

Eastern strike, a 'dereg' disaster

by William Jones and Nicholas F. Benton

As the Eastern Airline strike goes into its fourth week at the end of March, the lines are drawn for a showdown between the wage-gouging policies of junk-bond speculators like Eastern boss Frank Lorenzo, and a trade union desperate to defend what remains of its members' wage levels and even the right to organize.

In the background of the fight is the policy of airline deregulation, which *EIR* vigorously opposed since before it was legislated under Jimmy Carter in 1978, and which continued under Reagan-Bush. "Dereg," by making it impossible to make a profit while investing in maintenance and technical innovation, has driven the industry into the arms of financial vultures like Lorenzo, and set the stage for a bruising confrontation in which the industry, labor, and the public all lose.

As vice president, George Bush headed the President's Task Force on Deregulation, which bragged of wiping over 6,000 government regulations off the books during the eight-year Reagan tenure. So far, his actions in the Eastern case have not indicated that Bush has seen the light on the destructive impact of deregulation.

Lorenzo, asset stripper

Frank Lorenzo bought Eastern Airlines in February 1986, after deregulation and oil crises had badly undermined the company. He moved to strip it of its assets and to transfer the most valuable ones to his highly leveraged Texas Air empire, which in contrast to Eastern, is non-union. In 1983, Lorenzo had taken Texas Air's other major subsidiary, Continental Airlines, into bankruptcy, abrogated union contracts, and cut pay in half.

Lorenzo sold Eastern's computer reservations system to Texas Air, with an estimated worth of \$217-400 million, for \$100 million. Eastern now pays Texas Air \$10 million a month to use its old reservations system! Lorenzo also set up an independent company, Air Shuttle, Inc., which he wanted to have buy the real jewel of the Eastern operations, their East Coast shuttle, for \$225 million. Eastern's unions filed suit in federal court to block the sale. Last July, the transaction was terminated by mutual consent. Four months later, Eastern agreed to sell the shuttle to Donald Trump for \$365 million—\$140 million more than the price offered by the Texas Air subsidiary.

Lorenzo also had Eastern take a \$200 million loan through the sale of "junk" bonds secured by the value of Eastern's planes. Of that loan, only \$120 million went to Eastern; the

other \$80 million went to Texas Air. Half of this was in the form of a straight loan, bearing interest of 17.25%, the same rate that Eastern paid for the original \$200 million. The other \$40 million, however, was lent to Texas Air at a lower rate of interest than that of the original loan; Eastern had to foot the difference.

When Lorenzo further demanded \$120 million in contract concessions from Eastern's machinists, they went on strike. Eastern pilots, whom Lorenzo expected to keep flying in spite of the machinists' strike, have largely respected the picket lines. Flight attendants at Continental also struck in solidarity with the Eastern workers on March 20, delaying flights at Continental hubs at Houston, Denver, and Newark.

Lorenzo, looking to repeat his successful crushing of the union at Continental Airlines, filed for bankruptcy. He hoped to get the bankruptcy judge to approve an abrogation of union contracts and permitting the airline to reduce wages and benefits for its employees, as well gaining a freer hand to dismember Eastern.

The National Mediation Board requested that President Bush appoint an emergency board to look into the dispute between Eastern and the International Association of Machinists. The move is supported by the striking union, the IAM, which believes that such a board would return workers to the wage levels which they had originally. Had Bush acted, the strike deadline would have been pushed back 60 days. But the President, claiming that this is a dispute which must be solved by the free operations of the market, refused to accept the recommendation. In spite of this ostensible neutrality, Bush has threatened to submit legislation to make it unlawful to use secondary picketing and boycotts against neutral carriers, which would curb the union's ability to run a successful strike.

The union has asked that Eastern be placed under trusteeship in order to limit further damage to Eastern's assets by Lorenzo's stripping. On March 23, U.S. Judge Burton Lifland authorized the appointment of an examiner with broad powers to "bang heads together" if necessary, to get the carrier and its creditors to agree on a reorganization plan.

A decade of deregulation

The 1978 deregulation of the airline industry was the first major stroke that stripped U.S. industry and workers of vital safeguards, and led to a wave of bankruptcies, layoffs, wage cuts, diminished services, and fatal accidents over the past decade.

There is no mistaking what airline deregulation was intended to do. Former astronaut Frank Borman, then president of Eastern Airlines, said in 1982, "In the final analysis, the deregulation act, if it was nothing else, was the greatest anti-labor act ever passed by an American Congress." National Airlines chairman L.B. Maytag insisted that deregulation was a "polite phrase for dismemberment [and would] take some airlines apart and scatter the pieces of others."