptcy as well.

US Airways, United and Delta are three of the six major "legacy" airlines—companies that developed their operations and labor relations prior to the onset of deregulation in the late 1970s and early 1980s. The other three are American Airlines, Northwest and Continental. All of these companies are engaged in a major push to slash costs in the face of competition from smaller low-cost and low-wage airlines, such as Southwest, JetBlue and AmericaWest.

United and US Airways are using their position in bankruptcy court to force concessions from their unions or, failing this, gain approval from the court to abrogate existing labor contracts and unilaterally impose steep wage and benefits cuts.

What is taking place is a systematic assault on wages, pensions, healthcare and working conditions won by workers over the course of decades of struggle. The anti-labor offensive of the airlines has vast implications for the entire economy and the working class as a whole. In particular, the airline companies' attack on pensions is the spearhead of a drive to abrogate pension plans that cover tens of millions of workers throughout the economy, and put an end to pension plans that legally bind companies to pay set benefits to their retirees.

United Airlines has been in bankruptcy since December 2002. In recent months, it has ceased paying into its pension plans and has threatened to terminate them altogether. United has declined to say how much it expects to save by eliminating the plans; however, payments that it has already suspended or skipped amount to more than $500 million.

In addition to cutting its pension obligations, United has set a goal of eliminating $1.5 billion in annual expenses in order to secure private financing and emerge from bankruptcy. This will certainly include further wage reductions, and CEO Glen Tilton has warned of "a significant number of job reductions" as a result of restructuring. There have been reports of expected cuts numbering 6,000, or about 10 percent of the workforce.

US Airways' bankruptcy filing is the company's second in two years. Prior to filing for Chapter 11 protection, the airline was seeking annual labor savings valued at $800 million a year, now raised to $950 million.

When the airline emerged from its first bankruptcy in March 2003, it was able to secure concessions from its unions valued at $1.8 billion a year. Workers were told that enormous givebacks were necessary in order to keep the company solvent.

The concessions included the termination of the pilots' defined-benefit pension plans in favor of defined-contribution plans. Defined-benefit plans—which provide workers with a fixed annual pension upon retirement—are far more secure for workers, but more costly for companies than defined-contribution plans such as 401(k)s.

Negotiators for the pilots' union at US Airways agreed last week to a separate deal with management that will cut pay by 18 percent, increase flight time and reduce company contributions to employee pension plans. In total, the savings are valued at $300 million. The agreement must still go before the membership for a vote.

If it does not get sufficient concessions from the rest of its workers, the airline is threatening to ask the bankruptcy court to impose an immediate 23 percent pay cut for nearly all union workers, and unilaterally impose other cost-saving measures.

There is also the possibility that the airline will decide to liquidate itself, laying off all 28,000 of its workers and selling its assets. A court filing that the company produced on September 24 cited a "high probability" of company liquidation by mid-February if it is unable to cut wages sufficiently.

Delta, which is seeking concessions valued at $1 billion annually from its pilots' union, has warned that it is also on the verge of bankruptcy. The union has agreed to cuts valued at $705 million. The pilots are the only section of the workforce at Delta that is unionized. Taking its cue from US Airways and United, Delta wants to drop its defined-benefit pension plan in favor of a defined-contribution plan.

Delta plans to close its Dallas hub, laying off 7,000 workers. The airline has already cut some 18,000 jobs since 2000. As with US Airways, there is talk of complete liquidation of the company if it does not win sufficient wage and benefits reductions.

American Airlines, the country's largest carrier, was able to stave off bankruptcy in 2002 only after it secured $1.8 billion in annual savings from its unions and employed other measures to cut costs by an additional $2.2 billion.

Northwest Airlines, the number-four airline in the country, has some of the highest labor costs and is seeking to impose cuts valued at $950 million annually.

Continental, the fifth-largest US airline, has also declared that it will need to ask for wage reductions.

Collectively, the major airlines have cut 110,000 employees since 2001.

The crisis in the airline industry is not limited to the United States. Italian airline Alitalia reached agreement with its flight attendants' union last month that will cut more than 3,500 jobs. The reductions were demanded by both the Italian government, which said it would let the airline go bankrupt unless unions agreed to take cuts, and officials of the European Union, who said they would not approve a 400 million euro loan to the airline unless the cuts went through.

Facing a similar crisis, in 2002, Swiss Air went bankrupt. British Airways recently announced that it will cancel about 1,000 flights over the next three months, and has sold its 20 percent stake in Qantas, the Australian airline.

There are certain immediate factors that have contributed to the crisis facing all the major legacy airlines, including the rise in fuel prices and the drop in air traffic following the attacks of September 11, 2001. However, the underlying cause is much deeper: the crisis of profitability in the United States and the deregulation of the airline industry two-and-a-half decades ago.

Until the early 1980s, the airline industry in the United States was regulated by the Civil Aeronautics Board (CAB). The CAB, which was created after passage of the Civil Aeronautics Act of 1938, was responsible for awarding airline routes to the major airlines, setting prices, and regulating the entry of new airlines into the market.

Airline regulation was part of a series of legislative measures designed to limit the effects of competition in industries considered too important or complex to be subordinated entirely to the workings of the market. Electricity production and distribution, telecommunications and transportation—in the wake of the Great Depression, all of these industries were subjected to certain constraints on the unfettered operation of the profit motive.

Though the profit motive was regulated, it was by no means eliminated. Prices were set in order to guarantee a certain return for the major airlines, while workers in the industry were able to secure relatively high wages and benefits. Workers had relatively secure employment and most were guaranteed a lifetime pension upon retirement.

This structure, which prevailed from the 1940s through the late 1970s, was possible only under conditions of general economic expansion in the United States and internationally. During and immediately after the Depression, under conditions of an explosive upsurge of working class struggle, sections of American capital favored using the dominant economic position of the United States to grant certain concessions to workers in order to fend off a movement against the profit system as a whole. The post-World War II boom created the economic conditions for such a policy.

With the growing economic crisis of the 1970s, government regulation of the airline industry and other sectors, which underwrote relatively high labor costs, came to be seen as an intolerable drain on the accumulation of surplus value and profit. The pressure from banks and finance capital to open up new areas for profitable investment intensified in proportion as the economic situation declined. One consequence was deregulation, which began in the airline industry and has since been implemented across the economy.

Beginning in 1977, the Democratic administration of Jimmy Carter initiated a major push to deregulate the airlines, appointing Alfred Kahn, a strong proponent of deregulation, to head the CAB. In 1978, Congress passed the Airline Deregulation Act, legislation that was sponsored by Democrat Edward Kennedy and supported by Kahn and Carter. The act stipulated that over the ensuing four years, restrictions on routes and rates would be eliminated. In 1984, the CAB was abolished.

While supported by finance capital, these measures were actually opposed by the major airlines, since the most immediate effect was the emergence of a number of low-wage, low-cost airlines that offered cheaper fares. A number of airlines, including Eastern Airlines and Continental, were pushed into bankruptcy amidst a systematic campaign to break their unions and force through cuts in wages and benefits. This anti-labor assault was fully supported by the Reagan administration, which began the process with the firing of the PATCO air traffic controllers in 1981.

By 1991, Eastern, TWA and Pan Am had all been either liquidated or bought up by other airlines. Pan Am dissolved itself in December 1991, eliminating 26,000 jobs. Many of those who lost work at the time were either unable to find new jobs in the industry or ended up at discount airlines, such as Southwest and JetBlue, which offered much lower wages.

This process of "structural adjustment" has continued through to the present day. With the end of the stock market boom of the late 1990s, there has been a renewed drive to attack jobs, wages and working conditions in the airline industry and throughout the economy.

Of particular concern are large pension obligations, many of which have been systematically underfunded over the past decade. Airlines will owe billions of dollars over the coming decades if they are unable to unload their pension plans. The only way a company can do this is to declare bankruptcy and have a court abrogate existing labor contracts. This is what United and US Airways have done or are in the process of doing, and Delta is eyeing the possibility as well.

As in the 1980s, the assault has the direct support of both the government and private finance. Since the major airlines have come to rely heavily on federal and private loans to stay afloat or emerge from bankruptcy, lenders are in a position to demand sharp cuts before providing funding.

For example, United Airlines was pushed into bankruptcy after the Air Transportation and Stabilization Board (ATSB) refused a loan request on the grounds that the company could gain private financing. Banks and investors, on the other hand, have refused to provide the company with funds unless sufficient wage and benefits cuts are secured.

In waging its assault on airline workers, the American ruling class has had the crucial assistance of the trade union bureaucracy. Wedded to the profit system, the only answer that the unions have to the attack on workers is to seek to prove to management that they can be trusted partners in the drive to reduce costs and boost profits.

Struggles at different airlines have been systematically isolated, with the unions pushing their memberships to accept steep cuts that are then used as benchmarks for the next round of attacks. Union and management promises of stock ownership and profit sharing have served to con workers and help the labor bureaucracy push through concessions, while doing nothing to protect the workers' jobs, wages and benefits.

At pivotal points, when airline workers threatened to strike, the government intervened on the side of management. This occurred in both the Clinton and Bush administrations.

US Airways is blaming its problems on a section of the pilots' union that blocked the company's last offer from going to a membership vote before bankruptcy was declared. Bill Pollack, head of the pilots' union at US Airways, has taken a similar stance, arguing, "A deal with their most powerful union would have provided an important stabilizing effect during court proceedings and would have shown the financial community and the government that they had a plan that could succeed."

Instead of unifying workers across the industry against management, the unions have sought to force concessions upon workers to "show the financial community and the government" that the companies can achieve sweeping labor-cost reductions.

The present state of the airline industry is utterly irrational. There are two underlying and interconnected causes: private ownership and national, as opposed to international, organization.

Not only are airline workers suffering, but passengers and society as a whole are paying a heavy price. Safety and efficiency of air travel inevitably suffer when all considerations are subordinated to the drive to lower costs and boost corporate earnings.

Though the airline industry is inherently global in character, it is fractured into scores of nationallybased companies, in competition with each other to slash costs. There is no centrally organized mechanism for carrying out the enormously complex task of scheduling flights and allocating resources. At any moment, a major company may cease operations, cancel flights, lay off its workers and throw the entire system into chaos.

What emerges clearly from the situation in the airline industry is the inextricable link between the economic issues facing working people and the necessity for a new political perspective and a new political movement. The crisis in the airline industry is part of a general crisis of American and international capitalism. Neither the Democrats nor the

Republicans have any solution other than to place the burden on the backs of working people.

As an operating principle, the goal of private profit has proven itself utterly irrational and destructive. A rational solution to the crisis requires the building of an independent and international socialist movement that has as its aim the complete reorganization of the economy. The airlines should be transformed into public utilities, run on an international basis, and placed under the democratic control of the working people.

Only on this basis can the jobs, wages, working conditions and retirement benefits of airline workers be secured, and the interests of society as a whole be defended.