How deregulation shot down the U.S. airlines

by Lyndon H. LaRouche, Jr.

The Sunday, Oct. 20 *New York Times* demonstrated, once again, that, often, that newspaper is to science, economics, and English prose style, what inflatable dummies are to love-making. We refer to the leading piece of the "Money & Business" section: Adam Bryant's "U.S. Airlines Finally Reach Cruising Speed."

To appreciate the authority of the *Times*'s opinion on the aerospace investments, one should remember, that it was the same newspaper, which not only warned its readers against replacing gas lamps with Thomas Edison's electric-light bulb, but which ridiculed the Wright brothers' insistence that heavier-than-air flight was possible, and, which assured us, later, that no rocket could ever escape the Earth's atmosphere.[1] Today, unfortunately, the newspaper's views have a perverse kind of newsworthiness; its silliness is tragically consistent with what passes for "mainstream economic thinking" around Wall Street and Washington, D.C. today.

Consider that piece's substitution of myth, for the reality of the 1978-1996 airlines crisis. A few excerpts from his opening paragraphs are sufficient to make that point.

> "While other consumer industries went through good times and bad, airlines mostly gyrated between bad and awful."

Prior to 1978, that did not happen: Bryant has concocted his fiction to fit his fantasy. The back files of the *Times* financial pages, would inform him, that, until the introduction of deregulation of transportation, during the late 1970s, the major airlines were among the leading components of a financial-market investor's preferred mix of holdings.

He continues, in his next sentence, with the following non-sequitur:

> "In just the first five years of the 1990s, they [the airlines—LHL] lost $13 billions, more than all the profits accumulated since the Wright brothers made their historic flight at Kitty Hawk in 1903."

A responsible journalist would have contrasted the depleted physical purchasing-power of a highly inflated $13 billions of the 1990s, to the market-basket requirements for operating a safe, technologically progressive airline prior to the fateful years of 1978-1979. Just to show how recklessly ignorant of the subject Bryant is, he has brought up the embarrassing fact which the *Times* has been trying to cover up for nearly a century: that newspaper's original comment on the 1903 flights of the Wright brothers.

A few more samplings from the opening paragraphs of Bryant's piece:

> "The explanation can be summarized in one word: over-expansion. . . . The industry didn't seem able to learn from its mistakes, in part because it was dominated by such big egos. . . . Now, however, the big airlines seem to be mending their ways. Stung by their recent disastrous run and taken over in many cases by a new crop of chief executives more in tune with the sober-minded 1990s. . . . 'It's not a testosterone-driven industry any longer,' said Gordon Bethune, chairman of Continental Airlines. 'Success is making money, not in the size of the airline.' "

"Sober-minded 1990s?!" The financial powers which dominate the Wall Street market today, are frantic madmen, for whom next week is a long-range investment. They are so obsessed with zeal for quick profits from the wildest forms of speculation, that they make the speculators of the Seventeenth-Century Dutch tulip bubble seem sober citizens, by

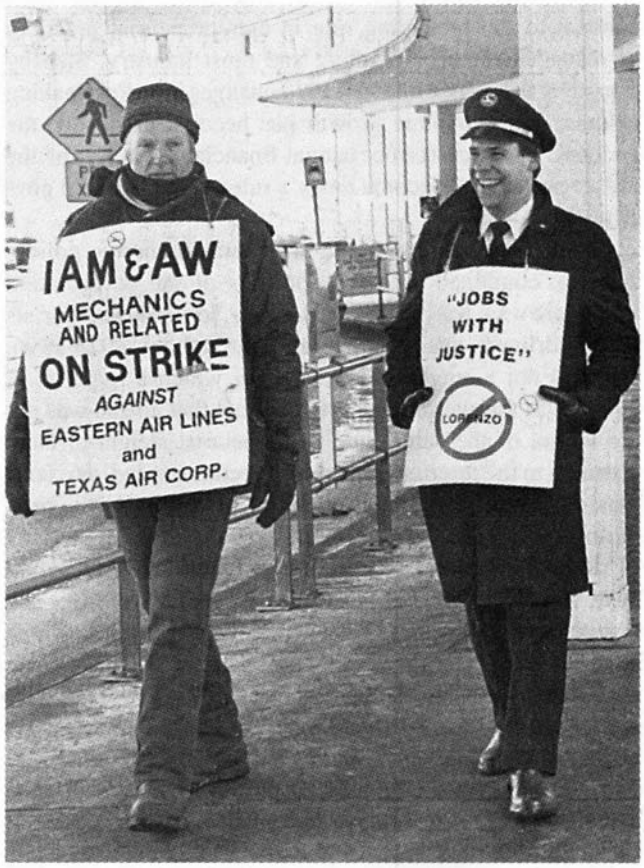
1. The *New York Times,* on Jan. 6, 1880, wrote that Edison's electric light could never compete with gaslight, and on Jan. 16 quoted a "noted electrician" that "Every claim he makes has been tested and proved impracticable." On Dec. 10, 1903, the *Times* editorialized against Samuel Langley's experiments in heavier-than-air flight, less than a week before the Wright brothers' success at Kitty Hawk, which the *Times* blacked out. In a Jan. 13, 1920 editorial, the *Times* denounced Robert Goddard's experiments in space travel.

comparison. As the *Times* should know, the airlines' "sober-minded 1990s" are typified by the fact, that a certain well-known company was run, not for operating profits, but for the anticipated financial capital gains of a highly leveraged, purely speculative price of its traded stocks.

What ruined the U.S. and other nations' major airlines during the past eighteen years,[2] is a combination of four factors: 1) deregulation;[3] 2) the unchecked, 1982-1996 binge of "takeovers" of airlines (and other industries) under the "skull and crossbones" guidon of "shareholder values";[4] 3) the impact of the post-1987 transformation of the world's financial system into a casino economy;[5] and 4) the net collapse of net physical income of the economy, by about half, as measured in terms of market-baskets of infrastructure, agriculture, industry, and households, per capita of labor-force, and per-square kilometer of relevant land-area.[6] Indeed, nothing has happened to the airlines (and trucking) industry, against which I, and others, at ***EIR,*** did not warn, in considerable detail, during the period from the 1978 introduction of deregulation under President Carter, through the period of my campaign for the Democratic Party's 1980 U.S. Presidential nomination.[7]

Granted, there are precedents for the post-1978 records of the airlines from earlier parts of the post-war period.

During the 1966-1973 interval, I was teaching a one-semester introductory course in physical economy on several campuses around the northeastern U.S.A. There were three case-studies of speculative looting of infrastructure and industry, which I chose to emphasize to the students: the early 1950s looting of the New Haven railroad, under the direction of speculative raider Maginnis; ***Wall Street Journal*** writer Norman C. Miller's ***The Great Salad Oil Swindle;***[8] and the mid-Fourteenth-Century collapse of the Lombard banking system. The ***Times*** has flunked that course: the deregulation epidemic of 1978-1996 belongs in the same dock with New Haven raider Maginnis and the "Salad Oil Swindle" 's Anthony de Angelis.



Eastern Airlines employees on strike against Frank Lorenzo's union-busting policies, March 1989. For the past 20 years, the airline industry has been looted by the economic cannibals of Wall Street.

There were such pre-1971 precedents for the kinds of swindles which ruined our major airlines over the course of the 1980s and 1990s.[9] The difference was, that, back during the 1950s and 1960s, even a ***Wall Street Journal*** reporter considered de Angelis' swindle an embarrassment. The fundamental difference, between the ruinous post-deregulation period, from 1978-1979 onward, and the relatively more prosperous 1945-1966 U.S. post-war economy, is that during the earlier time, cases such as the Wall Street looting of the New Haven railroad and the "Salad Oil Swindle" were in

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2. The oil-price hoax of the mid-1970s, did deliver an economic shock to the airlines, as to the transportation sector generally. However, as long as airline regulation was in force, the oil-price shock could have been absorbed.

3. ***EIR,*** March 29, 1996, "Case Study No. 1: Lorenzo, Deregulation Decimate the Airlines"; "Case Study No. 2: Destruction of the Rail Grid Leads to Accidents"; and "A History of the Push for Deregulation."

4. op. cit. "Daschle Proposes to Bring Back the Entrepreneur." See also, ***EIR,*** Jan. 1, 1990, "Junk Bond Collapse Triggers Leveraged Blowout of Financial System," p. 30.

5. ***EIR,*** Oct. 23, 1992, "Casino Mondiale: A Swindle Runs the Monetary System." See also, ***EIR,*** Jan. 1, 1990, op. cit.

6. ***EIR,*** April 14, 1995, "NAM's 'Renaissance' of U.S. Industry: It Never Happened," by Christopher White; "U.S. Market Basket Is Half What It Was in the 1960s," ***EIR,*** Sept. 27, 1996.

7. ***EIR,*** June 26-July 2, 1979, "Deregulation: The Road to Transport Chaos"; ***EIR,*** Sept. 15, 1981, "Deregulation Schedules U.S. Airline Service for a Return to the 1930s," p. 7.

8. Norman C. Miller, ***The Great Salad Oil Swindle*** (Baltimore, Md.: Penguin Books, 1965).

9. Although the shift in U.S. policy, away from our republic's traditional emphasis on capital-intensive, energy-intensive investment in scientific and technological progress, to a "post-industrial" utopianism, occurred during the second half of the 1960s, full-scale insanity in U.S. economic policy was not unleashed until the successive blows of the institution of the post-1971 "floating exchange-rate" international monetary system, and the mid-1970s oil-price shock.

contrast to the prevailing rule in entrepreneurial practices of management of agriculture and most industry. Step by step, over the course of 1966-1979 changes in policy-making axioms, real economic growth has become a lost art; the endemic tendency for occasional financial swindles, of the earlier period, has become today's rule of business and governmental practice.

Those changes in axioms of general economic policy-shaping, combined with the specifics of the deregulation mania, are what has bankrupted leading, formerly prosperous major airlines, again and again, throughout 1978-1996. There is not a single known case, in which a major U.S. airline was thrown into bankruptcy, that that airline was not the victim of the same kind of monetarist sleight-of-hand common to the three case histories I recommended, as examples of criminality, to the attention of my students, back during 1966-1973.

If the ***Times*** were a competent financial analyst, it would have warned its readers, that airline deregulation, like the hostile takeovers of the 1980s generally, is a swindle which Vice-President George Bush et al. should not have been permitted to legalize. To parody that fabled New York City entrepreneur of the 1970s, "Crazy Eddie," the newspaper's economic "policies are insane." Like today's ***Wall Street Journal,*** the ***Times*** continues to push a form of economic cannibalism otherwise fairly describable as "shareholders' socialism."

Economic cannibalism

It may be fairly argued, that the Wall Street Republican "neo-conservatism" of today is the campus socialism of 1968: "Students Destroying Society (SDS)."

According to principles laid down by the leading Bolshevik economist of the 1920s, Yevgeni Preobrazhensky, the practice of 1980s raiders such as Michael Milken and Frank Lorenzo, and of the "derivatives" bandits of today, is a form of "primitive socialist accumulation": running an industry, even an entire national economy, into the ground, as a source of relatively short-term profit for the speculator. The airline industry has been a victim of approximately eighteen years of the latest fad in slave-owner's democracy, the "shareholder socialism" of "Contract With America."

To clarify your understanding of this form of economic cannibalism, turn your attention to the new stage of global economic crisis, now erupting world-wide. Then, consider the mechanisms by which the shared "free trade" ideologies of the ***Times*** and ***Wall Street Journal*** made this crisis inevitable.

What the ***Times***'s Bryant is defending, is the kind of "socialism" which put the East Germany government of Erich Honecker into its 1989 bankruptcy. It could happen to Wall Street, and the United States, very soon: whenever the current U.S. stock-market mimicking of the "Weimar 1922-1923 bubble" comes to its inevitable end.

Today, as a cold winter approaches, a menacing, infectious, popular social insurgency against Gingrich-like cutbacks, has broken out in western continental Europe. A wave of political strikes is now endemic in Jacques Chirac's France. A political mass-strike has erupted suddenly, triggered by popular rage against a pedophile ring close to NATO circles, in Belgium. Once again, the social ferment in the eastern part of Germany is echoing the rumblings which led to the 1989 collapse of the old East Germany Communist state. The conditions in western Europe today are comparable to the combined economic and social crisis which led to the break-up of the old Soviet Union over the 1989-1991 interval. The present eruption occurs in the same time-frame that Gingrich-like policies are pushing Russia toward the point of some mighty social and political explosion.

To understand the immediate political implications of the ***Times***'s present economic policies, one must recall the Czarist regime of 1916 Russia, or the French monarchy of 1789: the ***Times*** and ***Journal*** are sputtering the last, manic gasps of a deluded, and doomed "old regime." ***EIR*** has described this process repeatedly before; look at the same process here from the standpoint of the individual industrial enterprise, or particular industry, such as the victim of the ***Times*** piece, the U.S. airline industry.

There are three "capital factors" which are decisive for determining the relative economic health, or morbidity, of a producer firm or industry. The first, is the quality of the labor-force employed: the local communities' accumulated "capital investment" in the culture and education, its skills, its health, its household standard of living of the households from which the employed labor-force is recruited. The second, is the aging of its capital investment in plant, machinery, tools, and essential inventories. The third, is the effectiveness of the productive enterprise's effective command over the relevant factors of technological attrition.

In all three of these areas, the key word is "control." Does the firm, the industry (or farmer) have effective control over the needed improvements of quality, and availability, in its available labor-force? Does the firm have effective control over the refurbishing of the aging stocks of physical capital which it is depleting? Does the firm have effective control over the urgent refurbishing and advancement of its technological position? To lack that quality of effective control, is to increase the factor of risk accordingly.

In addition, in a similar way, the firm's performance depends upon the quality of development of basic economic infrastructure, in the vicinity of its operations: transportation, water and sanitation, power, and so on. Infrastructure is the capital factor of the economic environment; as infrastructure is relatively more poorly developed, costs are higher, performance is poorer, all relevant factors of risk are greater.

Both of these sets of capital factors, are subject to the general, physical-economic rule of thumb which this writer and ***EIR*** have identified in sundry earlier locations.

Take all physical factors of productive output and consumption, plus the factors of education, health, and science and technology services: determine the manner and degree a variation in productive potential is effected by increasing, or decreasing the various elements of this content of the market-basket of consumption (by households, infrastructure, agriculture, industry, and so on). Measure this in terms of per capita of labor-force, per household, and per square kilometer of relevant area. The result is, that for any designated level of productivity, there is a level of market-baskets' contents which is required to ensure continued productive potential at that level. Call this "energy of the system."

Then, all of the output of those market-basket elements which is in excess of the required "energy of the system," may be termed "free energy." The unwasted portion of this excess, is the "net free energy."

Now, however, the normal effect of the investment of the "net free energy" is either to expand the existing productive, and related, operations in scale, or, to increase the capital-intensity of existing work-places. In both cases, the ratio of "energy of the system" per capita is increased. However, it is necessary that the ratio of "net free energy" to "energy of the system," as measured in per-capita of labor-force, and in relevant square kilometer of area, must not decrease, even though the "energy of the system" per capita is increasing.

That principle applies to the individual productive enterprise, to entire industries, and to the economy considered as an integrated whole. The only way in which this requirement can be satisfied, is through investment in scientific and technological progress. Scientific and technological progress is the only source of what might be termed "sustainable profit."

Although the pre-1966 professional production manager usually did not understand the scientific principles governing scientific and technological progress, he (or, she) understood the importance of such a principle of practice. Such managers understood, at least as rules of thumb, each of the principles of production management we have just summarized. The manager's executives and staff measured these factors in terms of bills of materials and process-sheets, showing the flow of the physical materials and labor activities, the work-centers, and so on, and also noted the prices and related costs of each such factor of the bills of materials and process-sheets. The competent such manager also agreed with the trade-union representative, that there is a relationship between standard of community and household life of the available labor-force, and potential productive powers of labor.

From the standpoint just outlined, a relatively precise definition of "economic cannibalism" can be supplied for purposes of setting broad policy-parameters. In those terms of reference, the accelerating degeneration of the U.S. economy during the recent quarter-century can be summarized as follows:

1. The unique source of macro-economic profit of an economy, its capital-intensive, energy-intensive investment in scientific and technological progress has been suppressed. Respecting functional content, the requirements for a classical and scientific content of public-school and higher education have been depleted greatly during this period. The increase of class-size in schools, the reduced literacy of teachers, the lowering of standards of pedagogy, increased use of drill and grill, corresponding multiple-choice-questionnaire testing, use of personal computer terminals to replace cognitively essential teacher-student interactions, and increased ratio of class-hours to total hours, are typical of the degeneration of the quality of education, per teacher, and per student, at both the public-school and university levels. Similarly, the course content, in both public and university education, has been collapsed, such that it is not atypical that a secondary-school graduate of thirty years ago, had a higher level of cognitive development and general literacy, than university graduates today.

2. Where the modal standard of skilled industrial operatives and technicians, was formerly the family household organized around a single principal wage-earner, two and three incomes per household are needed now to reach up to the physical standard of living enjoyed by a comparable household today. The difference in standard of living of wage-earners, is pure economic cannibalism: what Preobrazhensky identified as "primitive accumulation."

3. The non-investment in maintenance of public and private investments in basic economic infrastructure, is another source of economic cannibalism.

4. The physical aging of capital stocks, is a similar form of looting, with potentially catastrophic results.

5. The replacement of high-quality controlled technical and related services and sources of supply, by cheaper, less reliable contracted sources, is also economic cannibalism.

For approximately twenty years, since the oil-price shock of the mid-1970s, but, most emphatically since deregulation and hostile takeovers, the airline industry has been looted savagely by the economic cannibals of Wall Street, the Frank Lorenzos and Carl Icahns.

The aging fleets, and strained maintenance and air-traffic facilities, have been depleted to such a degree, that the economic cannibals now see the virtual elimination of all Federally regulated safety and maintenance standards, as the only way in which the economic cannibals of Wall Street can continue to enjoy a rewarmed meal from this industry.

What is the safety-conscious passenger's alternative to looted airlines? Even walking isn't safe any more.