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## Letter to the Editor

Leo Haigley

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29 September 2000

**To:** William Kohlruss, Editor- JAAER

**From:** Leo Haigley, Miami Center Director and Adjunct Assistant Professor of Aviation Management

**Re:** Student Joseph Ferrante's article on pages 7-9 in the Spring 2000 edition of the JAAER

This is my response to subject article entitled "*Death of Eastern: How One Man Destroyed An Airline.*"

First of all I commend student Ferrante for his investigation of the complex Eastern Airlines demise. It was well written and on point.

I was an employee with National Airlines and Pan American World Airways from 1950-1986. I held both union and management positions in marketing and industrial relations at the Miami base. I am very familiar with the events that led to the collapse of Eastern Airlines. Student Ferrante focuses on one man, Frank Lorenzo, as the culprit in this event. There were others who also contributed. Some say it was the intransigence of EAL President Frank Borman and EAL's IAM representative Charlie Bryant. Others lay blame with President George Bush who refused to intervene in the dispute as President Clinton did in the recent American Airlines pilot dispute. Still others blame the financial institutions that held the purse strings of the carrier. And let us not forget Dr. Alfred Kahn, the architect of the Airline Deregulation Act of 1978, who unleashed the free market approach to fares and routes. Frank Lorenzo was CEO of an intrastate (Texas) carrier, Texas International. His creative financial and marketing approach to commercial aviation caught the eye of Kahn who recommended it as the prototype of a deregulated airline industry. After the Deregulation Act was passed Frank Lorenzo launched his drive to acquire other airlines. He bypassed the restriction inherent in the laws governing commercial aviation that prohibited an owner of one airline to acquire another. Lorenzo resigned from TI and set up Texas Air Corporation as a separate holding company. By doing so he was free to acquire other carriers. Thus, People Express and New York Air were established as low cost non-union startup carriers. Lorenzo knew that unionized salaries were adversely affecting the bottom line of the major carriers and targeted such pay as excessive for the work being done. Lorenzo's next target was Continental Airlines that was in financial distress. He acquired the airline and demanded that the pay be cut. When it was opposed he declared bankruptcy and reorganized. The new carrier had lower paid employees as a result. Lorenzo then looked to the ailing Eastern Airlines. When EAL and the IAM failed to arrive at an agreement, Lorenzo offered to acquire EAL. It was accepted. Lorenzo made an offer to the IAM to settle the dispute. It was rejected. Lorenzo then declared bankruptcy that led to the end of the company.

Eastern had many assets. In some financial circles "the parts are worth more than the whole." The company had aircraft, inventories, property, and a major computer system (System One). These became quite lucrative when sold independently.

Frank Lorenzo did nothing illegal. He has been branded the number one enemy of organized labor. He introduced a new management style (MBB), management by bankruptcy.

The Eastern Airlines case is a classic example of confrontational labor negotiations. Both labor and management were losers. Labor and management have since moved towards conciliatory negotiations, i.e. "half a loaf is better than none." Aviation global alliances, advanced technology, and the shortage of a trained workforce will present new challenges to the commercial airline industry in the future.

The two that had the greatest impact on U.S. commercial aviation since its inception by Postmaster Brown were Alfred Kahn and Frank Lorenzo. An industry that had been totally regulated in 1938 was deregulated in all aspects, except safety, in 1978.

