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Airline Labor Relations

Introduction

The Railway Labor Act and the Airlines Historical Overview of Airline Union Activity Labor Relations Since Deregulation Human Resources in the 21st Century

Chapter Checklist • You Should Be Able To:

- Discuss some of the reasons labor is such an expensive resource
- Describe the basic purposes of the Railway Labor Act of 1926, and explain the role of the National Mediation Board
- Discuss the collective bargaining process under the Railway Labor Act
- Describe some of the criticisms of the process
- Explain how airline union activity has changed over the years
- Distinguish between industrywide bargaining and pattern bargaining
- Compare and contrast labor relations in the prederegulation and postderegulation periods
- Discuss future human resource challenges in the 21st century

INTRODUCTION

In 2005, the U.S. scheduled airline industry employed approximately 570,000 persons, of whom roughly 531,000, or more than 93 percent, were pilots, flight attendants, mechanics, and other aircraft- and traffic-servicing personnel (see Table 14-1). Service industries are highly labor intensive. By the end of 2001, employee costs in the airline industry accounted for one-third of total operating expenses, and the average annual compensation per employee was approximately \$77,500.

Compared with the labor force of many other industries, airline workers are highly skilled and assume a high degree of responsibility. Strict standards in employee selection and training are essential. The nature of airline service requires 24-hour operations every day of the year and location of employees throughout the country. Wage settlements must reflect the nature of the operations and complexity of the jobs.

Over 300,000 employees of the airline industry are members of unions, and union officers administer noteworthy assets and have available executive jets to travel to meetings around the country. Airline labor unions are **craft unions**. That is, there is no single union that represents the entire labor force of an airline; rather, one union represents pilots, another mechanics, another flight attendants, and so forth. A disadvantage of this arrangement is that a strike by a single craft union may cause a shutdown of the entire airline. There may also be disputes as to what constitutes a craft and which jobs actually belong to which craft. Furthermore, airlines, like other transportation modes, are likely to be particularly hurt by strikes, because, unlike manufacturing firms, they cannot store their product. An airline, anticipating a strike, cannot stockpile its inventory, as a manufacturer can, and unions are aware of this. The seasonality of demand for airline travel may also augment labor's bargaining position, in that a union can select an approaching seasonal peak at which to press for its demands.

A typical major carrier may have a dozen or more labor contracts in force, all with different renewal dates. The percentage of employee membership varies among the

TABLE 14-1 Airline Employment, 2005 (Certificated Carriers)

Employment Factor	Number	
Personnel		
Pilots and copilots	65,571	
Other flight personnel	5,100	
Flight attendants	88,981	
Mechanics	57,197	
Aircraft- and traffic-serving personnel	270,612	
Office employees	43,719	
All others	37,903	
Total employment	569,084	
Average Compensation per Employee		
Salaries and wages	\$55,663	
Benefits and pensions	17,682	
Payroll taxes	4,217	
Total compensation	77,561	

Source: Air Transport Association of America, Air Transport 2005 (Washington, D.C.: APA), 2005. Used by permission.

established carriers, but active union membership in this labor-intensive field has ranged from 60 percent of the employees of some airlines to over 90 percent of others.

In 2005, over 30 separate unions were certified within the airline industry, although several, such as the Air Line Pilots Association (ALPA), the International Association of Machinists and Aerospace Workers (IAM & AW), and the Transport Workers Union (TWU), hold broad certification embracing numerous carriers. The major and national carriers alone had several hundred individual contracts in effect in the early 2000s, though some are negotiated on a group basis by a single union. This fragmentation of representation has increased the potential for strikes over the years. The average two- or three-year contract period produces continual labor negotiations for most airlines.

THE RAILWAY LABOR ACT AND THE AIRLINES

Labor relations in the airlines are regulated under a special federal law applicable only to them and to the railroads—the Railway Labor Act (RLA). This act was passed to provide a series of steps for the settlement of transport labor disputes. The reason for its passage was the serious economic implications of widespread strikes against the railroads, which, like the airlines, are a heavily unionized industry.

The Origin and Provisions of the Railway Labor Act

Congress had tried to avoid such disruptions as early as 1888 and had enacted various pieces of railroad labor legislation over the years, but it had not been able to produce a highly effective measure. Finally, in an unusual display of unity, a joint committee of railroad labor and management leaders in 1926 drafted and presented to Congress a bill they could agree on. Congress overwhelmingly passed the legislation, and the **Railway Labor Act** went into effect on May 20, 1926.

The statute's basic purposes, as spelled out in Section 2 of the act, are the following:

- 1. To prevent interruption of service
- 2. To ensure the right of workers to organize and bargain effectively
- 3. To provide complete independence of organization by both parties
- 4. To assist in the prompt settlement of disputes or grievances arising out of interpretation or application of existing contracts

The law carefully laid out a complicated system of "adjustment" boards, arbitration procedures, and other machinery that, while not wholly satisfactory to all parties, worked well enough that the RLA was viewed in the late 1920s as a model labor law.

Three important amendments were adopted by Congress in 1934 to greatly strengthen the act. The amendments, proposed by a number of major railroad unions, established the current three-member **National Mediation Board (NMB)** to administer the law and facilitate settlement of major disputes. The board consists of three individual members appointed by the president, each serving a three-year term. The board has jurisdiction over disputes involving rates of pay or changes in rules and working conditions in those

instances in which the parties to an agreement have been unable to reach a settlement. The primary task of this board is to institute mediation and attempt to help both parties find a common ground for contract agreement. The board does not decide issues or make awards. Either party may invoke the service of the board, or it may intervene without request.

Other amendments sharply restricted company-sponsored or -dominated unions and outlawed "yellow dog" contracts. (A yellow dog contract, as defined by the NMB, is "one in which a worker disavows membership in and agrees not to join a labor union during the period of his or her employment.")

By this time, the fledgling ALPA, founded in 1931, had begun to lobby Congress to bring the airlines under the Railway Labor Act. The new law had obvious applications to airline pilots struggling for basic union rights with the carriers, and the ALPA's founders pressed for its extension to the airline industry.

The ALPA's lobbying efforts were successful, and a bill to place airlines under the RLA was passed on April 10, 1936. As with the railroads, the major policy consideration favoring coverage of the air carriers was concern over disruption to service.

Today, the RLA still applies only to the railroad and airline industries. Its influence is felt well beyond those two industries, however, because it served as the model for the 1935 National Labor Relations Act (NLRA), whose provisions apply to the rest of the nation's workers

The RLA is based on the principle of freedom of contract and maximum self-determination. Under the law, employees have the right not only to form and join a union but to bargain collectively with their employer as well. Also, under the law, an employee has the right to be protected against any coercion or pressure by an employer of his or her choice of representative. The employee has the right to expect that the employer will negotiate with the employee's union in good faith and make every effort to reach an agreement and carry out that agreement. If the employer does not carry out the agreement, then the employee has the right to expect that certain procedures will permit him or her to process grievances and have them fairly resolved by a neutral arbitrator if necessary.

There are several major differences between the RLA and the NLRA, but perhaps the main distinction is the mandatory mediation control that the NMB has over the collective bargaining process in the railroad and airline industries. Under the NLRA, mediation is purely voluntary, never binding upon the parties to a dispute unless they agree beforehand that it will be. Mediation under the RLA, however, is mandatory subject to the direction and control of the NMB.

Another important distinction is that under the RLA, unfair labor practices are not spelled out and parties are required to seek court action for relief. The NLRA specifically prohibits certain activities in labor relations and provides for an administrative enforcement procedure. Despite the lack of stipulated unfair labor practice provisions in the RLA, however, a body of law has sprung up that is very much analogous to many things prohibited under the NLRA. And both acts tend to feed on each other. Many rights that workers have under the NLRA are carried over into the RLA, and similarly, the kind of restraints that are part of the RLA are applied more and more under the NLRA.

Mandatory mediation under the RLA does not mean mandatory settlement. The compulsion underlying the mechanism is its requirement that the parties keep searching for a possible solution to their differences through the mediation process, sometimes even long after the parties have given up. During mediation, the NMB does not decide how the

dispute must be settled. It tries instead to guide the parties through an examination of the facts and alternative considerations that would lead to a mutually acceptable settlement.

Although the RLA has applied to the airline industry over the years, there is some question as to whether the labor problems of the two industries are really similar. Because the railroad industry is highly integrated (a large proportion of freight is interchanged among the carriers), a strike against one or a few carriers can bring the whole system to a halt. In contrast, a strike against a few major air carriers may not have national emergency implications. Even the IAM's strikes against seven carriers in 1966 (see Table 14-2 on page 410) were not considered by the president to cause a national emergency. Furthermore, much of the RLA machinery is oriented toward railroad needs and has been criticized over the years as not being responsive to airline needs.

Although each step under the RLA is not clearly defined or provided under the law, there are various steps in the mechanics of labor–management conflict settlement, depending on whether the dispute is a minor or a major one. A "major dispute" arises in the formation of a collective agreement or the lack of one, while a "minor dispute" arises in the proper meaning or application of an agreement. The RLA's process differs for each dispute. Minor disputes, for which there are not strikes, are settled by system boards of adjustment. Resolution of major disputes follows a formalized procedure. These procedures rely on the RLA's philosophy of collective bargaining, along with the NMB's mediation and optional arbitration.

The Collective Bargaining Process

The RLA has an enormous emphasis on stability. Most important, the status quo—specifically, prohibition against unions striking or carriers unilaterally changing pay, rules, or working conditions—is preserved throughout the long and involved collective bargaining process. That process lasts until the NMB, in its sole, virtually unreviewable discretion, determines that the parties should be released to use self-help. Self-help usually means, for a carrier, a lockout or unilateral implementation of new wages, hours, and working conditions, and, for the union, a strike.

Collective bargaining under the RLA is a rather insular process. It limits the disputes to the parties involved and it avoids the kind of litigation that is characteristic of the NLRA and other labor relations statutes. Two of the NMB's central functions, resolving representation disputes and aiding collective bargaining through mediation, allow the board virtually unreviewable discretion. Complaints challenging the representation and collective bargaining activities of the board are seldom successful because the federal courts largely defer to the board.

The processes of the RLA increase the likelihood of settlement, which avoids shutdowns. The act requires the parties to meet, to talk, to mediate, to "exert every reasonable effort to settle all disputes." The process keeps the parties working on resolving their disagreements and limits the involvement of the courts and their endless appeals processes. The length of time during which the parties are required to negotiate also may be long and drawn out to encourage the parties to make the accommodations necessary for settlements.

At the same time, NMB election rules tend to preserve continuity of union representatives. This also provides stability and makes agreements more obtainable.

Step 1: Collective Bargaining. The mechanics of settlement assume that contracts will normally be reached by use of the traditional methods of free collective bargaining. Disputes over contracts, interpretations, and grievances presumably will usually be settled by conferences between carriers and employees. These two devices, it is hoped, will handle the majority of problems, and no other procedure will be necessary. Unfortunately, however, the mere existence of additional procedures sometimes seems to jeopardize the effectiveness of earlier steps, and neither side makes any great effort to settle issues at the lower levels.

The process starts with the union and company exchanging opening proposals. The two sides have 10 days to agree on a time, place, and date to begin the collective bargaining talks. Both sides must begin talks within 30 days following the exchange of openers. The talks continue with only the union and company representatives involved. There is no time limit, and if both sides come to an agreement, a new contract is voted on by the union members.

Step 2: National Mediation Board. If the collective bargaining is unsuccessful and the talks deadlock, the union or company requests, or the NMB offers, mediation. This step must begin within 10 days of both sides declaring a deadlock in the talks. The NMB assigns a mediator, and mediation talks begin. There is no time limit as to when the talks start, or how long they must continue. These decisions lie with the NMB. If mediation is successful, a new contract is reached.

Step 3: Voluntary Arbitration. If the NMB fails in its effort to bring the parties together on common ground, the law requires it to work for voluntary arbitration. Both sides must agree to abide by the results of arbitration before a temporary arbitration board is established to hear the dispute. One-third of the arbitrators are chosen by the carriers, one-third by the labor organizations, and one-third by the carrier-labor arbitrators together. In cases of disagreement concerning the choice of the neutral arbitrators, the NMB chooses them. Although arbitration itself is voluntary, once the parties agree to it, the arbitration decision is legally binding on both parties.

Step 4: Emergency Board. If arbitration is refused, the NMB notifies the parties that its mediatory efforts have failed, and for 30 days thereafter, unless the parties agree to arbitration in the interim or an emergency board is created, no change can be made in the conditions that prevailed at the time the dispute arose. At the same time, if in the NMB's opinion a strike could lead to a national emergency, it is required to notify the president, who may create an emergency board, which has 30 days to investigate the dispute and report its findings to the president. The recommendations of the emergency board are not enforceable, but they have been accepted in a number of instances and it is hoped that public opinion will induce acceptance of the findings. If the recommendation of the emergency board is refused, which has been the case in most instances in recent years, another 30 days must elapse before any change or action can commence. Thus, it is often said that the appointment of an emergency board postpones any work stoppage for a 60-day cooling-off period. After the cooling-off period, the company may change work rules, rates of pay, and so forth, or it may institute a lockout. The union must decide whether to accept the company offer or go on strike.

A Final Option: Presidential Intervention. If all the foregoing efforts fail and the power of public opinion does not induce a settlement, the president may act to avoid disruption of commerce. The president can either allow the strike to occur or ask Congress for emergency legislation to prevent it. This step is not included in the RLA, but it is a real possibility. On several occasions, the president has "seized" the railroads, and on at least one occasion, he recommended immediate congressional action to avoid a nationwide rail strike. However, this has not been the case with the airlines. In fact, President George H. W. Bush refused to participate in the mechanics' strike against Eastern Airlines before that carrier's bankruptcy. However, President Clinton did call American Airlines president Crandall to avert a strike by that carrier's flight attendants in 1993.

Criticism of the Process

Where a carrier is weak and a concessionary agreement is clearly appropriate, the process might delay the carrier from obtaining vitally needed cost savings and, therefore, make the carrier more vulnerable to financial collapse. Although this may be true, the NMB has great discretion to operate quickly to make sure carriers stay afloat, for the benefit of the employees and the carrier, as well as for the traveling public.

Nonetheless, the NMB's release of the parties to use self-help does not necessarily result in concessions that ensure carrier survival. Rather, a devastating strike might take place that would, in fact, lead to the carrier's demise. In addition, companies subject to the NLRA have also entered bankruptcy as a result of a labor dispute.

Critics point to another alleged drawback of the RLA process—that carriers even in good times are insulated from challenging unions to rationalize excessive costs and inefficient work rules. Of course, one person's excessive costs and inefficient work rules are another person's decent living wage and tolerable working conditions. But in terms of the process, the trade unionists' counterargument is that unions are often, in fact, worn down by the elongated processes of the act and not allowed to use their greatest weapon, the strike, as readily as they would and do under the NLRA and that, therefore, they settle more cheaply than they might otherwise. It is almost a truism that in good times, when the carriers are making money, unions who expect to make wage gains criticize the RLA process, while in bad times, carriers who need quick relief criticize it.

Another criticism is that the delays in collective bargaining occasioned by the workings of the RLA breed bad labor–management relations. Of course, if a carrier does not survive, good labor relations are irrelevant.

Given the relative security of the unions in the industry, they can and do make concessionary agreements and other accommodations where needed for the survival of a carrier. But as a practical matter, substantial delays in reaching collective bargaining agreements are not good for labor relations. Delays are sometimes necessary, however, to permit good-faith bargaining and a thorough review of issues in a serious attempt to find solutions that both parties can live with. In those situations, delays have a much more beneficial than harmful effect, particularly in an industry that can ill afford shutdowns at any time.

In a particularly vulnerable industry like the airlines, having a system that encourages an adversarial situation whenever a dispute arises is bad labor policy.

The general consensus among labor economists is that the process of collective bargaining has benefited the carriers and labor in the postderegulation period and that labor costs have not been the cause of the airlines' financial crises to any significant degree.

But analyses have shown just the opposite. Labor productivity has increased tremendously since the 1978 passage of the Airline Deregulation Act, because the airlines have not been able to almost automatically pass on their costs to the traveling public as they were able to do when the CAB regulated them. Also, since deregulation was enacted, the industry per capita compensation has actually fallen. Unit labor costs have also decreased and have represented a decreasing fraction of capacity costs. Labor costs per available seat-mile, which is the standard measure of productivity in the industry, are much lower on U.S. airlines than on foreign carriers, by approximately 15 to 20 percent. Labor costs generally cannot be said to determine an airline's survival or the destiny of the industry.

HISTORICAL OVERVIEW OF AIRLINE UNION ACTIVITY

Since 1936, the year that Congress put commercial airlines under the Railway Labor Act—a period of 7 decades that included 42 years of economic regulation and approximately 25 years of deregulation—airline labor—management relations have been overseen by the U.S. government. Over that time span, the goals of collective bargaining have not changed much, nor have the objectives of management and labor.

What has changed is the economic, social, and business environment, and the result has been a new industry structure and tremendous advances in technology and in the economics of operation. These changes are readily apparent when a DC-3, the glamour plane of the 1940s, is compared to a modern-day Boeing 777.

The Prejet Age

In the early years of the airline industry, during its air mail service phase and into the early years of the New Deal of the 1930s, airlines, like railroads, were viewed as common carriers vested with a public interest, a kind of private-public utility to be regulated by means of the control of predatory competition, market entry, wages, and fares. In this fledgling stage of commercial air transportation, economic stability of the airline industry was a high government priority, as the nation endeavored to pull itself out of the Great Depression of the 1930s. Concern for workers' rights and standards of living was part of the social and political philosophy of the period. This was quite unlike the period of deregulation after 1978, when government viewed the airline industry as mature enough to weather any kind of competition. This outlook was based on a belief that the market, not the government, could more efficiently allocate resources.

Industrywide bargaining became a reality in 1934 through Decision 83 of the National Labor Relations Board, which was established under the National Recovery Act. **Industrywide bargaining** occurs when unions and management of the major firms in an industry agree to bargain collectively to reach contract terms that will apply to all the firms and their employees, wherever they are located. One purpose is to take wages out of competition.

Decision 83 established minimum wages and maximum hours for pilots across the industry. It also attempted to compensate pilots at least partially for technological changes by relating pay to increasing aircraft speed. Though the decision protected wages and hours only of pilots employed by airlines carrying mail under contract to the Post Office Department, it established de facto industrywide protection. It was the byproduct of a protected infant industry in which no company could hope to survive without government

support through mail pay—a form of subsidy. Mail compensation covered total costs (including losses on passenger business), not merely the cost of carrying the mail.

As important as Decision 83 was, it was limited to a small portion of the airline industry—namely, airline pilots. A more important event dealing with labor—management relations in the entire airline industry took place in 1936 when Congress, largely at the behest of labor, placed the airline industry under the RLA and its mandatory mediatory dispute settlement procedures administered by the NMB. This protection of labor's and management's rights had not been secured by collective bargaining.

The wage formula (Decision 83) was later included in the Air Mail Act of 1934 and the Civil Aeronautics Act of 1938. By that time, however, collective bargaining had increased wages and fixed hours so that the wage formula and hour rules had become meaningless. And with the passage of the Airline Deregulation Act of 1978, they were formally abolished.

Since passage of the Railway Labor Act as amended in 1936, the major type of bargaining in the airline industry has been **pattern bargaining**. Pattern bargaining occurs when each airline negotiates its own agreement with a labor union. Because agreements are negotiated over different time periods with different expiration dates, each employee group seeks to better the most recent agreements signed by other airlines. Thus, a "pattern" is established in which the unions are said to "piggyback" and "leapfrog" contract benefits, one over another, to ensure ever-increasing wage rates and benefits. Managements use the term *whipsaw* to describe how they are forced to accede in successive negotiations to wages and/or benefits that some other airline has given.

In the early days, airline pilots were the only effectively organized group, and their relationships with management were usually handled by operations personnel. There were no industrial relations departments as we know them today. Instead, the personnel departments handled everything, and in most cases, personnel specialists were ignored by top airline management. All too frequently, the advice and counsel of personnel were neither wanted nor sought and, when offered, went unheeded.

This situation began to change in late 1946, and by 1948, many of the employee groups in the airline industry were organized. Companies began to realize that they had to upgrade their personnel departments and their methods of handling employees to deal with these newly organized groups and the problems that were developing. Industrial relations departments started to crop up, and the opinions of personnel and industrial relations directors began to hold some weight. As these experts and their departments grew in stature within their companies, their titles were upgraded and their economic positions improved.

During this same period, labor unions began to recognize the potential membership that existed among unorganized employees in the aviation industry, and many unions began to jockey for position within the industry. By 1955, class and craft lines were becoming well defined, and not only pilots but also flight attendants, mechanics, stock clerks, communication employees, flight engineers, and dispatchers were organized. There was, however, practically no unionization among the white-collar ground employees, including clerical, reservations, and ticketing personnel and station agents.

Although great progress had been made in organizing airline employees by 1955, the industry was still small enough for most workers to be on a first-name basis, and most problems were handled on a personalized basis. This could be termed phase 1, or the prejet age, in the airline industry.

The Jet Age

With the introduction of the jet into commercial airline transportation in the late 1950s, the entire picture changed. Suddenly, the airlines became the number-one means of transportation. The jet age brought speed, luxury, comfort, and a host of other advantages to the airline industry—and it also brought with it literally hundreds of new problems for airline employees. Old ways of doing business had to be replaced by more efficient and safer ones. More skills and training were needed, and labor requirements exploded overnight. Not only did pilots have to be retrained to handle the new jets, all ground personnel had to be retrained in servicing techniques, and new systems had to be developed to handle the increasing flood of travelers. These problems, and others that developed with the advent of the jet age, produced considerable labor unrest, a feeling of insecurity among employees, and a developing resistance to change, especially to automation, which was and is necessary to run an efficient jet airline industry.

The jet age brought with it unexpected profits, and the employees' natural desire to share in these profits often caused head-on conflict with management, which resisted what it considered unreasonable demands or an invasion of management prerogatives by the unions. This was a period of strained labor–management relations, as the frequent strikes suggest (see Table 14-2). Both management and labor were unprepared for some of the changes brought about by the jet age.

In an effort to improve their bargaining power with the unions, in 1958 a group of the major carriers drew up the so-called **mutual aid pact** (MAP) whereby they agreed that if one of them was struck, the others would pay the struck carrier the windfall revenues they realized from the strike less the added expense of carrying the additional traffic. Precise calculation of these revenues was not possible, but formulas were agreed on that attempted to measure the added revenues of each nonstruck carrier and to deduct the added costs of moving this traffic. The struck carrier agreed to make every reasonable effort to provide the public with information concerning air service offered by other carriers in the pact.

The MAP was a form of strike insurance, and the unions naturally opposed it on the grounds that the carriers were not bargaining in good faith when they brought carriers that were not party to the dispute into it and thereby forced the union to accept their recommendations. In the spring of 1959, the CAB approved the MAP, rejecting the unions' position on the grounds that there were other important factors that would stop a carrier from prolonging any strike. The CAB cited such factors as the long-term losses associated with resuming service, lost market share, and the fact that payments under the MAP did not cover the entire cost of the strike.

Several amendments were made between 1958 and 1970 to increase payments under the MAP. In 1970, the pact was broadened when the CAB approved the participation of the regional carriers, six of which subsequently joined.

Over the years, labor tried unsuccessfully to have the courts set the MAP aside or to have Congress outlaw it. Finally, in 1978, with the passage of the Airline Deregulation Act, all existing mutual aid agreements were declared void. During the 20-year history of the MAP, over half a billion dollars in mutual aid was paid out. Although the Airline Deregulation Act's provisions wiping out all existing mutual aid pacts appeared to be a victory for labor, they left the door open for new agreements, but under severely limiting conditions:

All new agreements continued to be subject to CAB approval until the board's expiration, at which time this function was turned over to the Department of Justice. The department shall not approve any such agreement unless such agreement provides (a) that any air carrier will not receive payments for any period which exceed 60 per centum of the direct operating expenses during such period, (b) that benefits under the agreement are not payable for more than eight weeks during any labor strike, and that such benefits may not be for losses incurred during the first thirty days of any labor strike, and (c) that any party to such agreement will agree to submit the issues causing any labor strike to binding arbitration pursuant to the Railway Labor Act if the striking employees request such binding arbitration.¹

Airline union negotiators were quite successful in gaining above-average increases for their members up to the time of deregulation. The average annual percentage increase in compensation per employee was 9.9 percent for the airline industry from 1969 to 1979, compared with an 8.1 percent average for all U.S. industry. This differential added \$1.5 billion to total airline labor costs in 1979 alone.

The disparate gains in wages and fringe benefits for the U.S. scheduled airlines in the 1970s are shown in Table 14-3. Basic wages are of fundamental interest to any worker and are usually a straightforward payroll calculation applying rates negotiated in a labor contract. Fringe benefits cover a multitude of added concessions of value that are partially or fully paid by the employer. There has been a distinct union emphasis on stressing such benefits in recent years, particularly because they are generally tax-free to the employee. The main areas of fringe benefits vary by airline, but they usually include medical and dental plans (basic and major), life insurance, accidental death and dismemberment coverage, retirement plans, vacation-accrual provisions, and sick-leave coverage.

Additional benefits are regularly proposed by the unions, including increased company contributions to employee retirement programs and increased retirement benefits. Free air transportation is also a fringe benefit available to airline employees and certain of their relatives, but this advantage does not usually produce a cost outlay by the carrier. Not all crafts obtain fringe benefits of the same proportion of their average wages, but fringe benefits of all workers increased appreciably as a percentage of overall wages during the 1970s, as shown in Table 14-4.

In spite of continuing wage escalation during the 1970s, fringe benefits became an increasingly large proportion of total employee compensation, the expense of which continued in the 1980s to inflate the operating costs of the established carriers. Furthermore, flight crews on most major airlines have other financial advantages. For example, their contracts usually provide them, while away from home base, with company-paid ground transportation to hotels, single-occupancy rooms, and in-flight meals, while their pay scales also include liberal allowances per hour away from home. The result of these developments has been a steady gain in the average employee compensation within the airline industry that outpaced the rise in the Consumer Price Index during the 1970s.

¹Airline Deregulation Act of 1978, Section 412(e).

TABLE 14-2 Duration of Airline Strikes Between the Fall of 1958 and 1970 [the first 12 years of the jet age and the mutual aid pact (MAP)]

						То	tals	
Year	Carrier and Union	Days	Year	Carrier and Union	Days		Before MAP	MAP 1958– 1970
1958	Capital, IAM	37	1965	Pan Am, ALPA	10	Number of	38	59
	West Coast, IAM	3	1966	SFO Helicopter, TWU	8	strikes		
	TWA, IAM	16		Eastern, IAM	43	Total duration	575.5	2,198
	Lake Central, ALSSA	13		National, IAM	43	in days		
	Eastern, FEIA	38		Northwest, IAM	43	Average	15.1	35.5
	Eastern, IAM	22		TWA, IAM	43	duration		
	American, ALPA	22		United, IAM	43	in days		
1959	Pacific, ALDA	3		Pacific, IAM	8			
	Southern, ACMA	65		Mohawk, IAM	54			
1960	Flying Tiger, TWU	27		West Coast, ALEA	8			
	Mohawk, ALEA	18	1967	Airlift, ALEA	24			
	Southern, ALPA	117		Qantas, IAM	60			
	Continental, FEIA	105	1968	Standard, SAFEA	46			
	Eastern, ALPA	11		Reeve Aleutian, IAM	76			
	Braniff, BRAC	10	1969	National, IAM	4			
	Pan Am, FEIA	1		American, TWU	21			
	Northwest, IAM	137		Air Canada, IAM	30			
1961	American, FEIA	7		Piedmont, ALPA	30			
	TWA, FEIA	7		Western, IBT	19			
	Eastern, FEIA	7		Pan Am, IBT	4			
	National, FEIA	7		Los Angeles Airways, ALPA	187			
	Pan Am, FEIA	7	1970	National, ALEA	116			
	Flying Tiger, FEIA	7		Ozark, AMFA	5			
	Western, FEIA	82		World Airways, IBT	51			
	National, IAM	6		Northwest, BRAC	160			
1962	Eastern, FEIA	82		TWA, ALSSA-TWU	2			
	Pan Am, FEIA	1		Mohawk, ALPA	154			
1963	United, IAM	1						
1964	National, ALEA	1						
	Pan Am, TWU	1						
	BOAC, IAM	42						
	Trans Caribbean, IBT	3						

Source: Airline Management, June 1972.

Airline unions and abbreviations: ALDA, Air Line Dispatchers Association; ALEA, Air Line Employees Association; ALPA, Air Line Pilots Association; ALSA, Air Line Stewards and Stewardssess Association; AMFA, Aircraft Mechanics Fraternal Association; BRAC, Brotherhood of Railway, Airline and Steamship Clerks, Freight Handlers, Express and Station Employees; FEIA, Flight Engineers International Association; IAM & AW, International Association of Machinists and Aerospace Workers; IBT, International Brotherhood of Teamsters; TWU, Transport Workers Union.

TABLE 14-3 Increase in U.S. Scheduled Airline Wages and Fringe Benefits Compared to Consumer Prices (Index 1970 = 100)

Year	Wages	Fringe Benefits	Consumer Price Index ^a
1970	100.0	100.0	100.0
1971	108.8	113.1	104.3
1972	120.0	134.0	107.4
1973	127.5	157.4	114.5
1974	137.0	175.1	127.0
1975	149.0	201.2	138.6
1976	162.7	239.2	146.6
1977	180.0	276.3	156.0
1978	197.1	313.0	168.0
1979	207.8	336.6	186.9

Source: Air Transport Association of America, *ATA Annual Report*, 1970–1979. Used by permission. ^aBased on U.S. Bureau of Labor Statistics.

TABLE 14-4 Fringe Benefits as a Percentage of Wages for Selected Workers, U.S. Scheduled Airlines, 1970–1979

Year	Flight Deck Crew	Mechanics	Flight Attendants	Total Work Force
1970	22.3%	10.8%	10.8%	13.8%
1971	21.8	12.0	11.6	14.3
1972	22.9	13.3	12.6	15.4
1973	24.7	15.2	14.0	17.0
1974	25.3	15.2	14.9	17.7
1975	26.3	16.3	16.0	18.6
1976	28.0	18.1	17.5	20.3
1977	30.6	18.5	17.5	21.2
1978	32.3	19.9	17.7	21.9
1979	30.7	21.3	18.9	22.3

Source: Air Transport Association of America, ATA Annual Report, 1970–1979. Used by permission.

Summary: Prederegulation Labor-Management Relations

Between 1936 and 1978, the range of labor–management relationships among the airlines had been remarkably consistent compared with those in U.S. industry in general. Nonetheless, those relationships ranged from outright hostility toward unions, to armslength dealing (some refer to this as armed truce), to accommodation, to cooperation, or some combination thereof. In the prederegulation period, the most common posture of airline firms was arms-length dealing, with accommodation running a bit behind. There were few, if any, examples among the major airlines of the extremes of outright hostility toward or cooperation with unions. Although there were, from time to time, new-entrant airlines, there was no dramatic growth of unions that threatened to upset the existing dynamics of union–management relationships.

Moreover, at that time, powerful moderating forces were at work. The first was government regulation of airline routes, prices, competition, and operations. Second, dispute resolution procedures under the RLA were in place and available to the parties. Third, collective bargaining existed in a general political environment that favored accommodation or problem solving over hostility, as labor and management were learning to live with each other under both the NLRA and the RLA. Fourth, on both sides of the table were people who had grown up in the airline industry and knew one another's problems.

As time passed, and up to the late 1970s, what had started out as multi-employer bargaining gradually evolved into coordinated bargaining of unions followed by pattern bargaining. Later still, efforts to return to coordinated bargaining by employers, epitomized by the mutual aid pact, failed.

Unions in the United States reached their membership peak by 1953, boasting some 34 percent of the nonagricultural labor force, but by 1995 membership had declined to 15 percent. In general, the postderegulation era began with evident weakness in membership of the U.S. labor movement. Union weakness was compounded by the increased diversity of union membership and by sometimes conflicting interests. By the late 1970s, the attitude of industry toward unions was less than welcoming, much like in the 1920s, before the passage of the RLA, or during the period leading up to passage of the NLRA.

LABOR RELATIONS SINCE DEREGULATION

Compared with the postderegulation era, prederegulation bargaining was more orderly. The major destabilizing element that has affected collective bargaining during deregulation has been intense competition from numerous new-entrant carriers that immediately began to bite into the market share of the major airlines. A host of new unorganized carriers emerged in the early 1980s to provide scheduled service on selected routes in direct competition with the established operators, and more entrants are expected to appear over time. These carriers included Midway Airlines, People Express, New York Air, Muse Air, and Jet America, to name a few. Others with longer histories, such as Air Florida, Southwest, Capital Airlines, and World Airways, all expanded their routes. During the first five years of the 1980s, more than 100 new airlines entered the industry, and in that decade, as many or more exited—an indication of unparalleled industry instability. This instability was accompanied by periodic fare wars that have continued to the present, along with bankruptcies or threatened bankruptcies of major airlines, greater competition from surviving new-entrant airlines, frantic efforts to gain competitive advantage, and massive and costly investments in planes and airline hubs designed to monopolize passenger traffic from start to stop.

Most of the new airlines started service with smaller twin-engine jets on short to mediumlength routes with high traffic density. The fledgling airlines benefited from minimal employee seniority, which produced low unit wage costs, because most union pay scales are based on longevity of service. In addition, they were generally nonunion companies, which enabled them to obtain greater employee productivity without restrictive class and craft groupings that result in costly work rule limitations. Furthermore, these pointto-point operators did not offer the same level of passenger service (such as interline ticketing and baggage checking) provided by the mature airlines. Another cost advantage was their greater flexibility to contract out ground handling services at many stations to existing carriers on a per-flight-handled basis. This obviated high fixed expenses to maintain staff and facilities at secondary terminals with only minimal operations per shift. In addition, these airlines controlled costs by employing part-time workers to a degree not possible in the case of unionized airlines.

The result was that these new entrants enjoyed appreciably lower unit wage costs than most old-line operators. The new entrants were further aided by their selection of smaller 2-plus-2 jet aircraft (two engines and two pilots), which were more efficient and better sized to maintain flight frequencies in markets fragmented by increased competition under deregulation. The Boeing 737-200 and the DC-9-30 twin jets were especially popular with the newer airlines, and these planes had an average seat-mile cost around 25 percent below that of the Boeing 727-100, then the smallest aircraft operated by many major airlines. Part of this cost advantage stemmed from an ability to use high-density coach seating on such aircraft restricted to selected markets. Thus, the new point-to-point airlines were able to offer lower fares than their established competition while still generating profit.

Ironically, start-up airlines sometimes purchased smaller twin jets second-hand from established carriers and used them in low-fare services in direct competition with the original owners. This unit operating cost differential between new and mature airlines eroded the market shares of the entrenched incumbents by skimming some profitable traffic beyond the break-even level and forced the higher-cost operators to lower their fares competitively to nonprofitable levels. The profitability of the established carriers was impaired to the point that their services were eventually cut back, with a consequent reduction of the employee workload and level of take-home pay. At the least, it hampered the ability of these airlines to generate adequate earnings for financing of capital expansion to purchase the more cost-efficient aircraft necessary to remain competitive.

More complexities and competition were introduced by mergers, combinations, buyouts, and various restructurings of airlines, either to grow, to enter the market, or to survive the fallout from the cost of debt. These came in the form of wage and benefit cuts, bankruptcies that resulted in lost jobs, two-tier pay systems and even second-tier airlines that produced second-tier wages, and outsourcing of work to contractors. The goal was to average down wages and further cut costs—a practice familiar to the automobile industry, which had long outsourced production and services to achieve lower wages and higher productivity.

Elimination of the Automatic Labor Cost Pass-Through

Before deregulation, the CAB set allowable fare levels based on actual industry costs. As a result, the added expense of each carrier's new labor agreement was eventually embedded in the overall rate structure that established full-fare price levels approved by the CAB and generally charged by all domestic scheduled airlines. Of course, the unit operating costs of individual airlines did vary around the rate-making norm, and there were also discount fares.

Nevertheless, there was very little incentive for one company to resist excessive union demands to the point of a potentially expensive strike, because the settlement costs could eventually be passed through to the adjusted general fare level. This attitude produced the stair-step approach to industry labor negotiations by nationwide unions, under which major concessions gained from one carrier (often a financially weak carrier) became the basis of escalating labor demands for the next open contract.

There was also widespread airline preoccupation with protection of market share from competition under the franchised route structures that existed. This concern often caused carriers to accept unrealistic union demands. The now-defunct mutual aid pact provided some incentive toward hard bargaining, but of the trunk lines, only National and Northwest showed any strong inclination to accept protracted strikes during the 1970s.

Now it is a different story. Under the free-entry system that has evolved, there are no true franchises to protect domestic routes, no mutual aid programs to compensate for strike losses, and no basic fare structure charged by all participants. But there are new low-cost, nonunion competitors. The underlying problem is an inability to pass on directly to passengers any abnormally high unit cost increases, whether caused by more generous contract settlements or use of inefficient aircraft.

Of course, competitive fares were part of Congress's basic intent in passing the deregulation law. Today, a low-cost airline, whether a new entrant or an established carrier, with efficient jets and a relatively flexible labor situation can unilaterally set its fare structure (both full fare and discount) at a profitable level that can seriously harm any competitor with appreciably higher unit operating costs.

A Period of Labor Unrest: The 1980s

Labor has always been an important part of the cost structure of the airlines, representing on average over one-third of total operating expenses and over two-thirds of "controllable" costs. It became quite clear shortly after deregulation that there was room for substantial savings in this area. Employees at the established carriers were making considerably more than they could outside the industry, particularly true for certain jobs, such as airplane cleaners and baggage handlers. The new entrants made the most of this potential advantage, with their average compensation during the early 1980s being more than one-third below the industry average.

The disparity still existed in 1986 at carriers such as American, Delta, and United, where wages and benefits ranged from 36 to 39 percent of operating expenses. In the same year, labor accounted for only 20 to 24 percent of total operating expenses at Continental, Southwest, and some of the newer carriers.

These enormous differences inevitably result in price and cost differences, and the established carriers must eventually meet the price of any significant competitor. Past and future competition has created enormous pressure to reduce labor costs.

Equally important for potential cost savings, though less quantifiable, were the work rules, built up over many years, that hindered productivity improvements. Work was divided along craft lines, making cross-utilization of workers almost impossible. The use of part-time employees to cover peak-load periods was sharply restricted. Pilots and flight attendants had won complex limits on the number of flying hours, plus many extras involving duty time and expenses incurred away from base.

Actually, labor began deregulation on an upswing, with wages and benefits continuing to rise on average until 1981. In that key year, a severe economic recession, compounded by the firing of the striking air traffic controllers, restricted traffic and wiped out carriers' ability to spread costs through expansion. Meanwhile, fuel prices soared, and all carriers engaged in fierce price competition.

The incumbents were forced to reduce costs to afford the lower fares needed to match the lower fares of this new competition. Cost reduction affecting employees took the form of layoffs, two-tier pay systems, the beginning of the outsourcing of work to lowercost providers, and the establishment of lower-cost second-tier airlines as subsidiaries. Pilots, because of their specialized, not easily transferrable skills and higher pay, were particularly affected. Blaming many of their problems on past strategic mistakes by top management, mistakes in which they had no input, employees mounted a counteroffensive not previously used. For example, pilots at United Airlines, the industry's largest and most successful major carrier, concluded that their management not only was bent on destroying the union but also was shifting its corporate strategy from that of airline growth to a bottom-line objective. The pilots also believed that United was creating a conglomerate that included nonairline enterprises (rental car and hotel properties) that seemed to make the airline (and their jobs) secondary and dispensable. When the pilots struck, top management departed.

The first union concessions appeared at Braniff, Western, and Pan Am, but these were followed shortly by concessions at Continental, Eastern, and Republic, as those labor groups engaged in "survival bargaining." The cost cuts at those carriers gave healthy competing airlines the leverage to drive their own costs down, continuing the spread of concessions to the carriers. In some cases, the need for wage cuts led to a search for cooperation. In exchange for cooperation, the unions sought three things: (1) adequate information to persuade them that the cuts were necessary, (2) a voice in future strategic decisions, and (3) equality of sacrifice among workers, managers, and shareholders. These conditions led to a deep involvement of unions in the "managerial" realm, through representation on company boards, worker participation programs, and extensive employee stock ownership.

Eastern Airlines was the best-known example of this approach. Labor cost savings, exchanged for employees' sharing in decision making and equity, helped propel it to the most profitable first half in its history in 1985. Republic, Frontier, and Western Airlines also adopted many of the same tactics. In 1981, the Air Line Pilots Association (ALPA) directed its ire toward what it called "runaway airlines." A prime example was the ALPA's attempt on behalf of Texas International (TI) pilots, flight attendants, mechanics, and ticket agents to obtain an injunction against TI's holding company, Texas Air Corporation, for establishing a new nonunion subsidiary (New York Air), claiming that existing contracts required union membership within this offshoot of the company. Of course, the crux of this dispute was the fact that New York Air captains were being paid about \$30,000 per year for a 75-hour month, whereas Texas International captains earned approximately \$62,000 annually for flying only 55 hours per month on the same type of aircraft. The ALPA had requested release from mediation with Texas International in order to begin the statutory 30-day cooling-off period, but the union withdrew this request from the National Mediation Board before a ruling was given.

During the summer of 1981, the Professional Air Traffic Controllers Organization (PATCO) illegally called on its membership to walk off the job. Eleven thousand FAA controllers followed the order and were subsequently fired by President Reagan. Legislation had been introduced in Congress (and was subsequently passed) calling for top pay of \$73,420 per year for air traffic controllers, cost-of-living raises one-and-a-half times the rate of inflation, a 32-hour work week, and retirement at 75 percent of a controller's top pay after 20 years.

The year 1982 saw the first bankruptcy of a major carrier with the demise of Braniff Airlines. Despite several major pay cuts incurred by Braniff union members and other employees, the carrier's cash flow reached a point at which it could not expect to make a dent in its outstanding debt, despite several restructuring attempts, and it finally threw in the towel.

By 1983, it became quite clear to labor unions, with an estimated 33,000 of their members either furloughed or permanently let go, that the ailing carriers held the trump cards and were successfully playing their hands, gaining substantial labor concessions that represented millions of dollars in operating-cost savings. In March 1983, four out of five major unions dealing with Pan American World Airways ratified agreements extending current labor concession contracts. The Teamsters Union, representing 6,629 ground employees, ratified a wage reduction agreement on March 3, 1983. The Independent Union of Flight Attendants agreed to a similar pact on the following day.

Continental Airlines took quite a different approach to cutting labor costs. In September 1983, Continental chairman Frank Lorenzo attempted to reduce wage costs by temporarily going out of business. Lorenzo's plan was to close down the ninth largest U.S. airline and reopen a smaller carrier with lower labor costs, along the lines of the newcomers. He claimed that Continental had been unable to win enough voluntary wage concessions from its unions.

True to Lorenzo's aim, Continental re-established service to 25 of the 78 cities it had served within 54 hours after filing petitions for reorganization under bankruptcy laws in Houston. Lorenzo defended his strategy, saying that the airline's union contracts were "vestiges of another era." He added that the bankruptcy maneuver would create for Continental the "opportunity to compete in a very challenging and potentially rewarding marketplace." He had fired all 12,000 employees and then invited 4,000 back at barely half their former wages. Senior Continental pilots, who used to average \$83,000 a year, could return, but at salaries of \$43,000. Flight attendants who had worked their way up to \$35,700 per year were cut back to \$15,000. Senior mechanics saw their wages shrink from \$33,280 to \$20,800. Lorenzo also reduced his own annual salary from \$267,000 to that of a senior captain, \$43,000.

The sharp wage drops brought on by survival bargaining and its ripple effects were altered in late 1983 by American Airlines' benchmark two-tier wage scales, a term airline management since has abandoned in favor of "market rates." In the two-tier system, new employees are hired on a "B" pay scale considerably lower than that of established employees (the "A" pay scale). With the successful implementation of this approach at American, managements introduced the system into every U.S. airline.

From a labor relations standpoint, the years from 1982 to 1985 were the worst of times for the unions. In the aftermath of the PATCO strike and the recession, unions had no public support and were beset by internal dissension and disunity. Moreover, the availability of ample replacements for strikers doomed the chances of waging a successful strike. The realization that a strike was no longer an effective bargaining tool profoundly altered the balance of power in the collective bargaining process.

Against the backdrop of the Braniff reorganization, the American settlement in August 1983, and the imposition of emergency work rules at Continental in September 1983, management approached the bargaining table with enormous strength and an agenda to match. In most instances, the issue was no longer how much management would give, but how much it would get back. Management's principal bargaining goals were more flexibility through cross-utilization and the use of part-timers, increased productivity, reductions in fringe benefits, and an overall reduction in compensation.

The bargaining objectives of financially sound carriers included wage freezes or small percentage increases, lump-sum payments in lieu of pay increases, and the establishment of a two-tier pay system. All these methods limited the roll-up cost of fringe benefits. Financially troubled carriers sought a decrease in A-scale rates and related fringe

benefits, the establishment of B scales for future use, and the establishment of variable compensation schemes, including profit-sharing and stock plans. Temporary concessions that snapped back at a future date to previously higher levels were no longer acceptable. Management wanted long-term, permanent concessions so as to establish a lower fixed-cost base for developing their long-range planning.

Management used whipsaw bargaining techniques to achieve concessions. Each time a carrier received concessions, employees at other carriers knew that similar or deeper cuts would be demanded. Midterm negotiations became commonplace. Threats of shutdowns, partial liquidations, lockouts, or massive furloughs were heard everywhere. With little risk of confrontation, management increasingly adopted a "take it or leave it" attitude at the bargaining table.

Increasingly, management used its leverage to gain concessions from its unions and to undermine the employees' faith in labor's strength. Although labor gave significant relief to many carriers during this period, much of it was used by management to subsidize the ongoing fare wars and to continue the corporations' diversification strategies rather than to improve airline operations.

Labor's goals shifted dramatically as well. Unions and employees began to question management's actions and to resist further concessions in wages and working conditions. Labor argued that concessions without concrete changes in operating procedures, and in some instances in management, would not restore a carrier to profitability. As such, employees began to demand a return for their concessions. The "return" took the form of profit-sharing plans, employee stock ownership plans (ESOPs), employee and management coalitions, representation on company boards of directors, job security provisions, and, in some cases, replacement of top management. The national economy, and with it the airline industry, began its recovery in 1984. Airline employment rose from 329,000 in 1983 to more than 400,000 in 1986. A pilot surplus became a severe shortage, and 5,465 pilots were hired by the commercial carriers in 1984 and another 7,872 in 1985. Consequently, with the new demand for pilots, management was forced to review its position on entry-level pay rates and even its willingness to undertake a strike.

During this time, labor unions also were successful in obtaining legislative reform of the Bankruptcy Code. The new amendments prevented a company like Continental from unilaterally imposing terms and conditions of employment (the emergency work rules) on employees without review and approval.

An example of the effect of this increased coordination can be seen in the ALPA's handling of the B-scale issue after the American settlement in 1983. Although the ALPA was unable to prevent two-tier pay systems for other pilots, by acting in concert it restricted their parameters. Under all the two-tier systems negotiated by the ALPA, pilot B-scale compensation merged at some point, usually after five years, with the A scale.

In response to the United strike in 1985 and to the potential for others to follow the same confrontational course of action, a special meeting of the ALPA board of directors was convened in June 1985 to establish and maintain a major contingency fund of \$100 million. This fund was established to ensure the financial ability of the union to combat future major threats to pilots.

Although the Continental bankruptcy and strike were the low points in this period, from a union perspective, the strike by United's pilots and the TWA–Icahn agreements were key events that slowed down the negative trend in collective bargaining for airline unions. Both events reflected the renewed ability of unions to fashion strategies to cope with

difficult and potentially devastating situations. If strikes or negotiations were handled properly, unions could once again engage in self-help and effectively shut down a major carrier. Likewise, unions could enter the financial world and make arrangements that would enable airline employees to determine ownership of their companies.

Unusual measures were required to meet the challenges of deregulation and the current operating environment. No one foresaw that unions would become experts in corporate takeovers, leveraged buyouts, and ESOPs. The activities at Trans World, Frontier, Transamerica, Texas Air, United, Republic, Eastern, and other airlines, however, demonstrated the need to develop such strategies and to apply them to the collective bargaining process. Nor had anyone foreseen before deregulation that airline unions would engage in massive communications programs involving coalitions of employees, corporate campaigns, family-awareness seminars, and satellite teleconferencing to deal with management actions.

Despite the tremendous number of mergers and acquisitions during 1985 and 1986, 6,341 pilots were hired in 1986, and the trend was continued throughout the remainder of the 1980s. Tighter labor markets, especially for pilots, contributed to the negotiation of higher pay scales for new hires than were originally conceded and to reductions in the number of years before pay scales merge. The unions have also learned how to intervene in airline merger activities, using concession offers as major bait. They prevented a Texas Air takeover of TWA by facilitating Carl Icahn's acquisition. United's pilots, unhappy with the policies of holding company Allegis Corporation, offered to purchase United for \$4.5 billion and were instrumental in effecting a change in corporate management. A Pan American union coalition, seeking a change in top management, offered significant cost concessions in return.

The Consolidation Period: 1986-2006

Airline analysts agree that to guarantee profitability and survival, an airline needs access to three vital components. First, it needs a strong balance sheet. This includes not only a strong cash position but also a strong debt/equity ratio. Second, an airline must have a route structure that includes dominant hubs, a regional feeder system, and international routes. Maintaining dominance at these hubs has proven to be a strong protection against new airlines and against competition from existing carriers. Third, an airline needs at least an ownership interest in a computer reservations system.

Few airlines entered 1986 with all three components essential to future viability. In fact, only three airlines—American, United, and Delta—had strong balance sheets, hub dominance, and ownership in computer reservations systems. Those airlines lacking in these elements realized that the best way to obtain them was by merging with an airline that had them. Even the three airlines just mentioned believed they needed to strengthen certain aspects of their structure and acted accordingly.

The bargaining trends of the preceding years continued after 1986. Management still approached negotiations from a position of strength, seeking overall cost reductions to remain competitive with new airlines and such low-cost carriers as Continental. Management's key objectives were pay freezes or small percentage increases, lump-sum payments, containment of fringe benefits, B scales, increased productivity, and relief from scope clauses restricting the development and ownership of regional carrier networks. Long-term settlements were sought to establish a base for expansion and consolidation.

In the case of financially unhealthy carriers, demands were made or imposed for substantial permanent concessions. At Eastern and TWA, permanent cost reductions of 20 percent or more, with additional productivity gains, fringe-benefit reductions, and "deep" merging B scales, were agreed on after bitter negotiations during which unions were threatened with bankruptcy, liquidation, or sale of substantial assets. Also at TWA, the pilots gained an equity interest in the company and job security provisions, including protection of the pilots in future mergers or sales and restriction on the sale of an airline's assets in partial exchange for permanent concessions. In 1986, even Delta requested mediation for the first time in its history and had difficult negotiations with its pilots before reaching a settlement.

The \$2 billion net industry profit in 1988 was encouraging, but by 1989 there were signs that the economy was slowing down. The bubble burst in 1990 as the economy slid into recession and the airline industry suffered \$4 billion in losses, due mostly to the rise in fuel costs precipitated by the Persian Gulf crisis. The war and its accompanying recession caused the first decrease in air travel in a decade. Losses amounted to \$2 billion in 1991. The airline industry was indeed in a financial crisis. The \$6 billion loss in 1990 and 1991 was more than all the profits the airline industry had earned throughout its entire history. Of the 12 major carriers that existed in the industry at the beginning of 1991, only American, Delta, Federal Express, Southwest, and United remained with strong balance sheets at the end of 1992. America West, Continental, and TWA were in bankruptcy; Northwest and USAir were in financial difficulty; and Eastern and Pan Am had gone out of business.

In 1980, labor costs accounted for 37 percent of total operating costs. By 1992, employee salaries and benefits had fallen below 30 percent of total operating costs for the major carriers, and only 22 percent for national carriers. Despite this decline, many carriers, in their struggle to survive, requested further wage and benefit concessions from labor.

In October 1992, ailing TWA reached agreement with its three unions for wage and benefits concessions and announced that \$24 million would be cut from nonunion and management compensation. Under the agreement, workers received a 45 percent ownership stake in the airline in exchange for employee concessions worth \$660 million. Pilots were promised a 5 percent pay raise on the second anniversary of their contract, but only if verifiable cost savings result from specified work rule changes. TWA emerged from bankruptcy reorganization in November 1993 and was eventually purchased by American Airlines in 2001.

In 1994, Northwest Airlines narrowly avoided bankruptcy when its unions agreed to wage concessions in return for an ownership stake. The troubled carrier lost more than \$1 billion in 1992. Burdened by an enormous debt load as a result of its \$3.65 billion buyout in 1989, Northwest had been pruning its work force in an attempt to return to profitability. The wage cuts proposed by management were 30 percent for pilots, 20 percent for flight attendants, and 18 percent for mechanics. Management and union representatives finally agreed to \$886 million in employee concessions over the next three years in return for three seats on Northwest's 15-member board of directors and 37.5 percent equity interest in the company.

In 1993, USAir (now US Airways) announced plans to lay off another 2,500 workers by mid-1994, in addition to the 7,000 employees terminated since 1990. The airline indicated that further cost-cutting measures were necessary despite previous worker concessions slated to save the carrier \$60 million in 1993. The prior wage cuts and work rule concessions were negotiated with the International Association of Machinists and Aerospace Workers following a five-day walkout by union members.

Delta Air Lines, reversing a no-furlough policy in existence for 36 years, began furloughing an estimated 600 of its 9,400 pilots in 1993. Senior Vice-President Thomas J. Roeck blamed "uneconomic fare programs" for damaging revenues. Roeck stated that the additional traffic generated by the fares had fallen "significantly short" of making up for the lower fares. The pilots, Delta's only unionized labor force, agreed in 1991 to a 16-month extension of their current contract and a 2 percent raise, well below former Secretary of Transportation Skinner's critical prediction of 10 percent annual raises for flight crews.

In 1993, American Airlines slashed approximately 1,700 jobs in order to cut costs. Despite such measures, Chairman Robert Crandall announced that an additional 5,000 workers would be terminated by the end of 1994.

American Airlines, which in 1983 had parlayed a cost-reducing two-tier pay system into a record expansion, by the 1990s found that its employees, particularly its pilots and flight attendants, had become fed up with the company's two-tier scale and its later strategy of shrinking the airline and outsourcing work. In response to Crandall's call for further work rule and wage concessions, American's 21,000 flight attendants walked off their jobs during the busy Thanksgiving holiday in 1993. The five-day dispute, the shortest U.S. airline strike since deregulation, was brought to an end by President Clinton's recommendation that both sides agree to binding arbitration. Another threatened strike occurred in 1997 when the decision was made to allow American Eagle to fly jets on many of American's shorter-haul routes; the pilots saw this as a further erosion of their jobs.

United Airlines lost \$1.5 billion between 1990 and 1992. In 1993, the company implemented a sweeping cost-reduction program designed to save \$400 million a year by eliminating 2,800 jobs and grounding 40 aircraft. As a result, shareholders began putting pressure on Chairman Stephen Wolf to make some changes. His response was a proposal either to dismantle the airline into several regional carriers staffed with nonunion labor or to give employees an ownership stake in return for sweeping concessions. Pilots and mechanics reacted by offering to take significant wage and benefit cuts in order to gain some corporate leverage. Specifically, they agreed to take a 15.7 percent pay cut and lose 8 percent of their pension benefits for the next five years. In exchange, the company agreed to invest 53 to 63 percent of its stock in a special employee pension fund and give workers three seats on the 12-member board of directors. The good news for the employee owners was that they would be given "supermajority" voting rights on key issues such as acquisitions, mergers, and the sale of assets. The bad news was that employee ownership would be allowed to decline over five years as retiring workers were issued pension stock. Once the employee ownership stake falls below 50 percent, workers may find themselves right back where they started. This employee stock ownership program took over seven years of effort and represented the largest ESOP transaction in U.S. business history. Upon completion in 1994, several top officers, including Wolf, left the company.

Many carriers have adopted profit-sharing and/or employee ownership options as a means of enticing workers into granting wage or benefit concessions. Previously, such plans were generally initiated by financially unstable carriers, and few workers actually benefited. At America West, employees were induced to work for less than their industry counterparts based on the assurance that their short-term sacrifices would reap long-term profits. Some type of employee ownership is now also in place at US Airways, Northwest, and Southwest Airlines.

The profit-sharing plan at Southwest Airlines is one of the employees' most lucrative benefits. Southwest has managed to consistently show a profit since 1973. This is due in no small measure to its unique approach: it shuns the use of hub-and-spoke routes, operates no computer reservations system, serves no meals, and treats its employees like an extended family. Employees cannot collect from their profit-sharing plan until they leave Southwest. The company is 84 percent unionized, but its exemplary labor–management relations are demonstrated by the fact that the carrier's employee turnover rate during the 1990s was only 7 percent. Southwest would appear to be a perfect example of how an airline can be profitable without demanding concessions from labor.

On March 26, 2001, Comair pilots walked off the job, resulting in an 89-day strike over such issues as retirement, scheduling rules, job security, and compensation. Cincinnatibased Comair, a subsidiary of Delta Air Lines, was forced to suspend its operations between March 26 and July 1, 2001. Flights were partially restored on July 2, 2001, and fully restored by January 2002. Comair's pilots refused to accept a proposal by management that would have resulted in the best pay offered to any pilots in the regional airline industry. Mediation attempts by the NMB failed, and the NMB released pilots and management into a 30-day cooling-off period. The NMB released the parties from federal mediation on the condition that the pilots union (ALPA) submit the management's settlement offer to the pilot membership for a vote. More than 99 percent of the pilots refused to accept the settlement, and strike action commenced. The result was a grounded airline and approximately \$680 million in revenue losses for Delta for 2001. Before the strike, Comair served 95 cities and carried an average of 25,000 passengers per day with a fleet of 119 aircraft. After the strike, pilots agreed to a five-year contract that gave them pay raises and a company-paid retirement plan.

Since 2001, US airlines have faced numerous challenges as a result of union action. As noted earlier in the text, major airlines have entered into bankruptcy situations causing increased friction between employees and management. The legacy carriers, United, American, Delta, Continental, Northwest, US Airways/America West for example, will continue to face union issues especially over the topic of pilot pension plans. In 2006, many pilots, active and retired, fear that pension payments will be reduced or even eliminated. New-entrant and low-cost carriers, at least for now, do not have to deal with the same union issues as the legacies, as such carriers are not typically unionized. However, as such companies grow in size, union formation is likely. As of early 2006, virtually all of the legacy carriers were faced with picket situations by pilots and in some cases mechanics and flight attendants. Management teams at all the major carriers have been forced to reduce costs in order to save the airlines from failure. Typically, the three main costs for an airline are fuel, labor and maintenance. Unfortunately, for employees, labor is the area management has the most control over in terms of cutting costs.

Future Collective Bargaining Strategies

The goals of collective bargaining include provisions for resolving the conflicting interests of management and labor—protection of the rights, dignity, and worth of workers as industrial citizens, and, based on the first two goals, preservation of collective bargaining as a bulwark of the private enterprise system.

Since the onset of deregulation in 1978, the objectives of airline unions and managements have changed because of intense competition. This has affected the ability of unions to preserve and strengthen themselves as organizations, to gain "more" for their members, to

participate with management in making decisions that affect jobs and employment, and, more recently, to preserve health benefits. Some unions have, in fact, believed that they had to get to the top of the firm through ownership (profit sharing) in order to participate at all. Social goals seem not to have assumed much importance for labor and certainly not for management.

In contrast, management's prederegulation objectives were mainly profit oriented, within the parameters of government regulation of entry, fares, wages, and routes. After deregulation, objectives were shaped instead by the plethora of low-fare, low-cost, low-wage new-entrant competitors and by the major airlines' attempts to survive the fierce contest for passengers and revenues. At the same time, airline managements were driven by the demands of the financial markets—lenders and investors—to pay interest on debt, often acquired at peak interest rates in the 1980s, or to increase the return on stock shares held by the financial markets, or else to be merged, taken over, or bankrupted. These experiences were not unknown to the industrial sector, but they were new to the airline industry. Certainly, this was unlike anything that had occurred before deregulation.

Stress from the financial markets, pressure from disgruntled passengers, predatory fare competition, expensive new technology—all these factors contributed to the turbulent industry environment. Although both management and unions were concerned with preserving their interests, they were not in agreement that workers should shoulder the costs of financing growth, takeovers, and mergers, or increasing productivity to pay the costs of debt financing.

Out of this experience, two sets of solutions emerged, one from unions and another from firms in the airline industry. Early in their efforts to cope with massive debt and the consequences of predatory competition (for neither of which the airline industry had an answer, except Chapter 11 bankruptcy), management embarked upon wide-ranging cost cutting. This had been tried in other industries and falls under the rubric of averaging down wages.

The practice of averaging down wages included implementing two-tier pay systems that start new employees in a craft—pilots, mechanics, flight attendants—at lower wages for a period of years (or, in the case of a 1983 flight attendant contract, forever) than longer service craftpeople, even though both perform the same tasks and work together. A recent variation of this two-tier pay system was the invention of the two-tier airline, with separate units (same union) and with lower pay for the second-tier crew, along with generally lower costs. Another variation was the outsourcing, or contracting out, of such items as nonunion ticketing, business services, and maintenance to independent organizations that pay their employees less than the airlines. These may consist of two or more tiers at lower levels of pay. Each of these averaging-down strategies sponsored by management has been accompanied by reductions in health benefit costs, in tandem with either lower wages or lower benefits derived from lower wages.

Unions, in turn, have begun to pursue four strategies. First, they organized activity specifically to promote workers' interests, particularly at airlines with a nonunion status or distaste for unions (America West, American Trans Air, Continental, FedEx, UPS, and Delta). Second, the unions challenged the business and staffing strategies of the airlines that they believed threatened workers' security of employment and income, as well as contributed to the obsolescence of the skills workers had acquired over many years. Third, in the case of the Allied Pilots Association (APA), the union sent a petition to the NMB to declare American Eagle and American Airlines to be a single carrier for bargaining purposes. The union feared that the growth of American Eagle, with its lower wages, could

be a prelude to reducing pay and benefits of the top-tier American pilots or to increasing American Eagle employment at the expense of employment at American. Fourth, unions obtained a financial interest (via an ESOP) in a major airline in order to influence its policies (United, NWA, TWA, US Airways). Buying control of an airline, popularly known as profit sharing, meant that an increasing share of the income that workers received from their employers came from stock ownership and thus became a more flexible and manageable cost during business downturns.

In brief, union strategies during deregulation have been directed, as during past periods of rising prices and recession, to preserving the industry itself and the jobs and skills associated with its crafts, even if individual income becomes more variable because of profit sharing. Employers, on the other hand, tried, as they have in the past, to improve the efficiency of workers in the system by tinkering around the edges to average down wages and thereby some costs.

HUMAN RESOURCES IN THE 21ST CENTURY

Aviation organizations should realize that people are the biggest asset. "I am convinced that companies should put their staff first, customers second, and shareholders third," noted Sir Richard Branson, of Virgin Atlantic Airways.

As the 21st century progresses, airlines and other aviation organizations will have to cope with new trends and challenges for the future. Perhaps one of the biggest challenges for such organizations will be managing the new generation of employee known as "Generation Y." Typically, this employee will be outspoken, expectation driven, and self-motivated. Organizations will have to learn Generation Y's language and be able to supply such workers with the proper tools to get the job done.

Employers must create conditions that attract the best people for the job, meaning that organizations will rethink the role of the core group. Organizations will learn the benefits of building and using a large and diversely skilled talent pool, where employees will be trained quickly to increase the employee's value to the company. Employees at all levels will be taught career-effectiveness skills. Perhaps most important, managers will be taught to manage instead of acting as liaisons or enforcers of rules. Efficiency will be enhanced through the support of education and training, creating an organizational environment where personal growth and development are stimulated.

Aviation organizations must learn to identify human resource needs through the formulation of objectives, policies, and budgets. Strategies should be related to human resource needs temporarily and permanently. Specific jobs should be outlined with specific job descriptions, and only qualified candidates should be recruited to fill positions. Modern recruitment methods include industry contacts, professional recruiters, employment agencies, colleges and trade schools, and various forms of advertising.

In terms of training, employees should be trained specifically in the area for which they are hired. Such training should permit for more advanced functions within the organization and should be able to address social and economic changes that affect the way the organization must operate. All training programs should have some sort of evaluation process to measure performance of the employee and the benefits received by the organization.

There are some barriers or challenges airlines will face in terms of human resources during the course of this century. These include:

- 1. *Skills*. Many of the skills used by the airline industry are exclusive to aviation. Such skills are costly and time-consuming to acquire. There is a need for constant refinement of regulatory, technological, and market developments. The airline industry is highly cyclical, which leads to overcapacity in human skills and tangible resources.
- 2. *Need for new skills*. Increasingly competitive environments generate the need for new skills. To be successful in today's airline industry, workers will need specific skills. For example, multilingual, culturally sensitive, and responsive customer-contact staff will be in demand.
- 3. Finding the right staff. Airlines have realized that finding the right staff is no longer sufficient. The delivery of high-quality service is based on attitudes and values of employees. For example, much of Southwest Airlines' success is based on a unique corporate culture that promotes positive attitudes.
- 4. *Labor trends*. Airlines of the future will find it beneficial to use more part-time and fixed-term staff. Charter airlines have been doing this for years, but it is a relatively new phenomenon with the scheduled airlines. This creates a challenge for mold-acculturated, committed team members.
- 5. *Multiskilling and flexibility.* The focus of discussion at many airlines is changing from Why to How and to In return for what? Encouragement of productivity growth through multiskilling (the application of multiple skills by one person) and more flexible work practices in highly unionized environments will create a challenge for the airline industry.
- 6. Control of labor costs. Airline passengers are becoming more knowledgeable and demanding, creating a challenge of how to control labor costs without disrupting customer service. There is a strong argument to place greater emphasis on productivity improvement rather than on salary and benefit cuts.
- 7. *Cross-utilization of human resources.* There will be increased cross-utilization of human resources within global alliances. The challenge is that variables relevant to the attraction, utilization, and motivation of talented employees differ widely between cultural settings. Some unions think that a global labor pool will create a threat to work conditions and job loss.
- 8. *Making human resource strategies adaptive.* This is the least specific challenge of those introduced, but it is the most significant. Human resource strategies should be as adaptive as corporate and competitive strategies have to be in the face of increasingly complex and turbulent environments.

As indicated, human resource departments are very important to the success or failure of an organization. Paying close attention to the challenges presented will help aviation organizations achieve efficiency and success in the future.

KEY TERMS

craft union Railway Labor Act (RLA) National Mediation Board (NMB) emergency board ESOP industrywide bargaining pattern bargaining mutual aid pact Generation Y

REVIEW QUESTIONS

- 1. Labor costs represented what percentage of total airline operating expenses in 1986? Why is this significant? "Service industries are labor intensive." What does that mean?
- 2. In what sense are airline labor unions organized on a craft basis? What significance does this pattern of organization have in airline operations?
- 3. Why is the airline industry subject to the Railway Labor Act? How are airline strikes different from railway strikes? What are the basic purposes of the act? Describe several major differences between the RLA and the National Labor Relations Act.
- 4. What are the steps involved in the collective bargaining process under the RLA? What is the role of the National Mediation Board? Discuss some of the criticisms of the process.
- 5. Distinguish between *industrywide bargaining* and *pattern bargaining*. What was Decision 83?
- 6. Describe the labor–management scene before 1958. What happened in the early 1960s to change that scene? What was the result of this situation for the period from 1958 to 1970? What was the mutual aid pact? Why did the unions oppose it? What was the CAB's position? Why was airline labor so successful in raising wages and fringe benefits during the 1970s? Summarize labor–management relations before deregulation.
- 7. What has been the most important effect of deregulation on airline labor relations? What are some of the newer carriers' advantages over the established lines regarding payment and utilization of labor?
- 8. What is meant by the *elimination of the automatic labor cost pass-through*? How did labor–management relations change in the 1980s? Give some examples. Why was the period between 1982 and 1985 so difficult from labor's standpoint? Discuss some of the bargaining objectives of management during this period. How did things change during the mid-1980s? What is the purpose of profit sharing and/or employee ownership? Describe the labor–management environment during the 1990s and early 2000s. Summarize the objectives of management and labor in recent years.

WEB SITES

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