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Eastern Airlines: The Rise and Fall of "The Wings of Man"

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Table 5 (continued)

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*Published data not complete for all years. Estimated by authors from other available sources.


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ABSTRACT

This paper examines the rise and fall of Eastern Airlines from 1928 to 1991. It outlines the carrier's development under a succession of leaders and discusses the major events of each leader's reign. From a small contract mail carrier known as Pitcairn Aviation, Eastern grew to become one of the largest airlines in the free world. But after 26 years of growth and prosperity under the leadership of Eddie Rickenbacker, the airline began to stumble in the early 1960s. Frank Lorenzo took the reins in 1986 and began selling the carrier's assets while attempting to destroy the unions. After a massive employee strike in 1989 and a bout with bankruptcy, Eastern stopped flying in January 1991.

On January 18, 1991, Eastern Airlines (EAL) ceased operations. The death of what had once been one of the largest airlines in the free world was brought on by years of labor strife, a high debt load, and an inherently unstable north-south route structure.

EAL began on February 28, 1928, when Harold Pitcairn's fledgling company, Pitcairn Aviation, was awarded Contract Air Mail (CAM) route 19 from New York to Atlanta. The route included stops in Philadelphia, Baltimore, Washington, Richmond, and the Carolinas. Later in the same year, Pitcairn picked up CAM 10 from Atlanta to Miami, with stops in Jacksonville, Daytona Beach, Orlando, Tampa, and Macon, Georgia. The two routes were combined, renamed CAM 25, and by the end of the year, Pitcairn had firmly established a 1400-mile north-south route structure on the eastern seaboard that would eventually become the backbone of EAL (Lewis, 1992; Serling, 1980).

In June, 1929, Pitcairn sold the airline to Clement M. Keys, a Canadian-born entrepreneur who controlled North American Aviation Corporation (NAAC), a holding company for several aviation enterprises. Keys named Thomas B. Doe president, reorganized the airline, began to explore the future...
of transporting people instead of mail, and officially named it Eastern Air Transport (EAT) on January 15, 1930 (Lewis, 1992; Serling, 1980).

In April, 1930, Congress passed the Watres Act, reducing the airlines’ revenues from mail transport and forcing them to look to passenger service to remain profitable. One month later, the Postmaster General, Walter Folger Brown, held a series of meetings (now known as the “spoils conferences”) that virtually reshaped the U.S. commercial air map and divided the major routes among the nation’s four largest carriers (United Aircraft & Transport, American Airways, EAT, and a merger that resulted in today’s Trans World Airlines [TWA]). During these meetings Doe attempted, but failed to gain a footing on the other three’s transcontinental routes, and thus, Eastern’s north-south structure was solidified (Lewis, 1992; Serling, 1980).

EAT began limited passenger service between New York and Richmond (with intermediate stops at Newark, Philadelphia, Baltimore, and Washington) on August 18, 1930. The service expanded considerably over the next several years, and after acquiring two smaller airlines (Ludington Line and New York Airways), EAT had a virtual monopoly of air traffic along the eastern seaboard (Lewis, 1992; Serling, 1980).

The airline continued to grow, but the stock market crash affected Keys such that he eventually lost control of both NAAC and EAT. General Motors (GM) assumed control on February 28, 1933, with Doe remaining on as EAT’s president (Lewis, 1992; Serling, 1980).

From 1933 through 1934, a congressional investigation of Brown’s actions during the spoils conferences culminated in the passage of the Air Mail Act of 1934, and significantly threatened the survival of the big four. To ease the threat and save the nation’s air transportation system, the government allowed the big four to reorganize under new names. Thus, Eastern Air Transport became Eastern Air Lines (Lewis, 1992; Serling, 1980).

The act also specified that any executive who had participated in the spoils conferences could no longer hold office in his respective airline. Doe was replaced temporarily by GM executive Ernest Breech, until Edward Vernon Rickenbacker (Captain Eddie) assumed the helm as general manager on January 1, 1935 (Lewis, 1992; Serling, 1980).

As Eastern continued to grow, a rift developed between Breech and Captain Eddie, and with the backing of rental car baron John Hertz, Breech attempted to purchase the airline for himself. However, GM did not want to loose Breech, and convinced him to drop the offer and remain with the company as a vice president. A subsequent attempt by Hertz alone was thwarted when Captain Eddie obtained the financial backing to submit a higher offer. GM sold the airline, and on April 22, 1938, Eddie Rickenbacker became president of EAL (Lewis, 1992; Serling, 1980).

Eastern prospered and grew tremendously under Captain Eddie’s leadership. He was president until August 10, 1953, when he passed the title to Tom Armstrong, Eastern’s secretary and treasurer. Retaining the position of general manager, however, Eddie essentially remained in control until October 1, 1959.

Without significant competition, EAL had been able to prosper, but as the Civil Aeronautics Board (CAB) awarded lucrative vacation routes to competing airlines in the post WWII era, Eastern’s monopoly of seaboard traffic slowly disappeared. The competitive edge declined further when Eddie delayed the transition to jet aircraft in the late 1950s, foregoing significant cost and speed advantages to Delta, Eastern’s chief rival in later years (Lewis, 1992; Serling, 1980). Maurice Lethridge, an executive who held nine different positions at Eastern from 1943 to 1975 once said, “If he [Captain Eddie] had put about eighty million dollars more into jets at that time, one has to wonder what would have been the history of Eastern today” (Serling, 1980, p. 269).

Over the years, Eastern also developed a reputation for poor passenger service, originating most likely from Eddie’s disdain of providing fancy in-flight amenities such as gourmet meals and free wine. He felt the airline’s job was simply to transport passengers to their destination as efficiently as possible. Courteous and friendly service was not a prerequisite. This indifferent attitude ultimately culminated in the late 1950s with the public’s formation of an organization known as WHEAL, or “We Hate Eastern Air Lines” (Lewis, 1992; Serling, 1980).

A further error was Eddie’s decision to use non-pilots as flight engineers on aircraft requiring three cockpit crew members. This decision proved to be detrimental because management now had to deal with an additional union, the Flight Engineers International Association (FEIA). Delta elected to use pilots trained as flight engineers, enabling it to later gain ground on Eastern by avoiding labor disputes with the FEIA (Lewis, 1992; Serling, 1980).

A 1958 FEIA strike was the only major labor dispute during Captain Eddie’s tenure, but it was also the event that finally led Eastern’s board to replace him with Malcolm MacIntyre, a former undersecretary of the Air Force and American Airlines lawyer. Captain Eddie had been named Chairman of the Board of Directors (Lewis 1982; Serling, 1980).

In 1960, the pilots went on a 12-day wildcat strike that had some of its roots in the 1958 FEIA strike. Part of the 1958 agreement was to include a third pilot on Eastern’s DC-8s, resulting in a four-man crew. When Federal Aviation Administration (FAA) inspectors insisted on occupying the third pilot’s jump seat during check rides, the pilots protested. The resulting strike cost Eastern $8 million dollars in lost revenue, and combined with the 1960 recession, caused its first net loss ($3.6 million) in 26 years (Serling, 1980).

Although Eastern lost $53 million in 1962-1963, MacIntyre was not totally to blame however, as Captain Eddie continually interfered from his seat on the
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board of directors. Dissatisfied with both men, the board ousted MacIntyre and forced Captain Eddie to retire.

Malcolm MacIntyre does have one significant claim to fame, however. He was responsible for initiating the Eastern Air-Shuttle on April 30, 1961. The Shuttle provided innovative transportation between New York City and Washington, D.C., and later proved to be one of the best money-making ventures in the history of aviation (Lewis, 1992; Serling, 1980).

Eastern had three different CEO’s between 1963 and 1975, with one of them, Floyd Hall serving in the position of two separate occasions. With Eastern on the verge of bankruptcy again, it was once more time for a change—enter Frank Borman.

Advancing rapidly through Eastern’s executive ranks, Borman became president and chief operating officer on May 25, 1975, and assumed the CEO post on December 16, 1975.

As a former Air Force officer, test pilot, and astronaut, the employees felt Borman had “the right stuff,” and would lead the company to profitability and eliminate the turmoil amongst their labor unions. However, it was not to be.

When Borman assumed the helm, his predecessor’s bills were coming due, and Eastern was $1 billion in debt (Bernstein, 1990). A few years later, hoping to beat the competition, he spent over $2 billion on a fleet of 44 new fuel efficient Airbus A-300s and Boeing 757s (“Management Miscalculated,” 1989; Moore & Work, 1989). But deregulation came in 1978 and oil prices crashed shortly thereafter, eliminating his competitive edge. The resulting loss in revenue increased Eastern’s debt by 50% in 1977, 122% in 1979, 200% in 1981, and a whopping 328% in 1983 (Bernstein, 1990).

These problems were compounded by the way Borman treated his employees. On the outside he appeared very personable, trying to foster a family image to show he cared. Yet on the inside he had a strong dislike of unions. Allegedly, he once said, “Unions tend to protect the marginal and incompetent” (Huckabee, 1991, p. 11).

One of Borman’s most interesting clashes with the unions occurred in 1980, with the leader of Eastern’s International Association of Machinists (IAM) local, Charlie Bryan, a tough, strong-willed machinist who had advanced through the ranks. Borman decided to test a “powerback” procedure, whereby an airplane uses engine thrust to back away from a gate. If the procedure was adopted, it would affect Bryan’s highly paid mechanics, who normally pushed the airplane back with a tug. When Bryan was unable to change Borman’s mind, he literally went and stood behind of an airplane preparing to test the new procedure. Unable to get Bryan to move, Borman gave the go-ahead, and the airplane blasted its engines into reverse, knocking Bryan to the ground and making him sick for four days thereafter from the exhaust fumes (Bernstein, 1990).

Borman began asking the unions for concessions right from the beginning of his reign. The pilots went along with his demands without much resistance. In fact, Eastern’s pilots union, the Airline Pilots Association (ALPA) agreed to pay cuts every year from 1975 to 1983 (Huckabee, 1991). The other unions (flight attendants and machinists), however, agreed only reluctantly and after extensive persuasion and threats. This helped foster significant distrust between ALPA and the other unions, particularly the IAM (Huckabee, 1991).

ALPA’s distrust of the IAM deepened in 1983. With Eastern close to bankruptcy again, the pilots agreed to a $100 million wage concession package, reducing their pay by 22% (“Eastern Air,” 1983). The IAM, however, out-maneuvered management, and Borman gave them a 32% pay increase over the next three years (“Eastern Unions,” 1983). The pilots were furious at both Borman and Charlie Bryan.

In 1984, a historic agreement was reached that revolutionized Eastern’s labor-management relations. The Transport Workers Union (TWU, representing flight attendants) and the IAM (with their previous 32% increase) agreed to 18% pay cuts (Jennings, 1989). All three unions were given the opportunity to participate in managerial decisions and help increase productivity. They also received representation on the board of directors (4 seats), access to financial records, and the opportunity to review business plans. In addition, all employees received 25% of the company’s stock (“Union Accept,” 1983).

Initially the new agreement seemed to work, but the good fortune was short lived however, and by late 1984 economic conditions forced Borman to turn to the unions once more, asking them to continue the pay cuts through 1985 and 1986 (ALPA 22%, TWU and IAM 18%). The pilots and flight attendants agreed, but the machinists rejected Eastern’s request for the salary concessions (Jennings, 1989).

In 1985 Eastern’s profits skyrocketed, and in September, management opened the IAM’s contract, restored previous pay cuts, and agreed to an 8% raise through 1987. The pilots were returned to full pay in October and the flight attendants were to come shortly thereafter (Bernstein, 1990). But by the end of the year, things turned sour once more.

Borman gave the unions an ultimatum. If they did not accept more wage concessions, he would sell the airline or declare bankruptcy (Cohn, 1986).

ALPA and TWU’s contracts were open for negotiation, but the IAM’s was good until the end of 1987. Intense negotiations ensued and the National Mediation Board (NMB) became involved. An impasse was declared between management and the pilots and flight attendants, initiating a 30-day cooling-off period. At the end of this period the pilots and flight attendants would be free to strike, and management would be free to impose a new contract (Bernstein, 1990).
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Enter Frank Lorenzo, CEO for Texas Air Corporation (TAC). Lorenzo was Borman’s last tactic to scare the unions into compliance. They dreaded Frank Lorenzo for what he had done to Continental Airlines. Lorenzo had purchased Continental in the early 1980s, eventually taking the company into bankruptcy, invalidating the unions’ contracts, and cutting wages in half (Stockton, 1988).

After a union-coalition offer to buy the airline failed, Frank Borman literally gave EAL to Frank Lorenzo during an intense weekend of demanding negotiations in February, 1986 (Bernstein, 1990; Moore & Work, 1989).

In the final hours of negotiation, the ALPA and TWU accepted 20% wage cuts. The IAM contract remained unchanged, however; Charlie Bryan would not accept more than a 15% cut, and that was only if Borman resigned (Jennings, 1989; Moore & Work, 1989). It is no surprise then that the pilots blamed Bryan and the IAM for forcing Eastern onto Frank Lorenzo’s turf.

The fact that Eastern’s unions had made $1.5 billion in concessions since 1975 (Moore & Work, 1989) did not deter Frank Lorenzo from attacking almost immediately. Because federal law prohibited him from surgically dismembering the unions as he had done at Continental (the law was changed in 1984), and the first contract would not be open for negotiation until the end of 1987 (IAM) (Bernstein, 1990), he resorted to other harassment tactics to break union morale.

He began with the machinists, trying to provoke them into a strike. Bryan was removed from the board of directors, employees were fired for minor rule infractions, and even video cameras were placed in work areas to monitor the mechanics (Bryan, 1988).

Management tried to usurp the pilots’ authority to decline an aircraft with unsafe discrepancies. They said any pilot who refused an aircraft had to explain his decision to the dispatcher and regional chief pilot, as well as make a written report of the circumstances. If the company chief pilot was not satisfied, the pilot could be removed from flight status while an investigation was made (Bernstein, 1990).

Some pilots were even told to ignore FAA rules regarding pilot maximum flying hours (limited to 30 hours per week). When the pilots complained, they were threatened with firings if they did not comply (Bernstein, 1990).

A strict absenteeism policy that included termination after the sixth occurrence was also enacted. Pilots were forced to fly even when they were sick (Bernstein, 1990).

Lorenzo had thought he could push ALPA to the limit because they still harbored ill feelings toward the IAM for past wage concession discrepancies and the 1986 sale of the airline. He was mistaken, however. Instead of driving the unions further apart, he moved them closer together. ALPA’s local president, Jack Bavis, said, "...He started pushing all of us and wouldn't let up. He left no room. He gave us no hope" (Stockton, 1988, p. 82).

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So the pilots fought back, playing the game Lorenzo's way. They began burning more fuel than necessary (Stockton, 1988) and resorted to tactics that would take their plight to the Congressional and public eye.

A "Max Safety Campaign" (McCough, 1989) was instituted in which the pilots would thoroughly scrutinize aircraft, writing up any discrepancy they could find no matter how trivial. For the more significant problems, they would send detailed written reports to Congressional committees, The Department of Transportation (DOT), and the FAA (Jennings, 1989).

The pilots also began to refuse aircraft with malfunctioning equipment or minor problems that in other times they would have gone ahead and flown. This caused numerous flight cancellations maintenance and did not help Eastern's public image (Stockton, 1988). Eastern's management reported from March to July in 1987, the pilots ordered replacements for 72% more windshields and 128% more avionics than in all of 1986 (McCough, 1989).

The pilots also staged demonstrations at large airports serviced by Eastern stating that they were being forced to fly unsafe aircraft while wearing signs displaying slogans such as: EASTERN AIRLINES MAY BE HAZARDOUS TO MY HEALTH (Bernstein, 1990).

Frank Lorenzo continued to pursue his long term goal of merging Eastern with Continental. Texas Air was an extremely complicated and highly leveraged organization whereby the parent company (TAC) served as a holding company for a spider web of subsidiaries. When times were good, Lorenzo could "up-stream" money from the subsidiaries to the parent, and when times were bad, he could use the assets of one to supplement those of another (Bernstein, 1990)

Lorenzo immediately began dismantling Eastern. The total purchase price was $615 million, but TAC only paid $277 million; Eastern paid for its own sale by financing the difference ($108 million in cash and $230 million in preferred stock) ("Eastern: A," 1989). Additionally, Eastern loaned TAC $34 million and began paying $500,000 per month for management services (Huckabee, 1991).

In January, 1987, Lorenzo merged Eastern and Continental's sale and ticket offices. In what was supposed to be a 50/50 venture, Eastern contributed 305 employees and 139 offices, vice Continental's 110 employees and 28 offices (Huckabee, 1991).

In March, 1987, Eastern sold TAC its reservations system for $100 million. The system had been valued between $200 million and $450 million in 1986. TAC paid for the sale by giving Eastern a 6% note (well below market rates) that was not payable until 2012, and immediately started charging Eastern $10 million a month to use the system (Bernstein, 1990; Huckabee, 1991).

In December, 1987, Eastern gave Continental $22 million to provide services "just in case" there was a strike. The amount was increased by $27.3

Lorenzo came up with one of his most interesting plans in February, 1988. He attempted to sell one of the company's most valuable and profitable assets, the Shuttle. The sale included the creation of a whole new conglomeration of companies and subsidiaries, with TAC having an 80% controlling interest. A federal judge blocked the sale, however. But Lorenzo still forced Eastern to pay $5.5 million to his other companies for services related to the failed deal (Bernstein, 1989).

On the negotiation side of the house, management began with the IAM whose contract opened in October, 1987. Lorenzo had every intention of forcing the machinists to strike. His first offer called for $150 million in concessions with a 15% pay cut. The IAM counter-proposed, demanding an 8% raise (Castro, 1989).

By June, Lorenzo was getting desperate, and tried to change his tactics by showing the (NMB) he was bargaining in good faith. He offered some changes to his original proposal that on the surface seemed to reduce the impact on the machinists. The IAM remained skeptical, however, and in September voted almost unanimously (99%) to reject the proposal. For numerous reasons the (NMB) still would not declare an impasse (Bernstein, 1990; Jennings, 1989).

As 1989 rolled around the negotiations were still not making progress. On January 31, the (NMB) made an official move suggesting the parties submit to binding arbitration. Management refused and finally got what it was after. The board started the 30-day cooling off period the next day, setting the showdown for 12:01 A.M., March 4 (Bernstein, 1990).

Negotiations continued as the clock ticked down. The (NMB) called on President Bush, and the employees lobbied extensively for an emergency board to examine the issues. This would delay a strike for an additional 60 days, but Bush refused (Castro, 1989).

Negotiations had also been on-going with the TWU and ALPA with no success. In a last minute scramble, Lorenzo appealed to the pilots. He could withstand a strike by the IAM (which was in fact what he wanted), but if the pilots joined in, the airline would be grounded.

A video tape was sent to the home of every pilot on March 1, just 2 days before the IAM was set to strike. On the video, Lorenzo proposed a new agreement that on the surface appeared to contain reasonable benefits and job protection. However, in reality, the offer was loaded with gimmicks (including $64 million a year in concessions), and was written such that Lorenzo could easily invalidate the whole agreement and renege on any promises (Bernstein, 1990).
Economic and Business History


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The Rise and Fall of "The Wings of Man"

The pilots were now fed up with Frank Lorenzo, having given up $164.5 million in wages since 1986 (Castro, 1989). The pilots put aside their animosity towards the IAM, rejected the contract, and gave their support to the machinists.

On March 4, 1989, 9,300 members of the IAM walked off their jobs. The ALPA and TWU honored the strike with 3,600 pilots and 4,800 flight attendants respectively ("Union Solidarity," 1989).

Eastern's final downfall had started. With only a handful of employees who ignored the picket lines, Lorenzo was forced to cut operations dramatically, and on March 9, 1989, EAL finally declared bankruptcy (Lewis, 1992).

Lorenzo kept the airline flying, but only by selling its valuable routes, planes, and gates. Eventually, he even sold the company's most profitable asset, the Shuttle, to Donald Trump for $365 million (Lewis, 1992; O'Brian, 1991). Eventually realizing they could not win, the ALPA and TWU ended their sympathy strike in November, 1989. The IAM continued to hold out. Regardless, by this time it was too late for most union employees. Lorenzo had hired enough replacement workers and shrunk operations so extensively, few jobs were available (Bernstein, 1990).

Increasingly dissatisfied with Lorenzo's performance, in April, 1990, judge Lifland ousted Lorenzo and appointed Martin R. Shugrue as trustee to run the airline. Interestingly, Shugrue had been president of Continental until Lorenzo fired him in early 1989 (Bernstein, 1990; Lewis, 1992).

But Shugrue was unable to stop the down slide. A week after he took over, the South American routes were sold, reducing Eastern to the size of a small regional carrier. By September, 1990, the airline was loosing over $1 million a day, and the projected loss for the whole year was more than $500 million. With no more assets to sell, and rising fuel costs as a result of the Persian Gulf crisis, on January 18, 1991, EAL finally stopped flying (Bernstein, 1990; Lewis, 1992).

Thus was the rise and fall of what had once been one of the largest airlines in the free world. The proud carrier's demise actually began during its heyday under the leadership of Eddie Rickenbacker, and the men who followed were unable to reverse the tide. The Borman years saw increasing debt and mounting labor strife, leading to a take over by union bust Frank Lorenzo. After Lorenzo pounded the unions and stripped away the carrier's assets, an almost unanimous employee strike dealt the blow that started the final days. Bankruptcy and trusteeship followed, until the years of problems finally took their toll.

The Eastern that died in January, having been torn apart by years and years of labor-management strife and stripped piece by piece of its heritage in a vain effort to keep flying, is not the Eastern that anyone would wish to memorialize. Rather, we remember an airline that was born in 1928 as Pitcairn Aviation, later Eastern Air Transport and then in 1934, Eastern Air Lines and which, under the leadership of Capt. Eddie Rickenbacker, came to dominate the North-South
routes of the Eastern Seaboard. We remember it as the airline that introduced the concept of shuttle service to Washington, D.C., New York and Boston; that boldly launched many new aircraft types including the Boeing 727-100 and 757; the Douglas DC-8-30, and the Lockheed Electra and L-1011. And we remember an airline once led by an ace and then an astronaut, that proudly proclaimed itself "The Wings of Man." (Eastern Airlines;," 1991, p. 66)

NOTES


Lorenzo starts his attack. (1987, February 2). *Newsweek,* p. 49.


From Slavery to Freedom:
The Economic History of Northeastern Kentucky: 1850-1875

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ABSTRACT

Northeastern Kentucky's business community was hard hit by the Civil War. The loyalty question sent some businessmen to prison while others went to war; trade with the south ended. Guerrillas looted, slaves joined the army. Horses, livestock, and foodstuffs were "liberated." Without slaves, owners lost an important source of collateral for bank loans. Clear winners included the iron and plow-making industries. But, when compared with other sections of the state, the section fared well. Based on the D.G. Dun & Company Collection, Federal Manuscript Censuses of Manufacturing, and the State Auditor's Reports.

What happened to the economy of Bath, Fleming, Mason, Greenup, Carter, Boyd, and Lawrence counties, Kentucky may be indicative of what took place within the state generally and by expansion possibly of what occurred in Upper South at large.

For example, in 1850, there were in Mason County 11 blacksmiths and two wagonmakers, as well as seven plow works that manufactured plows. The number of smithies who made plows is probably understated for the manuscript census of manufacturing lists the products of many of them in one inclusive category—jobbery. But obviously, the making of plows was an integral part of many Mason County blacksmiths, ranking with horseshoes and repair work in importance. The two largest plowmaking establishments, James H. Hall and Jerry L. Ballenger accounted for 2750 of the 7008 ploughs recorded for the county in 1850. Lewis Collins' 1847 *Historical Sketches of Kentucky* credits Maysville, then the third or fourth largest city in the state with 12 plowmakers.

With the nearby iron furnaces of Greenup and Carter counties and a ready supply of wood, the construction of plows was an industry Maysville seized...