The Deregulation of Airline Employment in the USA and Europe: An Emerging Comparison

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Dedication

To Martha for her unstinting support throughout.

Acknowledgments

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Abstract

This thesis seeks to examine the deregulation of airline employment within Europe, by relating that change to the US experience. A historical/political economy approach is adopted which locates the process of deregulation within a context of changing product market conditions, bargaining power and regulatory influence. The regulated regime where labour conditions were protected is contrasted with one in which labour has come under pressure to concede premium terms and conditions. Analysis of labour costs and productivity assume that these terms and conditions will simply evaporate under the pressure of competition and privatisation. The thesis provides evidence that this may not be the case. It is argued that failure to examine employee concerns and perceptions underestimates employee responses, and overestimates the power of airline management, given the considerable bargaining power of key labour groups. Airline workers, especially those in large and successful, formerly state owned carriers, have expectations of wages and conditions based upon the regulated era. This *regulatory overhang* is examined in a detailed questionnaire of British Airways as a major European carrier, previously state owned, but now privatised. A number of models of labour market deregulation and case studies are introduced to analyse the nature and extent of these deep seated changes and their implications for labour, management and the state.

Introduction

US and European Airline Deregulation and Employment: An Emerging Comparison

In the summer of 1997, British Airways' (BA) cabin crew engaged in a short bitter strike against restructuring proposals (Blyton et al 1998). In the spring of that year, the airline recruited a temporary workforce and trained them in ground handling techniques at an air force base in Oxfordshire. (Ibid.) This was part of a contingency plan to defeat similar strike action then being contemplated by ground staff. In July of the previous year, pilots at British Airways had forced management to back down on restructuring proposals with the threat of strike action. (Financial Times 3.7.1998). In September 1998 pilots at the US carrier Northwest struck and were locked out over a new pay contract. (Financial Times 7.9.1998). In Europe, Air France employees, who in the autumn of 1994 had blocked the runways of Orly airport in protest at job and wage cuts, continued to take industrial action. With the 1998 soccer World Cup about to take place in France, pilots at the state airline took industrial action against restructuring proposals. This was despite the presence of a new management regime and an acceptance of core restructuring proposals. (Gill 1998:11.) In the summer of 1999 pilots at the low cost carrier Virgin Express launched strike action against attempts to relocate them from Belgium to Ireland. (Jones 1999:8.) In many other airlines, conflict and strife have been endemic.

It would be easy to see these strikes and disputes as the growing pains of restructuring, and as a short-lived response to the deregulation of the airline industry. However the range of countries involved, and the fact that they are all at different stages of the deregulation process with differing product and labour market environments, suggests something deeper than knee-jerk union responses.

This thesis analyses the process of restructuring which took place in the wake of deregulation. In doing so it looks beyond the fixation with costs and productivity, which has preoccupied the research effort in airline employment. This approach aims to explain the nature of regulatory change, management strategy and labour response to airline restructuring. The thesis will locate these changes within a broader product, labour and regulatory environment, allowing us to understand why the pace and tempo of change varied within different airlines and in different national contexts.

It is the central contention of this thesis that deregulation has fundamentally altered the product market, with competition, market entry and some renegotiation of the regulatory environment. Nevertheless, deregulation has taken much longer to alter the labour market. Traditionally airline jobs have been associated with higher pay and conditions than the rest of the economy, fostering a determination amongst airline workers to retain these premia even in a deregulated environment. This "regulatory overhang" which pertains across the industry, as this thesis will demonstrate, has proved difficult to undermine. This is not to say, however, that workers will be able to resist the onslaught on wages and conditions indefinitely, but rather the process will take time. For the full impact of deregulation on wages and employment in the airline industry to occur requires a fusion of regulatory and product market change; a process which, though already emerging, is a gradual one nonetheless. Product market and regulatory change push airlines onto a path of restructuring, giving rise to an increasingly competitive industry. The need to service different markets and routes and the need to compete in a wide range of segmented markets is promoting a globalised airline labour market. This globalised airline labour market though still in a putative stage, has led to a downward pressure on wages and conditions.

The episodes of restructuring and conflict introduced in page one above provide a flavour of that process in microcosm. In each case management sought to introduce cost reductions in anticipation of an increasingly threatening competitive environment. At British Airways, for example, the carrier attempted to restructure the pay and conditions of cabin personnel. They tried to do this by reforming the internal cabin crew labour including the consolidation of overtime, allowances, a merit based promotion system and lower entry-level wages.[1] But cabin crew employees resisted and members of the main cabin crew union either took strike action or, fearing management retaliation, reported sick. In the case of ground handling workers,

[1] British Airways: Flying Into the Future: Restructuring Policies for Cabin Crew November 1997

management wanted a dramatically lower cost structure for the Heathrow operation, which has been characterised by high levels of overtime and low productivity. Again it wanted to restructure allowances and pay and introduce two tier wage rates. This time the members concerned were so fearful of the threat of outsourcing they accepted instead a long term pay freeze. Other ground handling workers accepted the pay restructuring and two tier wage rates.

In the US case, pilots at Northwest, many of whom have conceded wage reductions of up to 30 per cent in the past five years, sought to restore their position, in a buoyant domestic market, whilst attempting to close the gap between established and new entrant workers.[2] (Northwest Airlines 5.9.1998.) In France, pilots were trying to restore the two tier pay deals and wage freezes they conceded under less auspicious times, and using the massive public spectacle of the 1998 World Cup to do so. (Moxon 1998; 25.) In the UK, nominally less regulated UK BA pilots have been able to resist restructuring and have even managed to recoup ground conceded in an earlier round of restructuring. In the case of Virgin Express, the Belgian pilots objected to the decision of the carrier to relocate them to Dublin in order to escape Belgium's high non-wage costs.

The cases above demonstrate three principal issues about the effects of deregulation on employment. Firstly, the differing experience of pilots, cabin crew and ground workers provide evidence on the varied experience of different occupational groups during restructuring. Broadly, general workers have suffered and found their premium wages and conditions most under threat, whilst strong groups such as pilots have been relatively unscathed. Secondly, they indicate the extent to which restructuring is contested at all levels of the industry from national flag carriers to smaller low cost operators. However these superficial similarities mask clear variations in response according to the country and labour regulation environment concerned.

This is clear in the disputes we have already discussed. In all of these cases, workers were opposing in whole, or in part, the impact of deregulation on their terms and conditions. Yet all are are experiencing different stages of the process. In the UK,

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[2] Northwest Airlines Web page 5.9.98

British Airways, which has been privatised since the late 1980s, is responding to new regulatory and product market environment of the 1990s to guarantee future survival in an increasingly competitive airline industry. In doing so it faces a workforce used to a particular set of wage and employment conditions, defined in the thesis of regulatory overhang. There is a similar picture in France, in the USA and in Belgium. Airline workers are facing an increasingly merciless drive to improve cost competitiveness. For reasons analysed in chapter 1 and subsequently, labour costs within the industry are the most readily variable aspect of that cost base.

In order to understand and contextualise these issues, and to make sense of the emerging regulatory environment and labour's response to it, it is necessary not to analyse regulation and deregulation as binary opposites. Rather, it is necessary to see the process as a continuum, which can be understood in terms of its effect upon the labour market and the bargaining power and stance of labour and capital. Despite *deregulation,* workers, especially those in highly skilled industry specific categories such as pilots and mechanics, have maintained their bargaining threat given the disruptive capacity which they possess. Until the nature of the regulatory regime changes to such an extent that the balance of power is dramatically altered, then labour will continue to be effective in resisting restructuring. Nevertheless, the process by which this takes place is tortuous and complex. It is argued that a changing form of regulation in the shape of globalisation, in the form of major alliances, provides that background. Within these groupings, and with the aid of a tolerant regulatory structure at national, regional and supranational levels, airlines can, and do, develop the capacities to undermine the structure of labour market regulation and bargaining power which have existed since regulation.

Outline of the Thesis Chapters

In order to locate the approach of the thesis it is necessary to look at the nature of labour market regulation and the effects which changing regulatory regimes can have on labour. The first chapter looks at the **Political Economy of Restructuring in Regulated and Privatised Industries** in order to provide the backdrop to the rest of the study. The chapter also looks at how economic criticisms of regulation and state ownership (that it leads to rent seeking by powerful monopoly unions) have driven the debate around employment restructuring. Yet there has been little attempt to move beyond these essentially theoretical analyses of the regulated labour market. This chapter discusses the theoretical approach to the labour market aspects of regulation and deregulation. The thesis then argues that in many cases the process of deregulation and privatisation becomes a process of labour market deregulation and the privatisation and commercialisation of employment relationships. Evidence from a number of industries is used to indicate the extent of this and its often negative effect when seen as the sole solution to the problems of restructuring industries. The thesis then argues that neglect of the industrial relations/institutional environment has meant studies which emphasise short-term wage and employment considerations have been to the fore. More institutionally grounded approaches, which emphasise the industrial relations aspects of deregulation and privatisation, are then utilised. It is proposed that by looking at the interconnection between product market, labour market and regulatory change, and considering both employer and labour strategy in the process we can come to a fuller understanding of the process of deregulation/privatisation and labour market change. The different stages of labour market regulation are discussed by reference to a number of industries. These models are respectively: the *regulated control model*, the *competitive disengagement model*, the *labour market restructuring model* and the *global product market convergence model*. Each model is illustrated by reference to a particular industry, and all four used to explain the process of regulation and deregulation within the airline industry.

Chapter 2 outlines the methodological approach, introducing the combined political economy approach and the models of regulation and deregulation discussed above. The concept of the "regulatory overhang" is examined and a survey of BA used to explore it. The study also uses a case study approach and utilises industry statistics. In order to provide an overview of the regulatory process, and in order to locate the process of regulation and deregulation in a historical context, the third chapter looks at these issues.

The nature of change in deregulated and privatised industries cannot be understood without reference to the historical antecedents of regulation. Chapter 3 looks at this process of change by considering **Industrial Relations and Collective Bargaining in the US and UK Airline Industries: The Historical and Institutional Context.** This strand of the thesis considers the evolution of product market and labour market regulation within both the US and UK. The US developed a structure of agency regulation, formalised a framework of labour legislation, and craft based collective bargaining. The development of a framework of industrial relations was premised upon the state's desire for stability in an industry that had been characterised by chronic downward directed competition, and labour unrest. (Capelli 1987: 137.) The formation of the pilots' union, ALPA, represented the origin of major trade unionism within the industry. The state assisted labour in its battle to gain recognition, and then underpinned labour's bargaining power as with other labour groups in the New Deal legislation. With their unique bargaining power pilots were able to secure their objectives until the formation of an employers' pact neutralised their power.

The UK industry was state owned and embodied a corporatist form of industrial relations often used to represent typical developments in regulation within Europe. This involves the nationalisation of the industry, and the development of corporatist forms of industrial relations. In the case of the UK industry, the protections afforded to labour were less clear cut, and pilots were offered the right to collective bargaining under legislation dating from the late 1930s. Full nationalisation provided a more systematic framework of industrial relations but constrained the power of pilots and other skilled groups, allowing the nationalised operators BEA and BOAC to control costs. The development of industrial relations and collective bargaining in both countries is examined using the *regulated control* model. In particular the US is identified as exhibiting characteristics of *strong regulated contr*ol for reasons already discussed. The UK, on the other hand, with its weak formal levels of product and labour market regulation can be analysed as conforming to a pattern *of weak regulated control.* Even with nationalisation and nominal state control there was never a significant level of codified regulatory intervention as occurred in the US industry, and the implications of these differences are examined.

In chapter 4 the process of deregulation is examined by looking at pilots, as the occupational group who have benefited most from regulation, and yet retain potent bargaining power through their skill specificity and bargaining muscle. Such workers benefited from regulation as the regulated environment allowed increases in pay and conditions to be funded independent of the financial performance of the airlines concerned. (Capelli 1987: 139.) This situation altered and in chapter 4 **Pilots and Management Under Deregulation: The USA and Europe**, we look at the effect of deregulation on pilots. For the USA we look at the effect on wages and bargaining power, including the nature of concession bargaining, and on the influence of pilots as a labour group with particular power and influence in the firm and the regulatory arena. For Europe, a similar analysis is undertaken and the process of deregulation is viewed in terms of its effect on the earnings, bargaining power and regulatory influence of pilots. We examine this period in terms of the *competitive disengagement* model to analyse the effect of restructuring on pilots in both the US and Europe. The impact of strategies such as regionalisation, franchising and the impact of low cost carriers are used to look at the European industry, and to introduce these issues for later chapters.

Having set the scene by discussing the nature of regulation and the labour market, introduced the historical and institutional context and looked at the detailed fortunes of pilots as a barometer of the long-run effects of deregulation, we need to examine the process of how change is implemented and more importantly perceived by airline workers. One of the worldwide constants of airline restructuring is that airline workers expect superior terms and conditions as a result of working in the airline industry, and regardless of their skill and occupational level. Thus chapter 5 and 6 bring the discussion into the deregulated period discussing how management strategy has changed to adapt to the new competitive environment of market entry, fierce competition from restructuring flag carriers and a general concentration on labour costs.

As previous chapters argued, the importance of employee attitudes to restructuring and deregulation is crucial in terms of the existence of a 'regulatory overhang' of expectations of employment, wages and bargaining. This concept should be seen as separate and distinct from the airline wage premium, which has been well noted particularly in the US industry (see Hendricks *et al* 1980).

The 'regulatory overhang' describes the set of beliefs and expectations which airline workers have towards change in the deregulatory period, as influenced by the residual effect of the regulated era. Thus, whilst pilots might realise, and even accept, that the industry environment is threatening and competitive, they will seek to defend flight duty limitations which date from the regulated era, as these are seen as part of the 'airline package', and the benefits of working in a large scale regulated industry. Ground handling workers will resist market rates for their occupation, because they view themselves as airline workers, and have always received higher rates of pay than external workers.

Given the existence of this set of beliefs, little work has been conducted on employee attitudes within the airline industry in regard to the deregulated environment. The overhang, however, changes through time and though workers initially resist restructuring on the basis of protecting gains obtained from regulation, the changing industry environment forces a re-evaluation. In a US study, Wever charted employee attitudes to take-over restructuring on the basis of an Employee Share Ownership Programme (ESOP). (1989: 163-185.) Studies have largely concentrated on management strategy or the effects of changing regulation and product markets without addressing employee attitudes. The identification of a *'regulatory overhang'* in the expectations of airline workers meant that it was necessary to test employee attitudes towards deregulatory change. This is especially significant against a backdrop of employment change and labour market deregulation which is threatening the premium terms and conditions enjoyed by airline workers. The attitudes and stance of both management and airline workers is crucial in making sense of the often complex process of deregulation and restructuring.

Chapter 5, which is entitled **Corporate Strategy and Employment Change in the Global Airline Industry,** prepares the survey by discussing the nature of management strategy in an emerging global airline labour market. In particular the chapter points to the nature of BA's strategy since privatisation which has been identified by Blyton and Turnbull (after Storey) as one of 'dualism' (Blyton and

Turnbull 1998: 74) and where attempts to rationalise collective bargaining to reflect perceived business needs. The impact of global strategies, such as the formation of alliances and code sharing, is also discussed with the implications for BA workers.

Chapter 6 presents the **results** of the survey on employee attitudes. The survey considers issues such as regionalisation, franchising, the impact of low cost carriers, the creation of internal low cost subsidiaries and the extension of atypical work. Further questions examine employee attitudes towards outsourcing and policies of globalisation. These policies are addressed from the point of view of both the product and the labour market. Thus, attitudes towards issues such as state subsidy and alliances are examined in terms of their effect on BA, as is the perceived effect of these policies on employment. The chapter also looks at employee attitudes on the proposed abolition of collective bargaining, which is crucial given the obstacle which unionisation presents to management strategy. Undertaken at a major turning point in the airline's future, before both the major efficiency drive of the Business Efficiency Programme (BEP) and after the threatened pilots' strike of July 1996, the survey provides a rich and varied assessment of employee attitudes towards the deregulation of employment. The survey also provides an indication of the sort of employment and wage expectations which BA workers have. The survey provides a detailed assessment of the attitudes and perceptions of BA workers as they face a period of major change.

Chapter 7 develops the issues introduced in the preceding two chapters by examining **Labour Market Restructuring in the European Airline Industry.** This extends and deepens the discussion in detail of the process of post deregulation adjustment within the European airline industry. The chapter utilises *the labour market restructuring model* introduced in chapter 1 to examine the perceived high cost/low productivity perception of the industry.

Firstly the chapter examines the nature of wages and earnings within the European airline industry in order to explore the extent to which the perception of high costs has motivated both management and government. Secondly, we consider the comparative evidence on wages and productivity between the US and Europe, arguing that, though the gap has been closing, pressure for labour cost has not abated. Evidence suggests that premium wages are still fairly high in the European airline industry and that workers enjoy a significant premium on workers outside the industry. This can be partly attributed to the highly skilled nature of many jobs, but the existence of this premium has led management to target the wages and conditions of airline workers. The chapter then details some of the strategies which are being pursued to erode those premium wages and conditions, building on earlier chapters. Such policies include the use of internal low cost carriers, the spread of outsourcing, expansion through franchising and regionalisation and increasing use of tiered pay structures. Given the power of organised labour within Europe, however, management attempts to restructure the wage/effort bargain within the industry have been met with industrial unrest. In many cases management strategy has been altered to take account of the continuing institutional power that labour enjoys. It is argued that although restructuring has taken place, labour has been able to resist in many cases, although the impact of industrial relations institutions has not been as important as many analysts imagined. In the longer term, restructuring can only be achieved when regulatory change allows management to obtain global scope and thereby to reduce labour costs.

Whilst chapter 7 indicated the extent to which restructuring has been taking place, it also demonstrated that the process is a difficult and conflict ridden one. In chapter 8 we look at the broad sweep of change from **Regulated Control Towards Global Product Market Convergence.** Subtitled **The Emerging Regulatory Framework and the Airline Labour Market**, the chapter focuses on how change in the regulatory environment has facilitated labour restructuring. The environment has fundamentally altered from systems, which had the effect of upholding and protecting the interests of organised labour, to one which vests control in the hands of major airline alliances. This has allowed the major airlines to control the industry and to procure reduced costs, whilst avoiding curbs on concentration and monopoly.

Whilst regulators have allowed major airlines to pursue growth through consolidation and 'virtual merger' they have failed to protect labour conditions in the US and are seeking to dismantle them within Europe. The effect of the emerging regulatory framework is to allow operators to reap economies of size and scope, and arguably scale, whilst failing in most cases to guarantee market access, for example, by re-allocating slots in mergers and alliances to a sufficient degree. In the USA this is characterised by the failure of government to address the effects of deregulation on jobs as originally provided for under the Airline Deregulation Act of 1978. In addition, the toleration of systemic bankruptcy within the industry has encouraged operators to drive down costs in the face of the pricing strategies of bankrupt carriers. This phenomenon has also initiated a wave of concession bargaining which, though leading to large scale reduction in the wages of pilots and others over the short term, has produced instability as workers seek to claw-back lost ground. At the same time authorities are pursuing at national, regional and supranational levels, an agenda of supply side labour market reforms, which favour large operators, often accepting the harmonisation arguments of operators.

Thus regulators have allowed cross border crewing, attempts to harmonise the hours of flight deck staff around less restrictive criteria, and the deregulation of local ground handling services, all benefiting capital within the industry. Increasingly these trends are connecting at a global level, as the industry restructures along the lines of large-scale regional carriers and massive global alliances.

The thesis then seeks to indicate the likely nature of employment deregulation within the context of the changing global framework of regulation. A reassessment of the product, labour and regulatory environment is undertaken using a model of *global product market convergence*, to examine how common global product market pressures combine to alter the labour market.

Whilst these processes are taking place labour has not remained quiescent. Nevertheless these new developments present considerable challenges to organised labour within the industry. The chapter thus utilises a major survey of ITF unions, involving the author, to examine the position of trade unions towards globalisation and labour flexibility. (Blyton et al 1998a.) Finally the emergence of new forms of trade union collaboration and co-operation and the possibility of new forms of cross-national bargaining are detailed, demonstrating both opportunities and threats inherent within the emerging regulatory framework.

Overall, therefore, the thesis seeks to provide a study of the detailed effects of labour market change within the regulated and deregulated airline industry, with a special focus on the comparative aspects of that process and on the emerging pattern of regulation evident within the deregulated period. This will contribute to our understanding of the nature of employment regulation and deregulation, its specific labour market impacts and the response of both management and labour.

1

The Political Economy of Labour Restructuring and Industrial Relations in Regulated Industries.

1.1 Deregulation and The Labour Market: An Introduction

This chapter addresses the literature on the labour market effects of deregulation focusing not just on wages and employment but on wider issues of market structure, regulatory regime and industrial relations. This approach will provide a broader understanding of labour market deregulation than has hitherto been available. The treatment provides a more grounded understanding of employment trends than that provided by dominant models of deregulation and employment. The purpose of the chapter is to evaluate and examine the extent of labour market deregulation. In order to do so we need to firstly 'unpack' some of the broad approaches which have been deployed to date, most notably the union monopoly/rent sharing view and its supporting theories. Secondly, we will examine some of the empirical and theoretical evidence on the employment affects of deregulation. Thirdly, given the basis within this literature towards assessing *outcomes*, we will develop a series of models of the *process* of labour market deregulation. Using case studies these models will allow us to view the interconnections between product market, regulatory and labour market change, attending deregulation. Having introduced these models we will then examine the industrial relations dimension of labour market deregulation. Economists have tended to problematise labour in terms of its productive efficiency, reasoning that changing the regulatory regime and removing rigidities will automatically lead to greater labour efficiency and productivity. Industrial relations scholars have studied the institutional interplay between capital and labour in privatised and regulated industries. It is the task of this chapter to unite these two perspectives and to assess the wide-ranging effects of labour market deregulation. The first task is to map the context of deregulation and the dominant models and approaches used to examine its labour market impacts.

1.1.1 *Context: The Push Towards Deregulation and Privatisation.*

The transport economist, Kenneth Button, has described the period since the late 1970s as the "Age of Regulatory Reform", when an almost total belief in the role of the state, either through ownership or regulation, was replaced by a corresponding faith in market solutions. This was particularly so within the transport and the utilities sector. (Button 1988:13.) Growing global convergence of product markets and regulatory policy, mean that even countries, which choose not to deregulate, face a deregulated external environment. These product market and regulatory changes feed through into the labour market. Whilst a great deal of research and policy analysis has been undertaken into the market structure and consumer choice aspects of deregulation, less attention has been paid to the labour market dimension. Although there is a great deal of solid research on labour costs and productivity within the privatised and deregulated industries there has been little work so far on the interconnections between regulatory change, product market change and labour market change.[3] In addition little attention is paid to the manner in which regulatory *non-intervention*, as opposed to intervention, has come to define the current era. The post-deregulation dynamics have meant that as the state withdraws, a number of labour market and employment effects become manifest. In this chapter, such processes are analysed within a variety of industries and the evidence is then applied to the airline industry. The first task is to review some key theoretical perspectives on the relationship between regulatory and labour market change.

1.1.2. *Regulation and the Labour Market: A Theoretical Overview*

Early work on the possible employment effects of privatisation and deregulation was initiated by 'new right' economists. Their critique flowed from a number of key observations about the functioning of regulated and state controlled industries. Under

[3] Belzer (1993) provides an example of such an approach in his analysis of the US trucking industry.

regulation, it was argued, labour protected its position with arcane work rules and sought inflationary wage increases paid for in higher consumer fares. Managers had little or no incentive to alter the situation as all operators in a regulated market were protected from bankruptcy and either isolated from, or subject to, lax shareholder pressure. Privatisation or, in the case of the USA, *deregulation*, would break this cycle of *rent-seeking* and *featherbedding* and force managers to control costs. A 'virtuous circle' of improved cost control, better labour relations and enhanced work rules would then ensue, resulting in lower fares. Looking at the US airline industry and having discussed the ease with which costs could be passed-on to consumers Bailey et al encapsulated the deregulationists' main concern about the operation of the regulated labour market:

> 'Workers' negotiating leverage was also augmented by several other characteristics of the airline industry. First airlines as a service industry cannot store output, so sales lost during strikes are lost forever. Secondly the prevalence of highly skilled workers with a corresponding problem of substitutability make it difficult for management to confront powerful organised labour. In addition regulation created a small number of stable, easily identifiable carriers for unions to organise.' (Bailey et al: 1984: 97.)

Bailey et al's criticisms of labour management within the regulated airline industry can be applied to most regulated and state controlled sectors, consequently they and other economists viewed labour market reform as a crucial gain from deregulation. According to these writers deregulation produced several positive outcomes in terms labour market efficiency. First came productivity improvements in labour and delivery systems, second, increased innovation in price-service options, third, the adjustment of prices towards incremental costs and fourth an end to cross subsidy. (1984: 54.) Just how privatisation and deregulation affects labour is best demonstrated by the *rent-sharing* approach, which identifies labour's ability to command a large share of regulated revenues through unionisation as the source of its superior terms and conditions. These issues are explained in relation to a number of seminal studies, all emanating from the USA, which nevertheless have informed policy makers in the UK and now Europe.

The dominant *neo classical* tradition of economic analysis tends to see regulation as the guarantor of union monopoly power. For writers in this tradition the labour market is characterised by the power of union monopoly, underpinned by the strict control of market entry and pricing. (Booth 1994: chapter 3.) Using the union monopoly framework, Posner (1984: 990) views control of entry, demarcation and the use of seniority as the key distortions which arise from union control. He argues that the US legal framework "is best understood as a device for facilitating, though not to the maximum possible extent, the cartelization of the labour supply by unions." (Ibid.) A further dimension of the union monopoly model is the notion of union members as privileged incumbents of jobs within regulated sectors. The monopoly union/rent sharing theory also models the behaviour of managers. Without the rigour and discipline of competition, managers have little incentive to resist union demands and are, in any case, hampered by union control. This control is institutionalised through systems of state directed industrial relations and collective bargaining. These mechanisms are implied to set the limits of managerial intervention. (Ibid.)

Exercised by the prevalence of regulated enterprise throughout the 1960s and 1970s, American scholars have developed detailed empirical studies of the effect of regulation and later deregulation. The dominant paradigm has been that of *rent-sharing*. Unions, it is argued, are able to capture a disproportionate share of the higher prices consumers pay for goods produced within regulated sectors.[4]

The trucking industry was the focus of many of these studies, as it provided a simple test of a strong and powerful union, the Teamsters, and a regulated product market through the Interstate Commerce Commission (ICC). Earlier, Moore (1978: 327-343) investigated the effects of trucking regulation on the various parties and found evidence of significant bargaining power for the International Brotherhood of Teamsters (IBT), the drivers union. Hirsch and MacPherson (1997) viewed the

[4] One major detailed study of labour earnings under regulation found little evidence of a systematic regulatory effect upon earnings (Hendricks 1977) Indeed earlier research into earnings within electrical utilities had shown that "wages were lower than in unregulated industries with the same market structure" (ibid.). Hendrick's research qualifies any regulated-industry-higher earnings hypotheses, although it could be argued that rent seeking in three key industries is evidence that the phenomenon does exist. Hendricks questioned the accepted notion that regulated industries would automatically push wage increases onto consumers. His research found support for the idea that rent sharing of the variety described might be offset by a desire of union members for employment security and stability. In other words unions and their members might not act to secure higher wages at all times but sometimes prioritised job security prizing the greater quality of regulated jobs. Regulated firms might also, he argued, pay premium rates to obtain better quality labour. Above all Hendricks emphasised the importance of the "type of regulation" in any analysis of labour market effects. (Hendricks 1977: 249)

truckers union as the major beneficiary of regulation in terms of cosy working agreements, high wages, and a variety of other benefits. Rose's empirical analysis of 'rent-sharing' in the US trucking industry formed a seminal critique of union behaviour under regulation. Using a longitudinal study she argued:

> 'Understanding rent sharing is essential to analysing government regulation. Regulatory protection can create rents over which workers and firms negotiate. Regulatory profit constraints may distort a firm's labour input decision or alter bargaining power *vis a vis* unions: regulatory barriers to entry may enhance union power and the political nature of regulatory agencies can expand the scope of potential games between firms and workers.' (Rose 1987: 1147.)

Rose analysed union contracts in both the regulated and deregulated periods to test her prediction that rents would fall in the absence of regulation. As evidence of rents, she measured union wage premia in both periods. Her data identified a union premium of 50 per cent, close to previous estimates. In addition, she compared the trucking premium with that for other groups of American workers. (Rose 1987 :1165.) She found that even the highest premia in general industry were exceeded by the trucking premium by about one third. (Ibid: 1165.) Rose found that the premium fell considerably after the introduction of the Motor Carrier Act of 1980 which 'deregulated' the industry. In addition, she estimated an overall figure for regulated rents and found that these were allocated disproportionately in favour of labour. (Rose 1987: 1174.) In her calculations the IBT captured 75 per cent of regulatory rents, a sum of around $1.2 billion. (Rose 1987: 1175.) In the same year, Hirsch looked in detail at the effect of deregulation on unionisation and earnings. He concluded that deregulation led to a significant decline in wages for unionised employees. (1987: 31.) The rent sharing approach therefore identified a significant 'regulated premium' for unionised workers in the USA. Has this experience been replicated within the UK?

1.1.3 *Privatisation and Labour Market Restructuring in the UK*

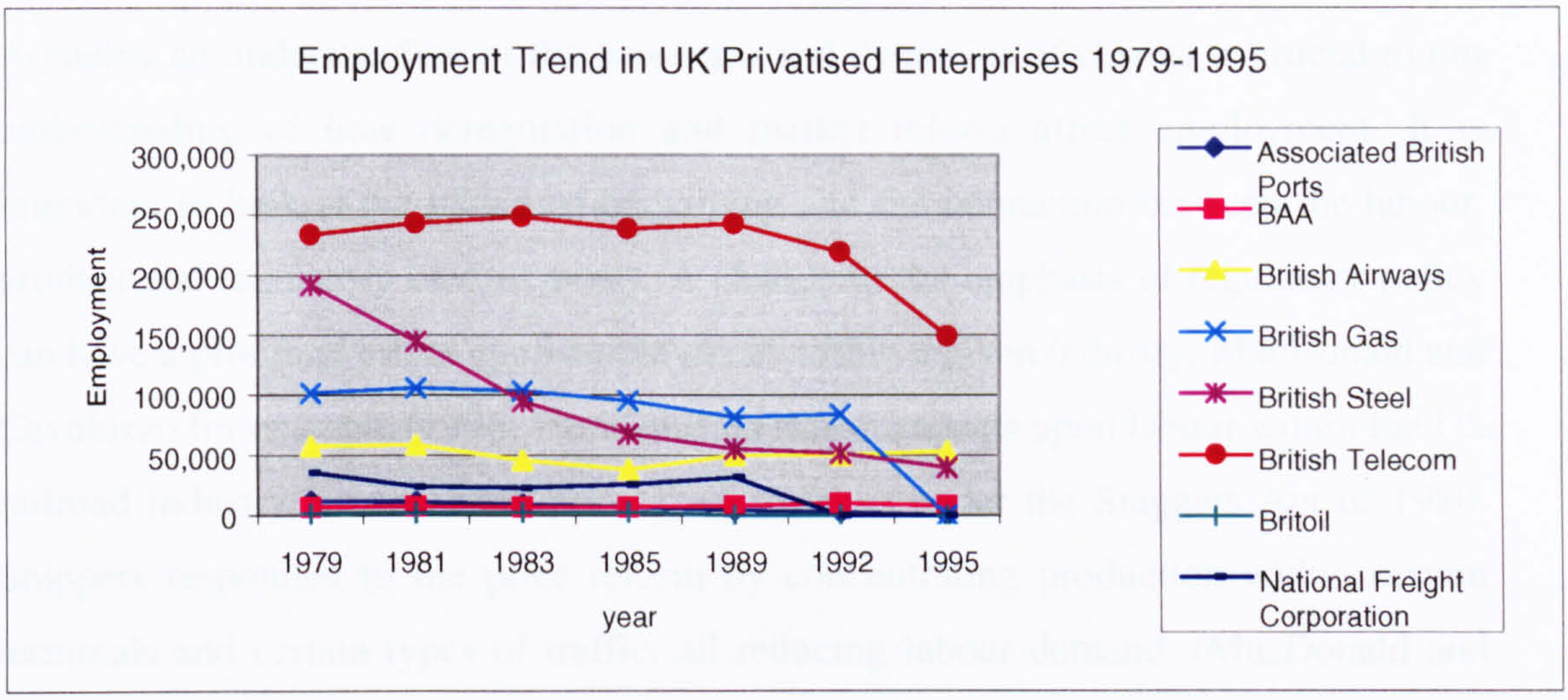
The US findings on deregulation and earnings were confirmed in the later context of UK privatisation and deregulation. Haskel and Sysmanski (1993: 161) looked at the fortunes of labour in the UK's deregulated and privatised industries. In their 1993 study, which spanned 16 years of state control and privatisation, these writers identified significant labour market impacts. The change to more commercial objectives led to a fall in employment. However, wages tended to be affected only if the firm lost market power. Arguably, these studies underestimated the effect on employment and wages. (Martin and Parker 1997: 85.) In a later study Martin and Parker (1997) found that the share of business income going to wages fell considerably in most UK privatised industries, implying the pre-existence of rents. For example, whilst the proportion of income allocated to wages at British Gas was 20 per cent in the nationalisation period this fell to 18 per cent by 1996. (Martin and Parker 1997 Table 8.2.) At British Telecom, the figure fell from 44 % in 1977 to fewer than 30 per cent in 1995.

In a recent study Haskel and Sanchis identified the erratic nature of earnings within privatised industries. Wages, they found, rose or fell according to the product market position, the level of monopoly power and the influence of trade unions. (Haskel and Sanchis 1995: 301.) The authors' explanation of rising wages is based on a simplified and stylised model of the labour market. They account for rising wages post privatisation in terms of increased effort. The firm is assumed to pay more for greater effort. (Ibid: 302.) However, privatisation and deregulation may have a considerably deeper affect on organised labour than is suggested in this type of literature.

The overall employment picture is also important. Whilst Haskel and Sysmanski and earlier studies identified a fall in employment attending UK privatisation, Martin and Parker present an updated longer-term picture, where the trend becomes more discernible.

There are clearly dramatic declines in employment within the telecom, gas and steel industries, though employment is stable in civil aviation. (See figure 1.1)

Figure 1.1 Employment Trends in UK Privatised Enterprise



Source: Generated from Martin and Parker Chapter 8

Nevertheless, the general picture is one of employment decline, pointing at least to huge increases in efficiency and utilisation, as well as the impact of new technologies. Whilst the UK literature provides rigorous measures of wage and productivity change, it fails to capture the institutional and organisational effects of such changes. Arguably these are the most important considerations, and a lack of focus upon these issues can lead to a crude form of analysis. We might assume that wages fall for example, because of a restoration of management power and the dissolution of a union monopoly, when in fact the fall may be a tactical adaptation by either unions or management to product market change. In addition, whilst we have a great deal of information about the labour market *outcomes* of deregulation, we have little systematic understanding of the *process*. Arguably, these issues can be more clearly understood by using an approach which recognises the interconnections between product, labour market and regulatory change. This aspect is addressed in the next section.

1.2 Regulatory Change and Labour Market Effect: A Re-Assessment

1.2.1 *Re-conceptualising Labour Market Deregulation*

Arguably an understanding of the *processes* and dynamics of change is crucial to our understanding of how deregulation and market reform affect employment. It is important to look at the nature of bargaining and the interaction between the labour, product and regulatory environments. A change in the emphasis of regulatory policy can have a profound effect upon employment within a given industry. MacDonald and Cavaluzzo for example (1996: 79) identified major impacts upon labour within the US railroad industry, arising from pricing adjustments under the Staggers Act of 1980. Shippers responded to the price reform by concentrating production within certain terminals and certain types of traffic, all reducing labour demand. (MacDonald and Cavaluzzo 1996: 80.) The writers believe that an increase in profits could be ascribed to increasing work intensification. Wages did not fall, they concluded, but productivity rose markedly. (Ibid.) This was *despite* the existence of job protection legislation implicit within the legislation. Subtle adjustments in pricing and changes in the regulatory stance, that at face value to have little to do with the labour market, can have wide ranging effects.

In order to understand the impact of deregulation and market reform upon the labour market it is necessary to conceptualise precisely how varying types of regulatory environment act to alter labour market dynamics. In order to build that understanding a number of models are used to analyse the deregulation of the labour market. These are then supported by a case study of that type of labour market deregulation to enhance understanding. Devised in the course of the study, the models build upon existing research on the employment consequences of deregulation. They help to categorise the interconnections between the regulatory product and labour market environment, within privatised and deregulated industries. The models are not intended to be mutually exclusive and there are elements of each within the other, but they do help to organise our thinking in this complex area. Broadly the models used are the **competitive disengagement model**, the **regulated control model**, the **labour**

market reform model and the **product market convergence model**. Whilst there are obvious similarities and overlap between the models they do have distinct characteristics which can help us understand the process of labour market deregulation. The first model to be discussed is the *competitive disengagement* model.

1.2.2. *The Competitive Disengagement Model: UK Bus Privatisation*

In cases of *competitive disengagement* the state withdraws in order to promote a competitive environment unburdening itself of the regulatory oversight and financial support it has previously allowed. This effect is most likely in industries such as US trucking, domestic airlines, inter city buses and UK buses and ports. Here short run competition competes away the excess profits of the regulated era and immediately threatens the premium wages conditions and work rules of labour. In the *competitive disengagement* model labour market effects become immediate as the product market becomes highly contested. In some cases *competitive disengagement* is undertaken with the precise aim of labour market reform in mind.

The labour market is affected in several ways. Firstly, the bargaining power of labour is reduced by competitive entry as a non-union sector challenges the unionised labour market. Secondly, the withdrawal of government control marginalises collective bargaining and industrial action. Management is forced to confront costs and more importantly to resist labour demands, as postulated in the *public choice* and *X-inefficiency* arguments. Thirdly, after the initial 'competitive frenzy' and with the process of merger and concentration, there is interaction between the product market and the labour market encouraging innovation within labour management strategies. These can range from wage restructuring and bargaining reform in order to serve differentiated markets, to the outsourcing of key areas in order to procure lower costs. Management might develop strategies based on *differentiated quality production* (DQP) as for example Federal Express in the US trucking industry and American and Delta within the airline industry. All have employed high-wage/high-performance models of labour management, with an emphasis on organisational culture and Human Resource approaches to labour management. Alternatively management might seek to pursue a *low cost flexible production* (LFP) strategy where cost containment, especially in areas of low margin high volume business, is emphasised. (See chapters

5 and 6.) The strategies can of course be differentiated within firms, with the employment of both DQP and LFP strategies according to the product market environment. (See Porter 1990.) The deregulation of the product market therefore drives the deregulation of the labour market, whether towards cost cutting and cost containment, or towards service improvement and the development of quality based policies. Each approach has specific effects on the wages and conditions of labour within the industry.

The deregulation of the bus and coach industry in Britain from 1980 provides a clear example of the *competitive disengagement* model of labour market deregulation. Deregulation was advanced as offering greater price and route competition in an industry beset by managed decline. Government advanced the idea that deregulation should help halt the long-term structural decline of the bus industry:

> 'New measures are urgently needed to break out of the cycle of rising costs, rising fares, reducing services so that public transport can win a bigger share of the expanding market. Competition provides the opportunity for lower fares, new services, and more passengers.' (*Dept of Transport Buses White Paper* 1985 quoted in Bannister 1997: Ibid.)

Barriers to entry were relaxed, the role of the traffic commissioner in overseeing the fare and route structure was bypassed, and as predicted fierce competition ensued. New entrants flooded in and incumbents sought to protect and enhance their position. Savage (1985: 58) described in an earlier study of the deregulation of long-distance coach services the effect of that initial phase of competition upon labour. Using Liebenstein's *X-inefficiency* framework, he describes how competitive pressure provided incentives to reduce costs. Managers tighten up on scheduling, reduce slack time, and lengthen the productive hours of work. Alternatively, the benefits of increased competition were obtained through the replacement of a high cost operator by a lower cost operation. (Savage 1985: 59.) In this way, the cost nature of the pre-deregulation operation and its attendant institutions is exposed.

The cumulative effect on the workforce arising from bus deregulation has been profound. Wages were reduced, hours lengthened and discretionary wage elements such as overtime and shift bonus consolidated into basic rates. In addition there has been widespread pay restructuring. Firms created lower wage rates for new entrants, often using enhanced redundancy payments to buy out the higher rate 'insiders'. In addition, wage settlements have often involved lump sum payments rather than percentage rate increases, eroding the real value of earnings and further reducing costs. Forrester (1993) indicates the nature of such policies at East Midland Motor Services where:

> 'The wage structure prior to 1987 was detailed in the national agreements covering many other ex NBC (National Bus Company) subsidiaries. Later in the year hourly rates of pay were consolidated into a single rate, and in 1989 a separate lower rate of pay was introduced for recently recruited minibus employees. All subsequent new recruits were to start as minibus drivers.' (Forrester 1993: 225.)

Most operators chose to increase utilisation rather than to reduce wages. Considering the evidence for productivity improvements in the post-deregulation coach industry, Forrester (1993: 226) identified an increase in the proportion of driving time to total hours of some 9 per cent, a considerable increase which involved the introduction of unpaid meal breaks and the introduction of split shifts. The Transport and General Workers Union (TGWU), the main bus workers' union, anticipated the sacrifice in basic terms and conditions which would arise from deregulation. Glaister's findings on the cost difference between a regulated and deregulated industry identified a differential of one third between the labour costs of a large double deck bus under the regulated and deregulated system. (1986: 243 table 15.) Deregulation brought a significant reduction in labour costs. Costs were mainly productivity improvements (the elimination of *X-inefficiency*) and then, as the industry grew more 'competitive' and wage costs became more salient, through reductions in wages and conditions.

In some ways the post deregulation dynamics of competition have benefited labour. Concentration for example around four major operators has led to a stabilisation in wages and conditions. There has been a proliferation in employee shareholding within privatised operators, although often these in return for concessions. (See chapter 4 for airline industry examples.) Bus workers have obtained significant capital gains from these developments. (Bannister 1997: 43.) The bus industry case indicates that after an initial bout of competition, which promoted a concentration on labour costs, the industry has settled into a pattern of zonal oligopoly with operators such as Stagecoach, Firstbus and Arriva promoting investment and some forms of organisational innovation. Nevertheless labour costs remain crucial in the competitive strategies of bus operators. Whilst *competitive disengagement* in the bus industry forced operators to compete on efficiency and labour costs in response to 'spontaneous' competitive pressures, in the UK utilities government engineered a model of regulation, which had similar effects. For similar reasons labour costs also become paramount within the UK utilities where labour market effects can be assessed through the *regulated control* model discussed below.

1.2.3 *The Regulated Control Model: The UK Utilities.*

The *regulated control model* applies to industries or sectors which are nominally deregulated but where potential market power and monopoly force government to regulate and control the industry. The *regulated control* model often occurs where there is no real prospect of competition in the short run and where any future competition has to be based upon strict regulation. The regulated control model is most evident within the US railroad and energy sector, UK utilities and UK railways. By varying means, from limiting rates of return, capping profits, holding down prices and using tenders and auctions, government asserts control over the industry. The *regulated control* model allows the undertaking to receive private investment and to trade its shares. Managerial control is enhanced and executive rewards linked via share options and performance bonuses. Though government manages the environment and full commercial freedom is curtailed, the incentive to organisational change and reform is restored. The best examples of these types of labour market regulation use the price-capping method whereby consumer prices are held down by regulatory intervention, promoting a concentration on input costs. (Jackson and Price 1994: 14.) Predictably, since labour costs are among the most variable of input costs, this promotes a clear incentive towards labour cost savings.

The importance of the *regulated control* model to the labour market is clear from the privatisation and subsequent regulation of the UK utilities. (Yarrow 1994: 71.) Consumer prices are held at a level below the retail price level prescribed by the regulator. The method, known generally as *RPI-X*, tightly controls the prices which can be set by these private monopolies. Constrained in the price setting, the utilities can only profit by increasing internal efficiency. The focus of efficiency measures tends to be labour costs as these are usually the most malleable of costs. In most utility privatisations, there have been both massive job losses and increased work intensification for those remaining. O'Connell Davidson's analysis of the privatised UK water industry reasons:

> 'Water companies now have a strong incentive to cut costs and improve labour productivity, in order to avoid being penalised when the "K" setting is viewed. This pressure was one of the factors that spurred management to make the changes to employment relations and work organisation.' (O'Connell-Davidson 1994: 40.)

In another study Ogden identified the effect of privatisation on bargaining, confirming to an extent the *public choice* view of managerial behaviour.[5] (Ogden 1993: 44-58.) As a consequence of privatisation the industry was segmented into a patchwork of local water and sewerage monopolies. Predictably national level bargaining disappeared and managerial prerogative was unleashed. A flavour of management's restored vigour is given in the following comment from a senior manager at Thames Water on the implications of the collapse of national bargaining.

> "Managers are given greater control over their own affairs and their responsibility for people is more clearly established. If you believe that management is essentially about the motivation and organisation of people. In those circumstances it is difficult to justify the delegation of pay and employment conditions to an outside body." (Ibid.)

The effects of price cap regulation are perhaps most apparent in the telecommunications industry. Denied the path of price increases, British Telecom has focused on a strategy of sustained cost reduction. A huge technological shift in the industry as it converts from analogue to digital technology, and diversifies into areas such as mobile telecommunications, direct business to business communications, and computer networks, has allowed the company to off load workers whilst increasing productivity. (Bolton 1994: 1.) Some 40-50,000 jobs have been shed in the UK since

[5] Public Choice views of management slack and bureaucratic satisficing are often an adjunct of the monopoly/rent sharing view of unions.

privatisation, for example, at a time when the volume of business has increased. Whilst within the *competitive disengagement* model and the *regulated control* model the labour market effect of deregulation is *implicit*, that is, the pressures of product market and regulatory change lead to an effect on the labour market. In other circumstances the labour market becomes the prime target of deregulation. Often a perceived unholy trinity of managerial slack, inefficiency and union monopoly mean that labour market deregulation is identified as the only solution to industry problems. Thus a labour *market restructuring* approach is adopted which prioritises labour market reform. This aspect of labour market deregulation is discussed below.

1.2.4. *The Labour Market Restructuring Model: UK Port Transport*

The *labour market restructuring* model of deregulation is explicitly concerned with the deregulation of a regulated labour market, rather than with any wider objective of 'allocative' efficiency.[6] Normally analysis of the labour market within a particular industry indicates a strong union monopoly, high levels of rent sharing and *X-inefficiency*. The deregulation of this labour market is thus expected to deliver the principal 'benefits'. In other words the 'technical efficiency' motive is explicit over the 'allocative' benefits. Examples include the deregulation of the US trucking industry and the UK port transport sector. In both industries the union monopoly, underpinned by respectively product market and explicit labour market regulation, boosted the power of the main unions. The UK ports industry is a prime example of explicit labour market deregulation, however, the tendency of policy makers to view the labour market as the central problem can have adverse consequences as the case below indicates.

Privatisation and deregulation can often be seen as a way of restructuring labour markets viewed as 'inefficient' and 'corrupt'. This point is addressed by Turnbull in

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[6] We make the distinction here between *allocative* efficiency (AE) (greater competition and pricing options, lower prices, better services etc. and technical efficiency, (TE) greater efficiency from factor inputs within the firm/ industry/sector. The two can be self-reinforcing with greater TE allowing greater competition and lower prices, as in US trucking. In some cases however there is reduced allocative efficiency as in the case of the UK bus industry, and the docks industry, while TE is improved. In effect it could be argued that this simply means rents are taken from labour and given to the firm, without any redistribution to consumers in the form of lower fares, greater competition or better services. (in the case of buses), or to the overall performance (In the case of UK ports.)

his study of the economic impact of ports restructuring in the aftermath of the abolition of the United Kingdom Dock Labour Scheme (NDLS) in 1989. Turnbull (1991: 17-35.) The 'scheme', as the NDLS became known, reformed the casualised basis of port work by offering registered dockers a monopoly over wharfside work. (Ibid.) The NDLS operated as a union monopoly situation, though there was a 'competing' labour force in the 'non scheme' ports. However, as Turnbull argues, the abolition of the scheme was based on an unrealistic and almost theoretical view that non-scheme ports operated as non-union environments.[7] Deregulationist views of the labour market based on *neo classical* assumptions of monopoly union behaviour drove the policy of both government and employers. (Turnbull et al 1992:3.) Labour was characterised as the source of inefficiency with little reference made to issues such as under-investment and fragmentation in the UK industry. Structural factors, such as the impact of changing trade patterns on port networks, were neglected or ignored.

As Turnbull (1991:25) argues the neo classical view of the labour market encourages the belief that industrial relations can only be reformed by climactic change. The labour market is viewed as the sole problem and deregulation in creating incentives and discipline for both management and workers is seen as essential to that process. The activities of trade unions and of workers and collective action is often viewed as malevolent with labour groups often characterised as being pathologically committed to maintaining demarcations and restrictive practices. One of the problems, Turnbull argues, is the simplified use of labour market models. Used with care and qualification these can elucidate complex employment relationships both theoretically and empirically, but in the hands of some policy makers and academics these models can become purely ideological.

According to Turnbull the simplicity of assumptions involved in labour market policy debates can often lead to perverse outcomes. The UK now has a relatively inefficient port transport sector and because of the limited scale of port capacity is unable to

[7] This assumption was based on the Monopoly Union wage Model of employment. However the actual power of Dockers related not to their institutional position within the labour market but to the nature of the labour process and work organisation. As Turnbull explains non-scheme ports where characterised by the same working methods, restrictive practices and personnel problems as Scheme ports. (Turnbull 1991: 22)

attract the deep sea traffic which has been largely captured by the rival Hanseatic ports of Rotterdam, Hamburg, Antwerp and Bremen. (Ibid: 27.) Continued labour unrest as witnessed in the recent Liverpool dock strike (Saundry and Turnbull 1997: 275-289) has been a feature of this casualised labour market environment. Casualisation and the destruction of premium terms and conditions is of course a feature of other industries, it fits exactly with the creation of a non union sector to challenge perceived union monopoly situations, and with the incentive on management to reduce costs. In the case of the ports industry, reform has taken place sporadically across various countries often under the pressures for structural adjustment, (see Turnbull and Wass 1996). In the UK, USA and Australia port labour has been comprehensively deregulated and its fortunes can be contrasted with other nations where reform took place within a 'high road' strategy of increased training, flexibility and productivity. Thus there has been a clear divergence in the port transport sector usually reflecting national industrial relations systems and constraints. For example in a comparative study of the UK and Spain, Saundry and Turnbull (1999: 271-294) point out that in Spain the tendency towards casualisation has been mitigated by comprehensive training and job protection. They argue that:

> 'Through a contextualized comparison of labour regulation in both countries, it is possible to demonstrate that an institutionally saturated and politically bargained system of production and employment is compatible with, if not a necessary condition for, competitive performance in the international port transport industry.' (Saundry and Turnbull 1999: 271-294.)

Similar developments are seen in the Netherlands and Japan. In other industries the pressures for convergence are activated by a deep-seated reform of the regulatory and product market environment. These operate in tandem with common international cost structures, common technology, a similar customer base and infrastructure to promote a global convergence on re-regulation. Within such an environment labour costs become paramount and though changes are refracted through the lens of national industrial relations systems, there is a pressure for global convergence on the labour market. This final example can be defined as the *global product market convergence* model and is discussed below.

1.2.5 *The Global Convergence Model: The Airline Industry*

Within certain industries deregulation of the product market acts because of the globally integrated nature of the industry to promote global deregulation within the labour market. Key examples are the global shipping industry where the deregulation of crewing has led to a convergence on low cost 'flag of convenience' crewing (see Lane 1997), and the global airline industry where deregulation, privatisation and liberalisation have rendered labour the most malleable and alterable component in the cost structure. Thus global pressures towards convergence affect the labour market. The developing global airline industry offers an example of this *global product market convergence* model of labour market deregulation. The airline industry has been characterised to a large extent by growth, with expansion well above that of the growth in GDP. The story for much of the industry's existence has been of vigorous growth and expansion. As Hanlon argues disregarding the exaggerated impact of the low growth base of World War Two passenger air transport has grown by an annualised average of 9 per cent since 1960. The total output of the industry measured in average tonne kilometres grew by a factor of around 20 between 1960 and 1993 the corresponding GDP rate was only 3.2.[8] As global prosperity has grown so to has air travel though growth has been more fitful recently with an annual rate of 5.4 per cent in the ten years between 1982 and 1992. Most future predictions of growth are that it will settle at between 5 and 7 per cent over the decade from the millennium (Hanlon 1996: 11, International Air Transport Association IATA 1998.) Growth rates tend to vary by region with maturity (or rather stability) being reached in Europe and North America, and growth potential evident in the Latin American and Asia Pacific regions. This growth however, is accompanied by a fall in yield (the average profit per passenger), meaning that despite huge volumes the industry earns low margins.

Yield has fallen precipitately. This is partly because of the growth of leisure travel which is price elastic compared to the more lucrative business travel market which is (relatively) inelastic. In general, business travellers who account for only a fifth to a third of passengers can yield between two thirds to three quarters of revenues. British Airways, for example, earned 70 percent of revenue from 30 per cent of passengers. Yields have been falling precipitately thereby affecting profitability. In constant 1985 values yield has fallen from about 190 cents per passenger in 1960 to around 65 cents per passenger in 1995. (Doganis 1993: 11.) (Oum and Yu 1998: 229-237.) In a ten-year analysis of productivity and profitability Oum and Yu found that increased efficiency was the most likely explanatory factor in higher profitability. In addition, for much of its existence the airline industry has operated within a cartelised environment. States developed their airline industries as national assets given the enormous costs of establishing airlines, their strategic importance, and their early role as a military reserve. Consequently airlines tended to be under either public ownership as in the majority of states, or operated under tight regulation as in the USA. (See chapter 2.) States have prioritised the growth of their airlines, and in the USA the state through regulation has also fostered that growth. In parallel with state ownership, given both the early problem of viability, the need for stability and national security, state ownership and regulation exists beneath an internationally regulated system of bilateral competition. In effect, nations have agreed to the exchange of air services between two 'city pair' routes often agreeing to pool revenues and, in order to ensure viability, have restricted the number of operators on those routes. These 'air services agreements' (ASAs) have continued in existence. A prime example is the Bermuda 11 agreement between the UK and the USA which in effect protects British Airway's access to the American market whilst restricting the rights of US operators into the UK. (Button et al 1998: 17.) In many ways the environment of air transport regulation has changed dramatically commencing with the deregulation of the US industry in 1978 and the spread of bilateral liberalisation agreements between countries such as the UK and Ireland (see Barrett 1997 67-75) and the UK and the Netherlands (see Uiittenboggart 1997: 31-38), and European deregulation. (Hanlon 1996: chapter 3.) Major change has taken place within the industry, even then however, the structures of regulation have remained. Writing in 1993 Doganis described a situation, which largely pertains today:

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[8] Average Tonne Kilometres (ATK) is the standard crude output measure and simply means the Average number of Tonnes (Passenger and freight) flown per kilometre.

Today a complex web of bilateral air services signed by its home state faces each international airline. Such agreements will specify which points can be served and what traffic rights have been granted. Some may impose capacity controls others may not. Some may even insist that air services be operated in 'pool'. It is the bilateral which tells the airline when and where it can and cannot fly and how.' (Doganis 1993: 30.)

Air transport regulation is evolving especially as air transport services come under the general framework of competition policy common in other traded services.[9] The cumulative effect of national and supranational deregulation has been profound. In response to these pressures countries such as the UK and the Netherlands have pursued the path of privatisation and partial privatisation in order to adapt their national flag carriers to the competitive environment. The privatisation of British Airways in 1987 was preceded by about 10 years of comprehensive restructuring, a similar situation occurred within the Dutch carrier KLM. These 'early adapting' countries (Encoua 1991) as cited in Marin (1991) have developed 'open skies' bilateral agreements between them which have expanded. They have since been joined by countries like Germany, France, Spain and Italy who have undertaken massive restructuring in order to meet the challenges of the deregulated environment. As carriers adjust to this position of low yields, intensified competition, and the escalating price of equipment and infrastructure, they seek to control costs. Since the cost of aircraft, equipment, reservations systems and other aspects are relatively stable, the area in which management has increasingly sought cost reduction is in labour costs. As chapter 6 indicates, attempts to reduce labour costs are based on the fact that air transport workers have enjoyed premium wages and conditions which outstrip those of external comparators. However, as in other industries, management have sought to roll back these regulated terms and conditions often in the teeth of concerted labour opposition. (Blyton et al 1998a.) Yet, as this thesis will demonstrate, even within those carriers which have been privatised or liberalised at an early stage, the premium wages and conditions for airline workers remain high. (McGurk 1997.) In essence these terms and conditions, as well as the industrial relations structures of the industry, are bound up with the state owned, subsidised legacy of the industry.

[9] There is a clear intention under the General Agreement on
Trade in Services (GATS) to break the bilateral system. However this is being resisted as nations continue to make air transport a special case.

The main consequence has been a restructuring of national airlines to improve the cost base and prepare carriers for competition. The foremost policy has been that of segmentation, where airlines have created separate operational units based on costs and yield. This practice originated in the US with the 'vertical integration' of commuter operators, but in Europe however, the process has been one of franchising and regionalisation. Franchising has allowed large operators such as British Airways and Lufthansa to feed commuter and regional traffic into their route networks whilst escaping the costs and risks of servicing essentially low yield routes. Lower terms and conditions reflect the marginal nature of these services thereby allowing the airline concerned to reap lower costs. Management polices in this regard are typified by the position of British Airways. (See Colling 1995: 18-33.)

These developments have had obvious consequences for airline labour especially within the national flag carriers where regulated wages and conditions are threatened. As this thesis argues, the deregulation of the airline industry within both the USA and Europe has been at least partly rationalised on the basis of lower labour costs. Although earlier advocates emphasised competition and consumer benefits (Caves 1962: 109), later advocates concentrated on the effect of regulation in promoting rent sharing between labour and capital. Bailey et al's (1986) demonstration of the wage comparison between union and non-union carriers and Capelli's detailed argument (1987: 44) that regulation allows increased wages to be passed on in higher consumer fares, have in many ways driven the debate. More general critiques of the regulated sector such as Kahn's argument about the inherent productive inefficiency of regulated enterprise were also seminal, and had major labour market implications. (Kahn 1970.) These contributions have all reflected an aspect of the wider debate about regulation/deregulation and the labour market originating in the USA. Both Caves and Bailey et al utilised a simple union monopoly framework to analyse how labour obtains and protects superior wage levels. Kahn's approach utilised a mixture of public choice theory and X-efficiency, to indicate how managers and bureaucrats had little incentive to serve the public interest causing them to collude in rent sharing pacts with airline labour. Capelli demonstrated how collective bargaining dominated by strong labour groups such as pilots and maintenance staff, allowed labour to share in the rents of the industry and for a disproportionate share of those rents to accrue to the most powerful groups. Thus analyses of the regulated airline industry carried an implicit analysis of how labour benefited from regulation.

As later chapters will demonstrate, US airline labour has suffered setbacks and has conceded some ground, yet the resilience of labour terms and conditions is the more dominant picture. Disregarding some seemingly spectacular falls in average earnings (see chapter 4) which appear no worse than general falls in the economy, deregulation has affected labour in more subtle ways.[10] Arguably, although there has been some re-alignment and retrenchment over the long run, deregulation has had no great impact on the potential power of organised labour. That is not to disregard the effect of painful restructuring and bankruptcy episodes and the many bitter disputes which have arisen, but to put these in a longer term context.

Has a similar picture emerged within Europe? Clearly the process of liberalisation and deregulation within Europe has affected airline labour within Europe, most often through the privatisation of state carriers and the withdrawal of continuous state subsidy. At the same time the emerging structure of competition has had pronounced, if as yet unmeasured, effects. The pressure towards concentration and merger, and the growth of alliances and marketing pacts, are promoting a major re-alignment of costs within both large and small airlines. Constraints of infrastructure and the continued dominance of large carriers through their proprietary alliances mean that competition has taken place at the margins, but arguably this low cost competition has had major labour market effects. Carriers such as Ryanair, Easyjet, and Air One have exposed the cost bases of the major carriers in low yield routes, and threaten profitability on key business routes through the problem of overcapacity. The major carriers use cost comparisons with these carriers in order to encourage cost reductions within their own operations. (See chapter 7.) The low cost carriers however, target a different market than the flag carriers who still derive enormous benefits from their domination of the major international hubs, which tend to be used by business travellers. The low cost operators tend to use secondary airports and target the 'point to point' budget leisure market. (See chapter 7 for discussion of their cost structures.) Often the major carriers initiate their own low cost operations as BA has done with the creation of both EuroGatwick and GO, and Alitalia with it's TEAM subsidiary, often supplementing these with regional operations carrying lower wage rates and inferior conditions to 'core' (i.e. higher yield) services. These trends towards labour market segmentation have affected wages and conditions within the main flag carriers and illustrate the kind of restructuring which is going on within them.

Thus it is essential that we understand the interactions and dynamics taking place within the system of regulation, the product market and the labour market. However one final piece of the jigsaw has to be completed in order for us to reach a full understanding of the process of deregulation. So far we have concentrated on the labour market and employment change, rather than on the industrial relations aspects of the issue. Yet these are crucial. It is the prevalence and power of organised labour, the relationship between labour and the state, and the power resources of both labour and capital which together with the system of regulation, the product market and labour market environment, determine the course of events. The industrial relations context is discussed below.

1.3 Privatisation, Deregulation and Labour Market Reform: The Industrial Relations Dimension

1.3.1 *Privatisation, Deregulation and The Institutions of Industrial Relations*

> 'The labour market never was and never will be a bourse and other intellectual tools are required to explain persistent wage and benefit differences in labour markets. Product market forces and internal labour markets play a significant role in such persistent differentials beyond any supply side differences.'
> (Dunlop 1993: 7.)

Dunlop's advice to look beyond the pre-occupation with wages and labour costs has only recently been heeded. Employment change within privatised and deregulated industries have been well documented by writers such as, Ferner and Colling (1991 and 1995),Veljanovski (1987), and O'Connel-Davidson (1994). Looking at the experience of privatisation in the UK erner and Colling associate privatisation with the removal of the "social and political obligations and constraints that hamper

[10] Chapter 4 will demonstrate that moving beyond earnings gives a more complete picture of how key labour groups have been affected by deregulation.

management action." (Ferner and Colling 1995.) This brings a reassertion of managerial prerogative as the public choice and agency theory literature would suggest. (Ibid.) Privatisation implies the transfer of property rights from the public domain to the private, and encourages management to re-assert its power and control. As privatisation takes place and labour markets are deregulated, there is a clash between the industrial relations structures of nationalisation and the desire of management to utilise labour resources more 'efficiently'. Implicit within this view is an assumption that where labour markets are subjected to privatisation or deregulation, they automatically become more 'efficient'.

Typical of these approaches was a study of the industrial relations of privatisation and marketisation within UK public enterprises. (Pendleton and Winterton 1993: 55, Ferner and Colling 1995: 391-409.) The study examined the impact of privatisation and deregulation upon the workforce, trade unions, bargaining, and managerial prerogative. In analysing these industries in both contemporary and historical context, these writers were able to uncover many interesting facets of the deregulated employment relationship. One such finding, and a finding borne out by this thesis, is that there is a tendency to look at privatisation and deregulation as a discontinuity, a break with some perceived former system. This may well be true in terms of the product market and organisational structures but is only partially true of industrial relations. The studies indicate that even without overt commercial pressure, rapid change was introduced into such industries over time. Pendleton's study of the railway industry is instructive. As he argues, systematic rationalisation took place throughout the nationalised period: the route network was reduced by 44 per cent from 1948 to 1979. (Pendleton 1993: 45.) Major job loss and labour market restructuring attended this. Major modernisation initiatives such as the transition from steam to diesel and then electric power caused considerable job loss (Ibid. 46).

1.3.2 *Deregulation, Decentralisation and Bargaining*

Perhaps the key difference between a regulated and a privatised environment is an overriding emphasis on efficiency. One key efficiency target is the rationalisation and decentralisation of bargaining structures and the introduction of more managerial forms of labour control. The trend towards decentralisation in transport and utilities as a consequence of fragmentation and the 'strategic choice' by management in British Airways to develop an HRM culture in the aftermath of privatisation are examples of this. However as the British Airway's case study in chapter 5 and 6 will indicate, the transfer of ownership from the public to the private sphere does not mean that the bargaining power of labour is automatically challenged. This very much depends on the context of regulation and industrial relations within the country concerned and industry studied.

Certainly, labour often suffers from job losses, reduced pay, casualisation, outsourcing and other negative employment aspects associated with restructured labour markets. However, these changes cannot be applied uniformly to labour in regulated and privatised industries, again they depend on the context of the regulatory system and the product market. Another essential aspect of the industrial relations picture is the role of expectations in worker perception of the employment contract. Under regulation and/or public ownership workers become used to a level of employment regulation. How this regulation of the employment relationship arises is the topic of the next chapter. What is important at this stage is that these expectations can only be altered slowly and painfully. This is especially the case in industries such as the airline industry where the effects of strike action on individual carriers are so severe that 'climactic' change of the type discussed by Turnbull in relation to the UK ports is at best extremely difficult and at worst impossible. Management to some extent relies on the effects of regulatory and product market change to drive forward restructuring.

Regulatory reform often plays a central role, in tandem with product market change, in undermining structures of labour market regulation and collective bargaining. (Ferner and Colling 1991: 391-409.) It is the combined pressure of regulatory, product market and labour market change, which in turn influence management strategy. Deregulation allows product market change to become more of a driver of labour market conditions than in the preceding regulated era. Despite the obvious pressures labour does not willingly submit to this set of regulatory and product market pressure. Management often assumes that workers will submit to the realities of the deregulated environment and surrender the premium terms and conditions accumulated under regulation. Workers however, become used to a certain expectation of labour market regulation such as a full time, well paid job, a core employment contract underpinned by collective bargaining, which they become reluctant to surrender. In fact given the alternative of 'market rates', outsourcing, the introduction of atypical contracts and the dissolution of national wage bargaining, it is rational for workers to protect their regulated terms and conditions. These expectations which can be termed the 'regulatory overhang' are discussed in chapters 3, 4, 5, 6 and 7. Nevertheless, even in privatised and deregulated environments labour retains strong bargaining power and is able, to a much greater extent than is often acknowledged, to influence that change. The 'regulatory overhang' can only be removed by guarantees of job security at existing rates for existing staff, and the transfer of the adjustment burden onto new staff. The use of pay restructuring, particularly the use of tiered wage structures, reflects this need within the airline industry to protect 'insiders' at the expense of outsiders. This issue and others will be detailed in the case study of British Airways.

Undoubtedly in the long run, labour can suffer from privatisation and deregulation, however, to re-iterate, its fortunes are affected by a complex interplay of business strategy, product market change, and regulatory response. Aspects such as inter-firm collaboration, concentration, and globalisation all operate to shape labour market change. In response to these labour market developments a variety of changes in bargaining and in management and trade union response occur. Both management and trade union response are crucial in our discussion of the airline industry. The effect of market reform despite the stylised models of rent sharing and public choice does not automatically strengthen management. The process can be much more complex. Fairbrother (1994) uses the example of restructuring of industrial relations in the UK Civil Service, pointing to the absence of literature on the labour implications of these reforms:

> '...it remains uncertain just how managerial structures have been recast and the way their recasting has a bearing on work and employment relations.' (Fairbrother 1994: 13.)

Fairbrother believes that paradoxically privatisation and market restructuring can impact positively on trade unionism, by opening the door to trade union renewal. He points to the ossified, male dominated structures of UK Civil Service unions being galvanised by the growing concern of members at the threat to jobs and conditions. (Ibid.) Moreover, he points to a rise of managerialism replacing the culture of paternalism, which operates in tandem with the old union structures. These forces, he argues, combined to alter the stance of both trade unions and management. Further evidence for the renewal thesis is found in Lloyd's study of the effect of decentralisation on bargaining within the NHS. (Lloyd 1997: 477-446.) Such arguments certainly call into question the assumptions of the public choice/principal agent approach, they illustrate the richness and complexity of industrial relations environments which are not automatically eroded by restructuring. What is clear is that changes of ownership and the introduction of explicitly commercial objectives do affect industrial relations but that these changes interact with, and are tempered by, the power and capacity of management and labour.

Conclusion

We have examined the centrality of employment change within the context of deregulation and privatisation in a number of industries. Major theories relating to the issue of both regulation and the labour market have been discussed, focusing on the dominant union monopoly/rent-sharing approach. In order to develop our analysis of it was argued that economic approach, devoid of industrial relations institutions and contexts, was inadequate. Despite the methodological rigour of many such studies, they address only the outcomes of labour market deregulation. Rather, an appreciation of the interplay between regulatory reform, product market change and industrial relations *processes* provided a richer and more fruitful analysis. Workers become used to a certain expectation of employment under regulation, which is not readily altered by the introduction of regulatory reform and restructuring. Such change can even have the effect of re-galvanising the bargaining environment sometimes, as in the civil service; dormant institutions of industrial relations are re-vitalised by change. This suggests a further complication to the deregulation-employment argument, which is examined within this thesis. In order to build upon this analysis the next chapter begins a study of deregulation and labour market change within the airline industry. Given the case study and theoretical evidence on deregulation and employment, the airline industry provides an excellent opportunity to assess the nature of deregulation and labour market change. The airline industry has been one of the few globally regulated industries, whose deregulation alters labour market conditions throughout the world. Regulatory intervention in both the USA and Europe made labour conditions and industrial relations part of the fabric of that regulation. Analysis of the comparative industrial relations system between the USA and UK will therefore, be used as a framework to examine the principal types of product and labour market regulation and their specific effects on employment. The following chapter therefore locates that process of change historically by examining the nature of product market and labour market regulation within the airline industry.

2

Methodology

2.1.1 *The Broad Theoretical Approach: A Political Economy of Airline Deregulation and Employment*

The previous chapter explored the nature of labour market deregulation in regulated industries. Building on the models of deregulation and employment introduced in chapter 1, the thesis develops an analysis of the airline industry, as a sectoral case study of the impact of employment deregulation. In order to do so the study develops an approach, which integrates regulatory, product market and labour market aspects of deregulation and employment. In doing so it focuses upon the airline industry building upon previous research efforts. There is a huge disparity in that research effort between Europe and the United States where airline industry research is more prominent. Thus early work by Kahn (1950) and Baitsell (1966) looked at the bargaining power of pilots and engineers but very much from an institutional and empirical viewpoint. Krolick developed a broader approach in his comparative study of the occupational differences between pilots and railroad engineers, yet a comprehensive analysis was missing. (Krolick 1966.) In Britain, Blain's (1971) application of Dunlopian system theory to the development of the pilots' union, BALPA, and growth of industrial relations structures provided the first systematic analysis of the airline industry. The approach of these researchers was necessarily confined to the institutional history of pilots and their employers. (Blain 1970.) Both provided a historical analysis of pilots in the UK and the USA respectively but only Blain made an attempt to develop theory out of seemingly disparate episodes of industrial relations behaviour. The author felt that most approaches tended to divorce the airline industry from its regulatory structure product market, and often from its wider labour market. The issue of continuity therefore becomes as an essential aspect of the research given the resilience of aspects such as trade union power, collective bargaining and labour unrest in a deregulated and privatised environment. These factors contribute to the persistence of worker expectations of terms and conditions, defined in chapter 7 as the *regulatory overhang.*

In investigating the emergence of deregulatory change within the USA and Europe, this study hopes to accomplish several aims. Firstly, to synthesise the available literature identifying a common set of themes and issues. Secondly, to develop a theoretical approach to the study of labour market regulation/deregulation within the industry. Thirdly, to provide core case studies of the effect of regulation/deregulation on pilots as a key occupational group. Fourthly, the thesis uses a case study and employee survey of British Airways to look at worker attitudes towards deregulatory and product market change, within a critical case context. The survey provides the foundation for a wider analysis of deregulation within Europe and the effects of that process on trade union and employer strategies. Finally, the consequences of the emerging regulatory and product market environment are analysed in respect of their impact for the future labour market environment.

Before going on to consider the research questions we need to outline the basic theoretical approach of the thesis. The approach involves identifying distinct categories of employment effect arising from the process of regulation and deregulation. A process of *regulated contr*ol can be seen to have pertained between 1935-1978. Then product market and technical regulation delivered a heavily regulated labour market, although there were shifts in the nature and extent of regulation. This period was followed by a process *of competitive disengagement,* where the removal of regulatory controls on the product market encourage rapid market entry and exit, as in the USA from 1978. The process of deregulation was much more gradualist within Europe, but when regulatory and product market took place, industrial relations and the labour market were identified as the central obstacle to reform. Thus the *labour market restructuring* model is used to explain this period of early restructuring within Europe. In that period powerful unions and collective bargaining were identified as upholding excessive wages, poor productivity, and driving political pressure for subsidies and protection. By the late deregulation period roughly from about 1995 onwards, industry consolidation, interfirm collaboration and an increasing focus on costs and productivity the airline industry can be identified within a *global product market convergence* model.

In addition to these broad questions a number of specific questions are addressed within the survey relating to employee perceptions of the effect of deregulation, product market change and labour market change upon airline employees using the case study of British Airways. These research questions within the British Airways case are addressed in section 2.2.5.

2.1.2 The *Political Economy/Dynamics of Industrial Relations Approach*

In addressing these research questions the thesis was informed by a central theoretical approach. The main theoretical stance is that of the *political economy/dynamics approach* based on realist/political economy approach. Godard (1994: 1-35.) Godard criticises prevailing approaches to the study of industrial relations as reliant on logical empiricist and behaviourist epistemologies. He argues for a more grounded analysis, providing a theoretical foundation for the field. The 'political economy' approach, practised by writers such as Hyman (1989, 1991), Fox (1974), R. Edwards (1979), Gospel and Littler (1983) and P.K. Edwards (1986) is, he believes, more useful. These approaches which analyse industrial relations their social, and economic context allow seemingly rapid shifts and reversals to be viewed dynamically. That is they come to be seen not as disparate episodes but as part of the process of industrial relations between the state capital and labour. This approach is adopted by Turnbull et al (1992) in their analysis of the restructuring of the dock labour scheme. Understanding critical episodes of conflict and change and analysing these within their industry, economic and political context is therefore crucial. As Blyton and Turnbull argue:

> 'Employee relations do not take place in a vacuum. They are situated within, influenced by and in turn impact upon many other aspects of the work organisation. Variables such as the size and structure of companies, the technologies they use, their patterns of ownership and control, and the character of their product markets have increasingly come to be recognised as important influences on the processes and outcomes of employee relations.' (Blyton and Turnbull 1998: 37.)

Without such an emphasis, institutional complexities and peculiarities fixate analysis. (Blyton and Turnbull (1998.) Extending this approach the same authors have developed an approach, which views industrial relations not as the study of institutions and their peculiarities, but as an analysis of 'changing modes of labour regulation'. (Blyton and Turnbull 1996: 7-20.) 'Modes of regulation' are the forms of low level and high level job control, which govern the relationships between labour and capital. (Ibid.) In this way we can assess changes in employment regulation in a comparative sense without being blinded by institutional differences. As chapter 3 will indicate, the stability which characterised the airline industry before the 1980s was upset by the changed economics of the industry, forcing management to institute a new *mode of regulation* via the Mutual Aid Pact, (MAP) which effectively matched the collective bargaining strength of pilots. The role of the state is crucial, given its own goals in promoting a strong and stable airline industry. The fact that it reversed its previous decision of upholding the interests of labour indicated the ways in which changes in the form of product market regulation could impact upon labour. Previously the state had overseen the promotion of craft based collective bargaining through the Railway Labor Act, as a method of securing safe, stable air transport. These shifts can be understood within dynamics/political economy framework.

Traditional approaches would see unions neutralised, and management in the ascendancy, because of the nature of product market competition and management strategies. Such a view would be particularly plausible in the case of the UK, where labour market deregulation, job insecurity and high unemployment have produced a labour market setting which has strengthened management. Yet such a view ignores the institutional and product market context of the airline industry which, though privatised was still subject to tight regulation. Thus collective bargaining and union influence continued to apply within labour management relations at BA, more than a decade after privatisation. It can be argued that the reason for this is that workers have become used to certain broadly defined norms of employment within the airline industry, involving a unified firm focus, high wages, generous work rules and generous fringe benefits. These characteristics are all part of an airline employment compact, described in chapters 3 and 4. The study of BA and its employment relations forms a central aspect of the study.

2.2. The Research Questions

In looking at these issues several key questions are addressed. The broader questions are introduced and are posed from the point of view of the regulated and deregulated period. These broad questions are then expanded into specific research questions to be dealt with in each chapter.

2.2.1 *The Regulated Environment*

A number of broad questions address the nature of the labour market under regulation. This allows the study to be set in context by framing the issue in terms of the *continuities* of industrial and labour relations. This provides an opportunity to locate the issue of regulation/deregulation within the context of earlier employment change.

- *Why did labour market regulation arise in the airline industry, what form/s did it take and what were the broad processes of its introduction?*
- *Which groups of workers benefited from collective bargaining and why?*
- *How did airline management in both nations regard the spread of collective bargaining?*
- *What was the role of product market regulation in regard to controls on market entry, fare setting, mergers, concentration and other industry matters?*

2.2.2 *The Deregulated Environment*

Deregulation has altered the airline labour market considerably. In terms of the deregulated environment a number of general questions are addressed:

- *What were the effects of deregulation on the product market and labour market?*
- *What effect did deregulation have on the earnings of key airline labour groups?*
- *What features of the institutional and labour market endured between the USA and Europe?*
- *What was the role of the state in promoting a particular type of deregulation?*
- *What sort of business strategies emerged from deregulation and what were the limitations of these strategies?*
- *What has been labour's response in the USA and Europe?*

Having set out these broad "'driving' questions we now proceed to the detailed questions. These are detailed by order of the chapter in which they are dealt with, although issues are interlaced throughout the thesis. The British Airway's case study and research questions are dealt with in a later section.

The Dynamics of Product and Labour Market Regulation In The US and Airline Industry.

This section examines the detailed impact of regulation and industrial relations within the airline industry. It identifies the product and labour market effects, permitting shifts and developments in the relative position of labour and management to be analysed. The following questions are addressed.

- *How did regulation of the product market affect the labour market and employment relations within both the US and the UK?*
- *How did an institutional framework of industrial relations arise within the airline industry, in the US, UK and globally?*
- *What were the effects on trade unions and management?*
- *How did management respond to the bargaining power of trade unions in both countries?*
- *What role did the state play in airline industrial relations?*
- *To what extent does the* ***Regulated Control*** *model of labour market deregulation explain the nature of product/labour market regulation in this period?*

Pilots and Management Under Deregulation: The USA and Europe (Chapter 4).

Building on earlier analysis of the regulated and deregulated environment, the discussion details the impact on a key employee group. Concentrating on the experience of pilots in both the USA and the UK allows for a number of key questions to be addressed:

- *What has been the effect of deregulation/product market change on pilots as a key occupational group both within the USA and Europe?*

- *To what extent has concession bargaining affected pilots within the US and European industry?*
- *To what extent have European airline management been able to make inroads into pilot terms and conditions?*
- *How have airline premium wages been maintained/undermined since deregulation?*
- *How have pilots maintained their influence through regulatory structures and new forms of firm governance?*
- *How does the* **Competitive Disengagement** *model of labour market deregulation explain this period?*

Deregulation and Employment in the European Airline Industry: The Emerging Trend (Chapter 7).

The study of the European airline industry examined in this chapter offers a comparative analysis between the US and Europe. Extending earlier work on pilots and the case study/survey of British Airways allows for issues of wages and productivity, management strategy and trade union response to be addressed.

- *How do US and European airlines compare in terms of productivity and efficiency?*
- *To what extent is state ownership a factor in this relative performance?*
- *Can this be explained in terms of the concept of rent sharing and premium wages/regulatory overhang?*
- *How have management strategies attempted to tackle these rigidities in response to deregulation?*
- *What has been the extent of franchising and low cost strategies within Europe?*
- *To what extent has there been industrial action/conflict within the European airline industry?*
- *How has industrial action affected management stance in the restructuring process?*
- *How does the* **Labour Market Restructuring** *model of employment deregulation help us to understand the process of adjustment in the European airline industry?*

From Regulated Control to Global Product Market Convergence: The Emerging Regulatory Framework and The Airline Labour Market (Chapter 8).

Additional questions about market structure and competition within both the USA and Europe are addressed in chapter 8. This chapter investigates the dynamic nature of regulatory, product and labour market change. This allows a comparison between the USA and Europe. The chapter also offers an analysis of the global consequences for airline employment of an 'emerging' regulatory and product market environment.

- *To what extent has the US and European airline industry become concentrated since deregulation?*
- *What has happened to regulatory and competition policy since deregulation?*
- *How has the withdrawal of state aid affected the structure of the industry and impacted upon airline labour?*
- *How have concentration and emerging regulatory structures affected labour conditions?*
- *What is the likely impact of alliances and code sharing on employment?*
- *To what extent have regulatory/product market changes shifted the burden of deregulation onto labour?*
- *How have trade unions responded towards these strategies?*
- *To what extent does* ***Global Product Market Convergence*** *explain changes in the labour market and industrial relations?*

The study will therefore utilise the models of employment regulation introduced in chapter 1, detailing how the interconnected process of product, labour market and regulatory change impact upon employment. The next section discusses the various sources used in this aspect of the study.

2.2.1 *The Secondary Data*

In order to analyse these questions a range of secondary data and literature is analysed. These combined sources are used to address both broad and specific questions on the employment impact of deregulation. The benefits and shortcomings of the various sources are discussed below. Questions on the BA case study are given in the section on the case study and survey (2.2.5).

ICAO Fleet and Personnel Data and IATA World Air Transport Statistics

In addition a range of questions relating to the nature of wages, employment and bargaining are addressed through secondary data. This involved using International Civil Aviation Organisation (ICAO, the UN directorate for civil aviation) and the International Air Transport Association (IATA, the employers' body) as key sources of data on wages employment and productivity. There are major problems with these secondary sources. Firstly the problem of non-response is particularly acute in regard to the ICAO Fleet and Personnel data where many large airlines fail to complete the necessary entries and the researcher has to extrapolate from earlier data. For example in order to obtain comparison data for earnings between European carriers the mean of the highest earnings in Europe and the US is used for the missing observations. (See chapter 7.) In addition the data is often out of date, as returns are made just in time for a new reporting year. There are often bizarre omissions. For example in the 1997 series Lufthansa occupational data is so incomplete as to be unusable, yet there is full data for the small low cost carrier German Wings. (See chapter 7.) Nevertheless ICAO data is the major source of data and it does provide a good overview of the principal trends in wages, employment and productivity, and is widely used. The National Institute of Economic and Social Research for example, compiled the most recent comparison of productivity using ICAO data. (NIESR) (Vass 1997.)

The IATA World Air Transport Statistics (WATS) provide trend data on employment growth across occupational categories and detailed financial information on carriers. IATA data tends to have a higher response rate due to the fact that is an employers body (rather than a regulatory function as ICAO is often viewed), but often fails to repeat the same series of data in consecutive years making comparisons difficult. In addition IATA data tends to give only aggregated trend data on employment change, rather than the specific occupational data given by ICAO. Nevertheless together these are the only consistent sources of raw data on labour market issues within the airline industry.

US Labor Department: Monthly Labor Review

The US Labor department *Monthly Labor Review* (MLR) data provide comprehensive and complete information on bargaining arrangements within US industry and provide other information, for example, on aggregate employment trends. The MLR also provides detailed information on concession bargaining, wage agreements and employee shareholdings, as well as periodic analyses of different industries and sectors. Year end analysis in the January edition of each MLR provides a comprehensive overview of foregoing trends and developments. These data are used extensively in chapters 3, 4, 7 and 8.

New Earnings Survey (NES)

NES is published by the UK Office of National Statistics (ONS) and provides a comprehensive survey of pay and hours data by industry and sector. This data allows us to look at general aggregate data on earnings in UK air transport in order to contextualise the discussion on British Airways in chapters 5 and 6. This provides the foundation for our discussion in chapter 7 of the regulatory overhang and the premium wage. The difficulty with the NES data is that for air transport it provides only aggregate data increasing the distorting effect of high salaries. However it does provide data on male manual wages, which can be compared through other data sources.

Avmark Data

Avmark is a major aviation research organisation and consultancy which publishes a bi-monthly industry journal, the *Avmark Aviation Economist.* The study uses a report commissioned by the European Union to investigate detailed issues of labour cost and productivity. The Avmark data is used in tandem with ICAO and IATA surveys, to supplement the analysis in chapters 4 and 7. In addition the survey uses occasional reports and papers, compiled by a variety of organisations. In order to provide data on bargaining, wages and employment within a more detailed national context, aggregate data from the US labour Department, UK New Earnings Survey and other statistics are also utilised.

Airline Business/Air Transport World

These monthly industry journals are used extensively throughout the thesis. Both provide extensive coverage of the industry, and regular comments and editorials. Both Journals take an industry/management viewpoint but are analytical in their approach. Major industry statistics are published by both and particular use is made of the *Airline Business* Yearly Airport Data, published in January of each year, which provides the raw data for analyses of concentration and market dominance within the industry. *Airline Business* also publishes an authoritative survey and analysis of global alliances in June of each year, which is used to look at alliance impacts on the workforce. *Air Transport World* publishes a regular global survey of world airlines, and detailed industry traffic and employment data. Both publications also carry a variety of named articles, which are alphabetically listed in the bibliography.

2.3 The British Airways Case Study/Survey and Its Context

A major aspect of the study involved a detailed case study of British Airways. This carrier was used as a typical example of a carrier pursuing the new business strategies in a unionised collectively bargained environment. Single case study approaches are often criticised for being *ungeneralisable*, therefore before elucidating the nature and purpose of the case study it is necessary to justify the single case study approach and the trade unions based nature of the questionnaire utilised.

2.3.1 *British Airways: A Critical Case Study of Airline Deregulation and Employment*

In terms of revenue, market ranking and employment for instance, British Airways is a hugely important carrier in the global airline industry. Its leadership in many business strategies and early prioritisation of cost reduction make it hugely influential within the industry. BA is a 'first mover' in industrial relations change, and an aggressive innovator in low cost business strategies, whose policies are nonetheless tempered and controlled by the historical legacy of collective bargaining, and of the specific episode of corporate reconstruction which accompanied its privatisation. Its industrial relations antecedents can be traced back to the beginnings of UK airline industrial relations. For all of these reasons a case study of BA represents to a great extent, the past, present and future of airline industrial relations.

British Airways is currently adjusting to new regulatory and market environments ahead of other European carriers. For these reasons the British Airways' case study offers a 'critical' example of the processes and issues affecting the labour market and industrial relations after deregulation. The case also serves to indicate the importance of employee attitudes towards deregulation and employment change, and as such, provides an insight into the way in which workers cherish premium terms and conditions, even within carriers which operate in neo liberal, flexible labour market environments such as Britain. The existence of the 'regulatory overhang' and the strength and capability of organised labour means that workers in the airline industry generally have been reluctant to give concessions. The BA case illustrates these issues by examining both management strategies and employee attitudes during a period of critical change. At the time of the present study the carrier was responding to the phased deregulation of the European market whilst evaluating the prospects for an alliance with American Airlines. It also faced the challenge of low cost carriers and the general problem of falling yields. The presence of much stronger transatlantic competition both from Virgin Atlantic and the stronger US carriers also threatened long term profitability. These pressures led to a major series of employment initiatives, which sought to radically restructure costs within the airline. The nature of regulatory and product market structures mean that carriers will tend to converge in terms of their responses to these *broad environmental* pressures. This is not to say that the detail of their response will neglect the constraints of industrial relations, and labour organisation within specific countries, there will be wide variation in response, but to say they are driven by the pressures of a converging global regulatory and product market structures. (Chapter 8.) This leaves room both for specific institutional response in terms of the broad national industrial relations framework and specific 'strategic choices' from management towards that environment. These issues are discussed in chapters 5 and 7. However all of these choices are constrained by a wider environmental context. Since all airlines need to respond towards globalisation, alliances, low cost competition and the withdrawal of state funding, all face the need to restructure operations to address these pressures.

In short British Airways has encountered all of these pressures, and as a privatised flag carrier has had to confront the need for change much earlier than other carriers. Consequently, other carriers have emulated BA's employment policies. Looking in detail at these issues within British Airways therefore provides a 'critical' case study on how individual carriers and their workforces adapt to deregulation and employment change.

This then raises the question of representativeness. Is BA representative of the industry as a whole? To a large extent, and owing to its early adapting role it is representative, but we need to be aware that it is representative only of the regulatory and product market pressures which drive airline management in the current era. In that sense it is a representative case and its experiences are applicable to other carriers at various stages of the restructuring process. BA's early experience with privatisation and employment change with the withdrawal of state aid and market flotation render it useful in comparing the experience of other European carriers undergoing privatisation and quasi-privatisation. Its post privatisation experience, whereby management pursued massive cultural change programmes such as the quality initiative *Putting People First,* are being emulated in one way or another by other European airlines. Its post deregulation experience where it faced the need to confront the problem of declining yields and greater competition, has been the experience of other European carriers such as Lufthansa and Air France. Though all are pursuing different policies according to their own unique national labour market environment, the regulatory structures and product market pressures, which they face, are largely similar. This issue of *global product market convergence* is addressed in chapters 1 and 8. The case of BA illustrates clearly the stages of adaptation to the deregulated competitive environment, within a major flag carrier airline. The detailed rationale for the case study and its relevance to the research objectives are discussed below.

2.3.2. *Case Studies and Relevance*

The debate between the case study method and other methods is often misconceived as a debate between qualitative and quantitative approaches. Often such debates become not discussions about the appropriateness of methods in particular settings, but puerile exchanges about the efficacy of one or other method, adding little to our understanding of methodology. Case studies should be understood and used as a hybrid technique that can embody the best of both quantitative and qualitative approaches. Yin argues that case studies are often confused with more specialised qualitative techniques, such as ethnography and participant observation. (Yin 1994: 11.) Yin cites Schramm's viewpoint that:

> 'The essence of a case study, the central tendency among all types of case study is that it tries to illuminate a decision or set of decisions, why they were taken, why they were implemented and with what result.' (Ibid.)

Other researchers offer the case study as a particularly valuable tool in organisational research. Bryman argues, for example, that case studies in facilitating the application of many techniques of data collection and analysis allow a much more involved and meaningful interpretation of issues. (Bryman 1989: 172.) On the problem of generalisation Bryman argues that many criticisms of the inadequacy of case studies in this respect are based on "erroneous application of statistical notions which treat the case study as a sample of one."(Ibid.) Such views question the applicability of the case study on the basis that it cannot be generalised statistically. However, as Yin argues, case studies should be judged on the basis of the *theoretical* inferences generated. The case study, he argues, provides information which informs theoretical reasoning. In any case, belief in the cast iron dependability of statistical methods is itself questionable given the issues raised by the realist school in social science research. (See Sayer 1984: 190-199.) Again it is not the purpose of this section to revisit methodological debates, which however stimulating can become, in the wrong context, ultimately diversionary. Rather the aim is to justify the relevance of utilising a single case study of British Airways as a basis from which to generate theory on the process of airline industrial relations in the deregulated and oligopolistic era of airline competition.

2.3.3 *The British Airways Case Study: Relevance to the Research Objectives*

The case study allows us to look at the depth, richness and complexity of airline industrial relations within a carrier whose environment and market position, though unique, are not peculiar. The evolving structure of the industry (described in chapter 8) means that we can make some generalisations about airline strategy based on this case. In stating this preference for theoretical generalisation it is hoped that the error of practical generalisation is not committed. This can be seen at the most basic level in the excellence literature of Peters and Waterman and journalistic analyses of airline strategy, which tend to utilise the case as a confirmatory and even celebratory device. This involves identifying several qualities and attributes, which are deemed "'desirable', identifying these within one setting and prescribing these for other settings. This characteristic of the case is de-contextualised from other factors, becoming in effect an 'ideal stereotype.' In this vein writers such as Corke and Campbell-Smith, (both 1986) have written largely celebratory accounts of British Airways transition from the public to the private sector. Given the paucity of literature on UK airline industrial relations, these approaches have become unduly influential.

For example, the radical cost surgery of 1982, where unions accepted employment reductions, wage freezes and the implementation of new management strategies, is identified as the manifestation of a unique British Airways' spirit rather than reflecting the specific economic, political and industrial relations environment of the UK. Such factors were equally if not more important than any cultural factors. These views betray a unitarist pre-occupation, to be expected in essentially journalistic accounts of the 'phoenix from the flames' variety. However, even within established industrial relations research there is a tendency towards this confirmatory bias in the use of case studies.

For example, in a study of European airline industrial relations Warhurst (1995: 259-74) argues that most European airlines would 'converge' upon the sort of Human Resource Management (HRM) model utilised by BA. (Warhust 1995: 259-74.) As Blyton and Turnbull argue, this assumes that the institutional richness and complexity of European industrial relations is susceptible to being shoe-horned into a particular management paradigm, or that organised labour has no agency in these matters. (Blyton and Turnbull 1996: 7-20.) In any case, British Airways, as recent events have shown, has not avoided strikes and conflict and has been constrained by traditional institutions of collective bargaining and unionised labour. Outside core managerial grades, it is doubtful whether HRM policies are greatly used. Nevertheless, major preconceptions exist about the nature of BA's business and industrial relations strategies, and these often inform analysis. When British Airways faces a strike the reaction of uninformed commentators has often been one of surprise or even incredulity.[11] The detailed critical case study is therefore of great importance in analysing and explaining episodes of industrial unrest and employee dissatisfaction that could otherwise be viewed as pathological. It moves beyond the merely confirmatory and celebratory accounts of the mainstream and journalistic literature, and provides a much deeper understanding of the complexity of labour management relations then can be obtained from descriptive and prescriptive accounts in the academic literature.

[11] This surprise is likely to be dampened after the 1997 cabin crew strikes and episodes such as BEP, late 1990s profits slump. These events have exposed organisational problems at BA, many of which are deep- rooted industrial relations issues.

The approach is first of all to delineate the carrier's detailed strategies within the wider context of global competition and market structure analysed in chapters 6 and 7. Secondly, to consider employee responses to these strategies. The first section looked in detail at the employment initiatives being undertaken by British Airways. The first aspect of the process involved detailed in depth interviews with key actors from both management and trade unions. These interviews were used to explore and refine some of the key research hypotheses, which had arisen from the historical work and the developments in the USA. The interviews also helped in the formulation of research questions for the specific European context. The interviews were supplemented with an investigation of company documents, many of which related to the key business strategies then being advanced. In addition trade union material from various levels was also utilised; constraints and practical problems including management re-organisation were reviewed.

The issues uncovered during the BA case study led the author to believe that there was a substantial gulf between the carrier and its trade unions in terms of future direction. This raised questions of the extent to which staff views were being taken into account by management. The assumption was that staff were more or less resigned to the employment implications of deregulation and there would be little resistance. Management emphasised the need to adapt to the global marketplace, and to compete in an increasingly contested environment. There was little evidence on staff attitudes about detailed issues. The company carried out periodic surveys but the type of attitudinal questions did not look at sentiments about the future of the industry and issues of restructuring which were becoming 'live' at that time.

2.3.4. *The Questionnaire: Rationale and Research Questions*

The survey instrument was designed to test the idea that staff attitudes were being influenced by the 'regulatory overhang' argument deployed in chapters 2 and 3. In essence employees had become used to a certain type of labour contract which had arisen under a regulated environment, and this employee belief in this challenged short term and even long term cost-reduction policies. After interviewing both management and staff it became clear that there was a need to look at employee attitudes. Too often staff views have been assumed, particularly in the rent sharing/union monopoly literature, which aggregate the views of entire workforces under a set of theoretical assumptions. However this is also the case in the popular literature and the HRM based literature of Kochan et al and Warhurst, where management policies and strategies are accepted implicitly, without recourse to employee views. Employee views however are of utmost importance because the perceptions of employees upon the legitimacy of management decisions can often have huge consequences for the process of restructuring. An example is the BA cabin crew strike of 1997 where management assumed that cabin crew would accept the need for pay restructuring and a rationalisation of overtime and pay increments. However cabin crew were attached to the traditional earnings package based in the regulated era, and preserved throughout the transition period of King and Marshall. There were similar issues around the restructuring of ground handling, and to a lesser extent catering. Thus in order to engage the interest of respondents, and to 'operationalise' a number of the key research hypotheses the questionnaire was designed to reflect a number of debates and issues which were affecting both the airline and the industry at that particular point in time.

The attitudes explored related to the following broad areas:

- Internal outsourcing, regionalisation and franchising
- Flexibility
- Management strategy
- Globalisation
- Outsourcing
- Future of collective bargaining

Detailed questions addressed within the survey related to the nature of the employment contract within the large international carrier, and allowed some assessment to be made of the concept of regulatory overhang.

- How will workers view the introduction of regional terms and conditions with lower pay rates? Will workers accept this or resist it?
- How will workers view the extension of franchising and low cost operations?

- Are there any differences in perception of employment effects between those who were recruited pre-privatisation (before 1987) and those who were recruited before post privatisation (after 1987)?
- What will be the attitude of workers towards the extension of atypical work? Will there be any differences by gender?

- How do workers perceive the threat of outsourcing to terms and conditions of employment?
- Given the trend towards outsourcing which aspects of working for BA do workers rank highest?
- How do workers view the loss of the terms and conditions when considering the possible outsourcing of their job?

Additional questions on management strategy and globalisation sought to obtain the view of workers on the strategies being pursued within the airline, and whether workers supported or rejected these policies.

- How do workers view management strategies in the post deregulation environment?
- How do workers view the policy that cost reduction should be the overriding priority?
- What is the attitude of workers towards moving some functions to low labour cost countries?
- What is the attitude of workers towards the growth of global alliances and acquisitions?
- In terms of global alliances how do workers view the prospect that existing flights could be operated by partner airlines?
- How will workers view general management strategy on globalisation?
- How will workers view global policies when posed directly in terms of employment?
- How do workers view these policies in terms of their effects on local terms and conditions?

Other questions related to the perceived break up of national level bargaining. This set of questions can be seen as addressing an aspect of the regulatory overhang as national collective bargaining underpins the regulated terms and conditions of employment, its abolition would be perceived as in other industries, as the precursor to large scale reductions in terms and conditions.

- How will employees view the break up of national bargaining?
- Will workers perceive that the break-up of national bargaining will lead to lower terms and conditions and to threaten stability of employment?
- How do employees view the introduction of business unit bargaining?
- Will employees perceive their trade unions as being marginalised by such developments?

2.3.5. *Early Design and Modification*

After extensive reading on questionnaire design the author opted for a 'closed set' attitude questionnaire based on the Likert scale. The format was to design blocks of questions in specific 'modules' which could be used to measure a particular set of variables. Questions themselves were formulated on the basis of industry knowledge gathered from interviews, documentation and other accounts. The questions attempt to measure staff attitudes towards aspects of business strategy, which had direct and indirect effects on employment and industrial relations. In order to capture the full range of attitudes and to minimise 'formulation bias' in the questionnaire, statements were alternatively 'loaded' where appropriate, in one direction or another. This technique was used in response to Oppenheim's advice about loaded questions and their role in the production of bias. (Oppenheim 1992: 137.) The decision was taken to make the loading of questions explicit and to alternate the loading bias. Thus one question would embody a company view of the issue alternated with a trade union view.

So, a question designed to measure employee attitudes towards flexibility might have the following set of responses (see figure 2.1):

Figure 2.1 The Loading Of Questions Within the Survey

	Strongly Agree	Agree	Neither agree nor disagree	Strongly Disagree	Disagree	No Opinion
More flexible hours will help with commitments such as family.						
I will get lower wages due to the reduction of hours.						
I will get fewer benefits than full time staff.						
Flexibility for the company will mean greater job security for everyone including those on contracts.						
The company will use flexible shifts to cut out overtime which will reduce pay						
I will accept it because the airline business needs people to be flexible.						

It can be seen that even if a respondent were to tick the boxes at random s/he would have a reasonably equal chance of agreeing/disagreeing with a management loaded statement as a trade union loaded one. This is appropriate in a number of other questions and appendix 2, which includes a full reproduction of the questionnaire, will indicate this.

2.3.6 *Piloting and The Negotiation of Access*

Having formulated the questions and generated several versions of the questionnaire, pilot testing commenced in March/April of 1996. It is worth commenting on some of the existing advice on piloting that rightly advises that questionnaires should be fully piloted on every aspect. Oppenheim, for example, advises us to 'test' everything through a series of pilot surveys, paying attention to details from the stamp/frank issue down to the quality of the typeface. (Oppenheim 1992: Chapter 4.) He advises us to conduct a number of pilot surveys until we perfect the questionnaire. Unfortunately in an industrial relations context, especially at a time of critical change and management re-organisation, the opportunity for pilot work is limited. However, within these constraints appropriate pilot work was undertaken. A sample of 80 questionnaires were dispatched in March 1996 through the various unions and the management with equal numbers sent to each (20). Returns indicated that a number of issues had to be reworked and re-thought. At the same time extensive consultation with both management and trade union officials indicated the need for some immediate changes. For example the category of bargaining unit in the first pilot was changed to that of National Sectional Panel (NSP) in the next revision after consultation with the TGWU, as discussions with a TGWU full time officer suggested members related only to their NSP grouping. In addition consultation with supervisors and a departmental methodology adviser suggested the need to rework scales, and include a 'neither agree nor disagree' category in addition to the 'no opinion' response. Some additional questions were formulated and revised in response to pilot survey comments. Returns for the first pilot amounted to 33 per cent.

British Airways had initially been favourable to the survey but after detailed discussions and a major meeting at their HQ, decided that the time was 'not right' to allow a questionnaire to be distributed.[12] The author was told that the issue could either be reconsidered or new research plans discussed. The issue of focus groups in line with access to an internal company questionnaire was discussed but the author saw severe limitations in this approach. The focus groups, though chosen solely by management, were considered as an appropriate method of discussing issues with employees and monitoring and recording their views. These would have been based in Glasgow and London but problems with the frequency of meetings in an environment characterised by shiftwork and in the expense of servicing meetings in London and Glasgow, led to the decision that the focus group approach would be inappropriate.

[12] Management at BA returned incomplete all 20 pilot questionnaires sent to them. They wished to "discuss" the questionnaire and felt that it was "not the best way to collect information". The author tried to resolve this situation by setting up a meeting with management, which resulted in a major re-appraisal of the project. A further modified pilot was designed and presented to BA management in June 1996. Management initially wanted a more neutral questionnaire but appeared convinced of the benefits of a 'no holds barred' attitudinal questionnaire. However by 26 June 1996 when the author met with British Airways management to discuss the distribution of the questionnaire, the airline faced a strike ballot by pilots, which caused them to withdraw their promised participation in the survey.

The use of the BA staff questionnaire was more problematic. Though easy to access it addressed none of the research questions the study was designed to address and amounted to a satisfaction survey, rather than attitudinal questionnaire. The data from this staff survey were available only in aggregated graphical form, which made it impossible to re-analyse or interpret the data. This alternative methodology was therefore abandoned and instead a decision made to distribute the survey via the trade unions. This decision had a number of implications for the survey as discussed below.

2.3.7 *The Trade Union Based Questionnaire: Questions and Issues*

The three key trade unions participating in the research were approached to distribute the questionnaires, given BA management's withdrawal of co-operation. This approach in itself presented several problems. Firstly, the sample would be confined to trade union members only. Secondly, the method of distribution was problematic. The method envisaged was that of the stratified sample. This is the ideal cost efficient method of sampling across a number of different locations and occupational categories. The technique involves the selection on the basis of a random sample, which should represent the different geographical and occupational categories. (De Vaus 1996: 65.) The main drawback with the stratified sampling technique is that small deviations (oversampling, undersampling and non-sampling) can produce large distortions. However, as De Vaus argues this may not matter if the characteristic on which the sample is unrepresentative is not related to the focus of the study. (Ibid.) In this case there were three trade unions all of which were sampled on the basis of their actual membership in British Airways.

A sample of the unionised workforces of the TGWU, BALPA and AEEU (respectively 40,000, 10,000 and 8,000) was selected with an average 1.7 per cent sample. Repeated attempts were made to obtain access to union records and membership data, in order to construct a stratified sample, and to obtain control over return and follow up. In pursuing this repeated faxes and telephone calls were made to key officials reminding them of the need for a random sample to be obtained from a list of members. Despite these attempts this access was not given by any of the trade unions, all of which cited confidentiality and union rules in justification. A compromise solution was therefore needed. The unions did agree to distribute the questionnaires via key officials who acted as 'gatekeepers' to the occupational groups concerned. These 'gatekeepers' would then distribute the questionnaires according to sampling instructions given by the author. Considering the dissagregated nature of this data and the impossibility of identifying individuals it could only be concluded that the request was perceived as an intrusion on the time and resources of the organisation concerned. I offered to fund the costs of any search but was again refused access to the data. Despite my best attempts at re-assurance and promises to sign any documentation relating to anonymity and confidentiality, the records were not made available. This then presented the problem of trying to ensure that the distribution of the questionnaire was as random as possible, with neither the detailed records with which to select a random sample, nor the opportunity to ensure a proper representation of employees by region, trade union, gender and other relevant categories. I then asked the organisations concerned to distribute the sample on the basis of my instructions and was assured that this was done. Returns based on postal dates indicated no significant difference between late response and non-response. (Wass 1994: 106.) The co-operation of busy union officers at a time of considerable industrial unrest and organisational upheaval was greatly appreciated, and the author could not reasonably expect these officers to prioritise an issue such as this. There was, however, a great deal of support from the unions concerned and a great deal of belief in the importance of a neutral survey.

2.3.8 *Returns and Non returns: Some Issues*

There was a significant disparity in return rates between the TGWU and other unions, with a corresponding over representation of ground handling staff within the TGWU sample. There were no returns from cabin crew, which may well have been institutional.[13] The bunching of a large cluster of returns on similar dates suggested there might well have been a non-random distribution on a 'convenience sample basis' to certain groups that could not be discounted. It can be contended that whilst very

[13] Although the surveys were distributed via the union's national Airline Officer George Ryde, who is also the major official dealing with cabin crew, it was assumed that the surveys would be distributed amongst cabin crew as the sampling instructions indicated. The returns suggest that there was no systematic distribution to cabin crew, suggesting that for reasons unknown they were excluded from distribution. One explanation might be that the cabin crew section of the TGWU (BASSA) has a separate group of officials and separate union offices. This may have rendered the inclusion of cabin crew less likely.

step was taken to ensure random and representative distribution, the real institutional constraints of the industrial relations environment made this extremely difficult and even theoretically impossible.

The belief that only statistics generated from a random sample possess validity is widespread within the industrial relations/employment research literature. Yet the author would argue that even if it had been possible to ensure that the data were perfectly random, the skewed nature of the data would have made it difficult to conduct meaningful statistical tests. Should the data then be discarded as inappropriate? There are reasons for arguing this should not be the case. First of all the replicability of sample surveys in industrial relations is under severe question (see Hartley and Barling 1998). Many such surveys take place at a particular time and place and can do no more than obtain a snapshot of the views and attitudes of those whom they seek to measure. In another sense it could be argued that a survey of the attitudes of human beings cannot be expected to measure attitudes in the same way as an experiment within the natural world. Human agents on both sides of the research experience, both 'experimenter' and 'subject' are informed by their own mores and values, misgivings, instincts, intuitions and beliefs. Given the highly contested nature of industrial relations and business policy at British Airways and at many other firms undergoing a cathartic process of restructuring, we could not expect anything else. Yet many social scientists expect to be able to measure attitudes and then predict the behaviour of others from that set of initial conditions. (Godard 1994: 13.) The survey was designed to examine several key hypotheses about the processes of deregulation and employment. It was supplemented by a number of other methodological approaches from interviews with key official and managers, to a detailed investigation of secondary data. Validity should be seen from the point of view of the methodological stance and the role of the survey, which was to provide some test of the attitudes of workers.

The main quantitative data aspect of the study is an illustrative case study designed to look at the theoretical issues developed throughout the thesis. Whilst it is intended to provide some information on these criteria it does not seek to exhaustively or comprehensively test them. Firstly that would be impossible to justify given the nature of responses, which made it difficult to obtain the preconditions for even the most basic inferential tests such as Chi square. Secondly, it would be unnecessarily reductionist to ascribe the aspects of one case study to the entire industry on the basis of one set of employee attitudes. However sound the statistical basis for such a generalisation the theoretical basis would not support this. The airline industry exists in a multiplicity of political and economic contexts and market environments. Each of these environments is governed by an overarching set of regulatory and market pressures which to some extent encourage airlines to adopt common policies. These policies such as outsourcing, the creation of internal low cost strategies and the formation of alliances are all common trends within the industry. However it is necessary to temper these pressures towards a form of common strategy with the reality of the industrial relations environment. A case does in such a context provide a worthwhile illustration of the trends, which are developing within other airlines and their employees. This is especially so if it is designed specifically to look at industrial relations issues. (Kitay and Callus 1998: 111.)

In a sense the questionnaire goes beyond the usual 'snapshot' example whereby a questionnaire is used to say something about the issue at a specified point in time and place. The questionnaire in this study is the culmination of a careful and thorough examination of the development of employment change within the industry. It focuses on British Airways as a carrier poised at a particular point in the evolution of the European airline industry. In any case, representativeness in attitudinal surveys is not a clear-cut issue. Whilst a traditional positivist research methodology would question the validity of a questionnaire which could not infer from a sample population, few such treatments deal specifically with industrial relations issues. When they do deal with such issues, many approach the field from the disciplines of psychology and economics where predictive validity is paramount.

Hartley and Barling, for example, articulate fairly well the preoccupation of psychologists with what they themselves term "psychometric issues."

> 'It is sometimes suggested that psychologists are overly concerned with psychometric properties of their research instruments (most notably reliability and validity), but these are key aspects of questionnaire design and hence research design. In addition a lack of reliability and validity may well affect any inferences that can be made. If a quantitative measure of a variable has poor reliability or low validity, then the researcher is not in a position to make confident interpretations of the research data, because variability in scores may be as much a function of instrument error or of random responding as any "true variation" within the sample.' (Hartley and Barling 1998 :167.)

In this survey predictive validity is less important than the issue of construct validity. Construct validity refers to the ability of the survey to carry out the task for which it was designed. It can be argued that in looking at specific debates and issues around the issues of employment change, globalisation and deregulation the survey fulfilled its purpose. It measured a sub-sample of BA employees across a range of bargaining groups, and highlighted a particular group of employees; those involved in ground handling and engineering as fairly typical of the general workforce within the industry. The survey was also divided into those employed within the engineering and ground handling functions. The results of the survey, bearing in mind its deficiencies and inadequacies, provide a good summing up of the survey and its methodological framework.

2.3.9 *Questionnaire Method and Industrial Relations Research: Some Observations*

Whilst it is necessary to strive for random distribution the realities of industrial relations research in a conflictual environment render this difficult. In times of increasing closure and secrecy from the actors themselves, it becomes very difficult to pursue any type of organisationally focused enquiry. The possibility of obtaining any information is increasingly jeopardised. The possibilities of obtaining access on terms which allow a fully validated random sample, are becoming rare. Often this level of access is only granted in cases of 'partnership research', or 'action research' whereby academics act as 'change consultants' to a particular organisation. In both companies and trade unions obtaining total access and therefore a likely high response rate is often only possible at the expense of objectivity. Organisations invite this kind of research only on the basis that it can be seen to affirm organisational goals. Management, for example, would not allow the survey to take place at a time of conflict. Conversely trade unions actually wanted the survey to take place before issues went 'off the boil' in the minds of their memberships. The researcher then faces the problem of reconciling two sides of a contentious debate. Indeed nowhere is the attitudinal fissure between employee groups and management better exemplified than in the brokering of a questionnaire into a fraught industrial relations environment. Given the aims of the research and the need to address issues identified through the early interview work, and the ever-encroaching time factor, access had to be obtained on some basis. The need for data was unavoidable and yet there were many reasons for waiting until a more favourable 'window' arose. This was attempted waiting for access to management who were pre-occupied with the announcement of the BA/American alliance, and had promised co-operation(June 1996). There was in addition to a possible strike of pilots a large scale management re-organisation, which led to the redeployment of some key management contacts.[14]

Conclusion

The methodological approach employed in this thesis seeks to provide a framework for the study of employment regulation and deregulation within the airline industry. As we have noted the political economy approach is used to develop an analysis of change and continuity within the sector, by relating it to other sectors thus developing a series of questions about the nature of labour market deregulation. This involves the development of several models of labour market deregulation, which are used throughout the thesis to examine the airline industry. Next the thesis looks specifically at the *regulated* period of the industry developing several key propositions on the

[14] This re-organisation saw the HRM director moved to another post and many HRM professionals moved into other functions. That managers were able to afford any time to the project was remarkable

effects of industry regulation, structure and product market upon airline employment. Using this broad framework the thesis then examines the impact of *deregulation* on pilots as a key occupational group. The next set of questions addresses the effect of deregulation upon a particular carrier and its workforce using a detailed survey and case study method. British Airways provides a 'critical case' with which to examine subsequent developments in the industry. Thus the issue of management strategy in response to deregulation and of worker response are examined. The wider experience of European airline workers is then examined with regard to costs and productivity, wage premia and changes in regulation and management strategy. Finally the emerging regulatory, product market and labour market framework are discussed in terms of the *global product market convergence* model of employment deregulation. This allows us to develop an understanding of the emerging context of airline employment, and the nature of both management and trade union strategies.

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and is deeply appreciated.

Appendix 2.1 The Survey Questionnaire

UNIVERSITY
of
GLASGOW

INDEPENDENT QUESTIONNAIRE

THE EFFECTS OF PRIVATISATION AND DEREGULATION ON BA EMPLOYEES.

As a BA employee you will know that a great deal of change has occurred and will continue to occur with deregulation. Please help me by completing this questionnaire which looks at employee attitudes towards employment changes resulting from deregulation. The questionnaire is aimed at members of the major BA trade unions.

This is **NOT** a management or trade union commissioned survey but part of a long term university research project. Your co-operation will help to provide important data. Your anonymity is assured, as the data will only be presented in statistical form. If you have any queries relating to the questionnaire, and/or would like to be sent a copy of future findings, then please contact me on any of the telephone numbers below.

John McGurk, University of Glasgow, (0141) 339 8855 ext. 2337
evenings (0141) 423 9324

Please return this questionnaire (within one week of receipt if possible) using the FREEPOST envelope provided. Instructions are provided overleaf to help you to complete the questionnaire. Thank you for your kind co-operation.

Please read the questionnaire carefully. Most questions ask your attitude towards BA policies. In some cases you may not feel strongly one way or the other in those cases please tick the: **(PTO)**

"Neither agree/nor disagree" box If you have no opinion or cannot answer then and **only** then tick the "No opinion" box

1. About Your **JOB.** What category describes your current job?
   Please **CIRCLE** the box provided

Pilot	**1**
Flight Engineer	**2**
Cabin Crew	**3**
Maintenance and Overhaul	**4**
Ground Handling	**5**
Administration	
Sales and Marketing	**6**
Other (please specify below)	**7**

2. About Your **LOCATION**: Where are you based? Please **CIRCLE** the number of the box which describes your location. If your base is a regional call centre or sales outlet then circle the nearest city.

1. Heathrow	**5. Manchester**	**8. Aberdeen**	**11. Highlands Islands**
2. Gatwick	**6. Glasgow**	**9. Edinburgh**	**12. Cardiff**
3. Birmingham	**7. Belfast**	**10. Newcastle**	**13.Other (please specify)**

3. Which **SECTION** of BA are you currently employed within?
   Please **CIRCLE** the section within which you work

BA Europe	**1**
BA World	**2**
BA Regional	**3**
Euro Gatwick	**4**
BA Engineering	**5**
BAMC	**6**
Cargo	**6**
Other (please Specify below)	**7**

4. About your **TRADE UNION** or Staff Association. Please Circle the number which corresponds to your own organisation.

1. AEEU
2. BALPA
3. TGWU

4 A.

Which **National Sectional Panel (NSP)** within BA represents you in negotiations with management?

1. "A" Scales
2. Flight Crew
3. GSS
4. Craft bargaining Unit
5. Non -craft bargaining Unit
6. Cabin Crew
7. Other (please specify)

5. Were you employed within a company that was taken over by BA? Please **CIRCLE** the number of the company within which you were previously employed.

BEA		**1**
BOAC		**2**
British Caledonian		**3**
Dan Air		**4**
other (please specify opposite)		**5**

6. If you previously worked for an airline now part of BA how did you view your general terms and conditions of employment at that airline? Where they: (Please **CIRCLE** the box number of the statement you most agree with).

Better than now	**1**
No different from now?	**2**
Worse than now	**3**

7. How **LONG** have you worked for BA? (*Including predecessor companies BEA and BOAC)* (Please enter your length of service to the nearest year in the box below.

8. About you current employment terms. On which basis are you currently employed? (Please **CIRCLE** the box number which applies to you)

Full time permanent	**1**
Part time permanent	**2**
Full time Temporary	**3**
Part time temporary	**4**
Fixed contract temporary	**5**
Other (please specify)	**6**

Section 2: BA's Current Employment Policies

9. What is your opinion of the following sorts of employment policy? recently introduced at BA? (Please **TICK** the statement you most agree with for each category.

	Strongly support	Support	Neither Support nor oppose	Oppose	Strongly Oppose	No opinion
Moving certain activities to low cost areas of Britain and Europe.						
Setting up regional operations with lower pay and conditions than mainline staff.						
The use of Franchise operators to provide certain services.						
Greater use of part time and temporary contracts						
Separating off certain areas such as engineering from the main business.						

Perhaps you have your own particular views about BA employment policies as they affect you or your colleagues. Please enter your views in the box below.

Table ~~11~~

10. In common with other businesses BA is seeking to extend the use of contract part time and temporary staff. In your opinion regardless of whether or not you are employed on such a contract what will this mean for you as an individual employee?

	Strongly Agree	Agree	Neither agree nor disagree	Strongly Disagree	Disagree	No Opinion
More flexible hours will help with commitments such as family.						
I will get lower wages due to the reduction of hours.						
I will get fewer benefits than full time staff.						
Flexibility for the company will mean greater job security for everyone including those on contracts.						
The company will use flexible shifts to cut out overtime which will reduce pay						
I will accept it because the airline business needs people to be flexible.						

11 BA management is constantly examining whether certain operations should be placed out with the airline. If this happened to your job what would you miss in being transferred outside BA? Please list in order of their importance to you.

	Very important	important	neither important or unimportant	Not very Important	unimportant	no opinion
BA travel facilities and other perks						
BA terms and conditions.						
The common purpose of working exclusively for BA.						
The protection of national trade union agreements.						
The job security which a large airline like BA provides.						

Section 3. BA's Current Global Strategy and BA Employees

12. The following business strategies are being pursued globally by BA. Please **TICK** the statement within each row to indicate whether you support/oppose etc. these strategies.

	Strongly Support	Support	Neither support/ Oppose	Oppose	Strongly oppose	No opinion
Cost reduction as the overriding priority						
Increasing productivity as much as possible						
Offering lower fares than other carriers						
Involving Staff more in the running of the company						
Lobbying for access to airports and services currently denied to BA.						

Lobbying for an end to state aid for our competitors						
Taking over or acquiring holdings in other airlines to help expand market opportunities						
Building alliances with other carriers to expand but not necessarily using BA Aircraft and Crews						
Moving some functions to lower labour cost locations						

If you feel staff should be involved more in the running of the company, in which ways would you like to become more involved. Please use the box below to record your views

13. Your Views on what BA's global business strategy means for BA staff. Please **TICK** the box/boxes which best describe your attitude towards the statements on the left-hand side.

	Agree	**Strongly Agree**	**Neither Agree Nor Disagree**	**Disagree**	**Strongly Disagree**	**No Opinion**
More competition leads to less job security						
Some jobs will be moved to low labour cost countries like India and China						
It brings a new sense of purpose knowing that we are competing against the big global carriers.						
Alliances could mean less flights and threaten jobs.						

Jobs are more secure all round because we can win new business.						
We have no choice but to use these strategies because that's the reality of the airline industry today.						

14. What do you think BA's business strategy will mean for your own terms and conditions? (Please **TICK** the box or boxes with your preferred statement **i.e. Agree, Disagree etc..**)

	Strongly Agree	**Agree**	**Neither Agree Nor Disagree**	**Disagree**	**Strongly Disagree**	**No Opinion**
Reduced wages, through greater use of part time work and contracts						
Greater use of profit share or performance related pay which might increase wages.						
A reduction in fringe benefits such as travel concessions and medical benefits.						
Greater flexibility to allow us to respond to our competitors						
Accepting lower allowances and enhancements were applicable.						
Reduced overtime and shift rates through the use of new shift patterns such as annualised hours and split shifts.						

15. Which of the following do you think would result if BA abolished national bargaining?
. (please **TICK** the box which covers your opinion of the changes listed below.

	Strongly Agree	Agree	Neither Agree Nor Disagree	Disagree	Strongly Disagree	No Opinion
Our power to influence management would be severely reduced.						
We would be in a better position to negotiate through our local representatives.						
We would be under constant threat of franchising, or contracting out if we did not agree to changes within our part of the business.						
We would still have the unions to represent us as before.						
Management would try to bypass the unions and negotiate directly with staff.						
We would be able to focus on our own part of the business.						
Pay rates and conditions would fall as management tried to cut costs.						
We might become more involved in the management of our own business through employee shareholding, and greater involvement.						

Please **CIRCLE 1 or 2** here to indicate your gender.

1 MALE 2 FEMALE

3

Regulated Control: The Dynamics of Product and Labour Market Regulation In the US and UK Airline Industries

This chapter examines the nature of product and labour market developments within the US and UK from around 1920 -1978 in the US and 1920-1980s within the UK. However, the bulk of the period covers the period from about 1930 till 1975, when the labour market and industrial relations was under varying degrees of *regulated control.* In examining this era we look firstly at the early growth of product regulation and industrial relations within the USA, describing their impact upon the airline labour market. We then shift our focus to that same period in the UK, examining the growth of the industry and industrial relations within the formative period of airline development. Having examined these periods we then reflect on the clear differences and similarities between them, in particular, analysing the role of the state. We then proceed to analyse the period of later regulation, where the consequences of the regulatory and industrial relations structures erected in the earlier period become manifest. Having done so we then draw together some observations on the nature of these product/labour market regimes building upon the models of labour market regulation encountered in chapter 1. This provides a historical and theoretical context for later chapters were the effects of both product and labour market deregulation are examined in detail.

In both contexts, airline industry regulation has had specific impacts upon the airline labour market. The process of regulation brought power and prestige to key employees, particularly pilots who, aided by the state and their own bargaining ability, managed to command exemplary terms and conditions. Later as the industry grew and pilots used their bargaining power, the state acted to re-align the balance of power permitting management to organise against pilot demands. Throughout the regulated era, changes in the regulatory structure had pronounced effects upon the labour market. However, not until the process of deregulation, did the impact of changed regulatory structures alter the labour market and industrial relations structure of the industry in wholesale fashion.

The story is similar in the UK, which is broadly representative of the European model of regulation, where the regulatory process is effected primarily through state ownership and national level regulation. Although the pilots, and later other groups such as engineers, enjoy a high level of bargaining power, this is contained and effectively neutralised within corporatist bargaining structures. (Blain 1970.) Nevertheless, the effective power of organised labour is always below the surface. Eventually, the combined effect of product market and technological change and a perception of declining fortunes provokes the disruptive power of pilots and other groups. Each change in the regulatory and product market has consequences for the labour market and industrial relations. Given the position of the US originating a major airline industry and its later role in leading the path to regulatory reform, it is useful to examine the early US experience of product and labour market regulation. The next section provides this essential context to our study.

3.1.1 *Early Industry Regulation and the Labour Market in the USA*

The US airline industry grew rapidly from the mid 1900s but had been characterised by an element of barnstorming chaos and a lack of economic stability. (Hopkins 1992: 12.) Competition for government contracts meant carriers operated at and sometimes beyond the very margins of safety. In order to ensure growth in the fledgling industry administrators created a regulatory system, which would deliver both safety and stability. Government intervention became inevitable, despite the free market orientation of the Hoover administration under which the first steps to regulation were taken. (Ibid.) The principal acts of product market regulation involved a complex subsidy system for government mail contracts, which up till then accounted for the major share of traffic. However, to develop the crucial passenger aspect of air transport a more interventionist method of regulation was needed. In order to provide the much more rigorous safety environment needed for the safe transport of passengers, government engineered a regulatory framework. Broadly, the new regime built on earlier legislation to formalise mail contracts, guarantee markets and spheres of influence to the airlines and wages and conditions to airline labour. (See Kahn 1980: 319.) Thus in the New Deal period around 1932-35, a swathe of regulatory initiatives impacted upon the air transport sector. The system of regulation provided a framework of collective bargaining and protection for, and extension of, work rules. This was particularly important for pilots who obtained favourable productivity and scheduling rules, acting in effect as a conduit for technical regulation.

The foundations of labour market regulation within the industry were the Railway Labor Act (RLA) (Title 11) of 1936 and various directives of the Civil Aeronautics Board (CAB) (1938) which together legislated on terms and conditions, prescribing a framework for the conduct of collective bargaining. The CAB also regulated the wages and hours of pilots in its role as guarantor of safety and licensing. The cumulative effect of both tiers of regulation was favourable to labour and, more specifically, pilots. As Taneja (1976: 224) argues, the adoption of an award to pilots known as Decision No. 83 and passed by the National Labour Board (NLB) in 1934, ensured that pilots would receive a substantial part of future productivity increases in the shape of increased wages or reduced hours. (Ibid.)

Decision 83 was the culmination of an astute campaign by the newly formed pilots' union, the Airline Pilots' Association (ALPA). ALPA grew from pilots' concerns in the depression period between 1929-1932 that wages would be ratcheted down and hours progressively increased. The prospect of a general onslaught of the type, initiated by the fervently anti-union entrepreneur E.H. Cord of Century Airlines in 1932, [15](Ibid.) sent the pilots looking for political influence particularly within Congress. (Ibid.) In fact, the deflation of the late 1920s actually improved the position of pilots as prices plummeted downwards and the real value of their wages increased. Though pilots (as their official historian George E. Hopkins argues) were motivated "more by the fear of changes than the fact of them" they had legitimate

[15] Cord sacked the entire pilot workforce of the airline after provoking a strike ostensibly to that end. His actions were instrumental in the formation of ALPA the pilots union, and attracted the distaste of congress and of other operators. The establishment of a state-regulated floor on labour conditions was advanced as a method of indirect regulation in response to his buccaneering activities. (Cohen 1990: 308-23.)

concerns. (Hopkins 1992: 14.) By lobbying Congress to deny a federal mail contract to Cord, ALPA was able to manoeuvre its way into a favourable position. There was considerable sympathy for this union. ALPA was able to marshal support from politicians such as La Guardia and Roosevelt himself. (Ibid.) Indeed, La Guardia publicly criticised Cord for paying pilots "less than a union truck driver gets in New York" (Ibid.) This kind of heavyweight political support was important in ALPA's growth and in ensuring that technical regulation was effectively enacted through the terms and conditions of pilots. Using the National Labor Relations Board (NLRB) code pilots sought and obtained a better agreement than either government nor operators were initially prepared to grant. (Kahn 1980: 341.) By 1934 the union was able to secure its own unique deal in respect of Decision 83. (Capelli 1987: 137.) Thus the role of the pilot union was of crucial importance in producing a structure of product and labour market regulation, which benefited labour. In particular, they benefited pilots to such an extent that the ability of these workers to capture productivity increases in the shape of higher earnings became a major pre-occupation of proponents of deregulation in the 1960s and 1970s.

Before World War II, therefore, pilots depended to a great extent upon the support of the state. Paradoxically, ALPA's bargaining strategy in the 1930s was based on its intrinsic weakness, cultivating political support based on its prestige and desisting from all but the most defensive industrial action. Although ALPA had won the Century strike against E.L. Cord in 1932, the union was wary about taking further industrial action. This was a rational policy at a time of increasing legislation and when government was anxious to push forward a new spirit of corporatism (Dubofsky 1990). This position can be contrasted with militant use of the strike weapon after the Second World War.

Government's own rationale can be explained by the structural problems of the industry. In the mid to late 1930s government was prepared to tolerate an increasingly concentrated industry structure in its attempts to develop a stable and profitable industry. One aspect of that stability was a degree of workplace harmony, in particular, a method of solving disputes, which stopped short of strikes and lockouts.

Both accidents and strikes were all too common under the old subsidised competitive regime of the 1920s, proving a major obstacle to industry stability. A highly structured and codified framework of craft-based collective bargaining replaced the low trust, purely 'contractual' basis of the earlier employment relationship. As labour grew in strength and organisation and as the major airlines benefited from oligopolistic competition, compliance with the RLA became a condition for market entry. From 1938 the newly created super-regulator, the Civil Aeronautics Board (CAB), made RLA compliance a prerequisite for the granting of a *Certificate of Public Convenience and Necessity* (PC&N). When pilots were granted a comprehensive pay and productivity deal, in the shape of Decision 83 the state sought to use labour conditions as a form of indirect regulation. By the end of the period, labour had begun (with the protection of the state) to enjoy a high level of bargaining power and had the potential to pursue its demands to the full.

3.1.2 *Industry Regulation and Industrial Relations: the UK*

The development of the UK industrial relations framework followed a different track. In many ways, macro level differences such as the voluntarist nature of UK Industrial Relations shaped labour management interaction, complementing developments within firms and the industry. However, the smaller scale, scope and potential of the UK airline industry compared to the US must also be borne in mind. Though the UK industry was vibrant with routes offered from almost every point in the country, it was consistently unprofitable. (Dyos and Aldcroft 1969: 271-283.) This environment provided the background and context to the system of industrial relations. There were superficial, if predictable, similarities with the USA given the nature of the industry. As in the USA, pilot disaffection led to the formation of the first and strongest airline union in the UK. Safety concerns were a major issue in pilot strikes given the high fatality rate for both passengers and aircrew. (Bagwell 1988: 271.) Pilots had originally been affiliated to the Transport and General Workers Union and the TUC, through the Federation of British Civilian Airline Pilots (FBCAP). (Blain 1971: 49.) That union was involved in an early strike against Imperial Airways in 1924. Although only 24 pilots belonged to the Federation, the employers responded vigorously with members of the fledgling pilot organisation dismissed and blacklisted (Ibid.). The dispute was ostensibly about remuneration, though a complex array of grievances and resentments were expressed through the pay aspect. The first airline union was defeated in the strike. According to an unpublished official history of the successor flight deck union, the British Airline Pilots' Association (BALPA), the Federation members "being mainly ex-service tended to regard themselves as 'Officers and Gentlemen' and feeling uncomfortable having done something so ungentlemanly as striking, they allowed their federation to quietly die." (*The Log* 1987.) Despite the earlier setback, the need for trade union organisation in an industry with similar problems of safety and stability as experienced in the US remained. Nevertheless, obstacles remained in respect of the nature of pilot representation. In the vacuum after the Imperial Airways strike, the Guild of Airline Pilots and Navigators (GAPAN), represented professional and technical interests, deliberately eschewing a trade union orientation, as its Livery Company status demanded. However as pilots faced a tough management regime at the major carrier, Imperial Airways, the importance of effective trade union organisation became clear. The shortcoming of GAPAN became all too apparent as the new union sought a pay deal. Both the Chairman of Imperial Airways and his managing director refused to recognise the union or even to negotiate.

As *The Log* jubilee edition of 1987 argued, one of the problems was the failure of GAPAN to present a credible threat to autocratic airline management:

> 'GAPAN had no teeth with which to get its way and once commerce got in the way the old boy network simply did not work. Secondly, as the numbers of pilots increased it became impossible to maintain the same level of personal contact with Management. This was especially true in Imperial Airways as it expanded rapidly and based pilots in several down route stations, further weakening lines of personal communication.'[16]

This recognition of the failure of GAPAN's gentlemanly advocacy, and the implied breakdown in the traditional paternalistic work culture, prepared the way for the growth of BALPA as the first airline trade union. BALPA was modelled on the US pilot union ALPA and borrowed from the organisational talents of its founder David Behncke. BALPA founding member, Captain Eric Lane-Burslem had pursued a flying career in the United States having joined ALPA from its formation in 1931. On returning to the UK in 1933 inspired by this experience, Lane-Burslem resolved to begin an UK pilot union. Lane-Burslem became even more convinced after his repeated complaints to management about the safety of Imperial aircraft were ignored. Given the dominance of Imperial in UK civil aviation these misgivings came to the attention of government via his persistent lobbying.

As in the USA, legal enactments benefited the early pilot organisations. The Air Navigation Act (1936) probably operated in a more indirect way than US legislation, which favoured labour explicitly. Its main effect was to enshrine a two-airline strategy as official policy with some labour provisions. The national government of the period took the opportunity of introducing a form of product market regulation, which led as in the US, to higher levels of concentration. Labour regulation can be viewed as part of the compact, which would ensure safety and stability. However the primary concern was probably (as in the US industry) stability. Nevertheless, the 1936 act did extend the scope of labour regulation considerably, even if it only specified a floor for remuneration. The act guaranteed minimum wages and conditions in the industry, specifying that:

> The wages paid by any "subsidised persons" to that person's employees in connection with the carriage of air passengers or goods may not be less favourable than those observed under (those applying to) government contracts' (Cmnd. 1032 1936 Air Navigation Act.)

However, although such measures were important to the extent of setting a floor on wages, remuneration was not the sole issue. At the heart of the Imperial Airways dispute was the issue of power and prerogative. Safety was often used as a proxy for these issues. BALPA criticised both the management and safety regime that prevailed. When Lane-Burslem himself suffered near disaster due to these safety deficiencies in 1936, his determination to form an independent and assertive pilot association was re-affirmed.

However the extension of product market regulation, to control the UK industry, provided the impetus to both trade union organisation and labour market regulation. Again this has to be located within the national industrial relations context (Gospel

[16] *The Log* 1987 Jubilee edition "50 years of BALPA" (page 9)

and Palmer 1993:155). Both unions and management favoured this form of labour market regulation and legislation of the type encountered in the USA would have conflicted with this voluntarist tradition. The voluntarist nature of industrial relations in the UK as a whole has to be offset against the general atmosphere of industrial relations in the aftermath of the general strike and depression. Despite defeats, labour, as Fox argues, was still:

> 'Enjoying the protections and constraints of constitutionalism and the rule of law, ... (and) could exercise that function despite mass unemployment, and weakened bargaining power. Unemployment had weakened unions but it had not destroyed collective bargaining.' (Fox 1985: 337.)

Within the airline industry, the truth of this statement was verified when the Cadman Commision of 1938 boosted trade unions and collective bargaining through the extension of Whitley councils. (Blain 1970.) The extension of this standard framework of civil service collective bargaining and joint consultation was again effected at a time of further industry consolidation. The Cadman Commission consolidated all imperial and European routes into a duopoly, and rationalised subsidies and fares. It was an attempt to kick start a stable air transport industry. (Dyos and Aldcroft 1969.) BALPA was able to win substantial majorities representing the pilots' interest on those bodies. The eve of World War II therefore witnessed the formation of both a key trade union and official recognition of collective bargaining in the UK airline industry. This arose, as in the USA, from the safety concerns of pilots and was facilitated not just by the goodwill of politicians but by the careful and tactical approach of the fledgling union.

3.1.3 *Early Product and Labour Market Regulation in the US and UK: A Comparison*

It is important to reflect on both the similarities and differences between the early US and UK experiences of labour market regulation. As in the USA, pilots in Britain became organised over safety fears and the experience of dealing with an autocratic management. To a great extent, the issue of safety and trade union representation cannot be separated. Militant organisation was necessary in an environment of victimisation and managerial autocracy. Pilot pushing in the USA under the US Postal Service led to the formation of the first pilot organisation and later to ALPA. In the

UK the despotism of Imperial Airways led pilots to form their own militant association in 1924, though this was stillborn. GAPAN's low key strategy was exhausted by the technical and organisational arrogance of Imperial, which their genteel lobbying was ill equipped to confront. Furthermore as Blain (1970) contends increasing complexity within Imperial and the wider industry caused alienation between management and workers. The close knit organisational intimacy, common in the airborne services, was lost and the previously accepted military style discipline and hierarchy was now being contested.

In this early period of regulation we can see some clear similarities between essentially weakened fledgling unions, seeking and obtaining the protection of the state through the mechanism of regulation. Bearing in mind the differences between the airline industry in both nations, we can point to several key differences in the application of product and labour market regulation. In the US, government chose to harness the regulatory system towards the goal of industry growth and stability and the clear use of labour market regulation, as part of that overall blueprint is evident in the product and labour market legislation discussed. There was a clear interconnection in the USA between product and labour market regulation, the clearest evidence being the stipulation of RLA compliance as a condition for market entry. The technical constraints on efficiency and the distribution of the gains of productivity to labour, was a conscious design of the regulatory system.

In the UK there was a more fitful if equally extensive form of product market regulation, with the state encouraging first a long distance monopoly airline in the shape of Imperial Airways, and then a 'dual airline policy' under Cadman. The smaller size of the UK industry necessitated this level of concentration, which can be contrasted with the more basically competitive forms of consolidation, which the state sponsored in the USA. Again, as in the USA in response to pilot and misgivings about Imperial's cavalier attitude to safety, the government of the 1930s initiated a series of protective labour clauses within general industry legislation. These provided basic wage and licensing protections for aircrew and were later extended in the 1938 Cadman act to include the Whitley model of collective bargaining. There is less evidence of the state actively using labour regulation to promote wider industry goals as occurred in the US. The extension of a protective floor to wages and conditions and of collective bargaining was entirely consistent with the voluntarist nature of UK industrial relations in the period, and as a modern industry air transport was subjected to it.

We are left therefore, in analysing the early period of regulation with a clear divergence between the *liberal corporatist* intervention of the USA and the *quasi-regulated voluntarism* of the UK. Both models reflect wider state goals and industry structures and much is explained by the superior size and scope of the US industry. Nevertheless there are clear differences in the extent to which the state is prepared to intervene within the industrial relations environment, even when its goals of safety and stability are essentially similar. Having mapped the early experience of regulation within both countries, and explained the key product and labour market differences, we now go on to examine how product/labour market regulation actually operated in the industry regulated 'heyday' period, broadly from the 1940s till the eve of deregulation in the mid 1970s.

3.2 Regulation and Industrial Relations in the Post War Period

3.2.1 *Post War Regulation and Industrial Relations in the USA*

Within the US, the foundations provided by the RLA and the effects of industry regulation secured a favourable position for airline labour in the post war period. The industry reaped the benefits of passenger growth and increasing scale, allowing labour to push for greater representation. From 1939 collective bargaining became widespread, fundamentally altering the balance of power between labour and capital. This fact encouraged the view of later 'deregulationist' writers such as Taneja (1976) and Caves (1962) that labour enjoyed despotic power in the industry. This has to be qualified with reference to the labour legislation with its enforced mediation provisions, which potentially restricted the power of even the strongest occupational groups. (Kahn 1980: 343.) Nevertheless, the important issue from the point of view of the study, is that labour enjoyed a period of considerable power and influence and the state tended not to use the sanctions at its disposal in order to challenge that power. Indeed, according to Nothrup (1977), the RLA afforded labour too much power and fundamentally weakened carriers. The craft based nature of bargaining encouraged union competition and fragmented representation, especially in the case of pilots (Northrup 1977: 364-372).

Product market growth led to a huge expansion in the labour force. The crisis conditions of the immediate post war period disappeared, replaced by a precipitate expansion of world air travel from the 1950s. In the US between 1945 and 1955, passenger revenue miles increased six-fold from 3.9 billion to 24.2 billion or 521 per cent (Capelli 1985a). Overall between 1955 and 1985 there were only 6 unprofitable years. (ICAO 1994.) Within that environment of industry growth and optimism, labour prospered. Pilots in particular were able to take advantage of the growth conditions, in order to pursue their sectional aims. Their strategy was aided by the nature of bargaining within the industry which favoured labour groups with disruptive power and a unified representational structure. With almost total coverage of the pilot workforce ALPA benefited from this bargaining environment. The option of substituting high cost with lower cost employees was effectively closed-off to operators by virtue of the certification aspect of regulation. Whilst there would normally be an incentive in any business to raise profits by cutting costs, this efficiency 'driver' was effectively dampened as a consequence of the regulatory regime. Capelli describes the prevailing labour market environment:

> 'In short, under regulation, employment levels did not vary along with employment costs. Unions had little to lose by pushing up labor costs, and the carriers had little reason to resist their doing so because industry average costs were passed on to consumers through fare increases. Although holding the line on labor costs would have improved profits, airline managers typically thought that profit increases would not be worth the costs of a potential strike.' (Capelli 1987: 139.)

The fragmented nature of bargaining in the US industry was also a key factor in the ability of pilots, in particular, to secure their demands. (Capelli 1987: 56.) Using a mixture of craft exclusivity, tactical awareness and militancy, US pilots were incredibly successful in securing those interests. Whenever their interests were threatened, they were prepared to strike the individual carrier until their demands were met. Few workers in or out of the airline industry had this kind of bargaining prowess. With no national negotiating body given the differing ownership patterns of the industry, there was little carriers could do. In effect there was *post hoc* national bargaining. That is to say, though individual carriers negotiated with union representatives at carrier level, agreements and disagreements were always subject to the intervention of the federal authorities. The state often intervened by initiating inquiries into strikes and other episodes of disharmony, however it seldom found against labour (Krolick 1966: 136).

ALPA's bargaining power grew in tandem with the growth in the overall workforce, between 1950 and 1955. The extent of this power was reflected in their ability to influence technological change within the industry. Larger four engine piston aircraft were introduced, and after intense battles between the union, aircraft manufacturers and operators, these aircraft carried an extra crew member - the flight engineer. (Leveen 1982.) However, despite the victory over crew complement in the late 1940s, ALPA faced a less certain future than the frenzied growth of the 1940s and 1950s suggested. The crucial break period was the introduction of jet aircraft around 1955-58, witnessing much slower growth in the flight deck workforce, and a precipitate expansion in the growth of these grades, particularly the skilled technical and maintenance staff needed to service these high technology aircraft. (Table 3.1). In the period between 1955 and 1965 there was a huge increase in industry output expressed as revenue passenger miles (RPM), but little corresponding change in the rough composition of staff. Crucially, there is a mere 19 per cent increase in the number of pilots, reflecting the lower crewing requirements of jet aircraft.

Table 3.1 Growth of US Airline Personnel, 1935-1960

Year	Total	Pilots*	Cabin crew**	Mechanics	Clerical	Other***
1935	8352	995	213	1518	3008	-------
1945	68281	5897	1046	9447	23904	20051
1950	82786	7277	1521	12256	31138	20338
1955	122203	10857	2762	19114	45030	29666
1960	162771	12967	3618	42568	34855	71106

* Includes co-pilots.
**Includes grades such as purser, stewardesses and stewards.
***Includes other flight personnel (radio operators, navigators, flight engineers, plus traffic and commercial grades. **Source:** *FAA Statistical Handbook of Aviation 1957 and 1962*

The jet revolutionised many aspects of the industry, particularly the time and distance which could be travelled, and the capacity which could be offered. But its least recognised effect is the manner in which it changed the nature and structure of industry bargaining. This issue is discussed in the next section.

3.2.2 *Jet Re-Equipment and the Mutual Aid Pact: The Airlines Strike Back*

As the foregoing section explained, ALPA utilised what have been referred to as 'whipsawing' tactics on a regular basis in the 1950s, pursuing a dispute with one carrier that led to a generalised settlement. (Capelli 1987: 163.) The introduction of jet aircraft rendered the continuation of this level of bargaining power disastrous for carriers. Although airlines were profitable in the 1950s, there were problems on the horizon. If pilots were allowed to choose the method of compensation for jet aircraft, if they could decide on crew complement, and if they secured favourable scheduling agreements as with four engine transports, then jet re-equipment would be disastrous. Even limited industrial action would saddle carriers with massive debts, as hugely expensive hardware was immobilised. From a productivity viewpoint, in order to make jet aircraft pay, carriers had to maximise utilisation from the outset. That would mean modifying the generous scheduling rules the pilot union had secured.[17] It stood to reason that operators had to effect a change in the bargaining situation that delivered so much for pilots. Yet the combined effect of both Decision 83 and the crew complement ruling was to boost ALPA's effective right of veto over jet utilisation. In order to effect a change in the situation, airlines needed the acquiescence of government. As ALPA strategy depended on 'picking off' individual firms, the operators had to respond by rendering this tactic more difficult. They reasoned that if pilots were unable to select individual carriers, by virtue of some strike insurance pact, allowing carriers to preserve revenues and re-direct passengers, then the monolithic power of ALPA could be challenged.

[17] Under D83 pilots managed to secure a maximum monthly flying hours limit of 85 hours. A standard which they improved upon, and which defined the parameters of bargaining given the importance of scheduling in flight deck negotiations. (See Kahn 1979: 341.)

The Mutual Aid Pact (MAP) of 1958 was designed to neuter ALPA's whipsaw strategy. However, it could also be seen as a first step in the eventual re-alignment of industrial relations, allowing carriers the scope to challenge cherished work rules such as Decision 83 and the crew complement ruling. Under the agreement, (submitted for approval to the CAB in 1959), operators refunded extra revenues generated through the replacement of a struck carrier. The pact achieved significant critical mass as the six majors controlling the bulk of domestic and international traffic signed up immediately. (Krolick 1966: 266.) All unions in the industry protested the plan, and it is interesting to note their principal objections and the attitude of government as an indication of the changing nature of regulation. The unions argued that the pact would allow 'costless confrontation' on behalf of carriers and, thus, seriously impair the industrial relations environment. Secondly, they argued that the move was an attempt to impose industry wide collective bargaining and as such contravened the letter of the RLA. The act permitted industry wide bargaining only with mutual consent.

They also reasoned that the arrangement for remitting revenues to struck carriers constituted unlawful collusion under the Sherman anti-trust legislation. However, despite these objections, the CAB/FAA and NLB moved from a policy of neutrality to declare that:

> 'Labour and management owe the public an obligation to take all possible steps to avoid stoppages, especially disputes which are of a jurisdictional nature. Or which result from the failure of parties to give adequate weight to the wishes of Presidential Boards'. (Krolick 1966: 267.)

The rationale for allowing the measure was that it would cause parties to "reflect on the circumstances of strike action." (Ibid.) Since unions tended to initiate strike action, all tended to view MAP as a direct assault on their effective power. By mid 1960 nine major carriers were involved in the pact. The unions' dilemma was clear. For a strike to be effective it would have to be industry wide. As contract negotiations were set on different dates, it was impossible for the unions to co-ordinate in this way. The overall effect of MAP was to prolong the duration of strikes by engendering an atmosphere of trench warfare. Indeed one academic critique of the plan suggested that carriers even had a perverse incentive to endure industrial action as many ended up more profitable during a strike than in a normal operating climate. The writers went on to conclude:

> 'To date at least, airline strike insurance, ...appears to have promoted escalated costs and benefits, and encouraged longer strikes, but little else. It is a lesson in the adverse consequences of strengthening the weapons of industrial warfare without any evidence of countervailing benefits.' (Unterberger and Koziara 1975: 26-45.)

One consequence of the MAP was a shift in the occupational basis of industrial action. The power of pilots was curtailed, but other groups of workers were prepared to use the strike weapon in a different fashion, often rethinking strategy to circumvent the pact. Walsh describes the Machinists strike of 1966. This forty-six day strike was conducted against five carriers in an attempt to short-circuit the MAP, and became a landmark dispute for other reasons. (1994: 57.) By mutual agreement and contrary to the usual industry practice, the maintenance and ground crew union, the International Association of Machinists (IAM) negotiated jointly on behalf of employees at all of the carriers. (Ibid.) The targeted airlines were paralysed by the strike, although they did not attempt to operate. Replacement was not an option, even from the military, given the highly specific certification for maintenance procedures within individual carriers and the acute shortage of skilled workers. (Walsh 1994:57.) The strike was only settled with the intervention of the AFL-CIO. Other less powerful groups such as flight attendants pursued long strikes, which become in effect lockouts. The main consequence of the MAP was to re-align bargaining power within the industry, providing evidence of the ways in which regulatory action can impact upon industrial relations. The unalloyed power of the pilots and other groups under craft bargaining was frustrated and contained by the state's willingness to licence this carrier cartel. Whilst still enjoying the protections of the regulated era, airline workers faced an environment which was infinitely more hostile. The state, by permitting the MAP, in truth already signalled the end of the bargained corporatism of the regulated period. Considering the longer-term effects of the introduction of MAP and the re-alignment of industry bargaining, two principal questions have to be addressed. Firstly, did the MAP curtail the number of strikes and increase the power of airlines in relation to their employees? Secondly, was there a pronounced re-alignment in bargaining within the industry? These issues, which define the nature of employment relations in the late regulation period, are the subject of the next section.

3.2.3 *Enforced Harmony or Enforced Conflict? US Airline Industrial Relations Strategies in the 1960s and 1970s.*

In discussing the flight deck industrial relations environment of the 1960s, it is difficult to escape the looming influence of the mutual aid pact. ALPA keenly felt the effect of the pact. From the outset it occasioned a re-alignment in flight deck union organisation which was to prove detrimental to ALPA. The pact destroyed their strategy in the short-term eroding the unions' two key advantages. Firstly, it challenged the whipsawing tactic, by bringing disputes to a strike when previously they had been settled by the *threat* of a strike. Secondly, and less commonly acknowledged, the pact fractured the unity of ALPA, fragmenting the pilot union into two principal constituencies following a strike at American Airlines in 1963. [18] The 1963 strike over crew complement on jet aircraft revolved around the representation issue for third operative on the complex jet flight deck. ALPA wanted these new workers to be pilots but a new flight engineers union, the Flight Engineers International Association (FEIA), sought to represent these workers separately. As a consequence of the dispute, American Airlines broke away from ALPA and formed a separate company union. This weakened ALPA for a considerable period of time, and continues to do so. (Kahn 1980 : 349.) In sanctioning the MAP, regulators had been persuaded that it would enforce harmony within the US industry. However, as the strike record shows, this was not the outcome. There was a shift from short duration strikes where pilots obtained their aims over management to a situation of prolonged and embittered standoff. This war of position, indicated the reluctance of carriers and unions to concede even on basic issues and a hardening of their bargaining stance generally. The changing dynamics of industrial relations within the industry and the fact that other grades of airline labour were becoming involved in the vanguard of strikes is a crucial factor. The major strikes in the period from 1970 to 1978 are given in the chart below.

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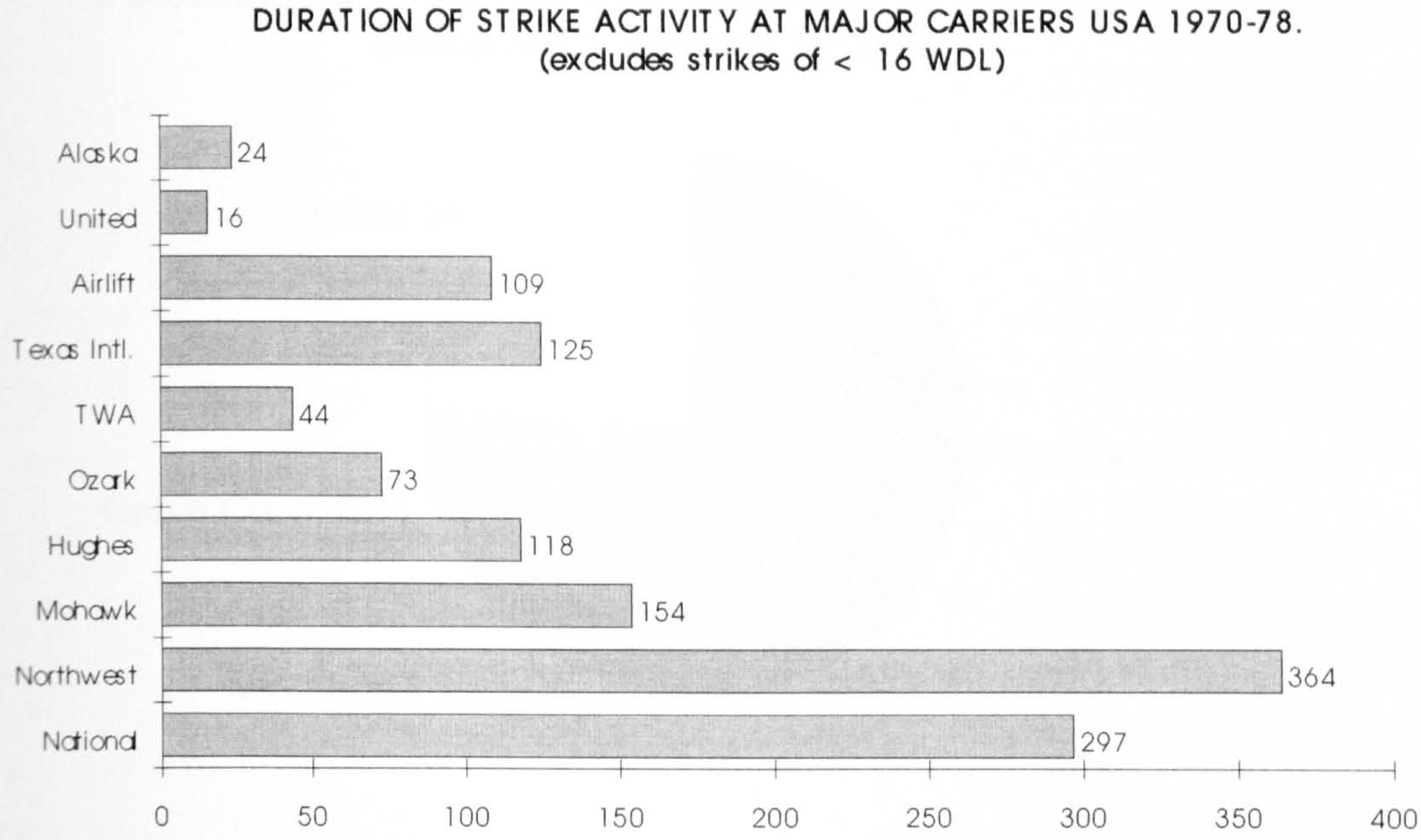
[18] The strike over crew complement on jet aircraft revolved around the representation issue for third operative on the complex jet flight deck. ALPA wanted these new workers to be pilots but a new flight engineers union, the Flight Engineers International Association (FEIA), sought to represent these workers separately. As a consequence of the dispute, American Airlines broke away from ALPA and formed a separate company union. This weakened ALPA for a considerable period of time, and continues to do so. (Kahn 1979:349.)

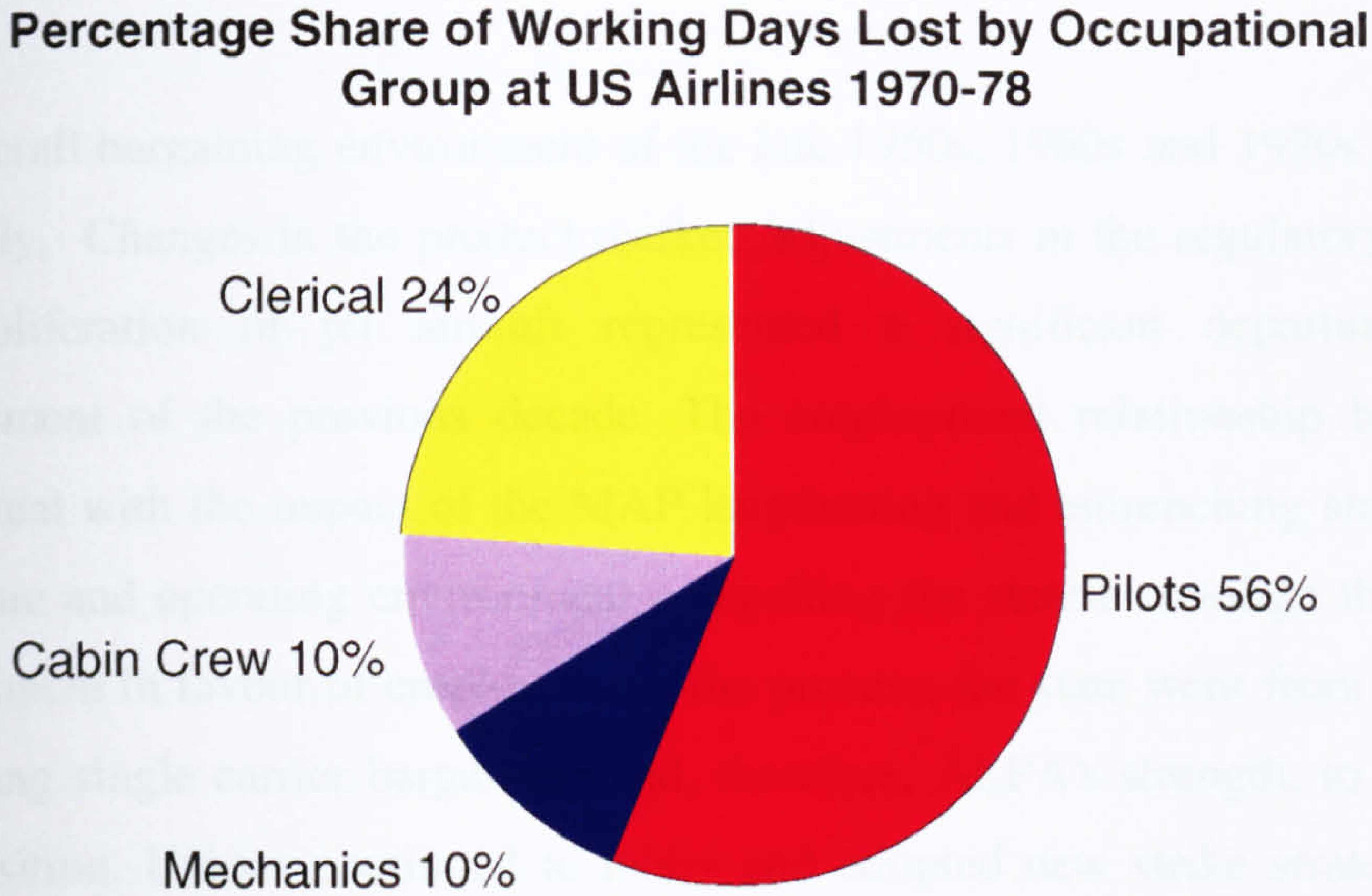
Figure 3.1 Strike Activity at Major US Carriers in the 1970s. Working Days Lost (WDL)(per employee)



Source: Compiled from Airline Industrial Relations Conference, National Mediation Board and Unions. Presented in Kahn Mark, L. Airlines in Somers (ed.) *Collective Bargaining: Contemporary American Experience.* IRRA Cornell (1980) (pp. 315-72)

In contrast to the combative strategies of other unions, ALPA's bargaining strategy in the 1970s and up until the period of deregulation became one of caution. (Walsh 1994:59.) However, the union was still involved in major strikes. (Figure 3.2)

Figure 3.2 Proportion of Working Days Lost (per employee) by Occupational Group 1970-78



Source: Compiled from Airline Industrial Relations Conference, National Mediation Board and Unions. Presented in Kahn Mark, L. Airlines in Somers (ed.) *Collective Bargaining: Contemporary American Experience*. IRRA Cornell (1980) (pp. 315-72)

Many of the disputes involving ALPA were around defensive issues related to staffing and contracts, as carriers responded to a changing industry structure in the 1970s. Again, the interaction between product market and labour market regulation is clear. As a second wave of jet re-equipment occurred between 1969 and 1975, the operators took the opportunity to differentiate their product by increasing the level of service. Often they offered larger seats, greater frequency, and refinements including passenger lounges even on relatively short flights. This led to a huge increase in costs, incurred primarily in the purchase of new 'wide bodied' aircraft, well before the existing equipment had depreciated. Given the nature of airline competition every carrier had to emulate the service differentiation strategy. (Hanlon 1996:33.) In the midst of the resulting financial crisis, airlines sought to reduce labour costs. Figure 3.2 above indicates the share of working days lost by each occupational group, aggregating strike activity for any trade union representing that group of workers. Although pilots seem to account for a disproportionate amount of strike activity, excluding the Alaskan action, they account for only 12 per cent of disputes. (Ibid.) Other groups of airline workers, particularly flight attendants and maintenance personnel, were responsible for much strike activity in the late 1960s to mid 1970s. Later, regulatory adjustments to rate setting and market entry all presented problems for carriers and continued to expose their cost structures.

The overall bargaining environment of the late 1950s, 1960s and 1970s had changed markedly. Changes in the product market, adjustments in the regulatory regime and the proliferation of jet aircraft represented a significant departure from the environment of the previous decade. The employment relationship became more conflictual with the impact of the MAP lengthening and entrenching strikes, and the economic and operating environment compelling the state to re-align the bargaining environment in favour of employers. In the process, the state went from a position of upholding single carrier bargaining and, therefore, ALPA's strength, to undermining that position. Unions continued to lobby and adopted new strike strategies. By the 1970s, therefore, the regulatory environment had changed significantly; from one which favoured the untrammelled, bargaining power of organised labour, to one which allowed carriers to actively resist that pressure. This marked a significant break from the period of the 1930s to the 1950s. Before going on to discuss the implications for our models of labour market regulation it is necessary to describe the course of product and labour market regulation within the UK.

3.3 UK Regulation and Industrial Relations in the Post War Period

3.3.1 *Industry Growth and the Development of Collective Bargaining*

As the UK aviation industry matured in the aftermath of World War II, its industrial relations structure also matured. The industry was nationalised in 1946 in various stages with a European and a transcontinental carrier in the shape of British European Airways (BEA) and the British Overseas Airways Corporation (BOAC) forming the core of the industry. This policy of nationalised duopoly effectively describes the method of product market regulation, with prices, routes and schedules tightly controlled through various government ministries. Again, however, the product market and the nature of regulation had significant impacts upon the industrial relations and labour market environment.

Collective bargaining was embedded within the Civil Aviation Act of 1947. The act extended and strengthened collective bargaining, creating a new body, the National Joint Council for Civil Aviation (NJC CAT). These revamped industrial relations structures provided stability and predictability in airline labour market as other forms of regulation did in the product market. The NJC CAT laid down an elaborate bargaining framework for the air corporations, and the wider industry, extending the Whitley Council model as recommended by the Cadman Report of 1938. Its structure was characterised by the national level bodies, sectional panels and local councils, pursuing issues of local concern. Like most such negotiating forums, the NJC CAT prescribed a resort to arbitration in cases of disagreement between the parties. This usually meant reference to the industrial courts with a binding decision. Whilst these issues were dealt with under the heading of negotiation, wider issues including staff welfare, health and safety and company efficiency were the subjects of consultation. (HMSO *Cmnd.* 6605.) This clear split between negotiation and consultation allowed management effectively to retain sole power over strategic decision making within the various airlines. Nevertheless the new structures were popular with management and union representatives. Investigation of the annual reports of both major air corporations show the commitment of management and unions to the operation of the new system in an industry previously identified with poor industrial relations. In its 1946-47 Annual Report, BEA is laudatory:

> 'The subjects dealt with have covered the whole range of the corporation's activities, specific agreements have already been concluded on a whole range of issues and in only one case has it been necessary to refer a question to the industrial court. It can therefore be said that the National Joint Council is one of the most successful examples of its kind and unlike most others, covers all sections of staff.' (BEA 1946/47.)

Crucially, the bargaining framework afforded stability in a difficult period as the inflationary effect of the Korean War led to a generalised wage push throughout British industry. The *constitutionalist* nature of the bargaining machinery ruled out all but the most official strikes, and then only after an elaborate series of referrals to conciliation and arbitration. Such controls and limits on potential disruption were well appreciated by the airline:

'A measure of its success (NJC) is that of the large number of complex staff problems which arise in complex organisations of this kind. In the present inflationary period only eight differences were recorded at Local Panel Committees for reference to national panels.' (BEA 1951.)

In addition the presence of the NJC CAT and the corporatist bargaining environment allowed carriers to control costs in a period of extreme instability. In the United Kingdom, the concentration of the industry into a dual monopoly increased the importance of labour costs as a component of overall costs.[19] As the short haul operator in a highly competitive route structure, British European Airways (BEA) had a keen interest in securing cost reductions. The table below gives the labour costs as a proportion of major operating costs for selected years.

Table 3. 2 Simplified Operating Cost Breakdown For BEA 1953/4-1955/6.

	1953/54	1954/55	1955/56
Pay and Allowances	42 %	38.5 %	39.5 %
Maintenance and Overhaul	9 %	10.3%	10.3%
Fuel and Oil	15 %	12 %	11.5 %

Source: BEA Annual Reports 1953/54, 1954/55, 1955/56.

The importance to companies like BEA and BOAC of controlling labour costs was linked with their need to enhance productivity, which helped both airlines to eke out an existence in an industry which though growing, was often marginal and cyclical. (See BEA Annual Report 1956-57 for an illuminating passage on the cyclical nature of the industry.) (1958 HC 251/252.) As Gourvish (1991:128) indicates labour productivity in both BEA and BOAC outstripped that of UK nationalised industries generally, averaging 14 per cent between 1948 and 1958. However this performance owed much to the development of technology. As Lyth (1994) indicates that technology required a corresponding increase in demand, which though buoyant was not inexhaustible. (1994: 83.) In addition, there were considerable differences in costs between the long haul and short haul arms of the industry. When we examine operating costs (table 3.2) we can see that they account for about 60 per cent of overall costs. Crucially, operating costs are the most variable or 'escapable' costs, that is a reduction in these costs can reduce overall costs in the short term. (See Doganis 1995: 120-22 for a discussion.)

[19]The 'dual monopoly' concept is the most accurate description of two separate zonal monopolies BEA and BOAC whittled down from a tri-monopoly after the merging of BSAA and BOAC in 1949.

Whilst the industrial relation structure of the industry provided a stable environment, its stability was premised upon the containment of the aspirations of the various grades of airline labour. Like their US counterparts, key skilled groups such as pilots and maintenance staff had considerable disruptive power and as long as they were contained within the NJC CAT, the airline corporations would continue to derive the benefits of stability on labour costs and to minimise disputes. However, if these labour groups decided to exercise their power, that stability was immediately threatened. The next section describes how the relative docility of pilots turned to aggressive militancy as they sought to remedy a perceived deterioration in their relative position.

3.3.2 *Conscious Pilots: Pilots versus Management in the 1950s and 1960s*

Industrial relations in the UK airline industry in the 1950s, as in the USA, were dominated by flight deck concerns. At issue were familiar questions of cockpit complement and crew scheduling. Whilst other groups of airline workers, such as engineering, ground staff administration and sales where developing, cockpit crews continued to be at the forefront. In the 1950s British airlines which had favoured the faster turboprop aircraft over US piston types faced a similar set of crew complement problems as their American counterparts. The introduction of aircraft such as the Bristol Britannia leading to the phasing out of specialist functions, such as the radio operator and later navigator on long haul flights, was one issue. The airlines favoured a multi-skilled third operative who would sit between the pilots and share technical and navigational workloads. BOAC pilots however wanted to obtain additional payments for supervising these additional workers. Eventually these functions were integrated into the job of the pilot often with considerable acrimony between pilots and other flight deck grades. The parallels with the US situation and earlier crewing disputes are apparent. (See Blain 1970: 323 for a detailed discussion.) The problems caused by turboprop aircraft were trivial however compared to those posed by the introduction of jet aircraft in the UK. Jet re-equipment in the UK came early to long haul operations in the early to late 1950s. Britain led with the introduction of the world's first passenger airliner the De Havilland Comet.[20] BEA however made do with the relatively advanced turboprops until the 1960s when competitors and passenger demand made it impossible not to operate jets even on short haul routes. This introduction of jet aircraft again had major consequences.

Given the consequences of their introduction the need for higher productivity from jet aircraft was paramount in UK airline strategy. As we have seen from the change in management bargaining posture during the jet transition period in the USA, this technical advance drove a great deal of industrial relations change. It is no accident that the only prolonged period of strife in the British airline industry followed the introduction of jets. Jets created pilot unemployment and, more importantly, they slowed the entire promotion process for junior pilots. As Blain argues, the issue of scheduling was at the root of pilot concerns.

Management in the UK airlines wanted to use scheduling as an element of 'non price' competition, reflecting the need to concentrate on costs and productivity in order to deliver some form of profitability. Using the technical licensing standards of the UK regulator and the collective bargaining machinery, pilots had successfully constructed a web of restrictive work rules, as had their counterparts in the USA. UK pilots, however, had fallen behind considerably in the pay league and felt (with some justification) that their higher productivity should be better rewarded. As jet aircraft increased the required skill and responsibility of the pilot, they developed an acute occupational consciousness. Pilots had tended to see themselves as flyers and aviators before jet technology, with the low speeds of piston aircraft allowing more room for motor based flying skills. The jet era demanded a different type of pilot, one trained in technology systems and complex procedures, whose job was related more to the efficient and safe planning and operation of flights than the physical operation of aircraft. Increased complexity in air traffic control accompanied the growth of jet fleets, producing a perception among pilots that these new skills needed to be recognised.

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[20] Comets were introduced in 1949 on prestige routes but were withdrawn after a series of disasters, notably Rome in 1953. The US built Boeing 707 then shared these routes from the late 50s with later

Their acute sense of occupational identity gave them different problems and concerns from other airline workers. These attitudes led to a temporary withdrawal from the NJC CAT in 1967 and a series of bitter, prolonged and effective strikes by pilots. (Blain 1970: 321.) The main reason for strike action in the late 1960s was the issue of pay. Though pilots were able to command an average differential in 1968 of 38 per cent over other airline workers, excluding management, they felt underpaid. (Blain 1970: 327.) Blain argues that management of the time, as in other industries, resisted pilot demands because of the 'spilllover' effect on the wage expectations of other employees. This feature of the airline labour market meant that an increase of 10 per cent in pilot salaries led to a 'spillover' of 2.5 per cent. Given government's desire to impose pay restraint and the need for companies to contain cost pressures, a pay campaign by pilots was a serious threat. Furthermore, BALPA was in a more favourable position to secure its aims than its American counterpart. The structure of the nationalised airline industry allowed BALPA to close down the bulk of the scheduled airline industry instantaneously. Short one-day strikes and *work to rule* actions had the effect of dislocating the airline's domestic and international route networks. Against a general background of financial problems for the major carriers, these disputes would bring the concerns of pilots before Parliament. The government initiated two major inquiries into particular disputes at BOAC. (HMSO *Cmmnd* 3789.) The enquiry on the BOAC strikes recommended closer lines of communication between BOAC and its pilots, but it also severely criticised BALPA for its bellicosity. (Blain 1970: 327.)

The union was certainly in no mood for compromise before the strikes began. The May 1967 edition of The BOAC Pilot Local Council (PLC) newsletter warned that:

> 'This year will be a year of decision for us all. Before it is ended we shall have had to choose between two alternatives. Either accept token salary increases and resign ourselves to a lower position in the company than any other airline pilot outside Britain, or we can establish ourselves as a strong and militant body prepared to use all legal means to obtain a just reward.' (Blain 1970: 518.)

(and safer) comet variants. Short haul jets were not widespread until about 1963 onwards. (See Davies 1964)

The 'sovereignty' of the PLC was a major factor in all disputes. The fact that militant local representatives (pilot stewards) were given negotiating authority within the BALPA constitution often prolonged disputes. The power of local stewards to disrupt and undermine nationally agreed structures of negotiation, often at variance with the wishes of their national leadership, was a focus of the influential Donovan report on industrial relations of the period. The structure of pilot representation illustrated local/national bargaining tension par excellence. An inquiry under Sir Jack Scamp in 1968, identified BALPA's representational structure as a major factor in the disputes. Full-time officials within the association, such as the General Secretary, were allowed to negotiate only on PLC orders. (HMSO *Cmmnd.* 3551.) The 1968 strikes alone, cost the carrier some £15 million. (BOAC 1968/9.)[21] The airline was eventually pressured into conceding to BALPA demands. Ironically considering that BALPA's withdrawal from the NJCCAT was the touch paper for their action, it was intervention on the part of other unions which brokered a settlement.[22] (BOAC 1969/70.) New pay and scheduling agreements were introduced from 1969 in response to the main pilot concerns. Strikes at BEA and BOAC were mimicked by strikes at various independent carriers, reflecting seepage of industrial relations unrest into the private sector. (Blain 1970.)

The pilot strikes turned the spotlight onto the UK airline industry, and soured its reputation for good industrial relations. Other workers followed the lead of pilots. BEA engineering staff conducted a work to rule policy in protest at the wage freeze; fire crews employed by the British Airports Authority (BAA) struck, closing down Heathrow in early 1969. BAA baggage handlers also struck in the winter of 1968. (Ibid.) There is some evidence of an imitation effect of pilot strikes on other occupational groups, as evidenced from US pilot strikes in the early to mid 1960s. BOAC faced a pilot boycott of the new Boeing 747, which was only later resolved with the concession of a generous bonus system for flying these heavier aircraft. In securing this award, BALPA was securing the gains of increased weight, speed and range in an agreement, which set the scene for later long haul allowances.

[21] BOAC Annual Report and Accounts 1968-69 HC 379.
[22] BOAC Annual Report and Accounts 1969-70 HC 45

Industrial relations in the UK airline industry came under increasing scrutiny towards the end of the 1960s. At a time of increasing workforce militancy in general, airline workers were at the forefront of industrial action. Praise for the adaptability and flexibility of the system was replaced on the management side by anger at the way in which the machinery allowed various groups of workers to maximise disruption at different times. With increased flight frequency and massive capital investment in jet fleets, the harmful effect of strike action was enhanced. In addition the changing product market and technology, increased conflict as airlines sought to increase utilisation and therefore profitability. (BEA Annual Report and Accounts 1970.) Successful strikes were often followed by the action of another occupational group, destroying the stability and cost containment, which the industry had previously enjoyed. Airlines were faced with the problem of escalating equipment costs and an increasingly militant workforce.

In a spirit of dogged optimism, the Edwards Report of 1969 into the Civil Aviation Industry strongly defended the collective bargaining framework of the industry. The report even identified the lack of inclusion of independents within the NJC-CAT as the biggest problem facing the industry. (HMSO 1969 *Cmmnd* 4018.) Subsequent policy developments, in particular the creation of a single unified state carrier in the shape of British Airways in 1973/74, led to a greater concentration of bargaining power within the various occupational groups. However, encouraged by the various enquiries, the pilots revamped their organisational structures, employing a full time general secretary and professional industrial relations officers, in order to develop a more constructive industrial relations strategy with the new airline. The relative quiescence of pilots in the period after 1970 indicates that they were successful in this, although major pay deals in settlement of the earlier strikes played their part. In the UK the mantle of industrial action passed towards less skilled grades, particularly cabin crew and baggage handlers, whose combative strikes of the late 1970s and early 1980s mirrored, to an extent, a similar pattern of pre-deregulation strike activity in the US. This also reflected the power of the Transport and General Workers Union (TGWU), whose objections to the low cost strategy of the pre-privatisation chairman Sir Roy Watts in 1979 led to its withdrawal. (British Airways 1980/81.) Nevertheless the push towards commercial objectives, and the progressive withdrawal of the state from the airline meant that by privatisation in 1987, there was relative industrial relations peace, although as we shall see, the effective power and influence of the unions was preserved. Having examined the UK case the concluding section draws together our discussion by relating this to the models of product market/labour market regulation operating in the post war period.

3.4 Comparing Post War Product and Labour Market Regulation in the USA and UK

3.4.1 *Airline Labour Regulation in the USA: Strong Regulated Control?*

In the USA the pre-war legislation, which enshrined collective bargaining, carried many more implicit and explicit labour market effects than in the UK. Labour market regulation in the US was much more interventionist, producing a particular set of employment relations. Though the RLA was central, there was also the role of the National Mediation Board and other aspects of the New Deal legislation. In the 1940s and 1950s, pilots exploited the power, which the system of collective bargaining and the structure of regulation afforded them. Employers acted to confront that threat through the Mutual Aid Pact in 1958. The process of collective bargaining was altered fundamentally. Instead of pilots whipsawing all operators into a general settlement, through judicious use of the strike weapon at a key carrier, strikes became more entrenched and less susceptible to early settlement. In effect, each side had roughly similar power. The state by permitting the MAP, allowed a significant re-alignment of industry bargaining structures, and through this distinct change in regulatory policy encouraged a step change in industrial relations within the industry. The reform, however, did not necessarily produce industrial relations peace, nor did it cause the sides to re-evaluate their position, rather it led to further entrenchment and a lengthening in the average duration of strikes.

How can this system be viewed in terms of the models of labour market regulation/deregulation discussed in Chapter 1? Given the characteristics of high level industry regulation, the existence of oligopoly power in the shape of the 'big five' trunk carriers, and the power of organised labour, the US situation can be analysed as an example of the *regulated control model.* To be more specific, the US example describes a situation of *strong regulated control.* Initially, the impact of the state upon labour through its use of the apparatus of regulation and through the operation of wider labour market regulation, was to encourage the growth of collective bargaining and unionisation in the formative period of industry growth. By 1938, however, through the principal regulatory body the Civil Aeronautics Board, the state oversaw a significant re-alignment in labour's favour through various aspects of legislation. It can be speculated that in providing a framework for collective bargaining, and in encouraging the craft power of the pilots in particular, the state was providing some measure of balance to the potential power of the carriers. Furthermore, the state was persuaded by the safety-based arguments of the pilots on issues such as Decision 83 and crew complement. Pilots' harvested this combination of state protection to promote their interests. By the late 1950s however changes in the product market and technical environment caused the state to permit an employer strike insurance pact (MAP). Given the later economic problems of the jet re-equipment period, and the oil crises, this was probably to be expected given the states overall aim which was to oversee the health and stability of the industry. In any case the *strong regulated control* model adequately describes a situation where the labour market and industrial relations were directly affected by decision taken in the regulatory arena.

3.4.2 *Airline Labour Regulation in the UK: Weak Regulated Control?*

In the UK, by contrast, even in the post war period, the state regulated the labour market primarily through the mechanism of ownership, with the nationalisation of the industry in 1946. However with nationalisation the state took a more interventionist role in prescribing a strengthened framework for national bargaining. Again, the nature of collective bargaining in the UK industry was much weaker than the craft bargaining of the US industry. The voluntarist nature of UK industrial relations explains much of this, but so does the relative size of both the industry and its workforce. In the US the industry was much more high profile, as passenger services grew, compared to the UK, which showed relatively low growth even in the immediate post war period.

The *pattern* of industrial relations was totally different from that of the USA, with national bargaining actually constraining and limiting the power of key occupational groups, and disappointing the expectations of pilots in particular. In the 1960s, with the impact of technology and national pay policy, throughout the state-run industries, there was a backlash from pilots and skilled staff. The state's solution to these problems was to strengthen the structures and coverage of collective bargaining. This faith in voluntarist methods of industrial relations was typical of industrial relations policy in the period. Thus, in the UK, the state continued to believe that the preservation of national collective bargaining could provide a framework of stability for the industry. Further developments arising from the Edwards Report of 1970, culminating in the creation of a unified nationalised airline in the shape of British Airways, reinforced this policy.

From the foregoing discussion, it can be seen that the development of both product and labour market regulation within the USA and UK diverge markedly. In the USA the system of product market regulation was more systematic and structured than the generally *ad hoc* and reactive system which arose in the UK. US product market regulation was concerned with rectifying market failure and was designed to produce viable trunk carriers whose market position and profits were assured and who were largely insulated from the threat of competition. One area where regulatory intervention was strong was in the area of mergers and acquisitions, with laws forbidding the merging of route structures. This aspect of economic regulation has to be seen in tandem with the effects *of technical regulation,* which in many ways boosted the power of organised labour. The crucial aspect of compliance with the principal labour market statutes of the industry dictated the pattern of industrial relations, as craft based and unionised. The system of technical regulation also benefited specific groups of organised labour. The award of Decision 83 allowed pilots to obtain a disproportionate share of the 'rents' extracted from consumers in higher fares. Their ability to influence crew complement in the 1940s further enhanced that power. It might be argued that government saw labour market regulation as a way of pursuing goals of safety and stability. This also reflected a New Deal consensus, which encouraged big labour and big capital to come together, but with an emphasis on protecting labour from the power of the large airlines.

The UK industry was smaller and more diffuse and given the parlous state of the product market only state control could provide a framework of growth. Paradoxically, although there was a nominally higher level of intervention in the UK, (state sponsored monopoly as opposed to industry regulation) this was markedly weaker in its influence over both the product and labour market, than the American model. In other words the *effect* of intervention is more important than its *extent*. Although this is very much a question of degree, the degree of difference between the two systems is crucial to understanding how labour regulation occurred.

The passive 'control' model of the UK with its 'one off' product market initiatives and voluntarist industrial relations solutions, can be contrasted with the active legislation and market intervention of the USA. To explore this point we have to consider both the labour and product markets. In product market terms, compared to the muscular activism of US policy, UK regulation was relatively ineffectual. The UK industry was still insignificant and faced a struggle to develop competitive pricing strategies in order to compete realistically with inland and sea transport. (See Dyos and Aldcroft 1969: 374-396.) In the early period there was only one significant large firm, Imperial Airways, which was allowed to operate as a private company, though prices, particularly for freight and mail were closely controlled. By 1938 and the Cadman Commission a duopoly of Imperial Airways and British Airways had been established as the 'chosen instruments' (Dyos and Aldcroft 1969: 389). Notwithstanding a period of total monopoly when Lord Reith assumed the Chairmanship of Imperial (later BOAC), the UK policy was one of reluctant if generous state subsidy. While product market regulation was in evidence it was effected primarily through subsidy and the control of mail rates. However it did not regulate the industry to the extent seen under the weaker era of US regulation before the CAB. In effect the British state's regulatory interventions were reactive and episodic demonstrating little of the sophisticated stewardship witnessed in the USA. The relative insignificance of the UK industry however did not forestall controversy, especially when the fledgling pilot organisations rebelled in the face of management autocracy and the perceived safety failings of Imperial. Yet the government's solution was rooted entirely in the spirit of British industrial relations voluntarism, with one exception. The floor on industry wages, enshrined in the 1936 Air Navigation Act appeared to be an attempt to filter out the unsafe smaller operators, though the later monopolisation superseded this. More typical was the extension of the Whitley system into the industry, bringing a similar industrial relations framework to the nationalised utilities and the civil service.

These labour market interventions were far weaker and carried far less impact than the pre-war labour market regulation enacted by the US Government.

This can be contrasted with the domestic and international vibrancy of the US industry, which had graduated from the nursery of subsidy and was becoming viable and profitable. The wide scope and variety of regulatory initiatives on both product and labour market reflected this. With post-war nationalisation and the development of the NJC, the costs and conflict within the industry were contained and channelled. The disaffection of pilots in particular, but later other groups of workers, led to an increase in costs and conflict. In contrast to the USA, the different structure of the UK industry allows pilots to take advantage of the jet re-equipment period in order to push their demands.

Throughout the period we can view the UK system as one of *weak regulated control*, with neither labour nor capital enjoying particularly strong support from the state, and with the state unable to use product market regulation to prod the parties in its preferred direction. With the state unable to use regulation directly, to develop a stable and profitable industry environment, this can only be provided by the industrial relations system. The NJC CAT and the bargaining structure work for a time, but when the industry context changes with jet re-equipment, and as pilots begin to assert their power independently of the machinery, this method of indirect *ad hoc* regulation is found wanting. Though the state does have some influence and uses this through the development of committees of enquiry and wider industrial relations legislation, it is incapable of exercising power over the industry as witnessed in the US. The industrial relations situation reflects this.

Conclusion

The clear trend in both countries was for product market regulation to have pronounced direct and indirect effects upon the labour market. However, as the chapter has shown, clear differences existed between both nations and although we can use the *regulated control* model to explain how the labour market was affected by product market regulation, we need to differentiate between the *strong* and *weak* variants. The strength and weakness of these labour market effects can be seen in both industry regulation and the industrial relations legislation affecting the industry. The consequences of these systems of regulation can be seen in the response of both labour groups and management at specific periods. There were clear periods in the USA when labour was in the ascendancy and enjoyed almost untrammelled power, but arguably its power was licensed and authorised by the state. When the state allowed airlines to challenge that power by permitting the Mutual Aid Pact, pilots' faced a less certain bargaining environment. Nevertheless they continued to profit from regulatory statutes such as Decision 83 which directed productivity improvements into flight deck pay, and from generous scheduling rules. The UK pilots were much less successful. However the state's support in helping the spread of trade unionism and later developments in collective bargaining, helped pilots establish a voice from a position of marginal influence. Industry regulation had much less impact in the UK beyond certain licensing and technical requirements. The pilots in the UK did have bargaining power, certainly from about the 1940s, but they were constrained within the system of industrial relations introduced in 1946. Thus, in both nations the combined impact of industry regulation and industrial relations determined the nature of employment. Within both nations, the *regulated control* model can be used to examine these developments and with appropriate modifications describes the type of labour market regulation, which operated in the period up till the onset of deregulation. Did the onset of deregulation represent a decisive break with the industrial relations of the regulated period? The next chapter considers the impact of deregulation and examines these impacts, again by concentrating on the experience of pilots.

Appendix 3.1 Dynamics of Product/Labour Market Regulation in the USA 1920-1977: Strong Regulated Control

Period	Industry structure	Employment relationship	Employer strategy	Employee strategy	Level of labour market regulation	Effect on bargaining power of parties
1920s	multi-firm competitive/ subsidy based/unstable	Unitarist/low trust/cost cutting Individualised pay structures/ high risk/reward	Redefine pay formula/ increased work intensification/ wage reduction/ oppose govt labour market intervention	Seek to oppose through unionisation political lobbying/ seek to secure labour legislation	Non-existent, some regulation of external safety etc.	Employers in ascendancy/ labour dependent
Mid 1930s	Stable regulated multi-firm on basis of postal contracts	Pluralist/low trust	Seek to promote legislation which will superseded pro labour clauses/resist	Seek imposition of RLA on basis of D83	Increasing with D 83 (1934) and schedule limitations and section 12 and 13 of 1934 Air Mail Act	Labour enjoys increased power
Late 1930s	Regulated oligopoly with controlled market entry and exit/rate regulation	Pluralist	Seek to resist imposition of D83	Seek to have D83 and RLA enshrined in new regulatory framework	CAB (section 401) imposes D83/protects right to bargain for better deal/imposes RLA compliance as condition of PC&N	Labour enjoys high level of bargaining power, through legislative protection employer freedom to alter labour market restricted

Period	Industry structure	Employment relationship	Employer strategy	Employee strategy	Level of labour market regulation	Effect on bargaining power of parties
1940s	Regulated oligopoly with controlled market entry/exit/rate regulation	Pluralist With conflict	Seek to mitigate legislation/ deploy new technology to undercut labours bargaining strength by forming employers association (ANC)	Seek to extend D83 to account for increased speed weight/ increase base wages through strategic strikes etc./ seek to retain flight deck complement on new tech. aircraft	Cab sets D83 decision for new generation aircraft/ FAA makes 80,001b rule/ eliminates direct subsidies to carriers	Labour enjoys very high level of BP, and of legislative support. Employers constrained seldom win strikes
Late 50s-70s	As above with tighter price controls	Conflictual/ pluralist	Seek to introduce MAP	Seek legal injunction against MAP	CAB permits MAP, and allows increased coverage and scope	Labour faces reduced bargaining power because costs of disputes are increased. Leads to prolonged strikes etc. Employers are strengthened etc. but strikes continue

FAA Federal Aviation Administration; set up in addition to CAB as technical and safety regulator of the Airline industry. (1958)
MAP Mutual Aid Pact; Employers strike insurance organisation set up 1958.
IAM International Association of Machinists. The main mechanics (ground engineer) union.
ANC Airline Negotiating Conference (Employers bargaining front abandoned 1947).

Appendix 3.2 Dynamics of Product/Labour Market Regulation in the UK 1920-1977: Weak Regulated Control.

Period	Industry structure	Employment relationship	Employer strategy	Employee strategy	Level of labour market regulation	Effect on bargaining power of parties
1920s	Private subsidised carriers later developed into state controlled monopoly	Unitarist low trust	Maximise aircraft utilisation and staff control, offload surplus staff	Defend existing wage structure based on retainer plus flying pay/ promote professional interest through GAPAN/ Limited strikes at Imperial (1924) over pay cuts. Short lived militant unionism.	Non existent, some indirect regulation of external safety etc.	Employers in ascendancy/ labour dependent
1930s	Nationalised monopoly on major long and short haul routes	Unitarist/low trust/cost cutting	Maximise aircraft utilisation and crew schedules/ suppress unionisation/ uphold managerial prerogative	Seek to oppose through unionisation Political lobbying/ seek to secure labour legislation/ focus on safety	Increasing with Air Navigation Act (1936) providing wage floor based on imperial/ Cadman Ctee (1938) extends Whitleyism to airlines	Employee power enhanced, but labour still dependent

Period	Industry structure	Employment relationship	Employer strategy	Employee strategy	Level of labour market regulation	Effect on bargaining power of parties
1940s	Nationalised duopoly, restricted by treasury imposed cash limits	Bargained corporatism	Seek to focus on commercial aspects of operation including labour costs and rationalisation	Seek better terms for employees and union recognition for unrecognised groups	Increasing with CAA (1948). Section 22 Inaugurates NJC and national craft based bargaining. Licensing rules also uphold labour	Weak labour enjoys recognition and enhances effective bargaining power
1950s	Nationalised duopoly increasingly threatened by macroeconomic instability and poor equipment. (Differences between long and short haul.)	Bargained corporatism	Focus on cost reduction, large scale job losses and productivity increases. Seek to refer outstanding disputes to government arbitration.	Depends on craft. Pilots seek enhancements for reduced flight deck complement. Mechanics increased basic rates resist incomes policies etc. Navigators and Radio Officers seek to defend jobs etc. 1953	Govt intervention at level of Dept of Labour into long running disputes sets norms, which are normally on employers side.	Labour bargaining power contained. Pilots' wages fall behind comparators, mechanics below industry rates. Employers have upper hand.
1960-1970s	Nationalised monopoly subject to increasing cash limits.	Bargained corporatism	Seek to increase productivity and utilisation of pilots, mechanics, cabin crew etc. with introduction of jets. Reorganise corporation structure to prioritise labour management etc.	Mechanics and pilots seek to obtain increased pay and bonuses /oppose increased utilisation. Pilots breakaway from NJC and initiate series of strikes	Govt. sets up boards of enquiry (Scamp, Pearson) to mediate on pilots' dispute, launch major enquiry into industry. Recommend greater arbitration. etc.	Craft labour has high level of BP, and of legislative support. Employers forced to concede demands on pay and scheduling. Craft labour has upper hand.

4

Pilots and Management Under Deregulation: The USA and Europe

4.1. Pilots and Deregulation in the USA

In our previous discussion we examined regulation and collective bargaining within the US and UK focusing on pilots. The purpose of this chapter is to consider the effects of deregulation, again by focusing on pilots. Has there been an erosion in their bargaining position as deregulation gives rise to managerial empowerment, non-union competition and other pressures for restructuring? Have these key workers managed to defend core terms and conditions benefiting from high skill specificity and the general expansion in demand for their services? Pilots present an interesting and indicative example of the effects of deregulation upon the labour market. Thus it is useful to try and chart their bargaining fortunes in the USA and Europe as a barometer of the effects of deregulation on a key airline group. The product market/labour market framework used in the previous chapter will be used to evaluate the nature of labour management relations in both countries.

In order to examine the experience of pilots under deregulation a three-pronged approach is necessary. Firstly, we will evaluate the evidence on pilot wages because, as the previous chapter indicated, under regulation both US and European pilots were deemed to have captured significant benefits as a result of their uniquely potent bargaining power. Such 'rents' (if they existed) might be expected to decline as deregulation promoted an environment of cost control and competition. Pilot earnings provide a good indication of the extent to which this has actually occurred. Secondly, we will look at the extent to which pilots in both settings have been able to protect their bargaining position. In particular we look at the post-deregulation effect on long standing work rules particularly in the area of scheduling. This will provide a good indication of the extent to which the position of pilots has been maintained or otherwise. Thirdly, it is interesting to look at the extent to which pilots have altered their negotiating stance, directing attention towards issues such as job security and involvement as opposed to the strategy under regulation which concentrated upon the boosting of wage levels and the protection of work rules. In examining the nature of deregulation we will again build on the models introduced in Chapter 1. Whilst recognising initial differences and nuances between the USA and UK experience, we point towards an emerging convergence towards a more global pilot labour market. In order to commence our investigation it is necessary to examine the trend in pilot earnings in both the USA and Europe. This will allow us to provide a context to later discussions of bargaining and provide an essential reference point for later discussions of the fortunes of other airline workers.

4.1.1 *Pilots and Deregulation in the USA*

Increasing disenchantment with the US regulated airline industry culminated in the Airline Deregulation Act passed by the Carter government in 1978. The act lifted barriers to entry and price setting within an industry used to the dominance of major trunk carriers. For the forty years of its existence the CAB did not allow a new entrant on any city-pair route. (Hanlon 1996: 33.) The service and frills competition which characterised the regulated era, had left a legacy of rising fares rendering arguments of deregulationists, such as Caves (1962), Kahn (1970), that the measure would lead to lower fares unanswerable. The experience of unregulated *intra state* carriers such as Pacific Southwest proved that lower fares were possible. (Levine 1965.) The immediate results were impressive and bore out the predictions of 'prophets of deregulation' such as Caves and Kahn. There was a three and a half fold increase in the number of carriers offering trunk service between 1978 and 1986. The market share of the largest trunk operators, the 'big five', fell by 17 per cent over the same period.

Pilots, like other labour groups, were fairly ambivalent about deregulation. They saw the opportunity to roll back the hated Mutual Aid Pact and to take advantage of their bargaining power. From the outset of deregulation pilot unions were instrumental in inserting a clause into the Airline Deregulation Act known as Section 43, which sought to protect labour from the consequences of deregulation. The act sought to ensure that employees directly affected by deregulation would be compensated for any adverse consequences. (Capelli 1985: 316-38.) Unfortunately, section 43 proved a dead letter. The provisions of the clause were not implemented as there was a clear methodological problem for labour courts in assigning a particular set of job losses or pay cuts to a complex phenomenon such as 'deregulation'. As Cordes et al (1989) argue, this looked like sleight of hand:

> 'Skepticism is warranted because the provisions were at least in part included in the legislation to buy off the legislative opposition of employees likely to be hurt by deregulation.' (Cordes et al 1989: 35-55.)

These writers go on to argue that once deregulation was in full swing there was no need to take account of the labour constituency which had effectively been neutralised by the clause. In operation it was difficult to identify effects, as measurements of job loss were conducted on an industry wide rather than a firm level basis. (Ibid.) Nevertheless, despite the weakness of the labour protection clause, the fact that it became enshrined in the deregulation legislation shows that pilots had some input into the process, even if they were unable ultimately to influence the process. Whilst the legislative protections for collective bargaining and negotiation continued in the shape of the Railway Labor Act, these applied only to the pre-deregulation trunk carriers. Consequently a new, non-union, sector was unleashed upon the industry. As Northrup, a fervent proponent of labour market deregulation, argued:

> 'By the end of 1981... the labour market climate in the airline industry had changed substantially. A sizeable group of new carriers entered the market, many of which were non-union, or operated as non-union adjuncts of unionised carriers (double-breasted). A non-union 'alter ego' subsidiary of Texas International called New York Air was created and regional carriers expanded. Major carriers suffered serious losses and enormous pressure was put on unions to reduce wages, abolish restrictive work rules and modify their demands. The nature of competition had change from that of service to price, putting pressure on carriers and unions.'

Ehrenberg had earlier questioned the view that airline workers captured significant rents within the regulated period. Firstly, he pointed to the statistical problem of isolating an *effect* such as regulation from the *interaction* of other variables. Secondly, he believed that negotiated wage increases did not immediately translate into higher fares, giving management an incentive to resist labour demands. Thirdly, he asserted that price increases were granted upon an industry-wide basis rather than on a firm basis. With no pattern bargaining, he argued carriers had an incentive to resist wage demands. (Ehrenberg 1979.) Though his latter point appears to ignore the ability of strong unions to deliver pattern bargaining through the whipsaw strategy, Ehrenberg's findings suggest that the unionised rents postulated by the deregulationists were not a clear-cut issue. Such an interpretation would see the subsequent resilience in earnings as proof that regulation had not significantly boosted earnings. Whilst Ehrenberg may be right about earnings his analysis concerns the late regulation period which was qualitatively different, from the 'heyday' period of regulation. The later stages of regulation from about 1970 onwards, when overcapacity, expensive re-equipment and rising fuel prices forced airlines to confront labour, and when the mutual aid pact allowed them the ability to combat the whipsawing strategies of ALPA and the IAM, is a distinct period in the industry's regulated history. As such it has to be viewed distinctly from the 'heyday' period of regulation where earnings were boosted through the effects of regulation and state sponsored unionisation and collective bargaining.[23] Thus the rents identified by writers such as Caves (1962), and Taneja (1976) were real and pronounced. This temporal qualification provides yet another example of the problem in using earnings in airline labour market research. We will now go on to examine the evidence on earnings.

4.1.2 *The Literature on Deregulation and Earnings*

The seminal study on deregulation, Morrison and Winston's (1986) counterfactual exploration of the costs and benefits of the reform, argued that deregulation delivered $8.5 billion savings, at 1977 prices, with two thirds of those accruing to passengers. (Morrison and Winston 1986.) These two writers re-confirmed their thesis with some

[23] This period is to be measured as pertaining roughly between the late thirties and the late sixties.

qualification when in 1995 they revisited the deregulation debate. (Morrison and Winston 1995.) However, most important from the point of view of this chapter is the hypothesis advanced by Morrison and Winston that deregulation did not significantly affect the earnings of airline workers. Basing their analysis on the real earnings position of 1977 with that of 1985, Morrison and Winston saw no "significant reduction" in earnings for any labour group. (Morrison and Winston 1986.) Whilst the use of earnings has become a proxy for labour's fortunes in the industry, the effects of deregulation go well beyond the question of earnings and issues such as bargaining environment and the relative power of labour and capital within the industry have to be considered. Indeed a central argument was made that it was the prevalence of high wages and restrictive work rules which caused operators to increase fares. With the threat of these low cost carriers and the influx of *non-union* low cost operators such as People Express and New York Air, we would expect to see downward pressure on pilot earnings. To what extent has this actually occurred? Bailey and her colleagues examined the *union relative wage effect* for pilots at larger airlines.[24] Low cost operators paid their pilots less whilst utilising them more intensively, as figure 4.1 below demonstrates.

Table 4.1 Costs Per 200Mile Flight for Major US Operators on Boeing 737 Aircraft 1984.

AIRLINE	Costs per 200 mile on B737 (1984)
Southwest	$ 1,900
Piedmont	$ 2,667
United	$ 3,613

Source: Bailey et al 1985.

It would be reasonable to assume, therefore, that the entry of low cost, non-union carriers would affect pilot terms and conditions. Nevertheless, earnings are the only *consistent* data available and by focusing on the earnings experience of US pilots, we can begin to build an understanding of the effects of deregulation upon labour earnings in general. To what extent did deregulation affect pilots? Did their fortunes fall, rise or remain neutral? What was the effect on incomes and bargaining of the

[24] The URWE is simply the difference in average earnings between workers employed in a union firm as compared to a non-union firm. Labour economists Freeman and Medoff compared a range of estimates and settled on an overall US Figure of 8-10 %, premium for unionised workers. For airline workers the premium is much higher. (See Bailey et al (1985: 102) whose (1980) estimate of the

wave of new entry which took place between 1978 and 1986? To what extent if any, was labour affected by the later trend towards bankruptcy, take-over and consolidation? In highlighting the experience of pilots we should be able to arrive at a measured assessment of these effects. The first task is to examine the evidence on flight-deck earnings.

4.1.3 *Pilot Earnings Under Deregulation: The Evidence*

Pilot wages and conditions preoccupied many early commentators on US airline deregulation. In an early study Hendricks et al (1980) predicted little change in the bargaining environment when they assessed the impact of deregulation in the early years. Indeed these writers argued that after controlling for skill levels, experience, unionisation and the level of industry concentration, there was no significant difference in earnings between airline employees and external employees. (Hendricks et al 1980: 67-81.) This finding was in line with Card's earlier research on the wages of mechanics, which noted no significant decline in earnings for the first five years of deregulation. (Card 1986: 527-38.) Yet earlier Hendricks had demonstrated pronounced positive effects upon airline earnings arising from regulation. (Hendricks 1977: 483-96) (Thornicroft 1989: 165-181). Dooley (1994: 169-90) also offered optimistic assessments of post deregulation labour earnings and bargaining power and Northup even argued, albeit rather early in the process, that deregulation would benefit labour. (Northrup 1983: 167-181.) Capelli, however, did demonstrate the extent of concession bargaining, which eroded pre-deregulation earnings. (Capelli 1985: 316-38.) Given the conflicting assessments of the position of pilots within the deregulated environment it is necessary first of all to look at the evidence on long-term wage rates for pilots. This analysis is used as a framework with which to explore more qualitative issues.

The official evidence on pilot earnings seems to suggest that wages have not been that affected by deregulation per se. If we take average earnings in the 'big six' US carriers, as shown in table 4.2 below, we can clearly see that earnings have continued to rise. This is true basing earnings on 1980, as the early period of deregulation and on

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airline premium identified a pilots' premium of 59% over their military equivalent, mechanics 28% and cleaners 82%).

1985 as the high point of concession bargaining. On both indexes we can clearly see that earnings continued to rise.

Table 4.2 Pilot Earnings in the US Airline Industry 1978-1997 (Constant US $)

	1978	1980	1985	1995	1997
American	68,898	49,365	95,587	115,484	135,319
US Air	48,192	68,516	99,031	128,971	136,810
Continental	31,450	59,037	41,888	90,461	124,152
Delta	41,938	65,537	104,225	129,329	131,507
Northwest	41,937	67,143	87,536	154,586	125,414
TWA	44,765	71,477	106,577	85,240	89,306
United	45,909	84,242	90,317	140,280	152,408
Average	**43,034**	**66,473**	**89,380**	**120,621**	**127,845**
Index 1980=100	**65**	**100**	**134**	**181**	**192**
Index 1985=100	**48**	**74**	**100**	**134**	**143**

Source: ICAO Fleet and Personnel Data

The first task is to compare earnings *between* the regulated and deregulated period. The seminal work was Card's (1989) study of the impact of deregulation on airline earnings. Building on earlier work which had concentrated on mechanics, he found between 1977 and 1988 an overall decline in real earnings for all employees of about 10 per cent. Recent work by labour economists has afforded a more long-term view of earnings, supplementing earlier analyses. Peoples (1990), for example, found that the earnings advantage enjoyed by airline employees was eroded by nearly a quarter for craft workers and about 7 per cent for clerical/non-craft workers.

Johnson (1991) argues that the only significant declines in earnings for any group including pilots were in the early period from about 1978-84, which she attributes to changes in flight schedules and a (probable) corresponding reduction in overtime. She concludes analysing both the early and late deregulation periods that: "The aggregate analyses provide limited support for the hypothesis that earnings decreased with deregulation, but there is only minimal evidence of significant decreases by craft in either data set". (Ibid.) Nevertheless, for pilots her regression results show that deregulation accounted for 12 per cent of the downward variation in earnings between 1978 and 1984. This compares to a 9 percent fall for mechanics and a slight increase in earnings for flight attendants. (Johnson 1991: Table 4.)[25] Johnson also provides additional evidence of decreased union fortunes under deregulation.[26]

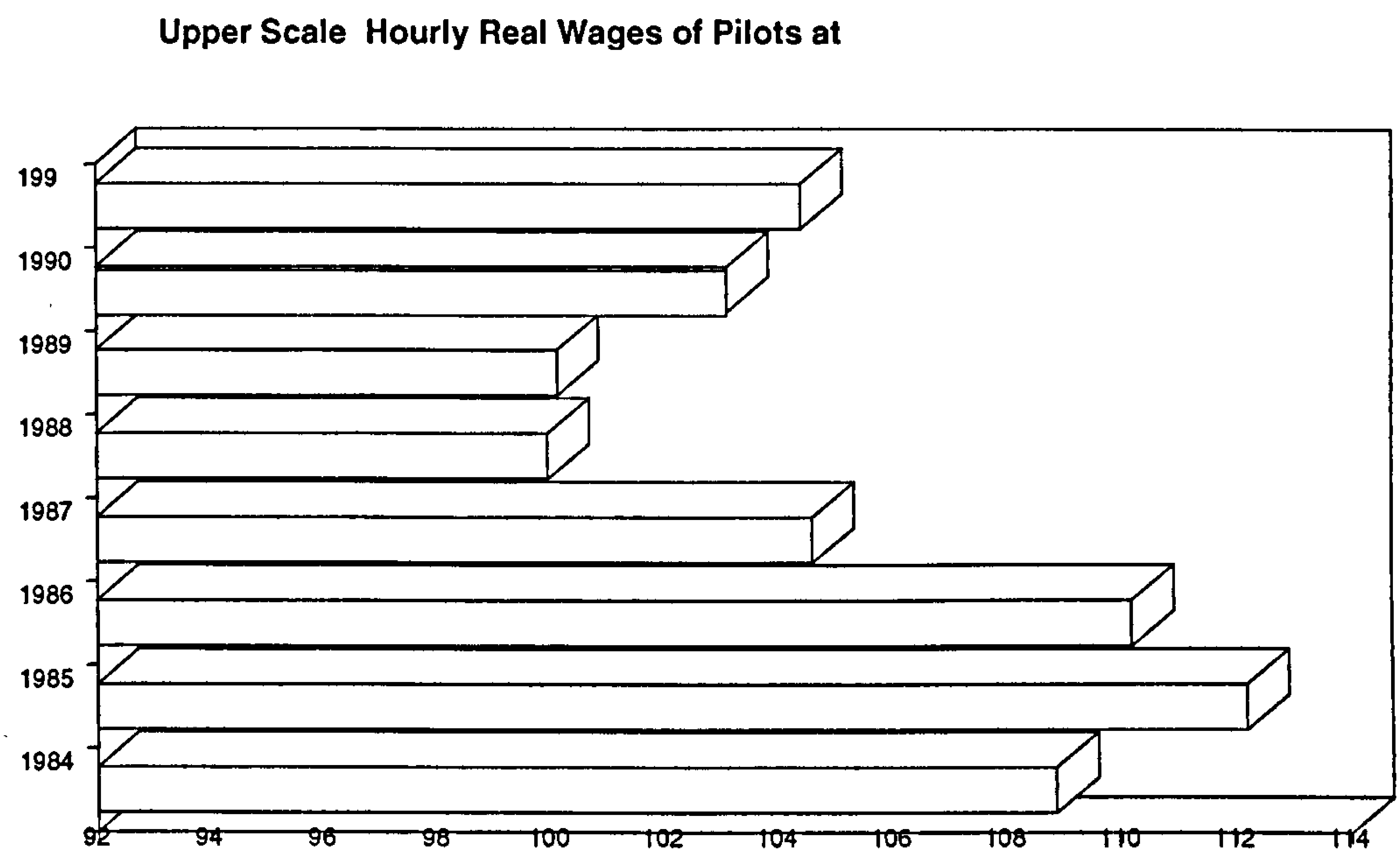
Using a more comprehensive dataset Cremieux (1996: 223-242) examined the effect of deregulation upon wages over a much longer period. In contrast to most approaches, which used cross-sectional data, Cremieux's analysis looked at time trends over some 34 years of regulation and deregulation (years 1959-92). His sample covered 85 per cent of industry revenues and the range of occupational groups and represents the most comprehensive analysis to date. Criticising the smoothing bias of cross sectional models Cremiueux counsels us to be aware that fluctuations in earnings are experienced as falls at some point in the earnings cycle. Finding similar earnings levels in 1975 and 1983 he cautions might mean the peak was in 1980 with very pronounced fluctuations either side of that year. Another problem he sees with existing data is lack of sufficient post deregulation observations, further hampering analysis. Cremiuex is thus concerned to examine the earnings data in the light of this problem. Using this long-term methodology he finds that deregulation eroded the earnings of pilots by around 12 and 22 per cent. Cremiuex's data is obviously more useful for long-term trends, but is also worthwhile despite limitations in the short-term data, as identified by Cremiueux, to examine how wages were affected in the short term.

[25] However, as Ehrenberg (1979) argues, it is almost mathematically impossible to dissagregate the effects of deregulation from other industry processes and labour market variables. Johnson's sophisticated and thorough statistical analysis does not avoid that problem, though it provides a reasonable estimate.

[26] Another aspect of Johnson's study investigates union expenditures; this throws some interesting light on the fortunes of occupational groups under deregulation. The rationale for examining union expenditures is that deregulation is supposed to make the industry harder to organise by (theoretically) ending the union monopoly, and it also incurs higher expenditures in maintaining its current membership as (again theoretically) existing unionisation and collective bargaining come under threat. On this measure a union which incurred low increases in union expenditure would be doing relatively well under deregulation, as it does not have to confront the challenges referred to above. The results indicate that pilots incurred minimal extra union expenditures during deregulation. The less skilled and more replaceable flight attendants incurred expenditures 35 per cent greater than under deregulation. These workers faced the threat of non-union organisation and competition for members from other unions. We can see therefore that on these measures only flight attendants faced a more difficult situation in the wake of deregulation. (Johnson 1991: Table 5.) However, these aggregate figures conceal considerable variation within different airlines and even within the same broad occupational groups. Although they provide a reasonable picture of earnings between the late regulated and early deregulated period, longer-term analysis which covers the heyday period of regulation and the mature period of deregulation might provide better estimates. (Johnson 1991: 154-165.)

As we know considerable pressures were exerted upon pilot remuneration throughout deregulation. How then, did the widely acknowledged combination of non-union competition in the early phase of deregulation, and concession bargaining environment of the mid to late 1980s threaten pilot compensation? Again differing methodologies and time frames are employed and there are a variety of interpretations. For example, Johnson's research points to resilience in flight crew wage levels. For Johnson, pilots emerge in a relatively good position, when weighted against general declines in wage levels in the production labour force. (Johnson 1995: 103.) The change in wage levels for senior pilots is given in Figure 4.1 below.

Figure 4.1 Pilot Earnings At Major US Carriers 1984-91 (1982 actual $US)



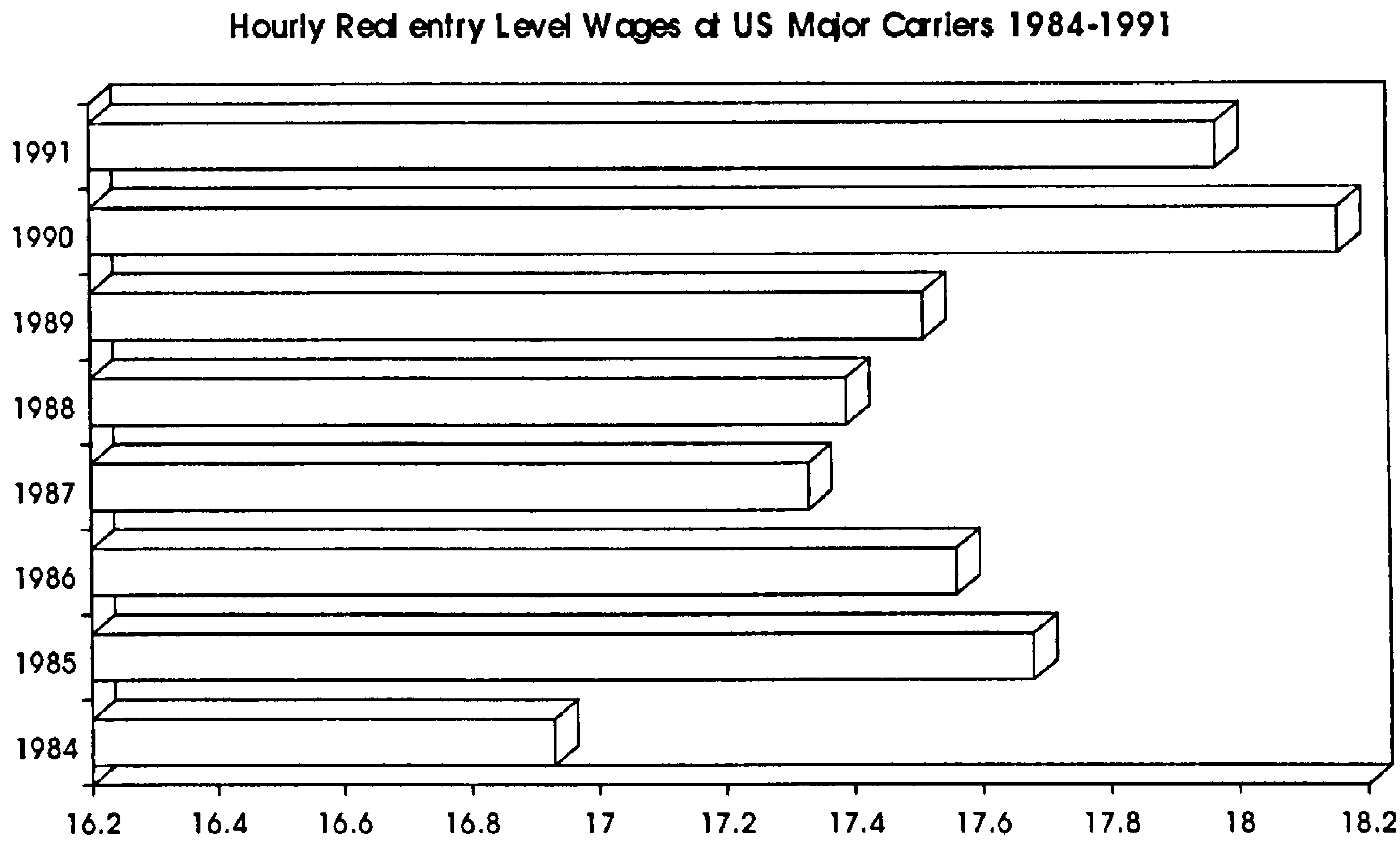
Source: Collated by Johnson from Airline Industrial Relations Conference (AIRCON) data. Table 9.4 (pg. 108) In Capelli ed. (1995)

So although the real earnings level of senior pilots shows a significant fall, Johnson attributes this to the overall decline in wage levels in non-farm employment. Measured in constant prices, non-farm incomes (using 1982 dollars) declined in real terms by some 13 per cent between 1979 and 1991. The decline for top scale pilots at 4 per cent was less than a quarter of that for industrial workers generally. Yet a decline of 8 per cent was registered in the year 1988 compared to a fall of 3 per cent in general earnings. If non-farm earnings and airline pilot earnings are compared from 1984 to 1990 they declined at exactly the same rate (5 per cent). This indicates that the decline in wages as Johnson argues, was not out of line with industry trends when taken over the entire period. (Ibid.).

The established pilot wage data might simply indicate the ability of senior pilots to protect their position. A better measure of the impact of deregulation upon earnings might be found by examining the trend in entry-level wages. In an *insider* labour market, characterised by high levels of seniority we would expect any effects to manifest themselves at the bottom of the pay scale, where workers are not protected by their seniority and we might reasonably expect any downward pressure to be evident within junior pay scales. However if we look at entry level pay for airline pilots (Fig. 4.2) we see that on this indicator too pilots have maintained their position.

Examination of wages for entry-level pilots over the same comparison period of 1984 to 1990 shows an increase of 7 per cent. As Johnson argues, the rise in pilot wages at the bottom may simply reflect the fact that post deregulation expansion significantly increased the demand for pilots. (Ibid. 103.) The real increases are fairly spectacular given the context. Nonetheless, this trend seems to reinforce the Morrison/Winston thesis that airline deregulation in and of itself has not significantly eroded the earnings power of pilots. (Morrison and Winston 1986.) If anything, the effect has been on the insider/senior pilots, contrary to what might be expected. Such research, however, fails to capture the longer-term transition between a regulated and deregulated environment.

Figure 4.2 Entry Level Wages At Major US Carriers 1984-1991 (1982 actual $US)



Source: Collated by Johnson from Airline Industrial Relations Conference (AIRCON) data. Table 9.4 (pg. 108) In Capelli 1995 (ed.)

Deregulation *initially* leads to market entry and some labour shortage as carriers expand, thus in the short term the earnings effects can appear neutral. However, a longer-term perspective with base years in the regulated and deregulated periods provides a more complex interpretation.

Returning to Cremieux's measure of the effect of deregulation on pilot incomes (Cremieux 1996: 233) we note the ambiguity of deregulation's effect on earnings. Processes can have seemingly contradictory effects. Firstly, the removal of bankruptcy protection and rapid market entry will tend to exert downward pressure. Secondly, there should be an improvement in labour's bargaining strength as a consequence of hub concentration and the abolition of the Mutual Aid Pact. (Ibid.) Controlling for all of these effects, Cremieux's measure is more pessimistic, finding that when measured at two points in the deregulatory cycle 1985 and 1992, earnings were some 12 per cent and 22 per cent lower respectively over the period. (Ibid.) Again, Cremieux rightly cautions "much of the loss in pilot earnings is consistent with slower growth of earnings for comparable workers, and is not necessarily attributable to deregulation itself" (Cremieux 1996: 235.) Nevertheless, his longer-term analysis provides a richer set of observations on which to base our analysis.

On earnings we can summarise that whilst deregulation led to falls in pilot compensation they do not appear to have been drastic. Whilst there are falls and, as Cremieux argues, these might well have been large at some points in the bargaining cycle, they are no higher than those of general industry when we control for other factors. Whilst there is considerable difficulty and ambiguity in the measurement of earnings, we now have a basis for examining how the pilot workforce experienced these falls. Arguably, a more thorough understanding of the impact of deregulation requires analysis of the bargaining environment. The shifts in bargaining which we noted under the regulated period also occurred within the deregulated period. Product market deregulation exercises effects upon the labour market, which influence the bargaining environment. In the next section we look at these trends in bargaining to assess the impact upon pilots.

The analysis here has concentrated primarily on the demand side as influenced by product market and regulatory change. However the supply side is also important, as increased demand had definite effects on the labour market. Clearly, the increased passenger demand would occasion an increase in demand for pilots, and labour market theory would suggest that the supply of pilots and the elasticity of that supply would ultimately affect earnings. With an increased demand for pilots, and an effective union duopoly, and a highly regulated training system the supply was limited in any case. However restrictions on work rules, which pertained throughout the deregulated period meant that pilot unions were able to control the supply of trained pilots. The non-union companies either ended up part of the union monopoly through merger and acquisition or had to increase wages to cope with the problem of turnover. The ability of the pilots not just to regulate, but to effectively control the supply of pilots was therefore an important aspect. This dimension is addressed in the next section, which looks at the bargaining fortunes of US pilots.

4.1.4 *Bargaining Under Duress? US Pilot Fortunes in the Bargaining Arena. 1978-1997*

Flight deck terms and conditions were identified as the major labour cost within the industry. (Bailey et al 1985.) Pilots had seemingly captured the benefits of increased aircraft size, whilst maintaining *effective* control over issues such as flight duty hours and crewing. (See chapter 3.) These advantages accrued over time as Bailey et al indicate in their 1985 analysis. Firstly, despite technological advance, pilots flew fewer productive hours in the 1980s than they did in the 1930s. The table below gives pilot hours throughout and the permitted ceiling on flying hours.

Table 4.3 Average Pilot Hours and Federal Limits 1930-1980.

Year	Average Monthly Flying hours	Permitted Monthly flying hours
1930	85	85
1950s	75	85
1960s	60-65	100
1970s	50	100
1980s	44.3	100

Source: Bailey (et al 1985)

Airlines continued to face constraints in their utilisation of pilots who benefited from a complex web of work rules and regulatory dispensations. (Ibid.) Deregulationist literature expected market liberalisation to diminish such costs. Just as the fares charged by intrastate carriers were much lower than the trunk carriers, so too were their compensation structures.[27] Evaluating cost differentials between the low cost carrier Southwest and two established operators Bailey et al (1985) illustrated the likely effect of the lower cost carriers.(See Table 4.1 above.)

Although there is some disagreement about the overall effect of deregulation on flight deck earnings, evidence for the bargaining arena indicate that US pilots came increasingly under pressure after deregulation. As the highest paid airline workers, they faced enormous pressure for concessions as airlines faced plummeting revenues and spiralling fuel costs especially in industry downturns. (Capelli 1985: 316-318.)

[27] Early deregulatory initiatives allowed interstate carriers to be established, primarily Southwest in Texas. Although their impact on the trunk carrier was negligible and they competed mainly with other transport modes, their freedom in pricing and their concentration on efficiency made them an important benchmark against which the larger carriers measure their labour costs. Bailey (et al) showed that Southwest pilot costs were a third lower than that of Piedmont and about half that of United for the same aircraft type. (Bailey et al 1986.)

Whereas before operators could pass such price rises onto consumer fares, the competitive environment rendered this tactic impossible. (Ibid.) Airlines had to turn towards internal costs and efficiency, and labour costs especially those of more privileged groups were an obvious target. Between 1980 and 1988, as new entrants grew on the basis of lower wages, greater utilisation and flexibility, managers at the major trunk carriers were encouraged to seek labour costs concessions.

Studies of concession bargaining in the industry point to a universal trend with most operators seeking wage cuts, the introduction of two tier wage levels, pay and pensions restructuring and less successfully, changes in work rules. In an econometric analysis of concessions, Nay (1991) considered the impact of institutional, strategic choice and other factors, in order to determine how concession bargaining had affected the US airline industry. (1991: 307-23.) She concluded that 'ability to pay' measures were the best predictors of concession bargaining. In other words, carriers under financial duress were most able and likely to exact 'embedded' concessions such as two tier wage agreements, lower entry-level wages and long term wage freezes. Thus, carriers such as Eastern, Continental, TWA and Pan Am exacted a large number of concessions mainly in the form of wage cuts and benefit reductions merely to stay afloat. Pilots bore much of the concession burden. (Walsh 1994: 73-75.)

However, though *ability to pay* factors were at the heart of much concession bargaining, this explanation understates the opportunistic nature of management wage bargaining strategy throughout much of the 1980s and 1990s.[28] In many cases airlines with a reasonably sound financial position sought opportunistically to exact major concessions, lending credence to Daniel Mitchell's argument about demonstration effects. (1986: 43.) Continental Airlines, for example, was thrown into bankruptcy proceedings in the summer of 1985 allowing existing labour contracts to be abrogated. It is widely acknowledged that the parent company, Texas Air Corporation, used the ultimate sanction of bankruptcy after a strike by the International Association of Machinists. (See chapter 8 for a more involved discussion of bankruptcy and its effects on labour.) However the Continental policy represented

[28] Mitchell (1991 435-474) in a key analysis of concession bargaining pointed to the existence of *demonstration effects* as firms in profitable sectors such as hotels and food processing demanded

a paradigm shift in bargaining strategy by airline management. The carrier was able to ride out an almost total strike by unionised pilots and flight attendants and to continue operating with non-union labour. (See Cohen 1990 308-323.) In part the effectiveness of the carrier's stance was due to its divide and rule strategy in take-over situations. Continental skilfully manipulated inter-union rivalries within the carrier therefore, fracturing potential solidarity. (Walsh 1994: 53.)

Increasingly, as carriers perceived weakness amongst organised labour, they pushed for concessions even when these were not strictly necessary with 'demonstration effects' again coming into play. The types of concession sought from pilots ranged from wage cuts to lay-offs. The type of concession sought varied with the industry and business cycle. For example, it is hardly surprising that in the years 1981-86 wage cuts were the most prominent form of concession sought by most carriers bargaining throughout those years. These were years of relative recession and downturn. Published bargaining data indicates that average wage cuts for pilots under major collective bargaining contracts (i.e. in excess of 1000 workers) were in the order of 15 and 20 %.[29] (Calculated from Monthly Labor Review 1981-1986.)

This evidence calls into question the earnings data discussed above, and indicates that major falls in pilot terms and conditions did occur outside the periods referred to by most writers. Data, which begins in the years 1984 and 1985, simply fails to capture the marked decline in fortunes of pilots and other grades of airline labour which occurred primarily from about 1981 to 1986. In many settings pilots at both the entry and senior levels did suffer quite severe cuts in wages and conditions.

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concessions. Furthermore he argues that these concessions became institutionalised to the extent that even in the growing economy of the mid eighties, wages remained depressed.

[29] Monthly Labor Review 1981-86. Calculated from available negotiation data in various issues.

To obtain a more meaningful overview of the bargaining fortunes of pilots we have to examine the range of concessions made and not just overall earnings trends.

Table 4.4 Occurrence Level of Types of Concession in the US Airline Industry 1981-95

Type of Concession	Occurrence Level in Major Bargaining 1981-86	1987-95
Wage cuts	***	*
Wage Freeze	***	**
Two Tier Wage	***	**
Fringe Benefit Reduction	**	**
Pay Supplement Reduction	***	***
Change in Working Conditions/Work Rules	*	***
Reduction in Job Security (Lay-offs)	**	*

Source: Calculated from Monthly Labor Review 1982-95.
*** Total Coverage ** Majority Coverage * Low Coverage

Table 4.4 gives an outline of the types of concession secured from the pilot workforce in major contracts between 1981 and 1995. It can be seen that wage cuts were almost universal in the first period 1981-86, becoming less common in the years 1987-95. Wage freezes, though less universal than in the first period, continued to be used extensively up till 1995. However most of the carriers who secured freezes did so for relief from imminent bankruptcy or collapse as in the case of TWA and Continental. By the late eighties and nineties airlines were less concerned in securing crisis concessions than in instigating long-term work rule changes, which became an increasing feature of the period. Operators were well aware that concessions extracted in crisis periods might be 'clawed back' in better times and therefore sought to vary wages and conditions permanently through two tier wage agreements. Capelli (1985: 316-38) and Card (1986: 527-38) have argued that these concessions brought no cost to incumbent workers and in many cases guaranteed union expansion as carriers developed new services on the basis of lower costs.

The idea that such concessions were costless to existing employees has to be qualified. Reductions in entry level wages erode the position of established employees by instituting lower wage rates at the bottom, which may well exercise an effect on more senior workers. Pilot unions are aware of this, which is why many negotiations involve 'catch up' or parity clauses for lower tier employees. Many agreements are confined to certain types of aircraft, in order to avoid encroachment on upper scales.[30] In addition, as Walsh argues, when introducing two tier wages airlines often had designs above and beyond the restructuring of wage costs. Two-tier wages for cabin crew were, he argues, not just intended to restructure the cabin service career structure and increase turnover. They were, he argues, partly designed to signal an end to the bargaining and labour market environment of the regulated era. (Walsh 1989: 50-62.). For pilots, the use of two tier wage rates can be viewed similarly with the benefit of compressed pay scales was much more practical in a highly paid seniority based workforce.

For management, the value of these agreements in terms of institutionalised low costs can be seen in table 4.5 below. This 1986 data provides evidence on two-tier agreements when they were most prolific within the industry. The data list key airlines, giving approximate level of reduction and year of parity (when lower tier scales are equalised with existing scales). In those agreements involving a higher and lower range, the average reduction in 1986 was some 24.5 per cent. This represents a significant cost saving for airlines available at a less fraught price than reductions in existing wage levels.

Comparable two tier contracts were negotiated for mechanics across the same number of carriers, whilst flight attendants average reduction was 22 per cent across a smaller sample of carriers.[31]

[30] These attitudes are clear from the negotiations studied and from subsequent research.
[31] Thomas et al (1996) (2) pointed to the fact that financial markets tended to value wage cuts in their assessment of carrier viability above more 'structural' changes in wage costs. Structural factors involve those changes, which lead to a permanent lowering of wage costs, rather than temporary savings. The implementation of two tier wage agreements discussed above is one such innovation. This seems counter-intuitive given the evidence on the resilience of wages over the long term. Short-term wage cuts are by their very nature unstable. They often include restoration clauses (snapback provisions), which may or may not coincide with a carrier's ability to pay. In many cases, a carrier unable to meet snapback provisions (such as Northwest Airlines in 1994) faces industrial action, which certainly erodes the benefit of any short-term wage cut. Nevertheless, the perceptions of finance capital are of major importance in the viability of airlines. By valuing wage cuts, Wall Street seems to be applauding tough strategies from airline management regardless of the overall effectiveness of such strategies at a business level. On the other hand, the institutions may well be devaluing the impact of two tier wage agreements as they tend to lead to a competitive expansion on the basis of lower costs, and do not add significantly to profits. (Thomas et al 1996: 203-217.)

Table 4.5 Two Tier Wage Agreements 1986

Carrier	Approximate pay reduction	Year of Parity
Aloha	15%	5 years
American	50%	Future negotiations
Frontier	10%	6 years
Piedmont	21%	Future negotiations
Republic	11%	Future Negotiations
TWA	15%	Future Negotiations
United	34-50%	Future Negotiations
US Air	40-45%	Future Negotiations
Western	25%	Does not reach parity

Source: AIRCON Data March 1986

In addition, airline unions bargained away Cost of Living Adjustments (COLA), and increasingly accepted lump sum payments in lieu of percentage rate increases. Although these concessions were relatively minor, they do indicate a marginal decline in bargaining fortunes.[32] Another area where concessions have been prevalent within the airline industry is in the area of benefits. The incidence of reduced paid vacation time, curtailed health benefits and weakened pension provision has been a facet of concession bargaining. The reductions have particularly affected pilots given their higher level of remuneration, rendering small reductions in benefits important, as cost savings. Reductions in holiday pay and pension fund 'holidays' originated with crisis stricken carriers such as Eastern, which reduced entitlements at particular periods of crisis. Other carriers, such as Delta and United, began to exact similar concessions towards the late eighties and early 1990s, as financial crisis particularly with the onset of the Gulf War gripped the industry. The situation within the US industry, therefore, is contradictory, when we consider the overall impact on pilots. The quantitative evidence indicates that entry-level wages rose, whilst there were slight falls in wages of senior personnel. This evidence suggests little effect on overall earnings in terms of real wage trends within the US economy. Contrasting this relatively short run

[32] Indeed if we look at those other deregulation affected industries we can see that the incidence of lump sum payments is as correspondingly high as COLA payments are low. The average of lump sum payments for all private industries is 45 per cent and the airline industry is well below this average. Railroads however with 96 per cent of workers covered Urban Transit with 79 per cent and trucking with 62 per cent of workers covered, have well above average levels. This suggests that deregulated industries are subject to the twin scissors of falling cost of living adjustment payments (which though less important in disinflationary periods may assume more importance in future) and the increasing prevalence of non-compounded wage increases. Either way this can be seen as a decline in bargaining. fortunes. (Monthly Labour Review Bargaining Agreements in US industry (1978-1997).

evidence, with the longer run evidence of Cremieux suggests that the effects of deregulation on pilots have been fairly profound. It is difficult, however, within the context of general wage and labour market trends since the late 1970s to ascribe this decline to deregulation. More qualitative evidence on the effects of deregulation can be obtained from detailed analysis of the bargaining data, which indicates wage cuts, wage restructuring, and changes in work rules. This data provides a long run representation of bargaining fortunes at the firm level, and as such, provides more insight than average earnings trends alone can provide.

Labour was able to recoup some of this lost ground as the industry grew more competitive, and as external economic conditions began to affect the sector but managers increasingly looked towards deeper forms of restructuring as well as profound reform of working practices. This move towards *restructuring*, rather than short-term *concessions*, represented a new phase in the labour market impact of deregulation. The fact that labour costs dropped from 43 per cent of industry costs to around a third by 1990, at a time of rapidly plummeting fuel prices, indicates that major savings were made. (Morrison and Winston 1995.) This change in the industry cost structure reflects a wider long term reshaping of the airline bargaining environment, where, traumatised by the impact of bankruptcy and wage cuts, airline unions have attempted to adopt a more dynamic bargaining stance. Pilots have been at the forefront of this new more integrative bargaining agenda, looking to trade wages and work rules for job security and participation. This *late deregulation* phase of industrial relations is discussed in the next section, bringing our analysis of the effects of deregulation on US pilots up to date.

4.1.5 *United We Stand? US Pilots and Management in the Era of Late Deregulation*

The changed competitive environment of the 1990s has led to a major re-appraisal of airline management strategy. Where even in the immediate post-deregulation period management had been content to bargain on short term issues such as temporary wage cuts and the like, their approach in the 1990s reflected an increasing impatience with the institutional resilience which characterised labour long term bargaining. The comments of the former chairman of United Airlines, Stephen Wolf, reflect this new turn in managements' labour relation strategies:

> "Without question traditional labour management relationships have been successful in producing an airline industry that historically has afforded its employees an unparalleled combination of benefits and working conditions. It is an achievement that can be pointed to with pride. Neither labor nor management however, can afford to sit back and assume that approaches that worked in the past will continue to produce such positive results in a markedly changed operating environment. Established carriers are under assault from all sides and losses of the magnitude the industry has experienced in the early 1990s, cannot long be sustained. Failure to compete effectively with lower-cost competitors will force established carriers into permanent decline or, alternatively, result in significant structural change." (Wolf 1995: 231-22.)

Whilst management sought to attain control of labour costs and to rescind work rules it viewed as inflexible and costly, labour traditionally sought to protect these. Given the perishability of airline services, the catastrophic effect of airline strikes on both service and employee morale and the fiercely competitive operating environment, a different approach has become necessary. Such a policy might be viewed as one of limited and strategic co-optation. Policies such as ESOPS typify this approach, as do other forms of limited financial participation and worker involvement. Pilots are often the main targets of such policies, as pilot labour is extremely powerful and union density is extremely high.[33] However, these cost reduction strategies apply across the whole airline labour force.

ESOP programmes have increased in importance. In 1989, for example, employees held only 4 per cent of airline stock; by 1995 when the United deal was finalised, that proportion had risen to 21 per cent. The United deal, which delivered $5 billion in cost savings for a majority employee stake, builds on an earlier trend. This growth in 'equity based concession bargaining' can be traced back to the early 1980s where virtually every airline included some kind of ESOP programme, with shares traded for wage and benefit cuts. (Wever 1989: 600-609.) Though as Wever argues in the case of Western, the ESOP programme could be a long term restructuring policy, the normal trend was to use ESOP in a more short-term fashion. Distressed carriers, whose financial position meant at best a long wait for capital gain, were more likely to offer such programmes. If anything the ESOP programmes of the early to mid eighties

[33] Even the most recalcitrant anti-union employers such as Delta and America West have been unable to stop pilot unionisation, even where they have steadfastly refused to recognise unions for other employee groups.

were symbolic. Pilots favour ESOPS in particular because they provide a more multilateral context for bargaining. ESOPs can be viewed as equity based concession bargaining where labour is co-opted into the process of restructuring, in return for large-scale concessions. These concessions are often of such magnitude, that they could not be delivered during 'normal' concession bargaining. In return for equity however, labour has been prepared to concede major changes on wages and work rules. These work rules have proved much more resilient in unionised carriers such as Northwest, TWA and United than at other carriers, but resistance is not confined to these higher cost carriers. In 1996 Delta, for example, succeeded in having pilots (the sole unionised group) agree to the formation of a low-cost subsidiary with higher utilisation levels, significantly lower pay and longer flight hours (Airline Business November 1996).

Despite its similarities with other ESOP deals, the United Airlines' Employee buyout can be seen as a landmark example in employee participation. It was expressly designed to co-opt both pilots and mechanics, the highest skilled groups into the management structure. Given their level of remuneration, industry specific skills, and socio-economic status, pilots tend to be the main drivers in employee buy-out programmes. (Wichman 1994.) One 'supply side' reason for the prevalence of pilots within buy-out situations is the fact that they tend to offer greater concessions than other airline workers given that they account for a higher proportion of labour costs. Whilst there has been a great deal of rhetoric about partnership and co-management, the deal has allowed wage reductions for ALPA members of nearly 16 per cent. This has enabled the carrier to establish a low cost airline, with a no strike agreement and a commitment to emulate the productivity and wage structure of Southwest airlines. (Avmark September 1994: 13-16.) Viewing the concession over the longer term, the cost reductions are severe. Salary reductions will amount to $3.95 billions of benefit reductions to $1.2 billions, and work rule changes to $1.5 billions. (ibid.)

Whatever the reasons, ESOPs have become increasingly popular and are increasingly driven and even controlled by pilots. Even though the entry fee into the management structure is high, pilots are prepared to pay the price, as they see greater rewards in the future. Pilots have traditionally sought to gain influence within the political arena and within regulatory structures such as safety and technical bodies. They continue to try and influence these bodies and have been successful in maintaining licensing conditions and protecting scheduling rules. However, the ESOPS trend sees pilots seeking influence within the firm. This would suggest that US pilots have traded some degree of compensation for job security and accepted a level of renewed influence within the industry, rather than resolutely defending work rules. This is an adaptation to the new regulatory environment, where tightly oligopolistic competition demands efficiency in labour costs and new forms of risk sharing. In a cyclical industry, the full import of this shift in bargaining strategy will only become clear over time. Overall, however, pilots managed to maintain their earnings though at specific periods they faced significant reductions in wages and conditions. This evidence should be borne in mind when we commence our analysis of the effect of European deregulation on the pilot workforce, which is the subject of the next section.

4.2 Europe: Restructuring the Flight Deck

The progress of the European airline industry towards deregulation has been less rapid than in the USA. However, the change in the fortunes of organised labour has to an extent been more pronounced. This can be explained, firstly, by the nature of ownership within the European industry, with a long history of state control exercised through nationalisation. With economic reform and the advent of EU competition doctrine, particularly that relating to subsidy, carriers have been forced to restructure costs more quickly than in the US. Secondly, the wages and productivity of European airline workers, accounting for differences in stage length and equipment type, have been diagnosed as more generous and the productivity performance inferior to that of their US counterparts. Thirdly, a process of globalisation and concentration, following deregulation, has superimposed itself on an already difficult environment. It is important to briefly sketch the development of European airline deregulation, which is more complex than the straightforward 'one off' reform of the US industry. We will then chart the effects of regulatory reform on pilots as a key occupational group.

Again we will analyse the earnings and bargaining fortunes and the regulatory and political influence of pilots within the European industry. For earnings, we will use the official earnings statistics collated by ICAO, which despite gaps and omissions allow comparison with the US data. We will therefore examine general trends for key years 1975 and 1995. These are convenient comparison points, providing evidence of the late period of regulation, the initial deregulation period around 1980s and the later European deregulation period from about 1990, commencing with the first package in 1988 and 1995, and later developments.

In the USA we used comparison data between entry level and senior pilots in order to chart whether there had been generalised effects on pay at the top or bottom of the pilot occupational scales. As consistent aggregate data on entry-level wages is unobtainable, for Europe we will look at the BALPA pilot pay survey for the same years as the ICAO survey data 1995, in order to determine whether or not there has been a trend towards fragmentation in flight deck pay. In addition, we will be concerned with more qualitative aspects such as effects on bargaining and industrial relations. We will then assess the manner in which flight deck staff reacted to the new regulatory environment in terms of issues such as crew hours, cross border licensing, and training in order to defend their interests. Although the issues confronting European flight deck staff are slightly different and the data are not comparable, we should be able to outline the contours of a comparison, which can be more fully developed in our discussion in chapter 7 on European restructuring.

4.2.1 *Deregulating European Air Transport: Liberalising In The Face Of Constraints.*

Unlike US deregulation, which was rapidly introduced as a sort of policy experiment, European initiatives were steadfastly cautious, due to the divergence between the various countries and between those who favoured outright deregulation and a more measured approach. (Button et al 1998:11.) The co-existence of a vibrant low cost charter sector and limited deregulation with certain EU countries had already exposed the high cost nature of the industry and high consumer fares in the 1960s and 1970s. The trend towards deregulation of European air transport services can be seen within the context of four distinct phases. (Button et al 1998: 28.) Firstly, there were a series of domestic reform initiatives coupled with privatisation and state divestment, most notably in Britain and the Netherlands. In the mid 1980s the UK regulator, the Civil Aviation Authority, sanctioned limited market entry and fare setting to allow smaller airlines limited scope to compete. (UK CAA 1988.) Secondly, privatisation, coupled with labour market deregulation within the wider context of liberal labour market regimes, allowed flag carriers such as British Airways and KLM the potential to operate on the basis of lower costs and higher productivity. A more liberal environment of bilateral air service agreements, notably between the UK and the Netherlands (1984), UK/Belgium (1985) and UK/Ireland (1988) accompanied this phase. Barrett (1997: 67-73) estimated that the benefits in terms of lower fares from the latter agreement amounted to £42 millions by 1996. Thirdly, this limited *zonal deregulation* was accompanied by a more encompassing and supranational series of regulatory initiatives notably the ongoing 'Open Skies' agreements between the UK and the US/Canada in 1994. (Button et al 1998: 30.) However it has to be emphasised that although the *trend* is towards liberalisation the industry still operates on a mercantilist basis with states protecting and upholding the rights of their flag carriers and major airlines. The apparent success of US deregulation was tempered with concern about market failures and the European project was designed to avoid the perceived failures of US deregulation. As Button et al argue, the debate has often been characterised as a choice between the shock therapy of the US solution and the more measured gradualism of European policy. (1998:54.) European authorities were constrained by geography and topography, as well as the divergence of state competition and labour market policies. These issues and contexts are covered by other accounts (Button et al 1998), (McGowan and Seabright 1989: 283-344).

For the purposes of the current work it is necessary to outline these liberalising measures, although the very real interplay between such policies and the labour market is fully analysed in Chapter 7. The principal deregulatory packages are outlined below in Table 4.6

Table 4.6 EU Air Transport Reform: The Three Packages.

	Ist package (Jan 1988)	2nd package (Ist Nov 1990)	3rd package (Ist Jan 1993)
Fares	Discounting of up to 45% without regulatory approval	Improved automatic non-approved discounts	Powers to intervene against excessive basic fares (in relation to long run costs). Continued downward development of fares
Designation/capacity	Multiple according to passenger numbers and flights: 45/55 capacity split Jan 88 40/60 Oct 1989	Reduced flight and passenger numbers for multi-designation. Gradual increase in capacity share up to 60%, allows increase of 7.5% p.a.	All designation capacity restrictions removed
Access/competition	Improved 3rd, 4th and 5th freedoms Limited capacity co-ordination, rules on slot allocation, CRS and ground handling	Enhanced 3rd and 4th freedoms, 5th freedom up to 50% of capacity. PSO/protection new regional routes/scope for distribution control on environmental grounds	Full access to all EU routes*, unrestricted cabotage from April 1997. Reformed PSOs. Greater scope for traffic distribution intervention re: congestion and environmental factors
Licensing	Not addressed in earlier packages		Uniform across EU, notion of EU ownership, lighter regulatory requirements for smaller carriers

Source: Summarised from table 2.5 in Button et al 1998

* excluding Greek islands and Azores

It can be seen from table 4.6, that the process of deregulation was attended firstly by a relaxation of restrictions, benefiting flag carrier airlines. Secondly, there was a gradual introduction of fare discounts, and greater freedoms to operate services within other European countries. Complete liberalisation was signalled by the removal of all restrictions and designations with full fare setting authority and the ability to operate between and within other European states. Within this context of market liberalisation, we can ask the same broad questions about the outcome for labour. Given the identification of pilots with a culture of high earnings and low productivity, how did pilots fare under deregulation? The first task is to examine the impact on earnings.

4.2.2 *European Pilots: Flying On Borrowed Time?*

Following the US literature on regulated industries, Windle (1991:31-49) and Neven and Roller (1995: 933-940) identified *rent sharing* between management and unions as a significant factor in the higher relative costs of European airlines. In common with others, such as McGowan and Seabright (1989: 283-344), Windle (1991: 31-49)(), they identify significantly lower productivity and correspondingly higher wages for Europe than for the US industry. As we have seen, US pilots under regulation and in the immediate post deregulation period were viewed as less productive. Managers have regarded their European counterparts as *both* overpaid *and* less productive. As in the US, the legacy of a web of regulatory rules, national labour market policies and the significant bargaining power of pilots themselves has benefited them enormously as a group.

In order to develop our analysis it is necessary to consider the nature of pilot earnings in Europe over key comparison points between the regulated and the deregulated period. The first task is to look at the official data, which in the case of European carriers is incomplete. ICAO data on fleet and personnel used here has been analysed by estimating mean earnings firstly for all European carriers listed, and secondly for flag carrier airlines, where high earnings have traditionally been prevalent.

These raw data are given below.

Table 4.7 Estimated Flight Deck Earnings in the European Airline Industry 1978-1997 (Constant US $)

	1978	1980	1985	1995	1997
Sabena	62,606	49,365*	76,639	80,637	75,243
Air France	52,437	94,652	71,297	218, 791**	75,243*
Lufthansa	31,450*	49,365*	57,750*	80,637*	75,243*
Aer Lingus	24,608	35,750	46,955	80,637*	75,243*
Alitalia	42,533	49,365*	57,750*	80,637*	75,243*
KLM	31,450*	116,062	95,747	80,637*	75,243*
TAP	28,422	49,365*	41,392	144,970	126,650
SAS	50,145	85,004	57,750*	161,950	159,378
Iberia	42,688	75,577	60,602	192,383	75,243*
Swissair	56,280	108,681	94,558	76,972	75,243*
British Airways	16,186	42,802	38,436	111,719	119,766
British Midland	14,756	39,125	27,383	78,614	86,362
Air UK	31,450*	23,079	57,750*	80,637*	56,979
Virgin	-----	------	34,600	82,432	79,372
Mean	**39,727**	**66,736**	**62,969**	**102,527**	**94,650**
Index (1980=100)	**60**	**100**	**94**	**154**	**142**
Index (1985=100)	**63**	**105**	**100**	**163**	**150**

Source: calculated from ICAO Fleet and Personnel Statistics inclusive years.

- * Missing data with mean value for year inserted to allow comparison.
- **Affected by Air France take-over of UTA and Air Inter.

TABLE 4.8 Estimated Flight Deck Earnings within European Flag Carrier Airlines (Constant US $)

	1975	1980	1985	1995	1997
Aer Lingus	44,450*	77,682*	88,123	140,332*	144,523*
Alitalia	44,450*	77,682*	88,123	140,332*	144,523*
Air France	44,450*	77,682*	88,123	140,332*	144,523*
BA	16,186	42,802	38,436	111,719	119,766
Iberia	44,450*	77,682*	88,123	140,332*	144,523*
KLM	44,450*	77,682*	88,123	140,332*	144,523*
Lufthansa	44,450*	77,682*	88,123	140,332*	144,523*
Sabena	44,450*	77,682*	88,123	140,332*	144,523*
SAS	50,145	85,004	88,123	161,950	159,378
Swissair	44,450*	77,682*	88,123	140,332*	144,523*
TAP	23,942	77,682*	41,392	144,970	126,650
Mean	**44,587**	**82,694**	**87,293**	**154,129**	**156,197**
Index (1980=100)	**54**	**100**	**105**	**186**	**188**
Index (1985=100)	**51**	**95**	**100**	**177**	**179**

Examining the index for all European pilot earnings in table 4.7 we can see that earnings appear to have fallen in two distinct periods. Firstly, between 1980 and 1985 when the effects of the business cycle occasioned cost cutting, secondly, and more importantly, between 1995 and 1997, the most intensive period of restructuring. This is the case where the rate of change is calculated using both 1980 and 1985 as base years. However given the incomplete nature of the ICAO data the real level may well be downplayed by the fact that industry mean earnings have been substituted for missing data. The base year of 1975 has been chosen for the European flag carrier comparison, because the data were more complete. Since much of this missing data relates to high earning state run carriers the mean is artificially low. Assuming that average earnings increased at the same rate as other flag carriers, and we have reason to suspect that they in fact outpaced other flag carriers, we can provide a more meaningful if still imperfect comparison, given in table 4.9. Here the average earnings of the highest European carriers were compounded with the mean earnings of US 'big six' carriers shown earlier in table 4.2. The index, which is based on 1985 earnings, the high point for European earnings, shows that there has been a steady upward trend throughout most of the comparison period with a pronounced slowing of earnings growth over recent years. On the face of it, both this data and the US data suggest that the long term effect of deregulation is to increase pilot earnings. The ICAO data for Europe are much less complete than for US carriers who tend to report their earnings more frequently and accurately.[34] The data are also more complete for the US giving a truer reflection because of the better response from US carriers. European earnings data are patchy and inconsistent, we can therefore only take these data as indicative guides .

[34] A factor in European carrier under-reporting is the pronounced reticence of employee groups and management at high cost airlines to divulge earnings data lest they provide ammunition for critics. The author continues to find a reluctance to secure this data in his current position as head of research for the British Airline Pilots Union.

Comparing the US and European data we can see that the trend in earnings growth is remarkably similar.

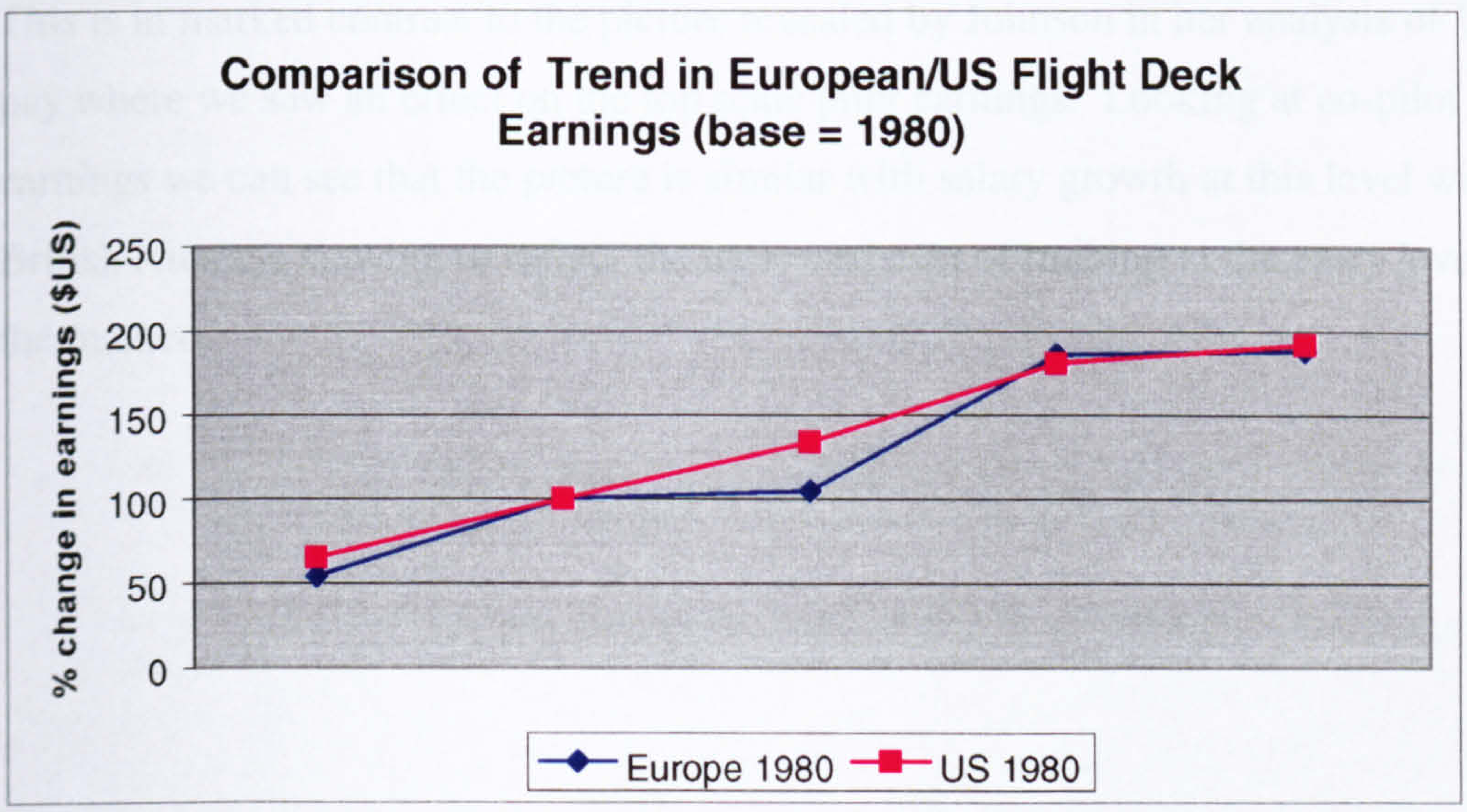
Table 4.9 Comparison of European Flag carrier and US 'Big Six' Carriers. Flight Deck Earnings using (index base = 1980/1985)

	1975	1980	1985	1995	1997
Europe 1980	54	100	105	186	188
US 1980	65	100	134	181	192
Europe 1985	51	95	100	177	179
US 1985	48	74	100	134	143

Source: Constructed from ICAO Fleet and Personnel Statistics (inclusive years).

There are of course differences between the earnings trends for both the US and Europe. These reflect the fact that both nations experience essentially the same stage of deregulation, and its labour market effects, namely competitive disengagement at different times. The US pilot workforce experienced this stage of deregulation between 1980 and 1985, whilst in Europe the same period is roughly between 1995 and 1997. The overall effect though is reasonably neutral. The period should be seen as an 'adjustment' rather than as a fundamental re-alignment of earnings.

Figure 4.3 Trend in European and US Earnings 1978-1997 (base =1980)



It is however clear that earnings for flight deck crews have tailed off somewhat towards the end of the comparison period. It is difficult at this stage to tell whether this is an indication of deregulation exerting a downward trend, or whether this later stage represents a blip as the period 1985-1990 clearly does in Europe. However the convergence evident between the two in the late 1990s suggest the beginning of a re-alignment of air transport earnings.

Looking at country level data we can focus to a greater extent on any changes. The levelling off trend is again apparent for the major flag carrier airline in this case British Airways. Figures 4.4 to 4.6 below provide a trend comparison of basic salaries for UK airline captains. Looking at entry-level salaries for example (figure 4.4 and 4.5) it is clear that pay within this category has indeed levelled off after a strong upward trend between 1985 and 1990. (figure 4.5.) After those years airlines, especially the larger operators such as British Airways and Britannia, the largest inclusive tour operator, introduced lower salaries for new entrants, in part reflecting the increased costs of training. A levelling off is also apparent in middle scale salaries, again after growth between 1985 and 1990. At the upper scale there is a continued upward trend reflecting the increased returns to seniority and the fact that many more operators are involved in long haul flying, particularly the charter operators. (figure 4.6.) Only British Midland whose operations during the survey period where exclusively short to medium haul were excluded from this trend. Therefore any increase in pay for captains has tended to go towards the top of the seniority scale. This is in marked contrast to the picture revealed by Johnson in her analysis of US pay where we saw an effect on the top scale pilot earnings. Looking at co-pilot earnings we can see that the picture is similar with salary growth at this level within British Airways slowing to reflect the increased cost of training at the entry level of the market.

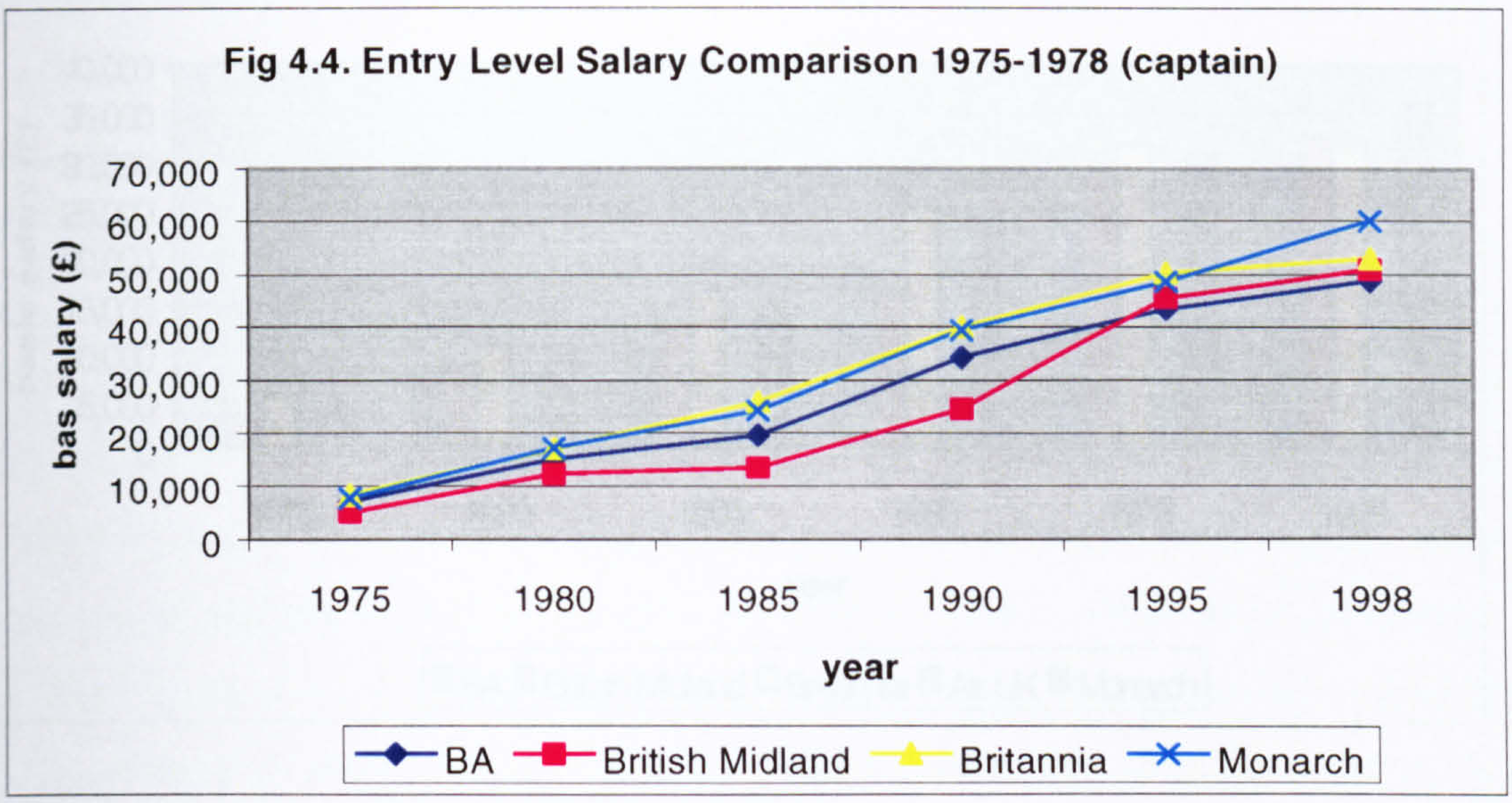


Fig 4.4. Entry Level Salary Comparison 1975-1978 (captain)
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
bas salary (£)
1975
1980
1985
1990
1995
1998
year
BA
British Midland
Britannia
Monarch

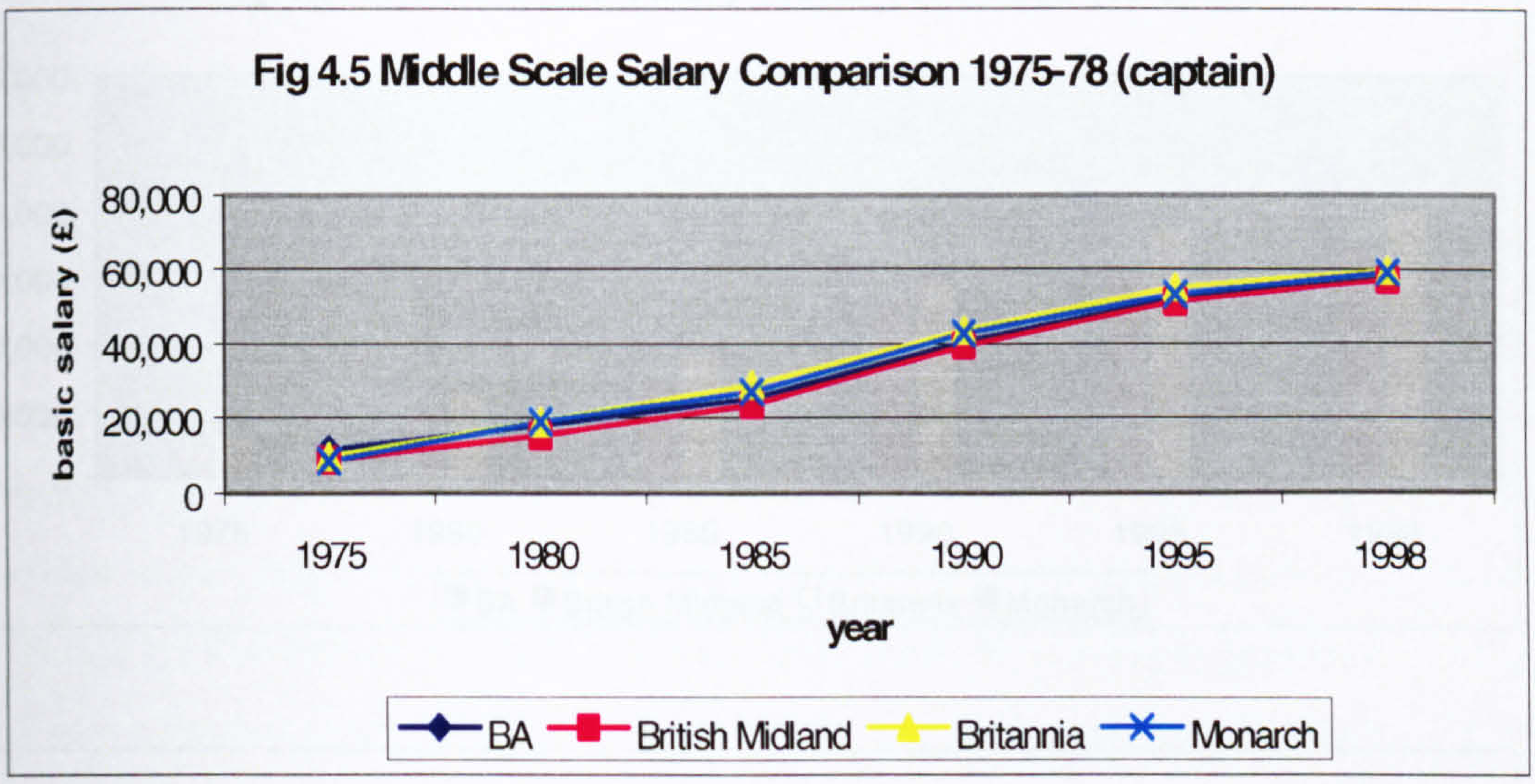


Fig 4.5 Middle Scale Salary Comparison 1975-78 (captain)
80,000
60,000
40,000
20,000
0
basic salary (£)
1975
1980
1985
1990
1995
1998
year
BA
British Midland
Britannia
Monarch

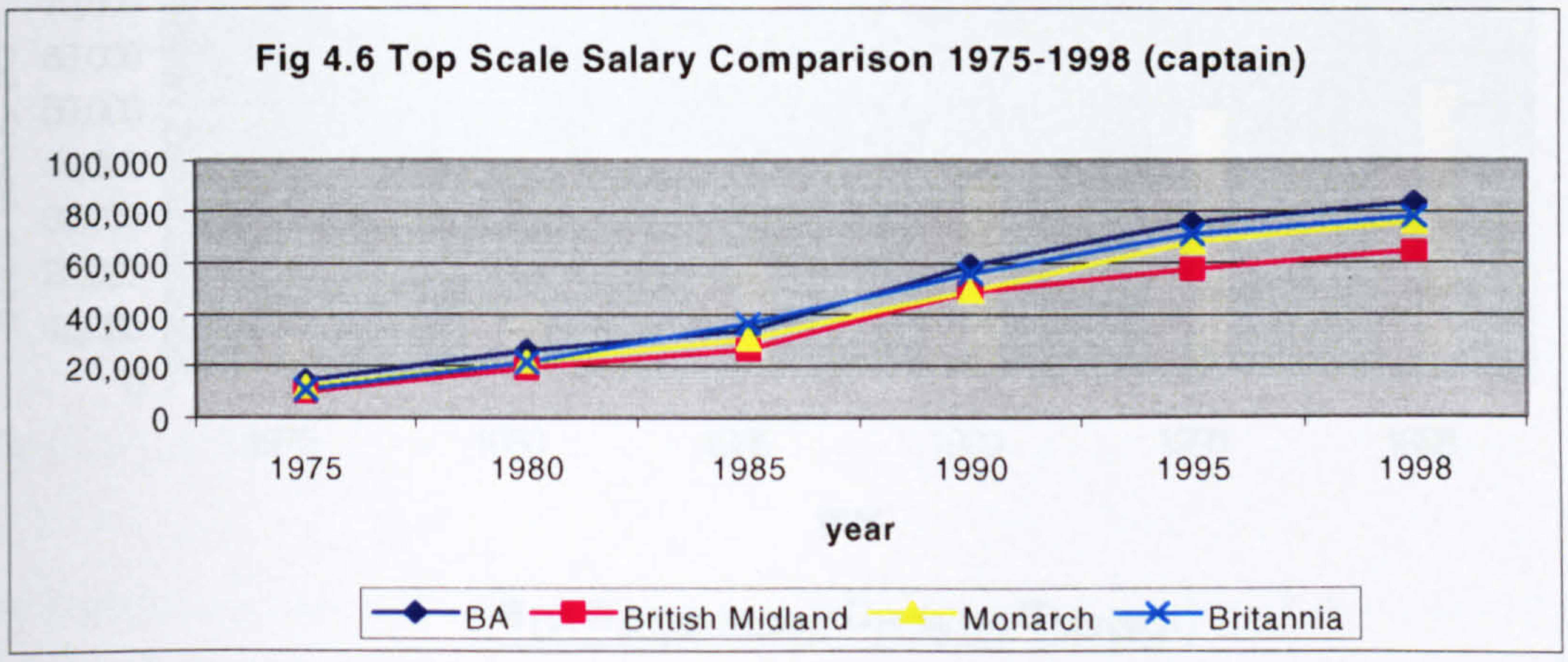


Fig 4.6 Top Scale Salary Comparison 1975-1998 (captain)
100,000
80,000
60,000
40,000
20,000
0
1975
1980
1985
1990
1995
1998
year
BA
British Midland
Monarch
Britannia

Fig 4.7. Entry Level Salary Trend 1975-1998 (co-pilot)

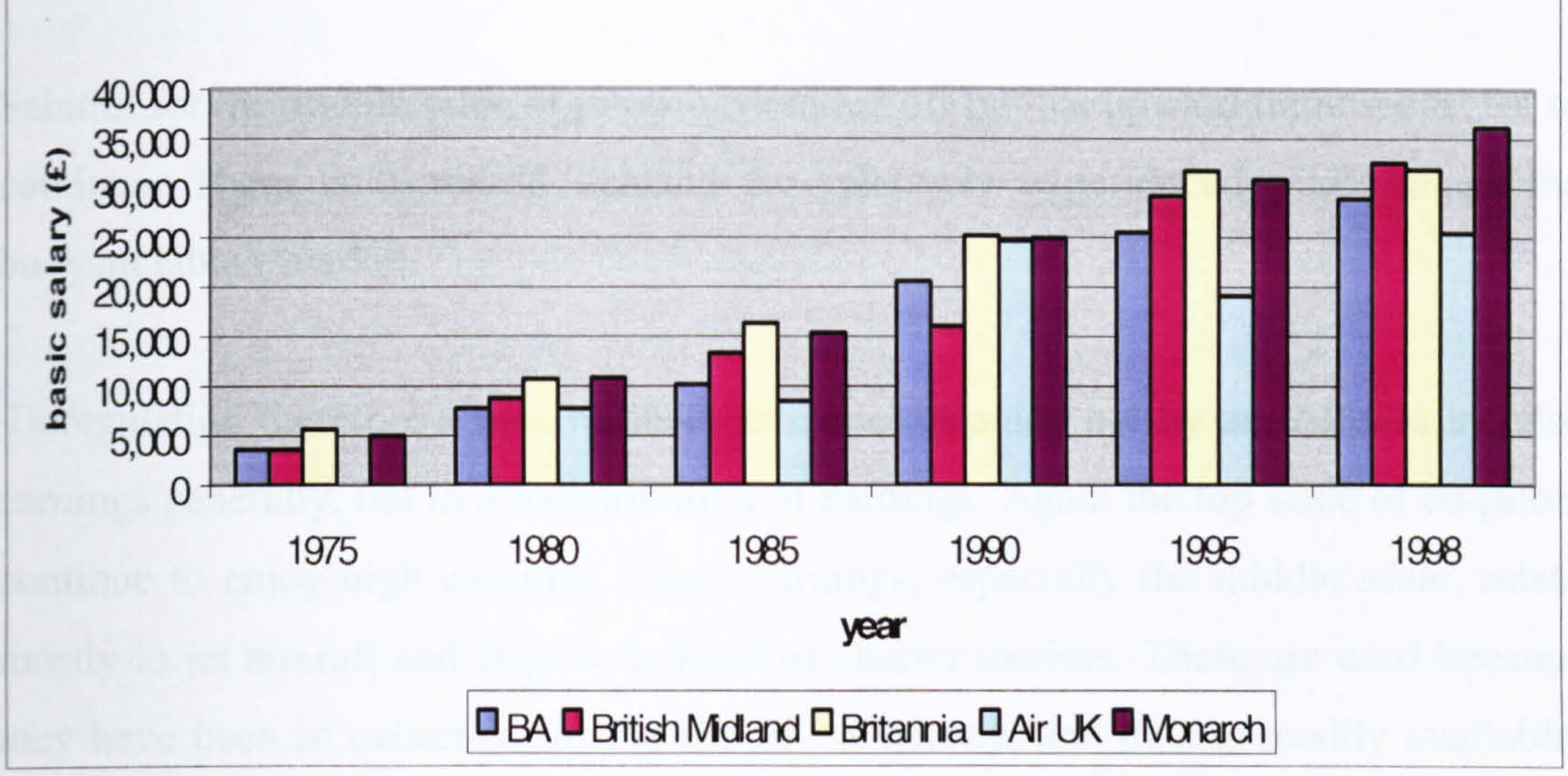


Fig 4.8. Middle Scale Salary Trend 1975-1998 (co-pilot)

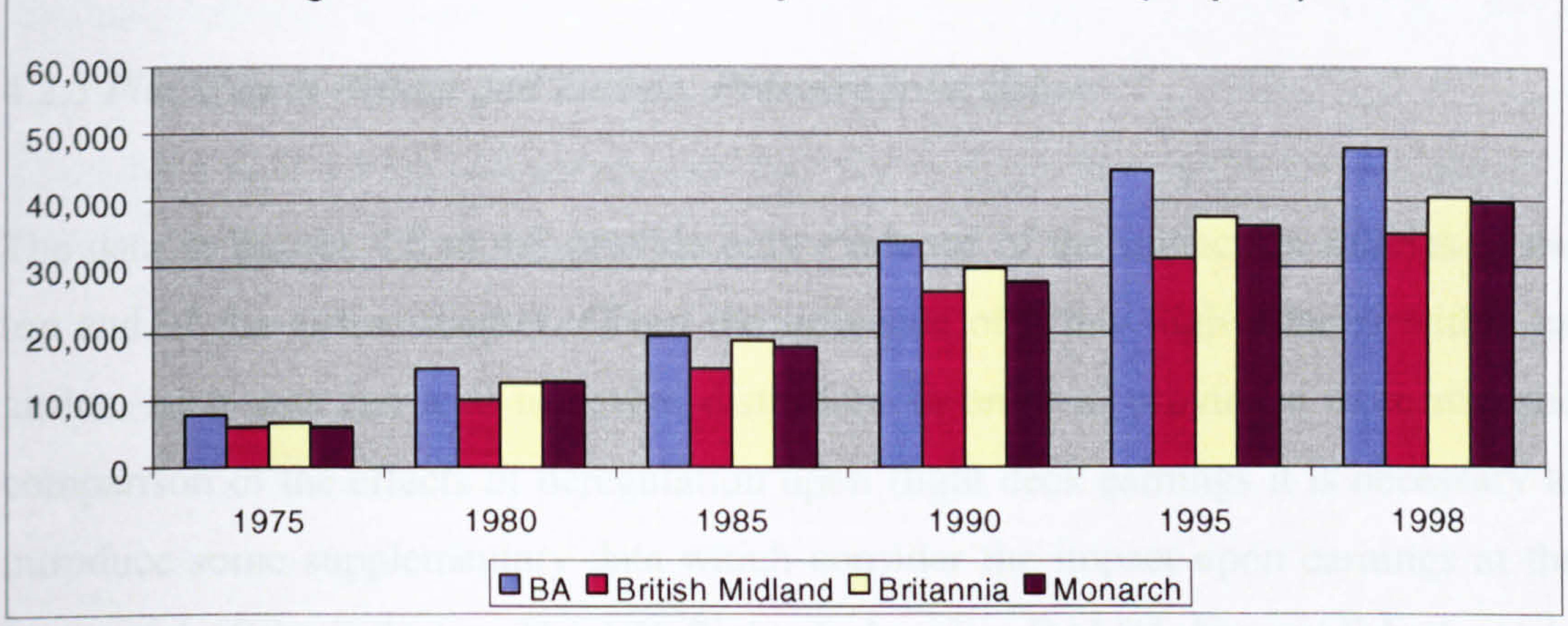
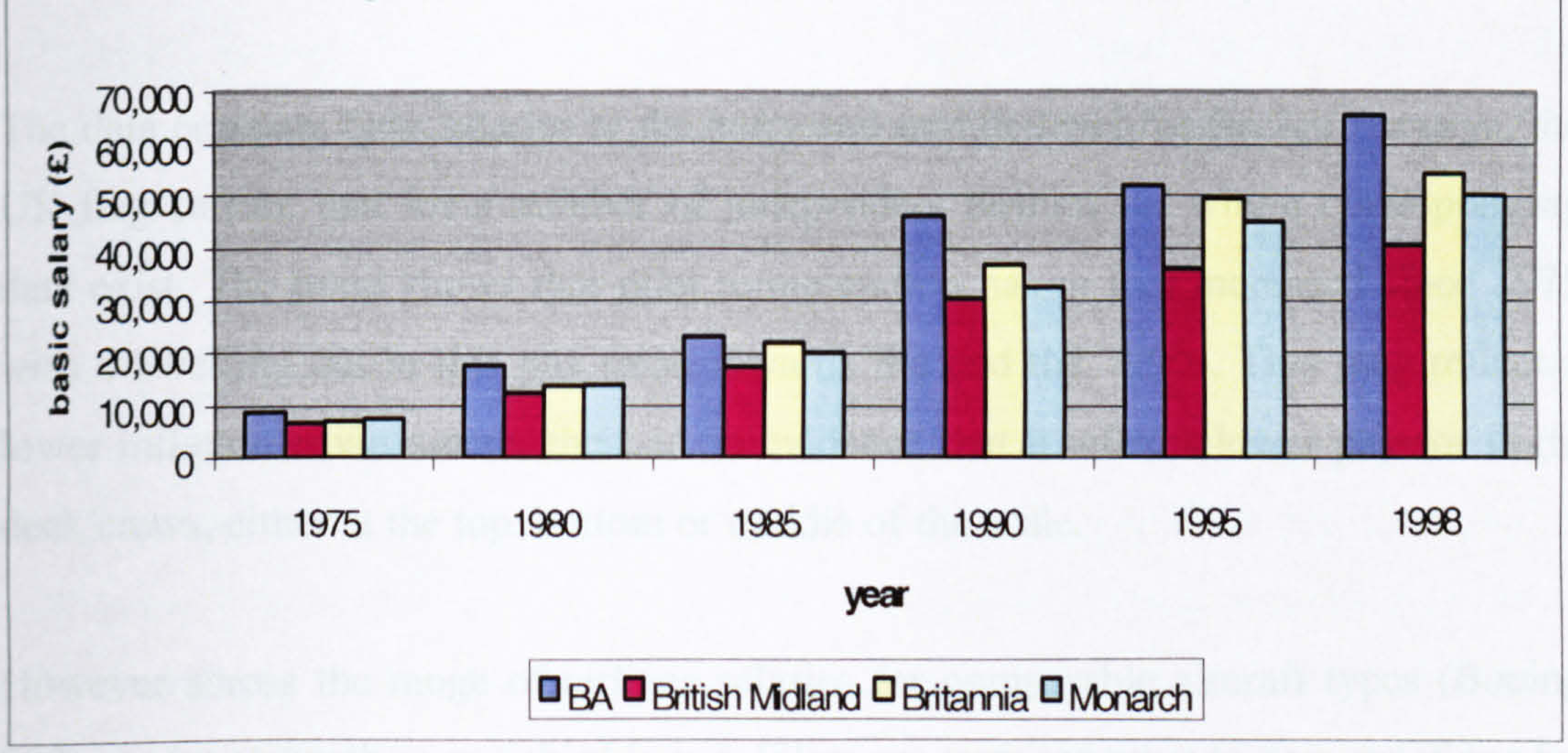


Fig 4.9. Top Scale Salary Trend 1975-1998 (co-pilot)



Salaries for the middle scale of pilots have tailed off but the upward trend seems set to continue. There is increased demand for relatively experienced pilots given the buoyant labour market.

Deregulation therefore seems to have been accompanied not by an increase in pilot earnings generally, but in a redistribution of earnings. Again the top scale of co-pilots continue to enjoy high earnings. These earnings, especially the middle scale, relate mostly to jet aircraft and large scheduled or charter carriers. These are used because they have been in existence for the life of the survey, and data is readily available. However there is another story indicating pressure on pay at the lower end of the spectrum. This is discussed in the next section.

4.2.3 *Pilot Pay in Britain and Europe: Pressure from Below*

The data in figures 4.6 to 4.8 provide only evidence of the impact on salaries at the top end of the airline market. Given the influence of a few high salaries within an airline, such data can lead to severe distortion. In order to provide a more realistic comparison of the effects of deregulation upon flight deck earnings it is necessary to introduce some supplementary data which consider the impact upon earnings at the lower end of the industry. The UK flight deck union BALPA has published yearly pilot pay analyses since 1975. These give data on minimum and maximum salary levels, providing an illuminating insight into the development of pilot remuneration.

The data compare base salaries at the entry and middle level for British Airways, the UK flag carrier, and for a number of independent airlines for whom corresponding data exist. The trend shows that pilot remuneration has in fact increased since 1975 with a levelling out in this pay trend towards the end the 1990s. This may reflect a lower inflation environment; there is no evidence that it reflects lower pay for flight deck crews, either at the top, bottom or middle of the scale.

However across the range of airlines salaries for comparable aircraft types (Boeing 737) can be as much as one third lower. Pilots are very sensitive to pay variations for identical aircraft types on identical route networks. The variation can be seen even more clearly if we compare BA Regional with British Midland (BM). British Midland operates a network of short haul business routes from London Heathrow in competition with BA. Its fleet mix is identical to that of BAR, but comparing maximum salaries, British Midland captains are some 19 per cent behind their counterparts at BAR. Easyjet salaries however are even lower with much higher productivity. Again comparing the salaries of Boeing 737 captains, we can see from table 4.10 that Easyjet pilot salaries are some 31 per cent lower than those of BAR.

One of the major pressures on pilot salaries is the effect of regionalisation and franchising. For example salaries again for the ubiquitous 737 at Maersk, a BA franchise, are only 65 per cent of those for BA Regional, demonstrating the threat to flag carrier type salaries from this sort of business strategy. Jet salaries for the BA regional operations Euro Gatwick and British Airways regional (BAR) differ markedly from those of other regional airlines. Importantly, Manx, GB Air, and Maersk are all BA franchise operations. This shows the extent of the possible threat to pilot salaries at BA. The case of Maersk, the Danish owned regional carrier operating a radius of European routes from Birmingham, confirms the fear that trade unions had when the BA threatened to sell the regional business to this operator. Maersk maximum pilot salaries are some 20 per cent lower. Many regional operators offer lower salaries than established carriers such as BA and British Midland. However, within BA the pilots' union, BALPA, has been able to gradually recoup the lower regional and Gatwick salaries, culminating in a 'snapback provision' for Gatwick and regional salaries. Operative from 1999, this deal ironically, part of the pilots' business efficiency savings, has restored regional and Gatwick based pilots back into the 'common pilot workforce'. The deal suggests that concession bargaining of the type seen in the USA is at least as prevalent in the UK.

This follows a trend established in the US, whereby, commuter carriers were integrated into major operators, in order to feed main hubs. In Europe however, the trend has been one of *dis-integration* as the regional operations are spun out as profit/cost centres, often with lower pay. Nevertheless, there remain pockets of relative low pay on the flight deck, and the threat from low cost operators is very real. Using current (1998) data for jet salaries, we can see the threat to pilot salaries from the bottom of the airline market. Many of the operators paying lower salaries are BA franchise operators and their activities have extended recently. Many are new entrants. Significantly the long standing scheduled operators such as British Midland and the charter operators Britannia and Monarch are much closer to the BA regional salary.

Nevertheless even Virgin long haul pilots are quite significantly below BA salaries especially when allowances and increments are taken into account.

Table 4.10 1998 Upper Scale Jet Pilot Salaries for UK Regional Operators

Operator	Max salary Capt.	Index deficit BAR	Max salary FO	Index deficit BAR
Maersk*	53,278	66	34,695	62
British Midland	64,257	79	40,383	73
British Regional Airlines	52,509	65	36,500	66
CityFlyer Express*	48,760	60	30,475	55
British Airways (Regional)	81,207	100	55,610	100
Easyjet	56,000	69	35,500	64
KLM UK	63,111	78	38,256	69
Jersey European	53,400	66	32,000	58
Virgin Atlantic	73,950	91	48,070	86
Average Jet salary exc. BAR	58,158	72	36,984	66

Source: BALPA Annual Pay Survey December 1998

The basic salary level is a good indication of the trend in remuneration within the pilot profession. Those carriers paying high basic salaries tend to have higher levels of incremental benefit and, conversely, the lower paying carriers offer a limited range of benefits. The discussion of pilot pay would suggest that pilot earnings have been variable within the UK. This might be expected given the extent of deregulation within the UK and the existence of an independent, low cost and charter sector. However in other European countries there is still a strong perception of high earnings and low productivity. This has led to constant attempts by airlines to seek concessions from pilots. These issues are examined in the next section

4.2.4 *Productivity and Efficiency in The European Pilot Workforce*

Pilot productivity has always been a source of dispute between airlines and flight crew unions. Depending on the measure used very different results can be obtained in any measurement process. The output of pilots conforms to the basic framework of airline economics, namely decreasing costs over a longer distance and vice versa. Various measures control for the effects of distance and time, the most commonly used by management is costs per block hour. This measure records only productive 'seat time' and ignores unproductive periods in between. Pilots are reluctant to use this as the sole measure as it underestimates the preparation and planning which goes into a flight. A 1995 comparative study by consultants, Towers Perrin, for KLM management for example showed that pilot costs per block hour for comparable aircraft types were 20 per cent, 30 per cent and 40 per cent higher than those at Lufthansa, British Airways and Singapore Airways respectively. A rival study conducted by Cranfield University and Deloitte Touche showed that KLM pilot costs were, on average, 25 per cent below those of the other eleven airlines and their net income half that of the other carriers. (Odell 1997 :.) The measurement of pilot productivity is therefore fraught with methodological problems given the complexity of different output measures, and interacting variables such as route length, aircraft type and speed. However despite disagreement over the type of measure most analyses, have found that European pilots considerably underperform compared to US and Asian counterparts. However, in an analysis of world airline labour costs, Merz (1995) indicates that the negative performance of European flight deck staff in this regard is exaggerated.

Table 4. 11 Pilot Labour Costs at Major Airlines 1980-1991

	Total staff 1980(%)	Total labour cost 1980(%)	Total staff 1991(%)	Total labour cost 1991(%)
USA	11	20	10	26
EUROPE	6	17	6	17
ASIA	7	18	9	21

Source: Merz and Lufthansa (1995) in Capelli (ed.) Airline Labour Relations in The Global Era. (Pg. 91).

Merz indicates that European pilot labour costs, as a percentage of total airline labour costs, have remained stable whilst the percentage of pilots and other flight deck staff of the total workforce has fallen slightly. The trend in recent years has been for pilot costs to increase, however, these increases in the size of the workforce have been accompanied by rises in productivity. (Alamdari and Morell 1997 53-66.)(Vass 1997.) Though there are many omissions in the data due to under-reporting, the International Civil Aviation Organisation (ICAO) collects data periodically on staff costs. Using this data to look at the total expenditure on flight deck wages as a proportion of overall labour costs, provides an imperfect but useful comparison.[35] Table 4.12 (below) provides an outline comparison of costs. Whilst US pilot costs as a proportion of total labour costs have fallen overall since 1980, costs in Europe have risen albeit from a lower level. In the US, pilot wage costs actually rose as a proportion of overall wage costs, throughout most of the deregulated period, but started falling by 1995. This reflects the long run effect of deregulation. We might expect to see a similar trend within Europe, with deregulation being accompanied by a rise in flight deck costs, falling only after a long period of adjustment, where a lower cost base is established. However the overall trend evident from table 4.12 and 4.13, below, which takes the analysis up to 1995, is one of pilot expenditure rising as a proportion of total labour costs.

Table 4.12 Long Run Comparison of Pilot Wage Costs 1980-1995

	% of total labour cost 1980	% of total labour cost 1991	% of total labour cost 1995
USA	20	26	22
EUROPE	17	17	23

Source: calculated from ICAO Fleet and Personnel 1981,1992,1996

The trends suggest that expenditure on pilots including their training and expenses becomes greater as traffic and route networks expand under deregulation. This is clear from the increase in pilot cost in the USA. It also reflects the fact that the bargaining

[35] The ICAO data on fleet and personnel costs are incomplete. The data is good for the USA were most airlines report fully and consistently over time. For Europe however, there is seldom continuity between years for the same carrier and data on major operators such as Air France, Alitalia and Lufthansa are missing completely. The proportion of pilot expenditure for Europe has therefore been extrapolated from the previous percentage difference between the two years for the available carriers. The average difference was then calculated for those carriers for whom data is missing.

power of pilots has increased, as deregulation has grown the market. This explains the pattern of rising post deregulation earnings, and pilot wage costs.

Table 4.13 Comparison of Total Labour Expenditure Pilots 1991 and 1995

Airline	Total Expenditure on Flight deck costs 1991 ($US)	% of overall staff costs 1991	Total Expenditure on Flight deck costs1995 ($US)	% of overall staff costs 1995
United	732,541	17	1,033,299	20
US Air	558,622	22	589,915	21
Delta	820,848	20	1,079,509	26
TWA	204,590	14	179,631	15
Continental	272,777	19	341,037	26
Iberia	283,410	19	222,972**	22
Swissair	212,769	17	N/A	23**
Austrian	N/A	N/A	N/A	23**
Lufthansa	N/A	N/A	N/A	23**
SAS	171,719	14	233,475	21
TAP	59,124	17	63,787	24
Finnair	45,292	17	----	23**
British Airways	290,580	18	342,782	17
Virgin Atlantic	9,509	15	22,911	24
Lauda Air	3,433	24	----	26**

Source: ICAO Fleet and Personnel Statistics ** extrapolated. (See footnote 10)

An examination of differences between the USA and Europe shows that pilots in Europe have faced greater short-term pressure on wages and work rules than those in the USA. There are several pressures combining to affect the European pilot workforce. Firstly, the ongoing pressure of restructuring and privatisation and secondly, the effect of new global management strategies. (See Hanlon 1996: Chapter 7) and Verchere EIU 1993.)

Table 4.13 indicates the level of expenditure on pilot costs undertaken by major carriers. Many of the highest paid pilots, such as those of Iberia, operate in the state sector. Although even in carriers where there is a nominal state holding, high levels of remuneration exist. For example Swissair where there is a 20 per cent holding, have high levels of remuneration. However, as the case of TAP indicates state ownership need not go together with 'excessive' levels of remuneration. The comparison between 1991 and 1995 shows a closing of the remuneration gap between European and US pilots. For instance the gap between the highest paid US pilots was almost 50 per cent in 1991 and is now just over a quarter. But European flight deck earnings are set to come under pressure as management deploy business strategies which threaten the compensation and work rules enjoyed by European pilots. This issue is explored in the next section.

4.2.5 *Management Strategy and Employee Resistance in Europe*

In Europe, pilots currently face a number of related pressures. Firstly, restructuring and privatisation have led carriers to exact wage and benefit cuts in short term cost reduction programmes. How permanent these cost reductions will be is as yet unknown. Secondly, the pressure of deregulation and liberalisation has licensed a new breed of low cost operator, many of whom tend to be non-union, thus threatening the union wage as established carriers seek to replicate such strategies. Thirdly, as carriers adapt to the deregulated and globalising airline market, they are trying to internalise low costs. This is being achieved through the use of franchising and by the creation of low cost regional subsidiaries. In most cases pilots are coming under increasing pressure to provide wage cuts and productivity improvements. But, more importantly, pilots face continued pressure to alter the pay structure, through the use of two-tier strategies and through demands for increased productivity. Pilots at BA demonstrated this in 1996 when they threatened to strike ostensibly over the company pay deal, but essentially as a warning shot to BA not to proceed with its plans to introduce differentiated pay scales for pilots. The fact that pilots at Euro Gatwick and BAR secured proportionately larger wage increases than those in the mainline fleet, indicates the extent to which pilots value the importance of holding the line on wages and conditions as operators sought to reduce costs. Nevertheless they face an impatient and often nervous set of management, who see an environment of fierce competition coupled with pressure on yields.

In responding to the changed competitive environment of deregulation carriers have responded in several ways. Arguably, the major strategy for airlines has been the development of franchising and the creation of low cost subsidiaries. The use of such strategies allows carriers to procure lower costs and at the same time to demonstrate the possibility of lower costs to the parent airline. These strategies have become more common as strong carriers such as British Airways and KLM utilise them to bring down costs. In a deregulated European airline market other carriers have to respond. Alitalia, which faces massive restructuring problems, has been forced to trade equity for concessions in the manner of many US carriers. Cuts of $340m over four years have been given in exchange for equity stakes of between 20 and 30 per cent (Airline Business November 1996). The carrier is also actively an internal low cost airline, through the launch of Alitalia Team. Pilots normally able to insulate themselves from the demand for labour concessions have been among the most severely affected. Athough the pilots' union ANPAC orchestrated concerted action, including a mass 'sickout' in the summer of 1996, the plans have been pushed through. (Hill: 1995.) As a result of the restructuring programme many will be transferred to Team under contracts assuring productivity levels of 30-40 percent greater for lower wage rates. However, pilots have escaped relatively lightly compared to cabin staff who face wage cuts of 50 per cent. (Ibid.) Given that the carrier will operate long haul as well as short haul routes, it may well supersede Alitalia completely. Such policies are akin to 'double breasting', as pursued in the USA, only in most cases the realities of European industrial relations are respected by allowing unions to exist at such secondary carriers. In another case of the use of low cost strategies, Iberia has utilised its low cost subsidiary carrier, Viva Air, as a direct competitor against the state carrier in major markets such as Barcelona-Madrid.[36] With restructuring and privatisation, pilots face downward pressure on wages and conditions. The potential for major reductions in pilot salaries across Europe is most pronounced in the state owned airlines where both costs and productivity are a problem and where industrial relations structures are largely unreformed. Iberia pilots, for example, struck in 1995 against management plans to reduce pilot salaries by as much as 40%. At KLM, pilots forced management to drop plans for an extension of the retirement age by undertaking strike action, the first time since 1958. (Van De Krol 1995.) Pilot strikes also took place at SAS, Air France and Air Inter, largely over issues of restructuring. The withdrawal of

[36] Productivity at charter carriers is often far superior to those of scheduled operators. Charter carriers tend to have higher levels of utilisation of both aircraft and staff and incur lower infrastructure costs, as they tend to operate from secondary airports. These factors allow them to harvest significant productivity gains. According to the International Air Charter Association (IACA) an Iberia pilot might fly 45 hours per year whilst a Spanish charter carrier will fly some 800 hours. Increasingly, carriers are pinpointing such low cost comparisons in negotiations.

state aid and the insistence of the European Commission that subsidy could only be used for 'one last time' restructuring was a major factor in industrial action.

In the Southern European carriers the pressure for restructuring was more acute and the level of conflict higher. Here the state retained its involvement both as an owner of airlines and gatekeeper of bilateral rights, gradually relinquishing these as liberalisation took hold. In Europe the higher pay and lower productivity of the regulated era was tackled by major restructuring initiatives. Commencing in the 1990s, the position of Europe's pilots was challenged by a series of concerted restructuring initiatives. These were met by a series of strikes and threatened strikes, continual dispute over new business strategies, which threatened to undermine common pilot remuneration structures. External threats from low cost carriers, competition from other flag carriers and the removal of subsidy, led to an internal focus on costs. In the northern European context carriers such as BA, KLM and SAS and Lufthansa deregulation gave rise to a number of cost reduction initiatives which broadly followed those developed in the US. The development of franchising and the creation of internal low cost operations was met with concerted challenge by powerful pilot unions but ultimately pilots have been able to control and police these strategies firstly by using 'scope' clauses to protect employment, and secondly by utilising their bargaining power to push for equalisation of pilot salaries. Nevertheless this has not halted a general erosion of pilot salaries from the low cost and regional operators whose lower earnings and greater utilisation present a constant threat.

Conclusion

The discussion commenced with a central question. Has deregulation helped or hindered the fortunes of airline pilots? This question was addressed by investigating a number of sub-questions such as those on flight deck earnings, the preservation of work rules and bargaining power. In order to conclude it is necessary to return to the bargaining environment product/market model developed in chapter 2. (See appendix 1). In the USA, government and regulators, by outlawing the MAP and instituting limited labour protection statutes, seemed on the face of it to strengthen labour's position. However, government increasingly intervened via presidential board decrees, forcing labour into rearguard negotiation. Deregulation with rapid entry, bankruptcy and consolidation, fostered an employment relationship characterised by a high degree of contestation. Employers sought to undermine union power and conditions through the use of benchmark comparisons with the low cost providers, whilst unions defined the labour contract and sought to protect work rules in the face of this onslaught. The environment was typified by concession bargaining, which unions often treated as tactical withdrawal to be recouped in good times. The overall effect of such an environment was to benefit capital within the industry, but to leave labour in a state of relative combativity and to preserve the potency of its bargaining power. By the late 1980s and early 1990s, a situation of 'mature deregulation' had been reached with the onset of oligopoly and hub domination. Industrial relations within this environment were more negotiated, with a tendency towards equity based concession bargaining, as employers sought to co-opt unions into restructuring. Unions prioritised job security and the protection of union contracts, often negotiating on that basis. Those factors explain the resilience of pilot earnings, which despite 'adjustments' in the wake of deregulation, have always been restored, especially in the wake of industry expansion. These issues come across in the earnings data analysed earlier.

However whilst many wage concessions could be refunded through 'snapbacks', these can in turn be claimed back in recessionary times. The overall effect of deregulation on US pilots has been firstly, to open pilots up to non-union competition, which though currently weak could re-emerge as a threat if some major carriers were to derecognise the pilots' union. Secondly, pilots have been forced to accept wage rates and contracts which are largely dictated by the business environment of the airline concerned. No longer does the 'cost plus' pricing model, identified by Capelli and others, operate. Thirdly, the precarious economics of the industry means the threat of another major series of bankruptcies and consolidations is a constant threat, especially in downturns. Pilots have also gained new influence and involvement within the industry as indicated in their driving role within ESOP programmes. Given their role within ESOPs, it could be expected that other airline workers might be expected to surrender more under the next wave of concession bargaining. The involvement of pilots as a driving force in major ESOP programmes such as that of United indicates a search for influence within the firm, as explicit regulatory intervention becomes more opaque.

By the late 1990s the industry benefited from a much more inclusive and less nominally adversarial industrial relations environment. Most typical are the restructuring plans at Northwest (1994) and TWA (ongoing), which have resulted in worker representation on airline boards and limited equity in exchange for major concession on wages and work rules. Less typical, but perhaps symbolic is United Airlines where massive labour concessions ($5.3 billions) have been traded for a controlling employee ESOP. However the key fact is that as predicted by Hendricks et al at the outset, labour's bargaining power within the industry, especially that of pilots, has been preserved and even enhanced. Arguably, that power has been preserved by a judicious policy of co-operation, although there have been many examples of more combative strategies. The recent American pilots' action against commuter pay structures, and the victory of Northwest pilots in restoring pay cuts and eradicating two tier wages, indicate the continued power of combative militant action within US bargaining. (See *Airline Business* November 1998.)

European deregulation affects pilots in different nations to varying degrees as befits a diverse environment. The labour market environment in countries such as the UK and the Netherlands was characterised by enhanced product market regulation but this did not stop pilots from securing and enhancing collective agreements. The situation is one of relative stability, where labour is prepared to co-operate in strengthening the carrier's global position at a crucial time, and management is prepared to uphold the unified nature of the firm. Nevertheless, management increasingly seeks to develop low cost strategies such as franchising and regionalisation in order to serve lower yield markets on a more cost-efficient basis. The phased introduction of deregulation allows a more measured adjustment in nations like the UK, Netherlands and Ireland. A marked change occurs in the 1990s, although there have been minor episodes of restructuring in the 1980s, most notably the re-organisation of BA's Highland services (Colling 1995). By the early 1990s, international and domestic competition intensifies, and management's search for cost reductions, produced several episodes of industrial action most notably, a threatened BALPA strike in July 1996 and disputes involving pilots at KLM (See *Airline Business* July 1996).

In the other European airlines, mostly those in Southern Europe, there is much more conflict and contestation over restructuring. Pilots at Air France, Iberia and Alitalia are among those most involved in industrial action as they seek to insulate themselves from restructuring and cost reduction. As state airlines seek to survive in a hostile climate these pilots have become a major target, given their traditionally high levels of remuneration and low productivity. Again, carriers try to develop low cost strategies, using internal subsidiaries to undermine the higher terms and conditions of pilots with limited success. The disruptive capacity of the pilot unions, whose ability to disrupt carriers, to challenge restructuring and to concede much less in relative terms than other airline workers, is a constant concern of both management and other unions. (See Blyton et al 1998b.) European pilots face an additional unified threat from regulatory changes. Most notably, as the EU contemplates increased flight duty hours, under the JAROPS proposals. BALPA, for example, adopts a strategy of seeking to protect pilot wage levels and of pressuring regulators in order to protect work rules. Another threat comes in the shape of cross border registration and the so-called 'flag of convenience' issue. Pilots also face attempts to harmonise certification and licensing, although these are generally welcomed as aiding mobility.

One key similarity between the US and Europe is witnessed in the interaction deregulation and business strategy. In the USA the low cost threat was provide by the new entrant carriers, encouraged into the market by deregulation. Regulators wished to see a direct challenge to the high cost major carriers, and operators such as People Express and New York Air provided it for a time. However with merger and consolidation the low cost carriers were absorbed into the majors, but as they faced the threat of Southwest and the former Valujet the majors themselves introduced low cost internal subsidiaries. Many perished on the rock of employment relations. For example Continental Lite and Shuttle by United, were hampered by the fact that they tried to imitate southwest, but were unable to garner the labour flexibility and commitment, which the widely admired carrier enjoyed. (Pfeffer 1998: 57.) They relied on lower wage rates with corresponding low morale. Pilots were among the most disgruntled employees, given their attachment to common compensation scales.

In Europe majors instigated low cost internal operations themselves primarily to pre-empt the low cost threat of Ryanair, Easyjet and a host of smaller airlines. BA's creation of GO at Stansted and KLM's attempt to use a low cost subsidiary to operate services from Stansted are pertinent examples. (Gallagher 1999:11) The ratchet effect of this rush to the low cost route has driven BA to allocate many Gatwick short-haul routes to its wholly owned ultra low cost subsidiary Cityflyer Express, and again pilots are the most directly affected. Though the routes will be operated by Cityflyer staff who earn on average 30 per cent less than BA short haul pilots, the move is a threat to the future of short haul services. Other flag carriers will probably attempt to follow this.

As in the USA, pilots in Europe have not lost a great deal under deregulation. They have lost some of the regulated rents, which they previously enjoyed (as the case studies of Iberia, Alitalia and Sabena pilots indicate). They also continue to face many threats to their labour market position. The bargaining power of pilots has been crucial in protecting them from the worst ravages of the new airline labour market. However, the emerging market structure of interfirm collaboration and free market entry within prescribed regulatory jurisdictions could provide the co-ordinated counterpoint where national bargaining power might be irrelevant. Open skies and globalisation may yet allow management to break open the cockpit door. Nevertheless the relative success which stronger pilot unions within the more successful flag carrier airlines have had in controlling and confining the spread of regionalisation and internal low cost carriers suggests that in the long-run pilots may preserve their position even where they appear to have lost ground.

The issues of franchising, regionalisation, the creation of internal low cost carriers, and the spectre of outsourcing are crucial for airline labour. The attitudes, perceptions and response of employees to such change are crucial in evaluating the future of airline restructuring policies. As yet, there has been no systematic attempt to gauge employee views, which can be seen as crucial given the highly unionised context of the industry. Although we have used pilots as an exemplar of the contrast between a regulated and a deregulated employment environment, their high degree of skill specificity and potent bargaining power renders them more able to protect themselves, and therefore less ill-disposed to management policies in many cases. Policies such as outsourcing and regionalisation have tended to affect more general airline workers such as those employed within ground handling, engineering and support services, whose non-industry specific skills render them more vulnerable. Premium wages and conditions for these workers have been increasingly eroded as airlines seek to restructure costs. In the next two chapters these issues will be addressed using the case of British Airways, whose restructuring policies have increasingly led the industry, particularly in Europe.

Period	1980s	1990s
Industry Structure	Recently deregulated, competitive with tendency to merger and oligopoly	Mature deregulation, limited niche competition, prevailing oligopoly, hub concentration etc.
Employment relationship	Conflictual pluralist, high contestation	Less conflictual, low key contestation, routine co-operation, negotiated
Employer strategy	To undermine union power through non-union entry, to reform insider wages and benefits, to use threat of bankruptcy to gain concessions.	To co-opt employees into restructuring, to promote low cost internal strategies with inferior terms and conditions, to cede equity for concessions, generally, pursue global alliances
Employee/TU strategy	Defend union contract, pursue legal protection, long term strikes, etc. Concede and hope to recapture concessions, prioritise job security and unionisation	Co-operate in restructuring, seek equity for wage reductions, and promote job security. Extend union jurisdiction into boardroom
Level of labour market regulation	Govt outlaws MAP, and institutes employment protection legislation 8, increasingly intervenes on presidential board basis to settle disputes	Minimal, though govt continues to intervene in some disputes.
Effect on bargaining power of parties	Capital enjoys high level of bargaining power, and labour is weakened but combative.	Capital enjoys high level of control, but has ceded some power in terms of equity. Labour still potent but emphasises firm survival.

Appendix 4.1 Bargaining Under Deregulation in the USA

Appendix 4.2 Bargaining Under Deregulation in the UK

Period	1980s	1990s
Industry Structure	Concentrated oligopolistic domestic market with limited competition, high yield	Contested domestic regional and international markets, increasingly low yield environment.
Employment relationship	Unitarist/high trust	Conflictual collaboration
Employer strategy	To develop and expand on basis of quality, to restructure costs in crisis periods, carry high cost high quality, limited merger	To develop low cost strategies, to promote regional subsidiaries, outsourcing, increased utilisation and labour intensification, franchising, alliances, use threat of benchmarking,
Employee/TU strategy	Collaborative vigilance, defend national CB, broker change where appropriate. Extend industrial agreements.	Defend national bargaining, accept restructuring on basis of job security, concede wages and benefits and seek to re-instate, pressure government, regulators etc. to protect work rules. Collaborate on own terms in job redesign, training, recruitment etc.
Level of labour market regulation	Low though for pilots "'technical' regulation by CAA underwrites many work rules. European influence minimal.	Same as previous period though with greater European encroachment which threatens work rules
Effect on bargaining power of parties	Stability	Unstable. Management uses product market to implement change but labour is capable of resisting

5

Deregulation, Business Strategy and Employment Change At British Airways: Context and Issues

5.1 Globalisation, Deregulation and The Deregulation of Employment

The previous chapter considered the impact of deregulation upon pilots as the most powerful occupational group within the airline industry. We now turn our attention towards the general labour force within the industry by examining a case study of employment change and employee attitudes at British Airways. As the previous chapter has shown British Airways (BA) typifies the emerging global trend towards a deregulated global airline industry. The carrier has benefited from early privatisation and the UK's 'liberal' labour relations environment, and has grown through concentration and acquisition on a European and global level. With the freedom accorded it in the UK, BA has pioneered a number of management strategies, namely franchising, regionalisation, the creation of separate business units and outsourcing. These strategies are becoming widespread in the European and global airline industry. In all of these measures BA has been the 'first mover' within Europe changing and, adapting to the pattern in the US and arguably going further. In fact, US trunk carriers have been slow to outsource and have had difficulty in introducing internal low cost operations, due to the power of airline unions. British Airways has pushed these changes to a greater extent, benefiting from the UK institutional context.

Nevertheless, this apparent model of corporate change and adaptability has to be qualified. Until the early 1990s, British Airways managed to push through most of its desired restructuring objectives with a minimum of conflict. This ability to implement change was a consequence of product market buoyancy but the structures of industrial relations were also important. Collective bargaining and the industrial relations systems of the regulated era helped the carrier to restructure regional operations, to outsource major maintenance, to absorb a number of other carriers and smoothed the process of redundancy in periodic downturns. Whilst unions protested these changes, they have generally been willing to submit to restructuring in the face of adversity. (Interview TGWU 11.9.98.) Thus significant changes were carried through at Highland Division in 1988, at BA Regional in 1991 and in Gatwick short haul operations in 1993. Normally there has been a backdrop of crisis and possible threat to concentrate union minds. For example, the 1988 restructuring of Highland services took place within the context of a threat to sell these loss-making routes to Loganair or Manx. The Regional operations were created under the threat of transfer to the Norwegian low cost operator Maersk. Similarly, the Gatwick operations were restructured in the aftermath of the Dan Air bankruptcy. The carrier took advantage of this situation to develop a low cost route network from Gatwick, in order to rival and expose operations at London Heathrow. In all of these situations the unions were on the defensive and agreed to restructuring. In mainstream operations, however, especially those based around the buoyant Heathrow services, management has found change a difficult and protracted process. Whilst there has been progress in cost reduction, the prevailing story has been one of high labour costs, based partly on expectations derived from the regulated and less competitive era. This phenomenon, which can be termed 'the regulatory overhang', exists in most airlines and can be viewed as a set of perceptions held by employees, unions and to extent managers, about the nature of the labour contract in the airline industry. These issues are discussed in the next section.

5.1.1 *The British Airways' Bargaining Environment: Regulatory Overhang and Structural Necessity*

As we have seen in chapter 3, during the regulated era an often-cumbersome set of industrial relations institutions delivered an element of stability, with unions operating as intermediaries in brokering change to groups of workers for the benefit of a wider constituency. In advance of greater commercialisation and eventually privatisation, management attempted to refashion the organisational culture. This involved the introduction of human resource management initiatives to create an essentially unitarist culture beneath the traditional frameworks of trade unionism and collective bargaining. Unitarist employment policies had to be reconciled with the strong and voluble presence of trade unions. This situation of *dualism*, was a typical response to the high levels of unionisation found in the industry. (See Blyton and Turnbull 1998.) Lundy and Cowling describe this process of cultural change within BA with its emphasis on training for front line employees. (Lundy and Cowling 1996: 355.) This type of cultural change subtly shifted the emphasis towards corporate identity and a customer focus. However, whilst the role of culture has been an important one in undermining and short-circuiting trade union involvement, the situation at BA, as in many dualist environments, was more complex.

BA management of the 1980s were both pragmatic and opportunistic about the role of trade unions, de-emphasising their role as much as possible, but exhorting them to "help manage change" when financial crises such as the 1991 GAP closure programme made this necessary. (Blyton and Turnbull 1998: 74.) Management of that period, which can be termed the King-Marshall era after the serving Chairman and Chief Executive, made no concerted attempt to vanquish trade unionism, nor did they make any noticeable attempt to try and estrange BA workers from their trade unions. In any case, past experience suggested that the company would not have been able to push unions out of the picture.[37]

Interestingly, the period of the 1980s was similar at least structurally to the era of regulation. In Europe, combined growth rates for domestic and international traffic averaged 5 per cent between 1978 and 1988. The Asia Pacific market averaged 8 per cent within the same period. (Doganis 1991: 8, table 1.2.) Throughout most of the period the industry was regulated on a global and regional basis. BA had virtually

[37] The previous chief executive, Roy Watts, saw his price cutting/low cost strategic change programme sunk by trade union opposition. (Lundy and Cowling 1996: 355.) Watts wanted to shift the marketing emphasis towards leisure traffic, which he wished to see account for 80 per cent of BA traffic (Campbell-Smith 1986: 12.) The trade unions and middle management frustrated this plan which included a recruitment freeze, arguing for expansion in international and high yield markets. (Ibid.)

unchallenged control of two of Europe's major airports; there was only intermittent competition from niche carriers such as Virgin Atlantic. Low cost carriers did not exist and city pair routes were shared in revenue pooling arrangements. As Bass argues:

> 'Despite the rhetoric of market forces attending privatisation, significant product market competition was virtually absent both before and long after flotation. During the eighties, civil aviation was a highly regulated market and competition was managed through close though not always harmonious relationships between airlines, their competitors and governments.' (Bass 1991 cited in Button et al 1998.)

Where competition existed on the main transatlantic routes only Virgin Atlantic posed a significant threat. The leading U.S. carriers, such as Pan Am and TWA, though undercutting BA in terms of price, were less able to capture the higher yield business passengers. Heathrow was the major European international hub and the code sharing and alliance building that became so prevalent in the 1990s was little more than a strategic blueprint for most airlines. British Airways was challenging to operate across borders and to enter markets where it felt there was insufficient competition. The carrier pursued a strategy of becoming the quality international carrier and, backed by often inspired marketing, became a major profitable global airline. This 'choice' of business strategy is crucial in understanding later developments. Capelli (1987) and Kochan et al 1986, explain how choice of business strategy ultimately impacts upon industrial relations. Their observations on the US industry of the 1980s can now be applied to the global airline industry, although one would be wary of shoehorning carriers within the sorts of typology developed by Capelli (1987). Nevertheless, this analysis of the dynamics of product market strategy and labour market change is a useful one; Kochan (et al) argue:

> "In the airline industry as in other industries, the middle tier of industrial relations are affected not only by changes in the environment, but also by diverse strategic business decisions made at higher levels. In turn, in some cases the quid pro quo for concessions have produced fundamental changes in the structure of industrial relations within the firm, by re-aligning the roles of management and unions at strategic and workplace levels. This provides further support for our thesis that a complex interaction occurs between the competitive environment and the shaping of key business decisions, interaction that produces options and diversity in IR outcomes". (Kochan et al 1986: 127-128.)

The King-Marshall strategy was based on quality. These strategy choices shaped the industrial relations policies of the company. However, they did not solely define it. As Colling argues, even in the 1980s, when the company was pursuing an avowedly high quality strategy they could not simply choose a strategy from a menu of options, often that choice was constrained by *structural necessities* like the airline's role as the UK flag carrier. So, whilst the strategic choice framework is a helpful one, it should be seen as a heuristic device rather than a distinctive category. Whilst the industry and product market environment changed markedly with privatisation and limited deregulation, the system of industrial relations persisted because the 1980s, though a period of great change and dynamism in UK industrial relations, was a period of relative stability within the airline industry.

This is an important issue, as there is a crude tendency to associate rapid product and regulatory change with weakened unions. There is an assumption that product market and regulatory reform automatically decrease the bargaining power of trade unions. (See chapter 1.) However, for labour's fortunes to be affected there has to be a complex combination of changes affecting the regulatory, firm and product market environment at different levels, changes as described in chapter 8.

Having looked at the impact of change on the macro/industry level it is important to consider the impact of such changes on unionised workforces. What do unionised workers, those who are most expected to change, actually think of the process of regulatory and product market reform? Are workers opposed to these policies since such policies are assumed to undermine union bargaining power, thus ultimately wages and conditions? Within these general driving questions are a number of specific questions, which are listed in the methodology section. It would be interesting to examine this. It is argued in the next section that such a focus is of value in assessing these issues.

5.1.2 *Putting Profit First? Changing the Industrial Relations Structure in an Altered Competitive Environment*

BA's competitive environment has changed significantly since the 1980s. In the first place, the weakened and limited competition of inefficient state carriers has given way to a more efficient challenge as even the weaker carriers restructure. Secondly, competition on lucrative transatlantic routes from weakened carriers such as Pan Am and TWA, which pertained for much of the 1980s, has been replaced by the vigorous impact of carriers such as United, American and Delta. The bilateral accords, which locked many of the more efficient US carriers out of BA's Heathrow hub, have also benefited BA's virile long-haul competitor, Virgin Atlantic. Thirdly, domestic and European competitors have formed alliances with some of the stronger US and European carriers, feeding UK originating traffic into their major hubs. The growth of the Star alliance with two giant and efficient carriers, United and Lufthansa at its centre, benefits BA's domestic and European competitor, British Midland, which profits from its links with SAS, and later Lufthansa as a Star Alliance 'partner'. British Midlands' stated intention to operate transatlantic routes from Spring 2000, is yet another challenge to BA. Indeed the combined transatlantic dominance of BA's principal alliance partner, American Airlines continues to inhibit a formal alliance. In addition to these carriers, which compete for overseas long haul traffic, a number of highly innovative and nimble low cost carriers spawned by the new regulatory environment now compete with BA on major European leisure routes.

Driven by such global product market pressures, British Airways management has emphasised the need for flexibility and adaptiveness. In pursuit of those goals, management are building their own network of alliance partners instituting a competing low cost carrier and accelerating the process of outsourcing and franchising. They seek to alter employment conditions with an implicit threat to the management union compact, which previously existed. Management has become increasingly impatient at what they perceive to be the *rigidities* of historically imposed industrial relations systems. The airline's Chief Executive, Robert Ayling, recently criticised what he termed the "civil service bureaucracy pervading the operation." "It's more hierarchical than I remember the civil service being and certainly more than some of the better managed British companies of today."

(Davidson 1995; 54.) Ayling's criticism was not solely directed at the management structures, which had become hierarchical and were comprehensively re-shaped. (See Airfinance Journal 1996:8.) There was also an implied criticism of the collective bargaining apparatus, which continued to pervade the airline and a new impatience with the 'baggage' of the regulated era. This admission, after a decade of privatisation and (what appeared to external observers to be) a period of avowed cultural change, is testimony to the resilience of systems which might, in Metcalf's words, have been expected to "wither on the vine" given the raft of legislative changes in the bargaining arena. (Metcalf 1991:1-31.) Nevertheless, it reflects the survival of traditional industrial relations in the wake of privatisation as witnessed in other industries. (Pendleton 1999.)

Traditionally, airlines have operated as 'primary' firms with little segmentation and differentiation in labour market terms and conditions. Airlines tended to be vertically integrated entities. Workforce reductions, work-rule changes or adjustments in terms and conditions were carried out on the basis of cyclical factors. An example would be the period of pre-privatisation where employment was dramatically reduced. (Campbell Smith 1986: 42.) A later example was the GAP closure programme (See chapter 6) of the early 1990s when there was major redundancy and significant restructuring. (Colling 1995: 26.) It is argued here, that trade unions accepted such cyclical cost reduction as inevitable, given the peaks and troughs of the airline industry, and even accepted a limited degree of outsourcing and the establishment of internal business units in order to preserve job security, structures of bargaining and trade union involvement. Their acceptance of such change was largely conditional upon the type of regulatory and product environment witnessed in the pre-privatisation period and in the 1980s. In this era, employees obtained insider conditions and would be expected to view any segmentation and fragmentation of core/primary labour market conditions *negatively.* This 'primary/unified' firm focus persisted after privatisation, particularly when there were *first mover* advantages such as access to hubs, a favourable labour market environment and the ability to finance long run change. These structural certainties reduced the 'costs of agreement' for labour in accepting large-scale change.

This structural labour market environment had several effects at the level of the workplace. Firstly, workers become accustomed to certain job characteristics and a certain framework of employment relations. Any worker entering British Airways until the early 1990s would be accustomed to higher wages than those outside for the same job (the airline premium, see chapter 7). Secondly, workers would be used to national collective agreements albeit within the framework of dualism described by Storey. (1992: 243.) Thirdly, workers would be employed in a unified BA. Fourthly, that worker would be competitive in terms of unit labour costs with most other European carriers. (See Vass 1997.) Within such a context, management pursued a strategy based on quality, emphasising training and culture, as they sought to change the mindset of employees towards a 'premium' service orientation. Deregulation and industry restructuring have changed all of this. As Blyton and Turnbull argue:

> 'The emphasis on human resource management shifted discernibly from quality to cost, and changes to collective agreements within the company are geared to facilitating what is visibly a more hard-nosed commercial approach.' (Blyton and Turnbull 1998: 74.)

Within the emerging competitive environment, there is new focus on labour flexibility and efficiency. This goes beyond the traditional model of 'cyclical/crisis cost reduction' where periodic downturns would lead to an attempt to rein in costs; rather the situation is one of 'constant/dynamic cost reduction'. Such are the competitive threats in the deregulated global environment, costs need to be reduced well in advance of any obvious crisis, and the need to manage costs is independent of any business cycle. This reality has given rise to an ongoing process of restructuring as carriers seek to adapt to the new competitive environment. It is a process that has, to varying degrees, been played out across other European carriers (see chapter 7).

BA's position is especially significant, given the carrier's early adaptation to this changed environment, and the strength of its trade unions. An interesting way to analyse management's intention to alter the character of industrial relations is to consider the cycle of union derecognition. One of the key writers in the area argues that employers go through phases of derecognition, starting with reduced union influence within collective fora, the creation of new structures to bypass unions and culminating in management determination to avoid unionisation of uncovered workers. Finally the process of derecognition is implemented. (Beaumont 1986: 33-34.) Beaumont's view ascribes most of the agency to employers, though unions often dictate the continuation of unionisation in the face of employer hostility but his observations are useful when studying British Airways. Management have 'streamlined' existing collective bargaining procedures by abolishing the National Joint Council for Civil Aviation (NJCCAT), in 1996. This was undertaken in the face of concerted union opposition which frustrated management's goal of abolishing both the NJC CAT and the more strategically important National Sectional Panels (NSPs), effectively undermining national bargaining. The NJC CAT, which had become redundant in the face of the withdrawal of other UK airlines, has been replaced by a consultation forum, which acts mainly as a communication outlet.

Most bargaining is now conducted at local/business unit level but through National Sectional Panels, which preserve the essential features of national bargaining. There is, however, considerable local variation within these nominally national structures of negotiation. For example, there is no unified pay and conditions structure for ground handling staff, all such staff have a minimum framework agreement but wages and conditions are negotiated according to business needs. (Interview TGWU 21.9.98.) In addition, the structure of bargaining with key product areas such as engineering is undergoing a process of transformation towards a more explicitly unitarist 'partnership' focus whereby union and management agree to conduct negotiations around an agreed priority of business need. This involves the development of negotiating skills for union stewards but directed much more towards the efficient functioning of the workplace, than the negotiation of terms and conditions. (Interview AEEU 6.8.98.) The company has also developed structures, such as product groups and company briefings, to enhance communication at local level, with a sole emphasis on business processes. Similar structures of representation exist within regional subsidiaries, which given the perilous nature of regional services, are often dominated by exhortations from management for increasing cost efficiency. (Interview TGWU 8.10.98.) Whilst trade unions have been suspicious of BA motives in this regard, arguing that there is an agenda of derecognition, there is as yet little evidence for this. The unions are still firmly entrenched within the various occupational groups and though there may be rationalisation of union representation within product areas, it is unlikely that derecognition is being considered. A more insidious threat to union organisation is to be found in the policy that the unionisation of future activities will be on management terms. In this regard, Beaumont's point about the process of derecognition being presaged by an employer desire to resist the unionisation of unorganised employees, can be seen in the context of the new low cost carrier GO. Established in 1997 to operate low cost routes out of a new Stansted hub in competition with Ryanair and Easyjet, the recognition arrangements at GO indicate an adaptation to the changed industrial relations environment under the new Labour government. The fairness at work agenda of the late 1990s makes it difficult for employers to avoid recognition, but they can pre-empt that process by a number of means, which can be divided into *suppressionist* and *substitutionist* approaches. (Beaumont 1991.) Suppression strategies towards union organising include policies of intimidation and unequal treatment of union and non-union members. Substitution strategies involve the replacement of the union demand by the creation of a comprehensive pay and conditions package, which at least replicates and usually exceeds the union mark-up.(See also Gall and MacKay (1994: 433-48) 4However, companies can also use a strategy of 'co-optation', choosing a union 'partner' who will embody a more moderate approach as occurred within Nissan and the Docklands Light Railway. (see Garahan and Stewart 1992.) The latest manifestation of this strategy is BA's decision to select the AEEU as the representing union for non-pilot grades at GO. The AEEU has agreed a three-year pay freeze for employees it has yet to recruit. (Walsh 1998: 9.) The GO concept is synonymous with greenfield developments in this regard and suggests that rather than derecognition, the company is pursuing a policy of *containment* against the principal trade union the TGWU, in this case co-opting one of its main industrial and political rivals. The representation contest between the TGWU, Amalgamated Engineering and Electrical Union (AEEU), Manufacturing Science and Finance union (MSF) and the General and Municipal Workers (GMB) was arguably designed to exclude the major general union. The decision reflects the impatience of management with the principal union, the TGWU and its desire to shape the structures of bargaining to a much greater extent. Within the GO concept is a clear commitment to flexibility, new terms and conditions and a different employment relationship. The GO episode represents a significant development within airline trade unionism and industrial relations.

5.2 Workforce Attitudes: A Missing Dimension?

In pushing forward changes in bargaining structure, management intends to disrupt and fragment the corporatist bargaining structures of the post war period, identifying within these structures the roots of a high cost airline culture. In forcing the trade union to bid for representation at GO, the airline signalled its desire to influence the behaviour of the trade unions themselves. BA wishes therefore to create a much more dynamic and flexible airline culture within which it expects employees to accept and even embrace change. In seeking to influence employees and to create an appropriate culture for the challenging environment it now faces, management has increasingly emphasised the background of deregulation, competition and globalisation when communicating with the workforce. This strategic shift in management labour relations was apparent from the early 1990s but was accelerated in autumn 1996 with a number of major decisions; primary among them a massive cost reduction programme known as the Business Efficiency Programme (BEP). BEP was a five year programme which sought to deliver cost savings across the whole of BA to the tune of 1.5 billion pounds. BEP was articulated as a major change programme, which would go beyond productivity improvements, fundamentally altering the entire cost structure of the airline. Thus it involved regrading and delayering within management and administrative roles and the introduction of two tier wages, wage freezes, outsourcing, and more intensive work schedules within operational grades.

This strategic shift in policy towards cost reduction has obvious consequences for employees. Embodied within it is a fundamental attempt to dismantle the employment certainties of the regulated era. Firstly, the creation of separate regional carriers and the extension of franchising, outsourcing and benchmarking challenges the 'unified firm' nature of terms and conditions. Secondly, the ongoing challenge to patterns of trade unionism and industrial relations undermines the power of unions to enforce unified terms and conditions. Thirdly, management is seeking to undermine premium terms and conditions of employment, and fourthly, the improved productivity and efficiency of European carriers is eroding the justification for those terms and conditions as BA seeks greater productivity and efficiency. Thus the entire edifice of regulated airline employment has come under threat. However, the existence of this threat does not imply its realisation. Trade union power and influence is still a strong constraint on management's desired strategy, and the commitment of workers to the BA type employment package means that these terms will not be surrendered lightly. Whilst a good deal of research has been carried out on management strategies and the efficiency aspects of airline restructuring, little detailed work has been done on employee attitudes. Arguably, these attitudes which help define the *regulatory overhang* are crucial in the study of restructuring, and for that reason the remainder of this chapter and the next chapter will concentrate on this.

Employee attitudes have tended to be ignored in the airline employment debate. Indeed, so far as a debate can be deemed to have taken place, it has very much been without the input of employees. Many studies have been conducted at a high level using aggregate data and have therefore not considered employee responses. (Mertz 1995: 79.) This study seeks to address the imbalance and to locate employee interests and viewpoints within a wider debate about the future direction of the industry. Employee surveys are a useful method for eliciting the views of employees and challenging assumptions that such workers think alongside either management or the union hierarchy. Hopefully, to paraphrase E.P. Thompson, "rescuing worker attitudes from the enormous condescension of history". (Thompson 1969: 13.)

There are signs that BA staff and their trade unions were beginning to adopt an increasingly sceptical attitude towards employment change. Staff had previously been willing to accept crisis led cost reduction, but with BEP the cost reductions were asked for when the airline was enjoying consistently high rates of profitability. Most interestingly, in lessons learned directly from the US, many staff are seeking a new type of employment relationship based on greater employee participation before they agree to changes. Given these cross-currents, a survey was distributed looking at the attitude of employees. (See methodology section chapter 2.) Autumn 1996 was a particularly apposite time to evaluate the attitudes of unionised employees, as many of the issues, which were to occasion conflict, such as the pilots' threatened strike of July 1996, were 'live' at the time. In addition, although BEP savings targets had not been distributed until October, survey returns were being received well into December giving these issues time to bed down into the consciousness of respondents.

5.2.1 *Issues for Analysis*

The survey was based on a sample of BA employees (see Chapter 2 for methodology section for detailed description). The following section describes the issues examined and the results obtained, the remainder of this short chapter outlines the context of the issues examined.

Internal business units, outsourcing and franchising

This issue was investigated due to the salience of low cost business strategies within the airline industry. Firstly, cost reduction strategies primarily involve segmentation into different product markets based largely on yield. The strategies being implemented to this end are regionalisation and franchising. In order to service lower yield routes from airports such as Manchester, Birmingham and Glasgow, BA has introduced regional pay rates to reflect the low profitability of these services. Regionalisation also involved particular functions such as telemarketing and Information Technology (IT) which it was felt could be sourced from lower cost locations whilst maintaining quality. Initiatives have included the relocation of telemarketing call centres to Newcastle and Glasgow. (Interview Nov. 18 1996 TGWU.) Similar initiatives are being undertaken at the carrier's European based operations, indicating management's intention to exploit regional labour market factors across Europe. In Germany, the former shipbuilding area of Bremen was chosen as a call centre location in preference to relatively 'high cost' Berlin. (Interview BA management June 23 1996.) Thus worker attitudes to this sort of policy might be influenced by the region and bargaining unit within which workers are employed. Secondly, the airline has pursued a policy of expansion into regional markets relying primarily on the use of franchising. Franchised operators such as Brymon, Cityjet and Loganair often have much lower costs than BA, but staff are to all intents and purposes, BA staff. The franchised carrier then becomes a direct comparator for the cost structure of the main airline where similar routes are operated. Employee attitudes are vital in assessing the implications of such strategies.

Flexibility

The next major issue was the question of flexibility. One of the consequences of the 'unified firm focus' has been the preservation of an almost universal pattern of full time patterns of tenure. In an era of shifting competition, uncertainty and where cost reductions become a major priority, management require greater flexibility and diversity in employment tenure. That way labour can be deployed more effectively, thus, management will seek greater *temporal* flexibility. Other types of flexibility, such as cross utilisation, are also being attempted but a simple and understandable measure of management's demand for flexibility is the extension of atypical contracts. Interestingly, most workers are employed on full time tenure, which renders their attitudes towards the extension of atypical contracts a simple comparison.

Outsourcing

As airlines seek to reduce costs in the face of increasing global competition, they seek to concentrate on core high yield routes and to outsource non-core functions such as catering, cleaning, engineering and maintenance. Just what services are core and non-core is the subject of some debate (Feldman 1997: 51-55.) Exploratory interviews with employees found almost universal opposition to the policy of outsourcing and it was decided to frame the question in terms of what workers would miss compared to working for a core carrier like British Airways. It was hypothesised in an exploratory fashion that workers would miss various aspects of being outsourced and having their conditions transferred to a contractor. One major issue, which arose from interviews with union officers and rank and file workers, was the perceived loss of job security and identity of working for a large airline like BA. It would be interesting to see whether employees ranked this above, say, the protection of national level wages and conditions or even the loss of travel facilities, which proved crucial in the July 1997 outsourcing of long haul catering.

The threat of subcontracting is increasingly used as a bargaining tactic, often to secure union co-operation in radical cost reduction. In many ways, this is a process analogous to the compulsory tendering process in public services, whereby employees bid down existing wages and conditions to retain a contract 'in house.' (Crabbe 1992: 11.) Often the threat of contracting out was more apparent then real though the process was used to force workforces into offering wage concessions. With little in the way of legislative and regulatory controls on employer power, most workers in such services delivered the desired cost reductions.

Within BA this has been the case with the creation of BA Regional where a threat to spin off the operation which in management's words, "concentrated minds" on delivering the appropriate cost reductions. (Interview BA management 23.1.96.) The formation of British Airways Maintenance Company (BAMC) at Cardiff, to undertake heavy maintenance and inspection work on Boeing 747s, was negotiated under the threat of sell off. BAMC was set up in 1992 as a separate company with its own terms and conditions although it was eventually sold to the engineering conglomerate GEC in 1995. (Interview notes AEEU 27.2.96.) In the case of BA, benchmarking on the basis of market rates was used to threaten staff within ground handling. Similar threats were being used to secure cost reductions in line maintenance operations within BA Regional.[38] Implicit within staff attitudes at such times is a feeling of the loss of working for a carrier which, for all its faults, is viewed as one of the few globally viable operators. Related to this question was a set of questions on how BA policies might impact specifically on terms and conditions of employment. In other words, did unionised workers feel that their conditions would be enhanced or reduced? A number of questions were designed to elicit employee attitudes to this. For example, how would workers see cuts in wages, increases in flexibility, the introduction of new payment systems and other such issues?

Attitudes towards globalisation

The development of the world airline industry from one of stable regulated competition towards one of increasingly global competition has been seen as something which workers in strong carriers such as BA would support, given their superior position (at the time) in having a network of global alliances and the possibility of large scale alliances with other carriers. It could thus be hypothesised that workers will support 'general' types of global policy such as the formation of alliances, the take-over and acquisition of other carriers and fare strategies. These

[38] BA Document - Aircraft replacement/Business efficiency programme; Future of Regional Airport Ground Handling. (Presentation to UK Business Group, December 1996.)

policies will be supported because they increase the size and dominance of the firm and thus increase the position of unionised inside workers. Thus globalisation for workers in large carriers can be seen as a way of continuing and reinforcing core terms and conditions, as the market grows and their own carriers assume a dominant position. Yet there are very real threats to employment from the spread of globalisation, discussed below.

Globalisation: Specific employment impacts

As these issues are posed in terms of employment, the response may be more ambiguous. Unionised workers are less likely to be in favour of globalisation policies when they are phrased in terms of direct employment effects such as outsourcing and code sharing. There has been relatively little outsourcing of airline functions to low labour cost countries since the survey was conducted. BA moved computer diagnostics to India, but other threats of outsourcing failed to materialise. Nevertheless, at the time of the survey the issue was live and attitudes towards the policy are interesting.

Future of Collective Bargaining.

The strong position of trade unions is a major obstacle to British Airways management in terms of their attempts at corporate restructuring in the face of deregulation and globalisation. National collective bargaining is the fulcrum of this system underpinning the institutionalised power of trade unions. A simplistic rent-sharing hypothesis would imply that when management is empowered through privatisation and product market reform, unionised workers will lose the rents they previously enjoyed. (Neven and Roller 1996: 933-940.) This is patently not *yet* the case, at least in aggregate. Airline industry remuneration, in which BA is the UK market leader, remains considerably higher than in other industries and seems robust. There is no basis to assume that management would automatically seek to drive down wages and conditions, as there are a wide range of considerations to be taken into account such as the impact on service quality, turnover, and worker commitment. However, management might reasonably be expected to promote change through policies such as regionalisation, outsourcing, increased flexibility and franchising.

The cost of introducing these changes was increased by the action of trade unions. Unions increased the cost of introduction of such policies, neutered and controlled their effects, and often extracted protective agreements to ensure that immediate cost savings would not result. It can be argued that the King-Marshall era was one in which the focus of management on service quality and productivity improvement made it easier to work with trade unions although management still sought to pare the national negotiating machinery. Under the new management regime of Robert Ayling, with its emphasis on corporate restructuring and dynamic cost reduction, national trade unions and collective bargaining have been seen as a fetter on corporate change. Thus, the carrier embarked on a major campaign to reform bargaining, in effect proposing the abolition of national collective bargaining and its replacement with a series of 'business units'. Management's intention was to orient these new bargaining forums away from their previous role of negotiation and consultation to one of information and communication. These new business units would provide a forum where employees could meet to discuss the aims of the business. Thus it would be interesting to obtain the views of unionised employees - a broad driving hypothesis might lead us to believe unionised employees will oppose the abolition of national bargaining as a threat to premium wages and conditions.

Finally, the survey provides some evidence of the nature of employee perceptions of the employment impacts of the transition from a regulated to a deregulated environment. The overall survey evidence provides an insight into the *regulatory overhang* which, as later chapters will show, hinders airline industry restructuring throughout Europe. Attempts by management to reduce costs and encourage greater productivity are hindered by the view of workers across the range of occupations, that airlines should pay higher wages and offer better terms and conditions than outside industries.

Having contextualised the principal issues for investigation we now proceed in Chapter 6 to the detailed survey evidence. Given the time period in which the survey was conducted we should be wary of reading back from recent events, especially the recent cabin crew strike, but the survey provides a broad analysis of some of the issues which have been implemented as well as those yet to be resolved.

6

Deregulation and Employment Change in the Global Airline Industry. Employee Attitudes at British Airways. Results

6.1 Introduction

As chapter 5 indicates, the nature of employment restructuring at BA was examined using a large-scale survey and detailed interviews with both managers and trade union officials. A total of 700 questionnaires were distributed. 400 were sent to members of the Transport and General Workers Union (TGWU) and 150 members each at the British Airline Pilots Association (BALPA) and the Amalgamated Electrical and Engineering Union (AEU). Returns were variable with the best response achieved from the TGWU, from whom 193 returns were obtained (34% rounded). Returns from other unions were much lower with around 10% from each. Due to access problems, distribution was facilitated via trade union officials. These 'gatekeepers' were given instructions on stratified sampling to allow an equal representation on the basis of skill, region and gender. This forced choice obviously has several methodological and practical implications which, with other limitations of the study, are addressed in the methodological section. If used with care and qualification, the survey facilitates a snapshot of feeling among airline workers at a crucial stage in the deregulation and corporate change process, allowing an insight into employee attitudes at a critical period in the restructuring of the industry. The questionnaire categories are analysed below.

6.1.1 *Contours Of the Data. The Descriptive Statistics.*

Initial analysis was undertaken utilising basic descriptive statistics, cross-tabulations, and exploratory bivariate measures, such as Spearman's Rho and Chi square. Problems of low cell frequency in many observations made it difficult to justify the use of Chi square as a measure of independence, even when the data was collapsed. These tests are therefore omitted and the frequencies are used. This problem in the data indicates an asymmetric pattern of responses with answers tending to go in a certain direction. This problem of low cell frequency could be corrected using Lawal's 1980 method, which boosts the cell frequency by using the geometric mean. (Lawal 1980: 292-298.) It is important to bear in mind that these statistics are *non parametric*, i.e. they do not represent a given distribution and therefore can only provide some meaningful snapshots of employee attitudes. The data is described in turn below with some of the main measures used in its analysis.

6.1.2 *The Key Independent Variables*

Occupation

The majority of workers are employed on ground handling tasks (71%) although a significant proportion are also involved in the maintenance function (26%). The AEEU represents mainly craft workers in the engineering and electrical trades. A residue of TGWU respondents was involved in administration. The categories of ground handling and maintenance staff present a reasonably full range of occupations for analysis. Significantly, no returns were received from cabin crew members. There is no reason at this stage to suspect any other reason than inadequate distribution for this anomaly.

Table 6.1 below gives an occupational breakdown for the survey on the left-hand side, whilst opposite a range of examples in the two foremost categories is included.

Table 6. 1 Breakdown of Principal Occupational Categories

Principal Categories		GROUND HANDLING	MAINTENANCE & OVERHAUL
Maintenance/ Overhaul	26	Baggage handler	Storeperson
Ground handling	71	Ground despatcher	Spares support
Maintenance	3	Push back driver	Labourer
Flight Deck	1	Ground transfer and staff transport driver	Semi- skilled mechanics
		Cargo handling	Maintenance clerk
		Customer service	Driver
		Refuelling	Vehicle mechanic

It can be seen that these categories of worker provide a good cross section of the range of non-specialist functions within the airline, precisely those most subject to the demands of deregulation and internal labour market reform than more specialised labour. The occupational range goes from baggage handlers, who are in many ways analogous to those of general skilled/semi-skilled labour, through to those involved in 'frontline' customer relations, particularly terminal staff. On the maintenance side, respondents tended to be within the less-skilled categories, given the Amalgamated Electrical and Engineering Union (AEEU) role in representing more skilled categories.

6.1.3 *Location, Region and Section*

In terms of location, 76% were located at the main base, Heathrow, and a combined 24% were located at the regional bases of Manchester, Glasgow and Birmingham. When asked to choose which section of BA they operated under, most indicated BA mainline principally the airline's worldwide and European operations. About 13% saw themselves as currently employed by BA Regional. The figure for ground handling staff was higher than for other groups because those groups were able to retain their employment with the mainline carrier after the main BAR agreements of February 1995. (Interview TGWU 6.2.96.)

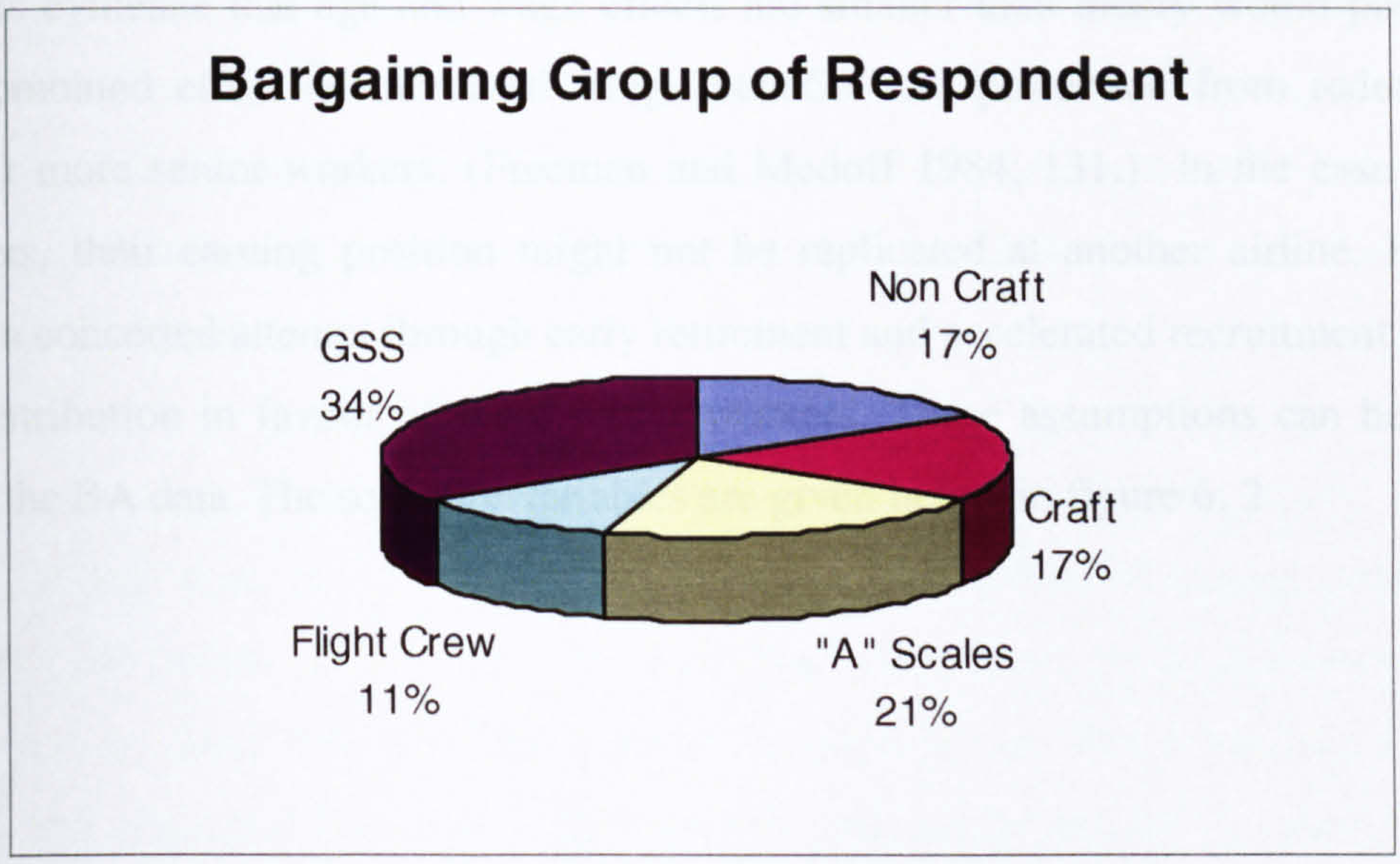
Table 6.2 Location and Section Employed. (%)

LOCATION		SECTION	
London Heathrow	76	BA Europe	30
Manchester	5	BA World	26
Birmingham	7	BA Regional	13
Glasgow	11	Euro Gatwick	0.5
Gatwick		BA Engineering	24
		BAMC	5
		Cargo	6

6.1.4 *Bargaining Group and Tenure*

Bargaining units within BA are defined as National Sectional Panels (NSP) covering a wide range of airline workers and negotiating on national issues. Recent modifications to the bargaining procedure have seen NSPs marginalised and the effective undermining of national level pay bargaining. However, national level bargaining still operates on key issues such as annual pay negotiations, pensions and restructuring. A basic breakdown of the NSP units covered within the questionnaire is given below. These need explanation. The summary table is given in figure 6.1 below.

Figure 6.1 Bargaining Group of Respondent

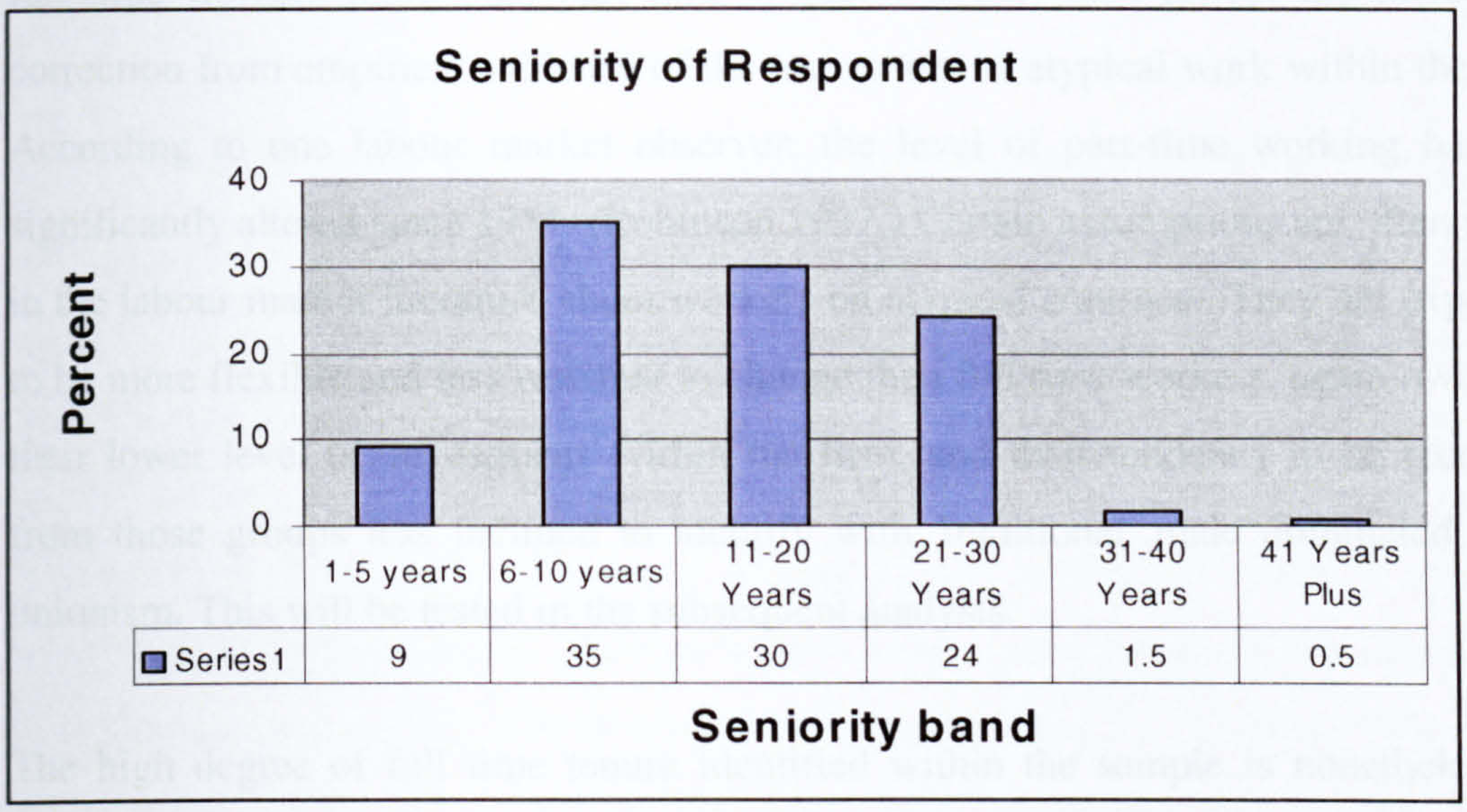


'A' scale covers a large subgroup of employees ranging from chauffeurs to computer processing staff. It is broadly an administrative grade covering the majority of such staff, but also covers those in support functions and within recently expanded areas such as sales and marketing. GSS stands for Ground Services Staff and covers those involved in most ground handling functions. There is considerable jurisdictional overlap with the 'A' scales, especially for newly defined categories of staff. The craft and non-craft bargaining units respectively cover those employed within the maintenance sector and together account for a significant proportion of the sample.

6.1.5 *Seniority and Tenure*

Seniority is an important variable in employment research, as it is often assumed that newer workers are more 'proactive' and prepared to embrace change more readily than older workers are. Some methodological and theoretical assumptions underpin this notion. Older workers, by virtue of their longevity, are often assumed to be more conservative in defence of union objectives than younger workers, as they are assumed to be less prone to unemployment resulting from higher wage demands, or the defence of work rules, than junior workers. (Farber 1986: 1043.) For the study, seniority is important as it allows workers to be separated into pre- and post-deregulation cohorts. More senior workers have invested more of their lives and effort within the firm, have previously enjoyed more 'generous' terms and conditions, and are less mobile due mainly to age discrimination within the labour market. Although there is evidence that age and wage effects are smaller than theory would postulate, the combined effect of increased fringe benefits and protection from redundancy benefit more senior workers. (Freeman and Medoff 1984: 131.) In the case of BA workers, their earning position might not be replicated at another airline. BA has made a concerted attempt through early retirement and accelerated recruitment to alter the distribution in favour of more junior workers. These assumptions can be tested using the BA data. The seniority variables are given below in figure 6. 2.

Figure 6.2 Seniority Distribution of Respondents



It can be seen that in terms of seniority, those with service of 11-30 years account for almost 60% of the employees who responded. Newer workers, defined as those with up to ten years service, account for below 40%. With privatisation occurring in 1987, those in the 11-30 age group have served under the nationalised carrier and its predecessors BEA and BOAC. Correspondingly, those with less than 10 years service have known only a privatised regime. Those in the seniority range of 1-5 years have been 'weaned' in a deregulatory environment. They have witnessed policies such as regionalisation, franchising, outsourcing, and emergency cost cutting initiatives such as the Gap Closure programme of 1993. Are these workers more inured to change and more adaptable than those who have grown up under a regulated industry? The survey will shed some light on this issue.

With its coverage of unionised workers, the sample is, by definition, biased towards those on full time tenure. Given the foregoing discussion of change within the industry, we might expect more workers than turned out to be the case, to be employed on other than full time permanent employment. The overriding majority (93%) are employed full time, whilst only the remainder are on so called atypical contracts, such as part and full time temporary work and those on fixed contracts. The accepted threshold of 20 hours as the full time working benchmark may well have been ignored and a question qualifying actual hours worked may well have provided better information. Nevertheless, the amount of part time and temporary work remains low. This may well be because the sample is unionised and unions tend to represent full time workers more than part time workers. It may also reflect the increasing correction from empirical evidence of the true extent of atypical work within the UK. According to one labour market observer, the level of part-time working has not significantly altered since 1951. (Robinson 1997.) Certain assumptions are often made in the labour market literature about workers on atypical contracts. They are expected to be more flexible and less resistant to change then full time workers, again owing to their lower level of 'investment' within the firm, and their tendency to be recruited from those groups less inclined to identify with 'traditional' male dominated trade unionism. This will be tested in the subsequent analysis.

The high degree of full time tenure identified within the sample is nonetheless an interesting finding and has a number of implications. According to the principal study of UK industrial relations, (Millward et al 1992: 338, table 9.4) 18% of UK workers were covered by atypical contracts. Numerical flexibility is the aim of many employers and airlines, with their seasonal nature and variation in daily traffic flows, might be expected to benefit from this, as have other service industries. (Beatson 1995:12-13.) Is this lack of proliferation of such flexibility a function of trade union resistance, management inaction, or is it simply impractical given the shifting nature of the airline industry? Such issues can be examined in the survey.

6.2 Staff Attitudes towards Business Strategies and Deregulation

Having described in outline, the main nominal variables, we will now go on to investigate staff attitudes towards specific policies. The analysis is broken down into six sections. Attitudes were measured along a Likert scale with the categories strongly support, support, neither, oppose, strongly oppose and no opinion, representing respectively scales of agreement, indifference/neutrality and disagreement.

The attitudes explored related to the following broad areas:

- Internal outsourcing, regionalisation and franchising
- Flexibility

- Management strategy
- Globalisation
- Outsourcing
- Future of collective bargaining

6.2.1 *Attitudes Towards Internal Outsourcing, Regionalisation and Franchising*

The first set of variables tested attitudes towards internal restructuring. One might expect to identify a regional variation in levels of acceptance towards such policies as outsourcing, franchising and the creation of regional operations. Those employed within the regions may welcome investment of this sort and we might expect to see hostility from those at mainline bases. Regional cross tabulations might be expected to show a distinct difference between regions when these initiatives are considered. One regional engineering official termed the London bases as "the black hole where all the good jobs go and we are left with the rubbish" (interview with regional AEEU steward November 12 1996). The threat of lower wages and, or, terms and conditions is therefore implied with the relocation of maintenance capacity from the London bases to the regions.

- *Workers within the sample will oppose regionalisation on lower pay rates, which will be seen as an attempt to segment the labour market. There will be few occupational differences within the sample and there will be no differences in terms of location.*

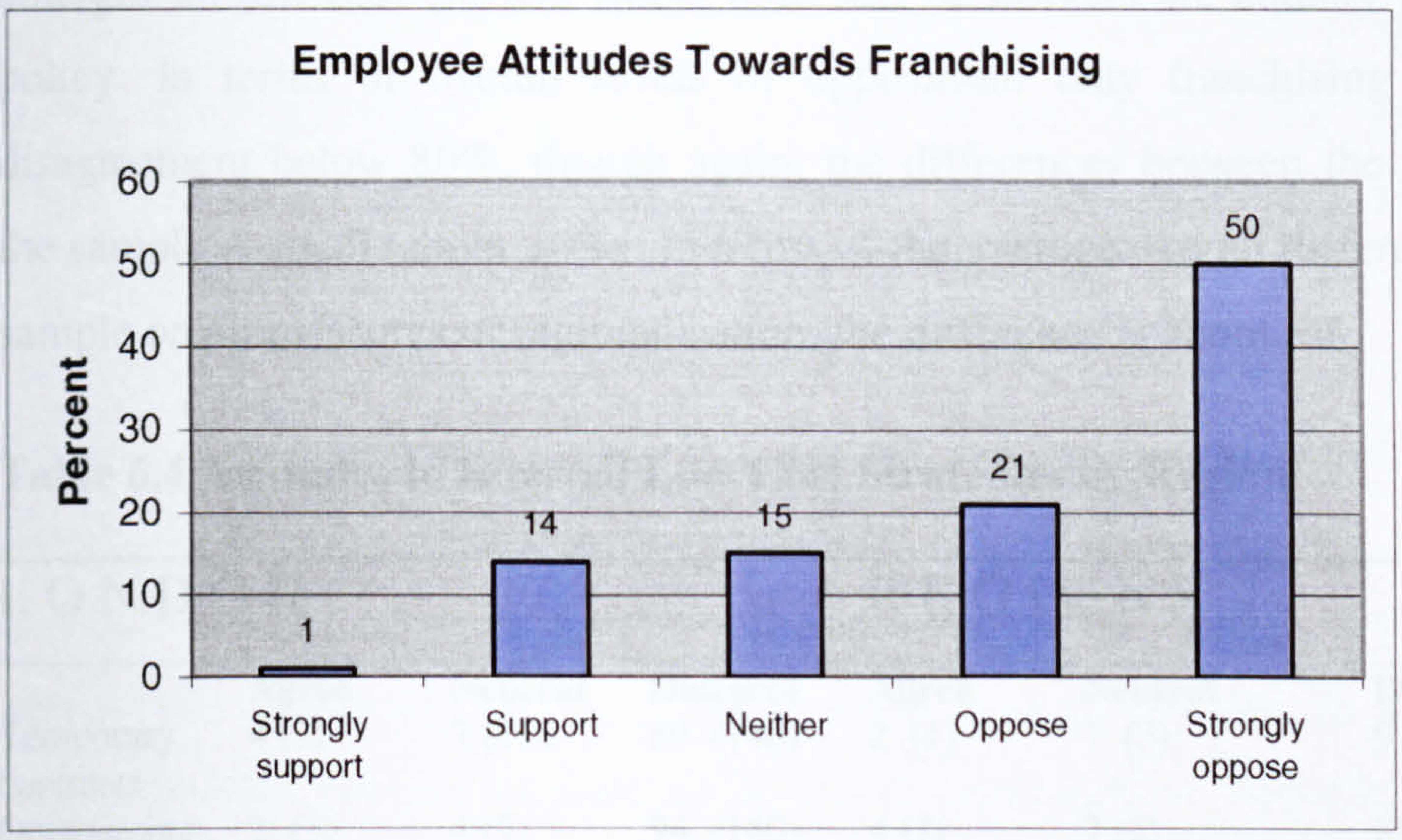
Only 8% of workers sampled declared support/strong support for outsourcing initiatives of this type, whilst an overwhelming majority (combined 82%) were opposed/strongly opposed to such initiatives. On the question of establishing regional operations, fewer than 4% were in favour and 93% were against. The descriptive statistics for all the variables in this set are given below.

Table 6. 3 Attitudes towards Outsourcing: Regionalisation and Franchising(%)

Variable	Description	Strongly Support	Support	Neither	Oppose	Strongly Oppose
BALOCOST	Moving certain activities to low cost areas of Britain and Europe	8	5	5	31	51
BAREGOPS	Setting up regional operations with lower pay and conditions than mainline staff	1	3	4	20	73
BAFRANC	The use of franchise operators to provide certain services	1	14	14	21	50
BATEMP	Greater use of part time and temporary contracts	1	6	5	23	64
BAOUT	Separating off certain areas such as engineering from the main business	1	2	4	17	75

Importantly, those at the major bases of Heathrow and Gatwick are equally concerned about regional changes. Again these questions will be addressed in subsequent detailed analysis. Two thirds were opposed to franchising, another policy which is increasingly being used by British Airways. Increasingly, franchise operators are being used to operate regional routes (O'Toole 1998: 34.) Employees, especially unionised ones, can be expected to be opposed to a policy which in effect subcontracts routes which they might have operated to an external carrier, often using lower paid, mainly non-union labour. Another aspect of the impact of both regionalisation and franchising can be identified from the Summer 1997 cabin crew strikes. Here, franchise operators, such as Brymon and Maersk, effectively undermined strike action at Gatwick. Taken with the routes operated by regional subsidiaries, Euro Gatwick and BA Regional, Gatwick was largely immune from strike action which, given its role as a major and growing hub, should be a matter of alarm for airline unions. Regardless of the individual feelings of many employees, laws on secondary action make it difficult for co-ordinated national action to take place, although the unions have shown adeptness in tabling major issues, facilitating coincidental action, albeit over differing issues. Should franchising and internal low cost operations make greater inroads into, say, shuttle services or short haul European routes, then effective trade union action could be further undermined. Employee misgivings about franchising and low cost operations can be understood within this context. Figure 6.3 indicates the strength of opposition to the policy detected in the sample.

Figure 6. 3 Employee Attitudes Towards Franchising



Crosstabulations and Associations.

In order to consider any differences which might arise between employees in the sample, a number of independent variables were used to enable cross-tabulations to be made. Thus the key trade union, regional, gender and skill variables were utilised. In terms of the proliferation of low cost strategies, the **REGION** variable was used to look at levels of opposition evident in the initial frequency distribution. In particular, the results were examined to see if there were differences between London and regional locations. Using as the key dependent variable **BAREGOPS** (see appendix), there was little difference in terms of levels of opposition or acceptance of regional operations when considered in terms of location. Those in the London area, who might have been expected to be less opposed to regional operations given their insulation from such policies, were as opposed as those employed in the regions. This is probably due to the fact that London based workers perceive regionalisation as both the thin end of the wedge in terms of cost reduction and a threat given the high cost nature of most London locations. The London bases carry high overall costs, particularly when earnings premiums are taken into account.

It can be seen that within this sample of unionised workers, those at the London bases are roughly as opposed (91%), than those in the regions (100%).[39] However, it does provide a comparison between two of the principal groups on the use of temporary contracts which would be a feature of regional policies. Again, a rough concordance of opposition was found between regional and London based workers. A similar story emerges on low cost carriers where both sets of workers are equally opposed to the policy. In terms of overall levels of opposition, only franchising has levels of disagreement below 80%, though again, the differences between the respondents in the sample is small (about 10%). In terms of the average overall difference within the sample on all measures of regionalisation, the difference is about 8%.

Table 6.4 Attitudes to Internal Low Cost Strategies by Region

	LONDON			REGIONS			
	Agree	**Neutral**	**Disagree**	**Agree**	**Neutral**	**Disagree**	X^2
Temporary contracts	4 (7)	7 (11)	89 (140)	2 (1)	7 (3)	91 (42)	3.481
Outsourcing	2 (3)	4 (7)	94 (160)	4 (2)	7 (3)	89 (41)	446
Regional operations	2 (3)	2 (3)	96 (156)	-	-	100 (47)	3.393
Internal low cost carriers	12 (20)	6 (10)	83 (142)	6 (3)	11(5)	83 (39)	3.243
Franchising	16 (28)	11 (19)	73 (124)	13 (6)	21 (10)	66 (31)	4.948

Plain numbers are percentages summed from row total. Parentheses are overall cell frequencies, summed from row total.
** X^2 insufficient cell frequency for Chi square test. All Chi square tests are insignificant at the 0.05 level unless otherwise stated.

6.2.2 Seniority

In terms of seniority we earlier hypothesised that we might expect to see some difference between those workers who were recruited in the previous era (before privatisation and deregulation) and those recruited in the privatised/deregulated era.

The precise frequencies for the re-coded seniority variable are given below. We could hypothesise:

[39] Due to a structured asymmetry in cell values (too many people are opposed to distribute cell frequencies evenly to give a distribution for the chi square test) this finding has no statistical significance from an inferential or confirmatory point of view. Problems with the distribution method

* *Those employees within the sample who are more accustomed to the regulated and collectively bargained conditions of the pre-privatisation era (the 31 years plus group), would be more likely to oppose policies of regionalisation, than those workers at the other end of the seniority distribution (1-10 years) who have experienced only either privatisation or 'pre-privatisation'.*

In the event, the results suggest little difference within the sample in terms of seniority, with 97% of the 1-10 year group registering opposition to the proposal and 90% of the older seniority group. Indeed the small gap between the 'newer' and 'older' employees shows that the evidence is going in the opposite direction to that which we might have expected. Younger (or newer) workers are usually expected to be less 'conservative' towards change than their older counterparts, this result contests that finding. The explanation might lie in the fact that workers within the former group have experienced a great deal of change and have perhaps become as embittered as the more senior workers. Another explanation is that junior workers, with less seniority in a seniority driven context, would be more affected by policies such as regionalisation, bearing the brunt of the lower wage rates for example. Either way, the evidence from the sample shows that young workers are if anything more ill disposed towards the policy than the older cohort.

In trade union terms, we might reasonably assume that the general union (TGWU), with less industry specificity and less skilled workers than the more specialist unions (BALPA and AEEU), might perceive a greater threat from regionalisation. Of the TGWU workers in the sample, 72% opposed "the creation of regional operations with lower pay rates than mainline"; 57% of AEEU respondents opposed, whilst 78% of BALPA members were opposed. BALPA's opposition might be described in terms of the threat to pilot incomes and conditions of early regionalisation such as BAR. AEEU workers may be less opposed because of an acceptance of the inevitability of regional operations. The AEEU has already accepted outsourcing of the core 747 heavy maintenance programme to GEC in 1991 along with vehicle maintenance, undercarriage and avionics. Given this empirical difference between the occupational groups, we can compare the bargaining group variable (NSP) which allocates workers to specific bargaining units based on occupation. Can we detect a lower level of

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mean that no inferences can be made. Subsequently chi square results are presented for information only. (See methodology chapter.)

opposition to regional operations from the craft bargaining units? These cover primarily AEEU members whilst 'A' scales GSS and 'non-craft' category more likely to cover TGWU members. The survey suggests that within the sample, AEEU members are no different in their opposition than TGWU members (92% and 93% respectively). In terms of gender there is no difference between male and female workers in their levels of opposition to regional operations with lower pay rates.

6.2.3 *Employee Attitudes towards Flexibility*

The next set of variables sought staff attitudes towards flexibility. The term flexibility needed to be operationalised to reflect workers' perceptions and experiences. The item tested attitudes on the extension of part-time and temporary work, so called *temporal flexibility* as an *aspect* of flexibility. Given the nature of traffic flows and the cyclical nature of the industry, the attainment of more atypical working patterns can be seen as a management goal. Conversely, the retention of full time jobs would be expected from unions and their members, notwithstanding gendered preferences for part time work identified in the flexibility literature. (Beatson 1995 196 table 2.4.)

A variety of reasons might account for supply side aspects of atypical work. The jobs *portfolio* trend, which many labour market analyses point to, might to some extent lessen opposition. (Beatson 1995 :Ibid.) The portfolio argument posits an increasingly varied and fragmented set of job choices with the holding of multiple jobs a feature. Again there was a very small incidence of part time workers within the sample.

Those workers who are employed on such contracts might be expected to be less hostile to atypical work seeing it as an accepted part of their pattern of working. (See Hewitt 1993:23.) However, in general we might expect the following attitudes to be displayed:

- *Workers within the sample will resist the extension of atypical work, seeing this as an attempt to create a segmented workforce. Regardless of gender or conditions, they will favour a full time job and full time wage.*

Table 6.5 Employee Attitudes Towards Increased Use of Temporal Flexibility

Variable		Strongly Agree	Agree	Neither	Disagree	Strongly Disagree
FLEXFAM	More flexible hours will help with commitments such as family.	2	11	14	34	37
FLEXREDN	I will get lower wages due to the reduction of hours.	38	43	2	4	11
FLEXBEN	I will get fewer benefits than full time staff.	41	37	8	5	7
FLEXSECU	Flexibility for the company will mean greater job security for everyone including those on contracts.	4	8	10	29	49
FLEXCUT	Flexibility for the company will mean cuts in jobs and benefits.	42	34	4	14	5
FLEXWILL	I will accept it because the airline business needs people to be flexible.	2	11	20	42	24

Rows may not sum to 100 due to rounding and missing values.

Only 13% of respondents were of the opinion that more flexible working would help with family commitments (a popular social justification for the introduction of part time work), with around 71% disagreeing that this would be the case. Some 81% felt the policy would lead to a reduction in hours and thus pay. Only 12% agreed that flexible working hours would mean greater job security. Some workers might seek part time working as a consequence of childcare, and/or lifestyle factors. We would then expect to find some gender difference if women regard part time and atypical work less suspiciously than men do.

The crosstabulation technique was used to assess differences by gender as this was felt to be the most important independent factor in the analysis.

Table 6.6 Attitudes to Use of Temporal Flexibility by Gender (%)

Male				Female			
	Agree	**Neutral**	**Disagree**	**Agree**	**Neutral**	**Disagree**	X^2
FLEXBEN1	77 (145)	14 (26)	10 (18)	65 (17)	15 (4)	19 (5)	2.446
FLEXFAM1	14 (27)	18 (34)	68 (130)	24 (6)	32 (8)	44 (11)	.455**
FLEXCUT1	77 (149)	7 (14)	16 (30)	69 (18)	8 (2)	23 (6)	.988**
FLEXRED1	78 (147)	7 (14)	15 (28)	88 (23)	4 (1)	8 (2)	1.576**
FLEXSEC1	12 (23)	9 (18)	79 (152)	19 (5)	27 (7)	54 (14)	9.050
FLEXWILL	12 (23)	22 (42)	66 (127)	15 (4)	23 (6)	62 (16)	.304

Plain numbers are percentages summed from row total. Parentheses are overall cell frequencies, summed from row total. **Insufficient cell frequency for Chi square test. All Chi square tests are insignificant at the 0.05 level unless otherwise stated.

The number of female respondents in the survey was small (26) given the distribution of returns mostly from male dominated occupational areas. Nevertheless, the frequencies can be compared within the sample. On the question: "I would get less benefits than full time workers" **(FLEXBEN1)**, there was a minor (statistically insignificant) difference between male and female workers. Over three-quarters of male workers agreed whilst about 65% of female workers agreed. This constituted a 16% difference. There was a slightly bigger difference between male and female workers on the question of whether increased flexibility: "Would help with commitments such as family" **(FLEXFAM1).** Given the role of women in the family, a quarter of female respondents agreed compared to 14% of men, amounting to a 35% difference. The most consistent finding in terms of gender here is the overall difference between male and female workers within the sample (22%) although these results cannot be inferred outside the sample.

6. 2.4 *Contracting Out and Outsourcing*

Another major issue within the airline is the question of outsourcing. Outsourcing takes many forms. Subcontracting either to a new supplier or 'spinning out' an 'in house' provider as an independent business unit are examples. The intention being to place such activities at 'arms-length' from the core operation. This is an attractive proposition for management, bringing lower costs and perhaps more importantly, greater overall cost transparency, helping efficiency at least in the short run. Arguably higher *transaction* costs can be associated with outsourcing. As the Department of Employment Flexibility Study indicates:

> 'However, there are also costs involved in monitoring subcontractors' performance and ensuring that agreed standards are met and these can exceed the costs of direct employment. Furthermore, once a contract is entered into it may be difficult to change (and hence inflexible).' (Beatson 1995: 11.)

The concept of higher transaction costs would most apply to areas where highly regulated and codified 'procedural' operations are outsourced. For example, in engineering certification requirements, regulatory rules on periods of inspection and the airline's own quality standard increase the monitoring costs of such operations. The recent Valujet crash in Florida in 1996 has prompted a rethink amongst advisers, given the co-ordination problems involved in a span of 32 suppliers (ITF 1997). (See also chapter 7.) With less complex operations, however, such as catering and cleaning, lower costs can be achieved by outsourcing. The introduction of market rates, albeit temporarily protected by legislation such as TUPE, brings a rapid reduction in costs. However, in service industries a separate issue arises in terms of commitment. Will outsourced employees, providing services for a wide range of suppliers, achieve the same focus and commitment as in-house employees? Cost reductions can of course be achieved in highly processed, procedural and technical areas such as engineering. The tendency is towards new work techniques based on variants of lean production/Business Process Re-engineering (BPR). For example, within engineering a variant of BPR known as Fully Engineered Task (FET) has enhanced the jobs of both licensed engineers whose roles have become more enriched, and those of less skilled engineering labour. (Interview AEEU steward 19.3.97.)

In each case costs are reduced, though the primary focus is not on cost reduction. Yet the carrier could well outsource line maintenance as it has with heavy overhauls on specific aircraft types. Whilst engineering functions have been subjected to new work initiatives, reform of other functions is by contrast in terms of reduced labour costs, 'working cheaper' rather than smarter. It can be hazarded at this stage, however, that BA preferred outsourcing rather than internal labour market flexibility as their preferred strategy. This desire to obtain flexibility through contracting was at the centre of the dispute between BA and its catering employees, resulting in the outsourcing of the mainline catering function to Swissair's catering subsidiary Gate Gourmet. (Hill 1997:105.)

Although these savings can be exaggerated when the protective effect of legislation such as the Acquired Right Directive (TUPE) is taken into account, they are increasingly used as a virility symbol to external competitors and outside interests that management literally mean business. At the time of the survey in autumn 1996, management were putting forward various outsourcing options, so staff attitudes towards these initiatives should prove interesting.[40] We might hypothesise that:

- *Workers will be most concerned about the loss of the terms and conditions when considering the possible outsourcing of their job.*

Employees value working for a large carrier such as BA, seeing security and advancement within such a large company. However, it became clear from interviews, that whilst the BA identity was important, it was difficult to pinpoint which aspects of working for the carrier were perceived as most important in the event of outsourcing. Most are opposed to outsourcing, as became evident from earlier exploratory interviews, thus the question was framed to gather information on those aspects of working for BA which were most valued.

[40] A number of initiatives including the outsourcing of ground fleet maintenance, Heathrow catering, and the possible extension of outsourcing to ground services were being put forward by BA management.

A useful measure of the concept would be one which ascertained the importance which employees placed on certain facets of their employment with BA. The preliminary results are given below.

Table 6.7 Respondent Ranking of Factors in Working for BA (%)

Variable	Description	Very important	Important	Neither	Not very Important	Unimportant
TRANTRAV	BA travel facilities and other perks	34	34	12	12	8
TRANTERM	BA terms and conditions.	67	24	4	2	1
TRANCOM	The common purpose of working exclusively for BA.	52	31	8	3	3
TRANPROT	The protection of national trade union agreements.	67	23	4	2	2
TRANSECU	The job security which large airlines like BA provides.	77	17	1	3	1

Rows may not sum to 100 due to rounding and missing values.

One of the major areas often highlighted by staff themselves when subjected to the threat of outsourcing is the fear that they may lose core conditions. Travel facilities, long seen by the wider public as one of the most significant fringe benefits in airline employment, are less of a priority within the sample.[41] Nearly a fifth of the sample see the loss of such benefits as either *not very important* or *unimportant*, with the proportion who regard such benefits indifferently bringing this up to a third. Whilst more precise statistical tests will be needed to ascertain the strength of the relationship, this roadmap of the data does point to a direct convergence of views for those who ranked BA terms and conditions and the protection of national trade union agreements as: "Very important." Around 70% of respondents ranked these variables exactly equally in importance (see table 6.7 above). This might suggest that BA terms and conditions and the protection of national trade union agreements are viewed similarly. There would be good intuitive reasons for this. The phrase *terms and conditions* tend to be associated with union negotiation, and collective bargaining. Trade unions may be the passive beneficiaries of employee identification of both.

[41] The principal issue in the August 1997 outsourcing dispute between BA and Heathrow catering staff was the desire of staff many who have families in the Indian subcontinent to retain staff travel facilities, which constitute a core condition. The outsourcing agreement preserved these perks for a limited period.

However, the unionised bias within the sample means we cannot make too much of this finding, though we can look at the overall level of union membership within the airline which is high.[42] Interestingly, there was relatively less support for the notion of losing the 'common purpose' of working for a large company like BA. This variable was designed to give some idea of 'unitarist' views of the employment situation, although a unitarist frame of mind need not be a prerequisite for such a view. Workers may well see common purpose as neutral and simply relate to the statement about BA. In any case, respondent ranking gives some idea of the importance attached (52% strongly agreed). When company identification variables are made more explicit, for example, converted in terms of job security, then a different initial picture emerges. For the statement that an employee would miss the job security of a large carrier like BA, 77% ranked this as 'very important'.

This finding is not surprising given the success of BA, and its steady expansion.

Table 6.8 Ranking of Factors in Working for BA by Trade Union (%)

TGWU				AEEU			
	Important	Neither/no opinion	Not so important	Important	Neither/no opinion	Not so important	X^2
TRANCOM1	84 (145)	15 (9)	7 (12)	74 (20)	19 (5)	7 (2)	3.418
TRANPRO1	91 (155)	4 (7)	5 (9)	96 (26)	4 (1)	-	3.627**
TRANSEC1	94 (161)	1 (2)	5 (8)	93 (25)	-	7 (2)	2.317**
TRANTER1	90 (152)	6 (10)	4 (6)	100 (26)	-	-	5.493
TRANTRA1	66 (144)	12 (20)	22 (38)	81 (22)	15 (4)	4 (1)	5.493

Plain numbers are percentages summed from row total. Parentheses are overall cell frequencies, summed from row total. ** Insufficient cell frequency for Chi square test. All Chi square tests are insignificant at the 0.05 level unless otherwise stated.

Table 6.8 provides and crosstabulates the views of the major trade unions, TGWU and AEEU, on the issue, bearing in mind the problems in the data due to the large difference in response rates. As expected from the frequencies, high prioritisation is placed upon the protection of national agreements and the terms and conditions

[42]Union densities as at the time of the survey are as follows: Administrative Staff 50% (which includes front line Customer Service Staff), Engineering 70%, Ground Support Staff 90%, Cabin Crew 80% Flight Crew 90%.

offered by a large employer like BA. There is little difference between AEEU and TGWU members in their prioritisation of aspects of being employed by BA. Only on travel facilities is there a significant gap between the two, with AEEU members placing greater priority on travel benefits. This could be explained by the larger impact on engineering workers of outsourcing at the time of the survey. Some engineering workers have seen the perk of travel facilities eroded with the outsourcing of BAMC and are therefore more aware of the issue. In any case, travel facilities tend to be less valued than terms and conditions and the protection of national agreements. The results for BALPA members were almost identical. Not surprisingly, workers are overwhelmingly wedded to the concept of employment with a major carrier such as BA.

6. 3 Attitudes towards British Airway's Global Strategies

6.3.1 *Employee Perception of General Global Strategies*

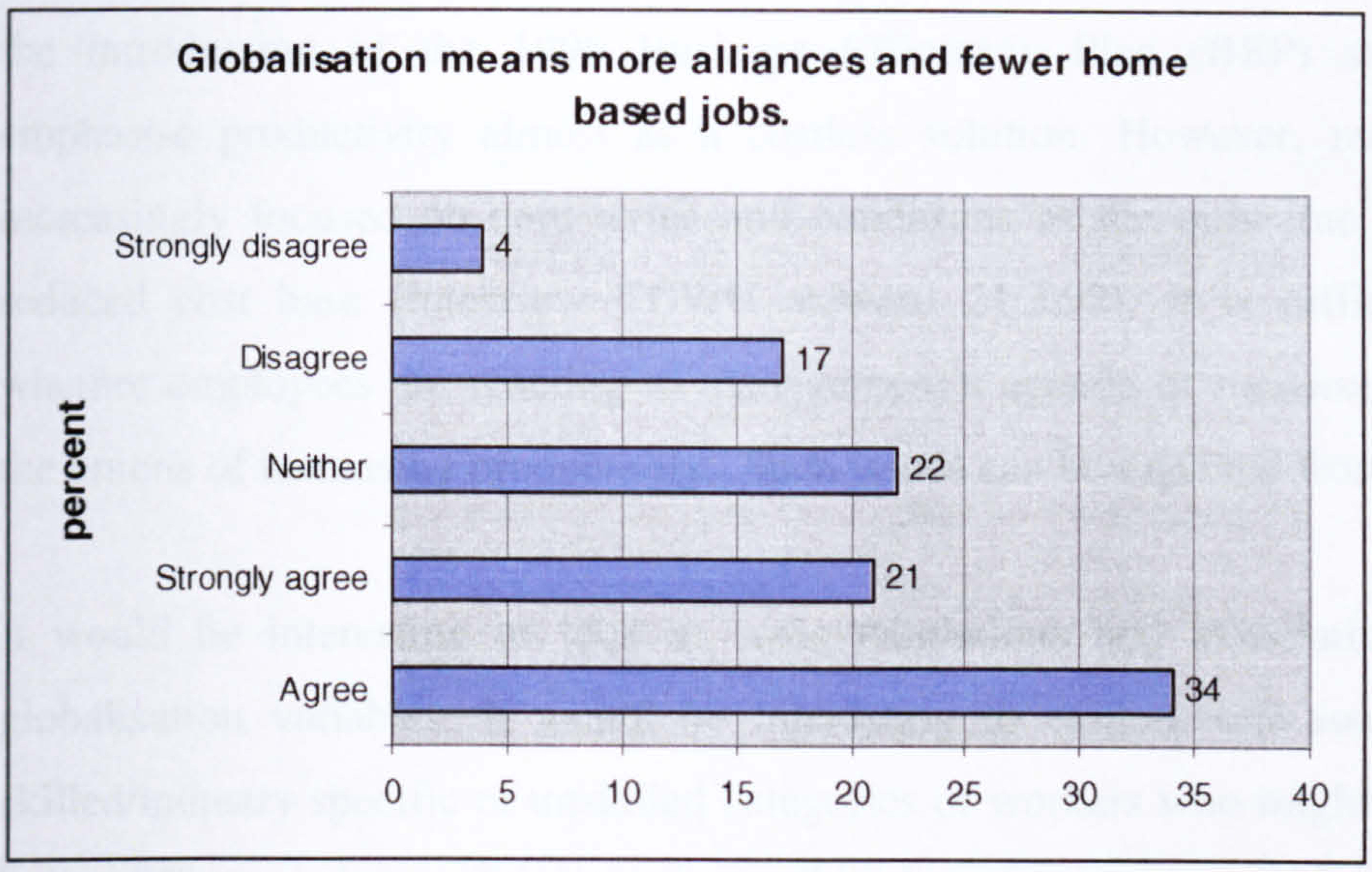
The views expressed above could change with further restructuring within the global market, requiring greater segmentation and the eventual disintegration of the 'whole airline concept' to which workers are so attached. Thus employee attitudes towards wider policies affecting the airline product market should be of interest to the research on airline employment. Do workers actually support policies of globalisation? There is evidence that within the framework of an increasingly concentrated international industry, unionised workers support general policies of globalisation, often reasoning that this increases job security within the carrier, at least for those employed within the core. Globalisation policies, which include 'expansionary' strategies such as take-overs, alliance building, and the development of 'fortress hubs', can be seen as a continuation of the stability discussed in relation to the regulated and post privatisation era. With the growth of large 'constellation alliances,' the industry is developing on the basis of interfirm collaboration, thus reducing the uncertainty of competition. Such strategies may find favour with the employees of carriers well placed to reap such advantages. Thus it is interesting to look at employee perceptions in this context.

As the airline industry assumes a global form, so do employment relations. Many within the industry assume that employees of airlines such as BA are more committed to a global strategy and thus to far reaching employment change than at other airlines such as Air France and Lufthansa. (Hill 1996: 23.) It is widely believed that BA employees, through privatisation, have become more adaptable and less resistant to change, perceiving such change to be in their own ultimate interest. (Reed 1989, Corke 1990.) In order to examine this assumption, a set of questions attempted to ascertain the level of commitment of this group of employees and whether they agreed with the perceived aims of a global strategy. The elements of this strategy were specified within the question categories to include the most widely cited types of policy pursued by the carrier. The guiding hypothesis was framed thus:

- *Workers within the sample will support general management strategy on globalisation. Such strategies are perceived to be expansionary enhancing the wages and job security of workers.*

These included policies such as continuous cost reduction and continuous improvements in productivity, acquiring other carriers, forging global alliances and the relocation of certain activities to low labour cost countries. The initial results are graphed in figure 6.4 below. Significantly a large proportion of staff, 34%, support the notion of cost reduction as the 'overriding priority', with a further 22% registering either neutrality or indifference on the issue. This is an important finding suggesting that answers reflect the generality of such strategies. Later questions address more localised and specific aspects such as the effect on employment. Although we must be mindful of the preliminary nature of the data, there is strong support for the notion of 'increasing productivity as much as possible'. Two thirds of respondents agreed with this statement indicating broad general support for the need for increased performance in a more threatening global environment (table 6.9).

Figure 6. 4 Employee Perceptions of BA Global Strategies (%)



Note: *See chapter 2 Appendix 1 for variable descriptions*

Table 6. 9 Employee Attitudes towards Global Business Strategies(%)

Variable	Description	Strongly Support	Support	Neither	Oppose	Strongly Oppose
STRATCOST	Cost reduction as the overriding priority	3	30	20	30	15
STRATPROD	Increasing productivity as much as possible	9	65	13	8	4
STRAFARE	Offering lower fares than other carriers	9	39	29	15	5
STRASTAFF	Involving staff more in the running of the company	54	39	4	1	1
STRATLOB	Lobbying for access to airports and services currently denied to BA	43	44	5	1	1
STRATAID	Lobbying for an end to state aid for our competitors	55	27	10	1	3
STRATAKO	Taking over or acquiring holdings in other airlines to help expand market opportunities	24	49	17	5	4
STRATAL	Building alliances with other carriers to expand but not necessarily using BA aircraft and crews	9	34	26	17	13
STRACHEA	Moving some functions to lower labour cost locations	4	8	8	37	40

Rows may not sum to 100 due to rounding and missing values.

We must be aware, however, of whether this is a case of general agreement with one of the industry's often repeated verities, or if workers in fact would concede on certain issues in order to increase productivity. In addition, we must be mindful of the notion, often encountered in trade union circles, that productivity improvement is costless to current employees. The negotiating rhetoric over efficiency savings during the introduction of the 1996 Business Efficiency Plan (BEP) saw the unions emphasise productivity almost as a costless solution. However, management has increasingly focused on core terms and conditions as the only true reflection of a reduced cost base (interview TGWU steward 21.3.97). It is difficult to discern whether employees are reacting to management's agenda of increased efficiency or the unions of increasing productivity. Such issues can be explored from other angles.

It would be interesting to look at cross tabulations and associations around the globalisation variables. It would be interesting to explore this issue in terms of skilled/industry specific or unskilled categories of workers who might be expected to have different views. To investigate this issue a new variable **(SKILL)** was constructed. This involved merging the craft bargaining and flight crew units as those who represent industry specific skills and who might be expected to be more secure in a stable oligopolistic industry. The non-craft, GSS and 'A' scales workers might expect (with global alliances perhaps reducing duplicated staff) to be less favourable on a general basis towards management strategy of globalisation. Was this actually the case?

Interestingly, there was a lower level of support and higher opposition from the more skilled workers as table 6.10 below demonstrates.

Unsurprisingly, both industry specific and non industry specific workers are opposed to strategies which involve moving operations to low labour cost countries **(STRATCHEA1),** an increasing threat even in skilled areas of employment.

Table 6.10 Attitudes to Globalisation Policies by Skill Category (%)

	NON INDUSTRY SPECIFIC			INDUSTRY SPECIFIC			
	Support	**Neither/no opinion**	**Oppose**	**Support**	**Neither/no opinion**	**Oppose**	X^2
STRATPRO1	76 (121)	13 (21)	9 (14)	62 (38)	16 (10)	21 (13)	7.024
STRAFAR1	50 (77)	32 (50)	18 (28)	44 (27)	30 (18)	26 (16)	1.804
STRASTA1	97 (152)	3 (4)	0.63 (1)	85 (52)	10 (6)	5 (3)	10.104
STRATLO1	92 (140)	7 (10)	1 (2)	87 (53)	10 (6)	3 (2)	1.639
STRATAI1	83 (129)	13 (20)	4 (6)	85 (51)	10 (6)	5 (3)	.449
STRATAK1	73 (113)	20 (31)	7 (11)	75 (46)	13 (8)	11 (7)	2.194
STRATAL1	44 (67)	26 (40)	30 (46)	43 (26)	28 (17)	11 (18)	.067
STRACHEA1	13 (20)	7 (11)	80 (123)	13 (8)	13 (8)	74 (45)	1.972
STRACTCO1	34 (52)	21 (32)	46 (71)	33 (20)	22 (36)	46 (28)	.017

Plain numbers are percentages summed from row total. Parentheses are overall cell frequencies, summed from row total. ** Insufficient cell frequency for Chi square test. All Chi square tests are insignificant at the 0.05 level unless otherwise stated.

6.3.2 *Attitudes Towards Specific Global Strategies*

Again, a further set of variables seek to measure more specific attitudes. Alliance building, equity holdings, and to a lesser extent, take-overs are major features of the emerging pattern in the airline industry. At the time of writing, BA has received government approval for a major alliance with American Airlines, in addition to major equity holdings in QANTAS and a myriad of smaller operators. The survey sought staff attitudes towards such strategies. Are staff broadly supportive, as they might be expected to be in a large long haul 'network carrier' such as BA? Do staff perceive a threat to their own position from such strategies? The variables **STRATAKO** and **STRATAL** ascertain employee attitudes on both types of strategy. There seems to be more support for take-overs and equity holdings (74%) than for alliances, which often imply expansion using the alliance partners' routes and equipment. Though the employment effects of global alliances are as yet untested, the perception among many workers is that such arrangements could lead to job losses. (ITF 1992: 33.) This condition is specified in the variable **STRATAL** and support for the alliance strategy is much less strong (43%), although those who are either neutral or indifferent account for over a quarter of the sample. Only a third of workers are opposed to this strategy. Again these variables can be crosstabulated with other measures of globalisation as it specifically affects employment. So far we have looked at generic 'business issues' rather than specific labour market ones to see whether employees accord with or dispute the management agenda for the future of the airline. It is now necessary to look at employee views, in order to examine the labour market issues introduced in chapter one. When the implications of global business strategy are operationalised into specific employment effects, we can analyse these labour market/employment aspects. The labour market implications of globalisation are addressed in the next set of questions, which ask employees' views of globalisation *as it affects* BA staff. Here the findings are different, seeming to confirm the intuitive point that the very *generality* of the previous statements may have been responsible for high levels of agreement. Descriptive statistics are given below (table 6.11).

Table 6.11 Employee Perceptions of Broad Employment Impact of Globalisation Strategies (%)

Variable	Description	Agree	Strongly Agree	Neither	Disagree	Strongly Disagree
GLOBCOMP	More competition leads to less job security	31	13	24	24	6
GLOBOUT	Some jobs will be moved to low labour cost countries like India and China	23	26	6	13	31
GLOBPURP	It brings a new sense of purpose knowing that we are competing against the big global carriers	29	10	30	18	9
GLOBAL	Alliances could mean fewer flights and threaten jobs	33	20	23	18	4
GLOBSEC	Jobs are more secure all round because we can win new business	17	8	23	38	13
GLOBREAL	We have no choice but to use these strategies because that's the reality of the airline industry today	13	5	26	35	19

Rows many not sum to 100 due to rounding and missing values.

6.3.3 *Perceptions of Competition and Collaboration*

The variable **GLOBCOMP** asked employees whether more competition would lead to less job security. A combined 45% felt that it would, but most interesting here is the level of neutrality and/or indifference with 24% of respondents opting for the neither column. If we combine these with the disagree responses, we can say that the majority do not believe, or are indifferent to, the notion that more competition leads to less job security. Further light is thrown on this issue by responses to a subsequent statement. A small majority of this sample of unionised airline workers disagreed, or were indifferent to, the notion that jobs would be moved to low labour cost nations. Some 44% felt jobs would not be moved abroad. This is interesting in the sense that the unions sampled represent many workers most vulnerable to such activities. Even so, the majority of the sample are employed within 'sunk' functions such as ground handling which by definition cannot be moved abroad. Though these functions are vulnerable to domestic outsourcing, the concept of international outsourcing may not be sufficiently understood as a threat to existing jobs. A small majority felt that alliances would mean fewer flights and fewer jobs **(GLOBAL)**. As yet there is little indication from BA's current global alliances of an effect on home-based employment.

Unions within the industry fear that alliance activity, by combining flights between carriers to some destinations, will lead to an overall net decrease in jobs, unless there is a corresponding net increase in services. (ITF 1992: 23.) This concern, notably of trade unions, sees alliances as a form of rationalisation. It is particularly feared that there will be such a rationalisation of capacity on some 'lower yield' routes. (Cameron 1997: 50-52.) The explicit motivation in building strategic alliances is to build joint marketing relationships. However, implicit motives, such as pooled training maintenance, marketing effort and aircraft servicing, could impact upon employment. Many carriers already operate 'crew sharing' arrangements whereby the staff of both carriers are represented in the cabin crew complement. At the moment, costs are higher given the diverse levels of regulation on issues such as crew rest, but these practices could become more widespread. (Ibid.) Employees at BA have yet to be involved in an alliance where their employees have lost out. BA staff replaced US Air in long haul routes such as London-Philadelphia and Charlotte after BA's now discarded alliance with US Air. However, with the BA/American alliance there could be a different outcome. Rationalisation may well take place with carriers assigning each other routes for the sake of efficiency and to avoid duplication.

The message propagated by airline management is that globalisation might lead to *greater* job security. A related question, therefore, asked respondents to record their level of agreement with the notion that jobs would be more secure all round as a result of globalisation **(GLOBSEC).** Management and industry analysts often argue that despite the short term impact of global integration leading to a reduction in home based employment, globalisation as a strategy will bring more jobs, expanding the overall market and thus allowing a massive expansion of services. This assumption behind the globalisation policies of most airlines is often articulated to staff as an "expanding market more jobs" argument or more negatively as the "bottom line" or "reality" of the airline industry today. Both assumptions are measured in the variables **GLOBSEC** and **GLOBREAL.** Excluding the neither category, a narrow majority disagrees with the former statement, with just under a quarter of the sample agreeing. On the latter variable about 54% disagree, whilst only 18% agree. The difference is not large and seems to indicate that both statements are viewed as analogous to each other. This initial finding may again indicate a lack of apparent employment effects with globalisation to date. So far there has been no systematic attempt to measure the effect of the main globalisation strategy of code sharing and alliance building upon employment.

6.3.4 *Perception On Link Between Overall Policy On Local Terms And Conditions*

Question 14 asks employees what they believe will be the effects of BA's business strategy on their own terms and conditions. In constructing this set of variables, it was hoped to obtain some measure of employee perceptions of the employment changes, which might arise from BA business strategy. This was yet another way of attempting to cross measure employee attitudes towards change, taking the question from the global business environment right down to the level of individual workers' jobs.

- *Workers within the sample will be less favourable towards global policies when posed directly in terms of employment.*

When these issues are posed in terms of the immediate effect on terms and conditions, the response of unionised workers becomes pessimistic. A set of questions which elicited employment response on the perceived effect upon their own terms and conditions of management policies under deregulation, was based on the following hypothesis:

- *When operationalised in terms of effects on specific terms and conditions employees within the sample would be expected to be pessimistic about the effect on their own terms and conditions.*

The questions asked respondents to indicate their view on the impact of BA's business strategies on their own terms and conditions. The responses are given below in table 6.12

Table 6.12 Employee Perceptions of Effect of Global Business Strategy on Their Own Terms and Conditions (%)

Variable	Description	Agree	Strongly Agree	Neither	Disagree	Strongly Disagree
OWNWAGE	Reduced wages, through greater use of part time work and contracts	53	25	3	12	7
OWNPRP	Greater use of profit share or performance related pay, which might increase wages	8	25	15	33	17
OWNFRING	A reduction in fringe benefits such as travel concessions and medical benefits	29	38	8	11	13
OWNFLEX	Greater flexibility to allow us to respond to our competitors	7	27	26	29	8
OWNALLOW	Accepting lower allowances and enhancements where applicable	19	19	13	28	18
OWNSHIFT	Reduced overtime and shift rates through the use of new shift patterns such as annualised hours and split shifts	32	19	5	20	23

Rows may not sum to 100 due to rounding and missing values.

Around 80% felt their wages would be reduced through the use of greater part-time work and contracts. Half of the sample believed that such policies would mean reduced overtime and shift premia, with the introduction of annualised hours and split shifts. About 38% believed it would mean accepting lower allowances and enhancements, though a larger proportion disagreed that this would be the outcome. Significantly (given the low coverage of such arrangements within the manual grades at BA), around a third believed that the changes might lead to increased wages through profit sharing and performance related pay (PRP). The same proportion of the sample responded positively to the statement that 'greater flexibility will allow us to respond to our competitors'. Given the unionised nature of the sample and the type of workers it represents this is initially a very interesting finding. It may well be a case of respondents adopting the language of deregulation, but it may also represent a shift in attitudes towards a more unitarist employee mentality. This may be simple pragmatism, given the competitive environment of which employees are well informed. Nevertheless, the survey was carried out before BA's Business Efficiency Programme (BEP) of November 1996 was put to the workforce. This radical cost reduction plan might have led, in the post survey period, to a considerable hardening of employee attitudes given the unionised, less skilled nature of the sample. On the question of reduced fringe benefits long associated with the airline industry, including discounted travel, social clubs and health facilities, about 67% saw these as threatened. BA has already curtailed travel facilities for many grades of staff, hedging their availability with restrictions.

Table 6.13 below provides a crosstabulation of views between the two main unions - TGWU and AEEU. AEEU members tend to be less pessimistic about the possibility of wage reductions, although a majority still felt this might occur. Four fifths of TGWU members within the sample felt that this would be the case. TGWU members were also more pessimistic on the future of shift premia with over half believing that these would be reduced as a result of management policies. AEEU members, reflecting their moderacy in comparison to the TGWU, were less prepared to accept the proposition that "greater flexibility will allow us to respond to our competitors", an oft-quoted management statement to which approximately half of AEEU members in the sample objected.

Table 6.13 Employee Perception of Impact of Management Policies On Their Own Jobs and Conditions by Trade Union

	TGWU			AEEU			
	Agree	Neither/ no opinion	Disagree	Agree	Neither/ no opinion	Disagree	X^2
OWNFLEX1	34 (58)	30 (51)	36 (62)	29 (8)	21 (6)	50 (14)	3.102
OWNALLO1	38 (64)	16 (27)	46 (76)	32 (9)	14 (4)	54 (15)	2.470**
OWNFRIN1	67 (16)	9 (16)	23 (40)	68 (19)	7 (2)	25 (7)	.847**
OWNPRP1	34 (59)	17 (29)	49 (84)	21 (6)	14 (4)	64 (18)	8.210
OWNSHIF1	52 (91)	5 (9)	42 (73)	39 (11)	7 (2)	54 (15)	20.621**
OWNWAG1	80 (138)	2 (3)	18 (32)	68 (19)	7(2)	25 (7)	10.076**

** Denotes insufficient cell frequency for chi-square test.

Overall, the hypothesis that employees would view the effect of globalisation more negatively when posed in the context of their own terms and conditions, is proven. Posing the question in terms of direct pay and benefits effects leads to a markedly more negative response than that obtained when generalised questions of globalisation were presented in the subsequent chapter. The link between globalisation and terms and conditions brings us to the next section, which examines the views of workers towards proposed changes in collective bargaining. Arguably changes in the nature and role of trade unions and collective bargaining could have major impacts upon the terms and conditions of respondents. In order to evaluate this hypothesis section 6.4 addresses those perceptions.

6.4 Employee Perceptions of Proposed Changes to Collective Bargaining

During the completion period of this survey, BA management proposed a complete overhaul of collective bargaining within the airline as chapter 7 indicates. The airline tried in the Summer of 1996 to move away from national collective bargaining towards a system of local business unit based bargaining. In effect, this would mean the abolition of National Sectional Panels (NSPs) and the devolution of major bargaining areas such as pay and conditions to local level. Whilst the unions have conducted a national campaign to resist these measures, there has been a creeping erosion of national bargaining. Major items such as pay are still subject to national level negotiation but the trend is towards localised bargaining. Both trade unions and management have advanced a number of arguments on the question of the future of collective bargaining. The questions were formulated to the general hypothesis:

- *Employees within the sample will resist the break up of national bargaining, perceiving it to lead to lower terms and conditions and to threaten stability of employment.*

Table 6.14 Employee Perceptions of the Effects of Abolition of National Bargaining (%)

		Agree	Strongly Agree	Neither	Disagree	Strongly Disagree
BARGINF	Our power to influence management would be severely reduced	67	26	4	1	2
BARGBET	We would be in a better position to negotiate through our local representatives	2	6	7	36	47
BARGTHRE	We would be under constant threat of franchising or contracting out if we did not agree to changes within our part of the business	55	26	6	6	6
BARGTU	We would still have the unions to represent us as before	9	13	16	36	26
BARGDIR	Management would try to bypass the unions and negotiate directly with staff	60	26	6	6	2
BARGBUB	We would be able to focus on our own part of the business	4	7	21	39	27
BARGPAY	Pay rates and conditions would fall as management tried to cut costs	72	22	2	3	1
BARGESOP	We might become more involved in the management of our own business through employee shareholding and greater involvement	7	10	13	36	33

Rows may not sum to 100 due to rounding and missing values

6.4.1 *Perceptions of Role of Unions Without National Bargaining*

There was a strong level of agreement with the trade union argument that the abolition of national bargaining would lead to employees being marginalised. (BARGINF) (98%). This may reflect the unionised nature of the sample or the success of the joint union campaign to raise awareness of the threat to bargaining among their memberships.[43] In seeking to move away from national bargaining, management has emphasised the benefits of local negotiation, typically arguing that local negotiations would be more attuned to local needs than centralised and bureaucratic national procedures. Given that a limited form of devolved bargaining had already been introduced within the regions with the establishment of BA Regional in 1992, operating on different pay and conditions from the mainline operation, it would be interesting to see if there where any differences between the regions and the London area. It can be seen from table 6.14 that workers within the sample who are based at regional locations are, if anything, more hostile to the proposed changes. The abolition of national bargaining has great significance to workers within the airline as chapter 4 indicates.

Table 6.15 Perceptions of Abolition of National Collective Bargaining by Region

	LONDON			REGIONS			
	Agree	**Neither/ no opinion**	**Disagree**	**Agree**	**Neither/ no opinion**	**Disagree**	X^2
BARGBUB1	11 (18)	24 (41)	65 (110)	13 (6)	17 (8)	71 (34)	.330
BARGBET1	11 (18)	24 (41)	65 (110)	13 (6)	17 (8)	71 (34)	.210**
BARGDIR1	88 (149)	6 (10)	6 (11)	82 (41)	8 (4)	10 (5)	.330
BARGESP1	17 (29)	17 (28)	66 (111)	16 (8)	12 (6)	71 (35)	.816
BARGINF1	84 (159)	5 (8)	3 (4)	96 (47)	4 (2)	-	1.473
BARGPAY1	95 (162)	2 (4)	3 (5)	92 (46)	2 (1)	4 (2)	.956**
BARGTHRE1	78 (132)	8 (13)	15 (25)	84 (42)	8 (4)	4 (8)	.977
BARGTU1	25 (42)	17 (29)	58 (98)	22 (11)	14 (7)	63 (31)	1.106

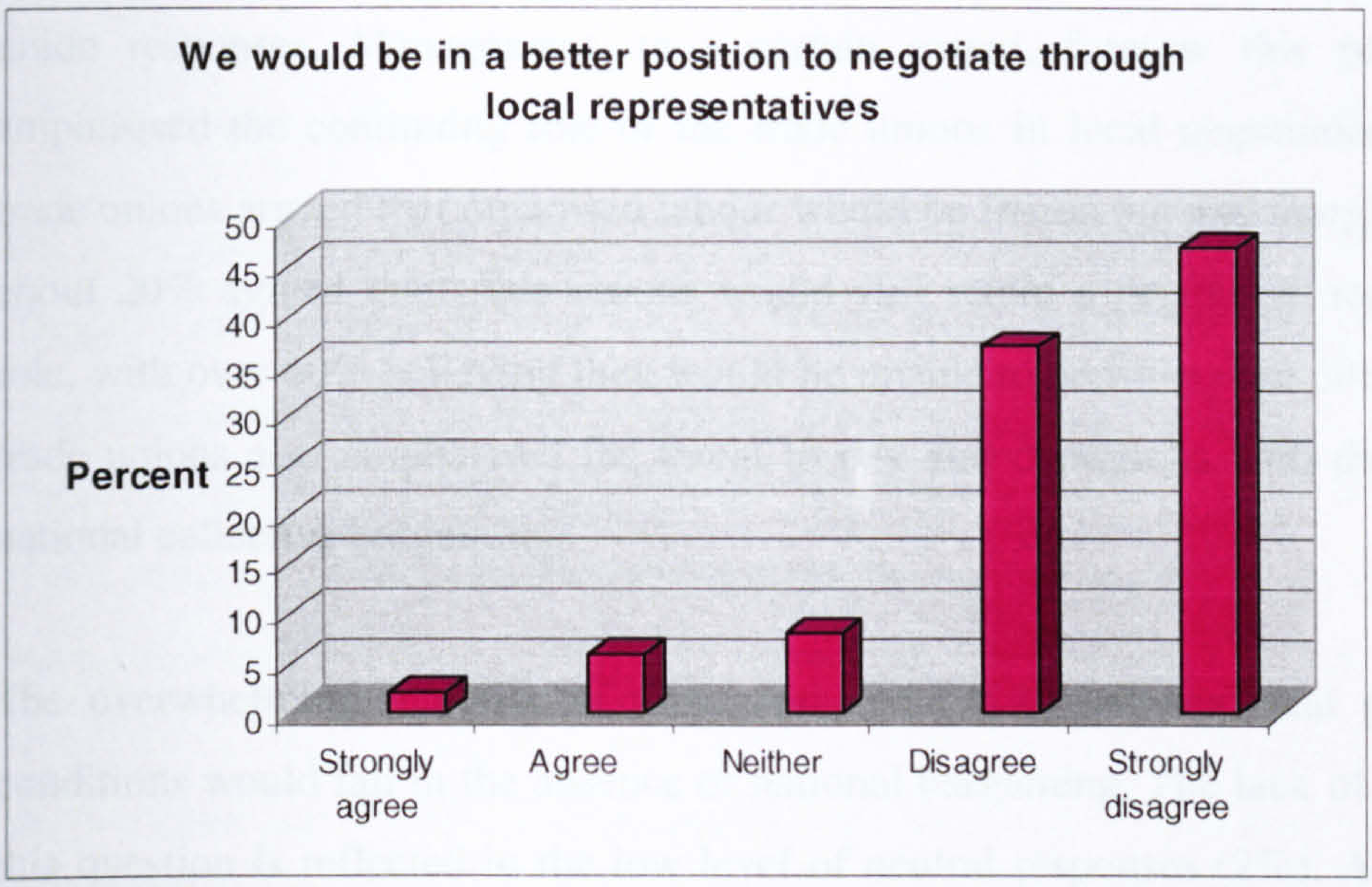
Plain numbers are percentages summed from row total. Parentheses are overall cell frequencies, summed from row total. ** Insufficient cell frequency for Chi square test. All Chi square tests are insignificant at the 0.05 level unless otherwise stated.

The employee responses to this statement are given below in figure 6.5. One of management's key positions in the bargaining debate was that without the impediment of national bargaining, workers would be able to focus on their own business unit. The harsh realities of the marketplace in that particular segment, it was

[43] The unions launched a campaign in the summer of 1996, which included a well-staged lobby of the company AGM, and a number of major publicity and propaganda campaigns. The principal mover was the TGWU, and other general unions. The AEEU though supporting the campaign, had already accepted the principle of business unit bargaining at outsourced subsidiaries, and the NJC was increasingly being marginalised by business unit level negotiations. The NJC has since been abolished, although other levels such as the National Sectional Panels (NSPs) have been preserved. The NJC's replacement, the BA Forum, has no negotiating role, although the NSPs remain powerful organs of national level collective bargaining.

argued, should drive pay and conditions rather than national level negotiations. Figure 6.5 below sought views on the introduction of business unit based bargaining.

Figure 6.5 Perceptions of The Abolition of National Bargaining



The high level of disagreement from this view would suggest that management's message about independent business units has not been well received among the unionised workforce. Less than 10% accorded agreement with the statement and the low level of neutrality/indifference is a further indication of strength of feeling. The response to another statement **(BARTHRE)** may provide some clues to this. The trade unions responded to management's advocacy of local or 'business unit bargaining' by highlighting the isolation, which would result. Management, they argued, would use the threat of contracting out and franchising to secure agreement to any change they felt necessary, whilst there would be no national organisation to co-ordinate resistance.

6.4.2 *Trade Union and Management: The Battle for Hearts and Minds*

The high level of agreement with the statement, that 'without co-ordinated national bargaining, employees would be constantly under threat' indicates the success of trade union responses. Management, to a certain extent, foresaw this perception and emphasised the continuing role of the trade unions in local negotiations. Again the trade unions argued that organised labour would be frozen out and marginalised. Only about 20% agreed that trade unions would still retain a prominent representational role, with over 60% believing they would be unable to perform their current role. The trade unions also emphasised the threat to pay and conditions with the abolition of national collective bargaining.

The overwhelming majority of those sampled (95%) believed that pay rates and conditions would fall in the absence of national bargaining. The lack of ambiguity on this question is reflected in the low level of neutral responses (2%). Another factor, which has often emerged from the bargaining debate, is the extent to which local managers and workers might share in the risks and rewards of their own business. Management's emphasis on segmentation into product areas has provoked a great deal of insecurity from workers across the airline who are unsure whether their part of the operation in a standalone sense would be profitable enough to maintain existing pay and conditions.

One possible way in which management might overcome this suspicion and unease is through the introduction of greater employee participation, perhaps involving Management/Employee Buy Outs (MEBOS) and Employee Share Ownership Programmes (ESOP). Management and analysts have been the main advocates of this view and trade unions have been largely critical, arguing that workers would be forced into concessions with little real prospect of reward. In fact, BA is adamantly opposed at the moment to the use of ESOP within the business, believing it would lead to conflict and a dilution of shareholder interests.[44] Evidence from the United States suggests the policy is also responsible for a great deal of inter-union conflict.

[44] The pilots union BALPA is actively pursuing an ESOP programme with BA, and is much more positive towards the issue than general unions like the TGWU.

(Walsh 1994: 126.) However, one of the strategies in promoting bargaining reform has involved alluding to increased employee involvement. The questionnaire revealed that only 17% of employees actually believed that they would become more involved in this way.

6.5 Employee Attitudes: Wider Issues

The preliminary findings point to a high level of scepticism and anxiety about the effects of deregulation on employment. Whilst management has sought to engineer a culture of acceptance of change among employees, there is often a feeling among employees that 'change has gone too far' or is for 'change's sake'. This feeling comes across in many of the written comments on the questionnaire. Many employees feel that a profitable and successful airline should not ask employees to bear the burden of deregulatory change. Employee comments were invited in the questionnaire and these provide some interesting observations. A selection of such comments is given below. These comments related both to employment policies and to company strategy and practice. One ground-handling employee complained:

> "Since privatisation, BA has followed a year on year programme of segregation and off-loading of certain key elements and performance areas bringing us to this point in time whereby a massive cost-cutting package is BA's next target in reducing costs and increasing profits. Employees will instead of feeling proud and happy to have worked for BA, now be feeling robbed and cheated working for a franchise or subsidiary company."[45]

6.5.1 *Employee Perceptions of Shareholder Orientation and Short Termism.*

A common complaint concerned the shareholder orientation of BA management. A privatisation success of the 1980s, BA has always prided itself on delivering 'shareholder value'. Perhaps influenced by recent debates on stakeholding and employee involvement, employees, many themselves shareholders, object to a narrow shareholder orientation. The following comment is typical:

[45] Employee comments questionnaire

"As a union member I feel the board should listen to workforce ideas instead of trying to please the shareholder at any cost to the labour force."[46]

A common issue was the perceived effect on morale amongst employees who felt they were being subjected to constant and disruptive change. An employee articulated the fears and concerns of many, and also their hostility towards management whom they perceived to be insulated from those effects:

"Staff are the human cost in this search to please shareholders and the City of London, while the staff get poorer working conditions and pay, the directors get richer i.e. their pay and conditions, share options etc. This trend (changes in employment terms) makes your whole life unstable and takes away your ability to plan for the future. The feeling of insecurity is a terrible strain on life and relationships."

Often this was ascribed to a prioritisation of shareholder value over employee commitment. Another Heathrow based ground handling employee wrote:

"The company no longer respects or appreciates the hard work put in by employees...the general feeling at the present time, is the company couldn't care less for its employees only it's shareholders."[47]

One pilot paraphrased the views of a famous 'quality of workforce' guru in advice to company Chief Executive Robert Ayling:

"He would do well to read the works of Dr. Edwards Demming: Quality is more important than saving a few bob. Cheap labour = lower quality, lower morale and a poorer quality product to the customer. An engineer employed by BA itself will cost a bit more than one hired on the cheapest rates outside the company, but the quality of work on one flight (due to motivation, morale, pride in company etc. alone) will pay the difference, and it will bring the customer back next time."[48]

Another employee within ground handling articulated the same point. He also highlighted the paradoxical effect on shareholder value of such employment policies:

[46] Employee comments questionnaire
[47] Employee comments questionnaire
[48] Employee comments questionnaire

> "Employment policies have changed to the point that they promote mistrust and are destabilising attitudes to work. Instead of concentrating on your job, you (are preoccupied with) fear for your job, family and way of life. None of this can be good for the company. BA no longer cares for its employees, which in the long run will force conflict to the point that the airline's money base, i.e. share price etc. will be badly damaged."[49]

6.5.2 *Cost Reduction in Crisis and Calm: The Perceptions and Beliefs of Employees*

Most employees sampled accepted the need for cost reductions and increased productivity, but a common complaint was the manner in which change was introduced. Many complained of a lack of consultation. Several respondents referred to "only reading about changes to your own job in the papers."[50] Others complained of a lack of concern from BA managers of the 'human impact' of employment changes. This finding would accord with the perception now widely held among many staff of management arrogance and high-handedness, a factor which was said to be crucial in the propaganda battle between management and the TGWU in the cabin crew strike of Summer 1997. The dispute has been ascribed to a breakdown in trust between BA and its employees (Milne Financial Times 14.7.97).

The following comment from a ground services worker at Heathrow was fairly typical:

> "In general, I think staff are aware of the need to reduce costs and increase productivity. What happens in the real world is that staff are not consulted but dictated to by both management and trade union. I feel it is time to find a way in which the company can talk to staff in an open and honest way without a hidden agenda."[51]

It is interesting that the respondent cites both trade union and management as complicit in the perceived problem of 'lack of consultation'. BA management may well argue that the employment changes they wish to effect are necessary in the longer term for survival in an industry characterised by famine and feast. Although there is at least an acceptance by staff of the need for change, scepticism does point to at least a lack of staff accord with the way in which change is managed. In many

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[49] Employee comments questionnaire (author's words in brackets)
[50] Employee comments questionnaire
[51] Employee comments questionnaire

ways BA is experiencing the problem identified by Hopfl et al of reconciling staff commitment and organisational change. (1992: 24-38.) These authors conducted a climate survey during the autumn of 1991 in the wake of BA's 'Gap closure programme'. This cost cutting initiative was implemented to 'close the gap' between revenues and costs and involved the disposal of 4,500 staff and the temporary layoff of some 2,000. Gap closure was one of the most painful episodes of corporate restructuring in the airline industry. The survey concluded that employees had not seen this traumatic period of downsizing as a betrayal of company values promoted in the 1980s. (Ibid. 29)

The divergence between the Hopfl et al survey and the initial findings of this survey present an interesting conundrum. How do we explain the hostility and disaffection apparent within this sample of BA staff, and their findings in 1992? Furthermore, what if anything does it tell us about the effects of deregulation upon employment generally? In terms of methodology, this study provides a comprehensive survey of unionised employee attitudes, whilst the earlier study examined the process of restructuring at the corporate level, mainly by observing cultural change and the actions of managers. The Hopfl et al study was interview based. They came to the conclusion that most employees, whilst reluctant to accept job cuts and lay-offs, understood the need for such change. The ad hoc and crisis nature of the 1991 episode was apparent, as the Gulf War had effectively killed off international air travel for a period. (ATW March 1990.) A crisis situation, which was obvious to the workforce, allowed radical cost surgery with reluctant union support.

The present day situation is radically different. Airlines, such as BA, in pursuing their global strategies, are asking staff to accept ongoing and relentless cost reductions at a time when the airline is profitable. Staff are much less amenable to such demands. Furthermore, whilst in the wake of 1991, the carrier began to implement its deregulation strategy, inaugurating regional operations, acquiring stakes in European carriers, and pushing for changes in the bargaining machinery, it is now clear that the company wants to go much further. Policies of global and local outsourcing, extended use of franchising and code sharing, greater proliferation of atypical contracts and demands, pay restructuring for cabin crew and general calls for much greater flexibility have all been prominent.

The carrier has become much more forceful in demanding changes to work rules and conditions. As the recent call for staff cost reductions in the order of £1.5Bn (BEP) indicates, the carrier is determined to alter employee terms and conditions to fit business needs. These employment changes, designed to obtain cost leadership rather than survival, are not as well understood or accepted by employees, who see a profitable and healthy airline offloading the burden of change to its staff. Pilots in balloting for strike action in July 1996 indicated their own disaffection with this new culture of constant cost reduction. BALPA secured a huge mandate (94%) for strike action. A strike was only narrowly avoided. As this initial analysis suggests, management determination to deliver ongoing reductions in labour costs has met further employee opposition with the summer strikes of cabin crew and ground staff. Management has been developing contingency plans to deal with strike action by ground handling staff. Managers were recently trained at a Ministry of Defence facility ostensibly to replace striking baggage handlers (Independent 16.1.97). Management has been reluctant to negotiate on changes which they see as necessary for business survival. One issue of the company's house magazine, BA News, pointed to dire consequences if cabin crew pay restructuring and the outsourcing of catering did not take place (BA News 27.6.97). At the same time the company entered into a compact with the pilots' union, BALPA, which seemed designed to cultivate the pilots as the most potentially powerful labour grouping. (Taylor; Financial Times July 4 1996.) Pilots are looking enviously across the Atlantic towards the United and Northwest Employee Share Ownership Programmes (ESOPs) whereby the carrier has traded equity and worker representation on the company board for significant concessions.

Many written comments in the questionnaire refer to an obsession with shareholder value often stating a desire for some kind of employee participation. There are indications, however, that BA is hostile to the notion of further worker participation of this sort. The company believes in employee share options as an incentive and discipline for its workforce but is unconvinced about the viability of an ESOP type deal. Yet in the written comments from the questionnaire, many workers openly advocate the use of an ESOP as a way in which they might be bought in to major changes. These have been the preferred mechanism of restructuring at Air France, United, Northwest, Aer Lingus and a host of other carriers, which have managed to effect large scale restructuring without large-scale industrial action.

Conclusion

The identification of firm level responses implicit within this chapter provides a rich context to wider discussion about deregulation and employment. In particular, the inclusion of employee attitudes, albeit on the basis of a unionised sample, allows some key propositions about deregulation and employment to be tested. We have seen that in general, workers tend to view local initiatives such as regionalisation and increased numerical flexibility, largely negatively, probably because they provide a direct and material manifestation of the effects of deregulation. At the global level the issues becomes less definite. Employees in this sample accord with many of the broader management strategies, but when these are 'operationalised' at the local level, the belief is that jobs and conditions will suffer. The broad view is one of scepticism towards management and a belief that conditions are under attack. Few workers believe management assurances about deregulation and it is viewed as a process of worsening employment conditions.

These perceptions are in line with the existence of the *regulatory overhang* representing a defence of regulated terms and conditions and scepticism about market driven employment change. This determination to defend the core terms and conditions of the regulated era is a constant whether we are considering the regional bases where change (at the time of writing and subsequently), had made the greatest inroads), and at the mainline London locations, where the threat was as readily apparent. It is apparent in every dimension of the questionnaire ranging from the local effects of franchising, outsourcing and low cost strategies, and the globalisation strategies driving the industry. At the time of the survey strong employee resistance was reflected in the defeat of proposals for outsourcing engineering and ground handling, although concessions were made, and the BEP programme made some inroads into regulated terms and conditions. However the fact of the *regulatory overhang* mean that these changes were often superficial and time specific, representing often little more than the periodic downsizing witnessed in other periods.

Having examined the nature of restructuring and employee attitudes at BA, we next address the issues of employment restructuring within Europe where the regulatory overhang is deeper more embedded, and organically linked to a recent history of state ownership and subsidy. The European context is explored in chapter 7.

7

Deregulation and Labour Market Restructuring in the European Airline Industry

7.1 Deregulation and Labour Market Change in Europe: Context and Issues

> "Distressed state airlines in Europe at least, are characterised by very powerful unions and often by a multiplicity of different unions. Their power stems from the ability of almost every specialised group of workers to bring an airline to a halt. The union leaders have traditionally used their power and the threat of strike action to influence management decisions at every level."
> (Doganis 1996: 26.)

In the previous chapter we looked in detail at management strategy and employee attitudes at British Airways. The airline was used as a critical case study of the emerging pattern of employment deregulation within the European airline industry. Building upon this case study we now widen our discussion to look at the process of employment change within the European airline industry. Whilst the picture within British airways was of relatively trouble free restructuring, despite the impact of the high profile cabin crew strike, in the wider European context this is far from the case.

The comments of Professor Rigas Doganis above, an academic economist, made shortly after his resignation in 1996 as chairman of the struggling Greek carrier Olympic, are indicative of the intractable nature of European airline restructuring. They reflect his disenchantment at the power of government and trade unions to frustrate changes he believed were crucial to the airline's very survival. Doganis's comments provide a useful starting point for our assessment of the nature of deregulation and labour market change in Europe (Skapinker 1996). Other airline executives face this problem of managing restructuring in a context of labour unrest. Thus, industrial relations have become a central feature of the airline scene.

Such restructuring episodes and others at Sabena, Alitalia and Iberia seem to confirm the stereotype of European airline unions presented in most of the *rent seeking* literature. The unions are deemed to have become too powerful in defence of both wages and work rules. The wages of airline workers were seen as one of the last bastions of corporatist featherbedding, a product of rent seeking by powerful unions, who kept fares artificially high and pressured governments to preserve their Byzantine work rules, fostering an inefficient industry. Management inertia seemed to bolster the situation and allow unions free reign. This portrait of the situation of airline labour and management very much informed the policy debate around airline deregulation in the Europe up to and including the nineties. (Neven and Röller 1996 933-940.) In many ways, the situation within the European airline industry in the mid to late 1990s conforms to the *labour market restructuring* model of deregulation discussed in chapter 1. The industry was perceived for many years by managers, government and academics to be in dire need of restructuring and labour and industrial relations were often the focus for criticism. In this chapter we will examine how these assumptions, particularly the belief that European airline workers were both over-paid and under productive, came to influence management strategy, and the effect of such strategies upon airline labour.

In order to do this, the chapter addresses four key questions. Firstly, to what extent are labour costs and productivity in Europe, perceived as a problem by airline management in the deregulated environment? Secondly, how are management addressing this perceived problem and thirdly, how is organised labour within the industry responding to these challenges? The fourth and overarching question deals with the extent to which European airline restructuring conforms to the models of labour market deregulation, described in chapter 1. The chapter also points to a wider convergence addressed in the final chapter.

To address the first question we will examine the evidence on airline pay and productivity within Europe using a variety of sources. Thus we will examine the study conducted by Avmark on behalf of the European Union, which conducted a pay and productivity comparison between Europe and the US. Our second main approach in this section is to review evidence on the so-called airline premium, the additional wage and conditions benefit which has been identified as accruing to airline workers in Europe. (European Union 1994.) Again this involves the use of Avmark, ICAO and UK earnings data in order to provide a fuller picture of the wage premium. Having identified the premium and the massive competitive pressures of the airline environment, we examine how carriers are seeking to reduce costs by targeting premium wage rates.

For the second question, therefore, we will consider the strategies of airline management in securing lower labour costs within the deregulated environment. The strategies of franchising, outsourcing, the creation of internal low cost subsidiaries and the threat from low cost operations are all pivotal in airline strategies.

Thirdly we examine the detailed process of restructuring using several case studies in addition to the BA example. The labour strategies of these European carriers operating within different labour market and industrial relations contexts will be examined, along with labour's response. It will be seen that the extent and depth of management and labour response is very much influenced by the regulatory environment within both the national and supranational context. In order to begin our discussion we need to quickly review the effects of deregulation upon European airlines.

7.1.1 *European Airline Labour: Caught in the Slipstream of Deregulation?*

Whilst many writers have voiced concerns that European airlines faced too many obstacles for effective deregulated competition, a new competitive product and labour market regime is being established. (Poole/CAA1989), Doganis (1994), Hanlon (1996). In many ways, European airline labour has had to adjust over a much shorter time period than airline labour in the United States. (Marin 1998: 903.) The pressures can be attributed to three key factors related to the extent of competition, as liberalisation takes hold bringing a range of competitive threats. Firstly, the threat of 'early adapting' carriers which have managed costs and developed alliance relationships in response to earlier deregulation and now threaten the core business of weaker carriers. These strong competitors can draw traffic away from weaker carriers through their extensive hub and spoke networks and compete on internal routes in most countries. Secondly, a range of low cost entrants threatens incumbents with their ability to compete on price and cost. These carriers expose the high cost base of such carriers and pose a threat to the more dynamic 'early adapting' carriers such as British Airways, SAS, KLM and Lufthansa. Thirdly, flag carrier airlines in most countries have traditionally benefited from state ownership and sponsorship, particularly through subsidy. These subsidies insulated even the most chronically inefficient carrier from the threat of bankruptcy. Now, as states increasingly offload that responsibility and as supranational competition rules render such policies illegal, these carriers must adapt or die. It is the very speed and extent of these processes which threatens the traditional compact between the state and airline labour. The European State has become increasingly concerned at the competitiveness of major industries identifying a significant cost disadvantage with US competitors. It seems appropriate, therefore, to look at these issues of labour costs and productivity to set events in context.

7.1.2 *The Comparative Labour Cost and Productivity Debate*

Europe's airline industry has long been identified as a high cost sector. The diagnosis has come primarily from economists but also from management, and has been driven by a number of key analyses, all of which compare Europe unfavourably with the US (See chapter 4). Most studies, controlling for variables such as route length and aircraft type, have Europe's airline industry as one of high labour cost/low productivity. Earlier analyses such as Windle (1991: 31-49) have been supplemented by later studies such as the work of Neven and Röller (1996: 933-940), Vass (1997: 8), Oum and Yu (1998: chapter 5).[52]

Some econometric studies have attempted to provide a more grounded understanding of the airline industry. Encoua, for example, showed that though in most cases

[52] Seabright P (1997: 509) 'European Airline Deregulation; An Analysis of Productivity and Cost Factors' *European Economic Review.* codes for 'political interference' as though the role of the state were simply to interfere Whilst difficult factors such as the role of the state have to be modelled, the sophistication of systems of the econometric specification is often marred by quite crude assumptions.

deregulation is supposed to lead to short run efficiency gains, it often leads to a short run reduction in efficiency as carriers adjust to the new environment and structure their operation accordingly. This is the case even for 'late adjusting' carriers such as Iberia, Alitalia and Air France. (Encoua 1991: 109-24.) In a later study, Marin found that European airlines were becoming more efficient, identifying a closure of the gap between US and European carriers. (1998: 395-414.) Alamdari also indicates that product market pressures arising from deregulation have rendered European airlines more efficient. (1997:16.) Earlier work by Alamdari and Morell showed that European airlines were achieving significant productivity increases, leading to reduced unit labour costs, although these were sometimes offset by higher wages. (Alamdari and Morell 1997:53.) So whilst labour costs have been seen as an important and even crucial aspect of the European airline restructuring debate, there is evidence to show that European labour costs may be less intractable than many authors have assumed. Other evidence on labour costs provides a more disaggregated picture. In order to examine the issue further we will now look at some such evidence.

Whilst such models are useful in mapping out the terrain of the debate, there is a need for case based and long run data, which provides an understanding of the institutional richness and complexity of the airline industry. Since each airline is governed and regulated by its own unique industrial relations structures and the nature of its airline product market, more often than not real explanation lies within these areas. It is useful to look in some depth at premium wages because their existence informs much of the criticism of European airline labour. What is the scope and nature of the premium? Who receives it and how much, what are the ownership and institutional/national differences? The following section seeks to unpack some of the issues around the air transport premium wage.

7.1.3 *The Avmark Research Evidence on European Airline Labour Costs*

In 1995, Avmark the aviation consultancy, undertook a thorough analysis of labour costs and productivity for the European Union. Using 1993 data due to lags in the publication of later data, they attempted to measure labour cost between the US and

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The state can play a variety of roles and to assume its role is only that of 'political interference' is to

Europe. Though the evidence is time dependent, it provides a useful insight into perceptions of the airline cost and productivity problem, and indeed still shapes much of the latter day policy response. The report was prepared for the European Union *Comité De Sages*, which was then grappling with the problem of European airline restructuring. Avmark's remit was to compare the differences in labour costs between the US and Europe comparing labour costs and the social cost of employment between 1988 and 1992. (Avmark 1993.) The analysis provides a good comparator of later changes in labour cost which can be gleaned from IATA and ICAO productivity data. Absolute levels of labour cost in 1992 (defined in the report as gross salary plus social charges) were found to be $55,067 per employee for European carriers and $52,257 per worker for US carriers, a difference of 5 per cent. European gross salaries were found to be 10 per cent higher than US salaries, but this was offset by the fact that social charges were 9.8 per cent lower. (Ibid.) As the Avmark researchers commented, "The finding that US social charges are above the European average challenges a widely held view in the European aviation industry". (Ibid.) Key labour cost and productivity comparisons are given below in table 7.1

Table 7.1 Change In key Labour Cost and Productivity Indicators USA/Europe 1988-92 Four Year Average)

	Average growth Employees	Average growth Salary costs	Average growth Productivity	Average growth Lab expenses
European Average	1.7%	9.29%	5.08%	-4.28%
US Average	9. 07%	12 .60%	1.19%	-0.34%

Source: Avmark 1995

The performance of US carriers lags that of the European carriers, though some qualifications should be made. Firstly, US carriers have already achieved significant productivity growth in the 1980s rendering relative gains predictably smaller. Secondly, both salary growth and employee growth are higher because the US is at a more advanced stage of deregulation, where there is more job creation. In addition, the effect of wage 'givebacks' may exaggerate the US wage figures. Nevertheless,

adopt a particularly one-dimensional view.

there are signs of a marked improvement in European productivity, a restraint of employment growth and a reduction in labour expenditure (See also table 7.2). This would suggest initially that attacks on European salaries might exaggerate the airline premium, and that wages are seen as a recurring cost factor, which has to be driven down.

It is also interesting to use the data to compare the performances of different European carriers; in particular we should consider both productivity and wage/employment growth. At Lufthansa, employment growth was double that of productivity. Iberia was long seen as one the most inefficient carriers in terms of overall productivity, yet it managed to increase productivity by 5 per cent (just above average) whilst holding employment growth below average at 1 per cent. Aer Lingus, another carrier whose record on productivity has been criticised, was able to achieve a decrease in employment of 3-4 per cent whilst productivity increased by 8 per cent. The reasons for differing performance are complex and effects such as the margin for improvement should be taken into account. Nevertheless, the data does show that growth in employment was being carefully restrained whilst productivity was increasing. This at a time when European airlines were only beginning to emerge from state control and beginning to restructure. The comparison with US carriers below throws some further light on the extent to which European carriers were beginning the process of labour market adjustment. The country data and the comparison data were computed using the Avmark data.

Table 7.2 Change In Key Labour Cost and Productivity Indicators for Selected European Carriers 1988-1992

Carrier	Average % growth	Average % growth	Average % growth	Average % growth
	Employees	Salaries	Productivity	Labour expenses
Aer Lingus	-3.57	2.3	7.76	-7.69
Air France	4.10	10.84	1.52	-5.87
Alitalia	0.38	13.52	7.64	-5.51
British Airways	-0.63	6.97	6.91	-0.15
Iberia	1.29	10.43	5.18	3.54
KLM	1.87	2.75	6.41	-7.15
Lufthansa	5.69	11.67	2.92	- 0.97
SAS	-2.42	6. 86	6. 69	-1.57
Swissair	0.35	6.87	4.89	0.12
TAP	3.82	15.74	3.11	0.64

Source: Avmark 1995

Whilst change is proceeding in European airlines, it is often argued that wages and benefits are still large in comparison to external industries. Faced by falling yields and increased competition, management is targeting airline wages. Airline workers have traditionally been paid premium wages for comparable jobs, the so-called Airline Wage Premium (AWP). (See Dooley 1989: 169-190.) is the difference between the the earnings of airline workers and those in comparable non airline jobs. The AWP is usually expressed as a ratio over national salaries. In 1992 the report of the *Comité De Sages* identified a significant premium within Europe in 1992 in terms of average national earnings, as table 7.3 indicates.

Table 7.3 Comparisons of the Airline Wage Premium: Europe and USA 1992

Europe	AWP	USA	AWP
Portugal (TAP)	2.8	Delta	1.1
Italy (Alitalia)	1.7	US Air	1.0
Germany (Lufthansa)	1.5	United	1.0
Spain (Iberia)	1.3	American	1.0
UK (British Airways)	1.2	Southwest	0.9
Scandinavia (SAS)	1.1	Continental	0.8
France (Air France)	1.0		
Ireland (Aer Lingus)	0.9		
Netherlands (KLM)	0. 9		
Switzerland (Swissair)	0.9		
UK (Virgin)	0.9		
Austria (Lauda Air)	0.8		
UK (British Midland)	0.7		
European Big Six Average	**1.1**	**US Big Six Average**	**1.0**

Source: calculated from Avmark 1995

The 1992 comparison for example identified a European AWP effect of as much as 1.1. In other words, airline employment brought up to 10 per cent higher relative earnings than in outside industry. Part of the reason for this differential is the mix of relatively high earning occupations within the industry. Pilots and skilled technicians, whose earnings are, in any case, higher, are bound to inflate such comparisons. (Avmark 1993.)

However within relatively low skilled grades such as cabin crew there is significant variation between different airlines, often reflecting the varied national and institutional contexts.

Table 7.4 Cabin Crew Salaries Europe and USA.

Cabin Crew Salaries In Europe $US 1975-1997					
	1975	**1980**	**1985**	**1995**	**1997**
Sabena	19,862	20,705	23,868	32,776	*37,372
Air France	13,135	25,191	19,257	68,809a	*37,372
Lufthansa	14,914	29,889	23,318	59,131	*37,372
Aer Lingus	5,929	10,721	16,632	32,776	37,372
Alitalia	14,727	36,261	23,199	32,776	37,372
KLM	8,607	30,044	23,595	32,776	37,372
TAP	8,908	15,084	14,763	44,233	41,784
SAS	15,188	23,913	23,199	60,486	60,224
Iberia	14,683	25,737	23,199	68,122	61,695
Swissair	8,607	28,632	24,540	32,776	37,372
British Airways	6,407	15,870	14,181	29,550	29,957
British Midland	3,035	10,971	10,689	21,221	28,860
Air UK	8,607	7,430	23,199	32,776	17,535
Virgin	----	----	9,887	19,283	19,242
American	12,070	18,236	26,765	29,036	33,995
US Air	13,379	18,936	29,657	34,996	36,501
Continental	8,607	18,372	16,194	27,203	34,292
Delta	13,315	18,934	28,703	29,985	34,952
Northwest	8,936	18,881	27,541	30,927	29,975
TWA	11,287	21,302	34,316	26,751	24,569
United	10,114	21,251	27,293	43,496	32,257
Mean	**8,607**	**21,821**	**23,199**	**36,053**	**37,372**
INDEX 1980	**39**	**100**	**106**	**165**	**171**
INDEX 1985	**37**	**94**	**100**	**155**	**161**

Source: ICAO Fleet and Personnel Statistics (selected years)

*estimated from high wage mean

The cabin crew salary comparison provided above in table 7.4 demonstrates the wide variation between different nations and shows a definite ownership effect. The index shows a slowing of earnings growth since 1995. However it also shows that even within highly paid state carriers cabin crew earnings are coming under pressure. Carriers such as Iberia, SAS and TAP who continue to lead the field in cabin crew salaries have suffered real reductions. Iberia cabin crew earnings have declined by 10 per cent in absolute terms between 1995 and 1997. There has also been a fall in earnings at the US carriers TWA and Northwest, where cabin crew have undergone significant pay restructuring. Only the privatised airlines have registered significant increases, although they start from a much lower position than the flag carriers.

As the cabin crew comparison indicates there is a significant 'Southern European effect.' A 1994 analysis identified a significant premium within carriers such as Alitalia, Iberia, and TAP. Their combined AWP effect at 1.9:1 is twice that of average national salaries. The AWP seems to be higher for state carriers, but only just, though there are outliers such as TAP, where airline workers on average earn nearly two and a half times as much as those in other industries. This perhaps explains the eagerness of management at these carriers and others such as Sabena and Iberia for drastic cost containment. In addition, there is a large gap between the AWP levels for private (0.9:1) and state-controlled carriers (1.7:1). This differential suggests that for this sample of carriers at least, state ownership is a significant predictor of higher overall compensation levels (though this level is by no means uniform). Initial analysis also suggests that there is an institutional effect related to the nature of ownership. Those carriers, such as British Airways, KLM and SAS, which have been privatised have average combined AWP of 1 (i.e. airline workers' salaries are about the same as the national average). However in certain functions such as ground handling and unskilled maintenance jobs BA workers are paid significantly more.

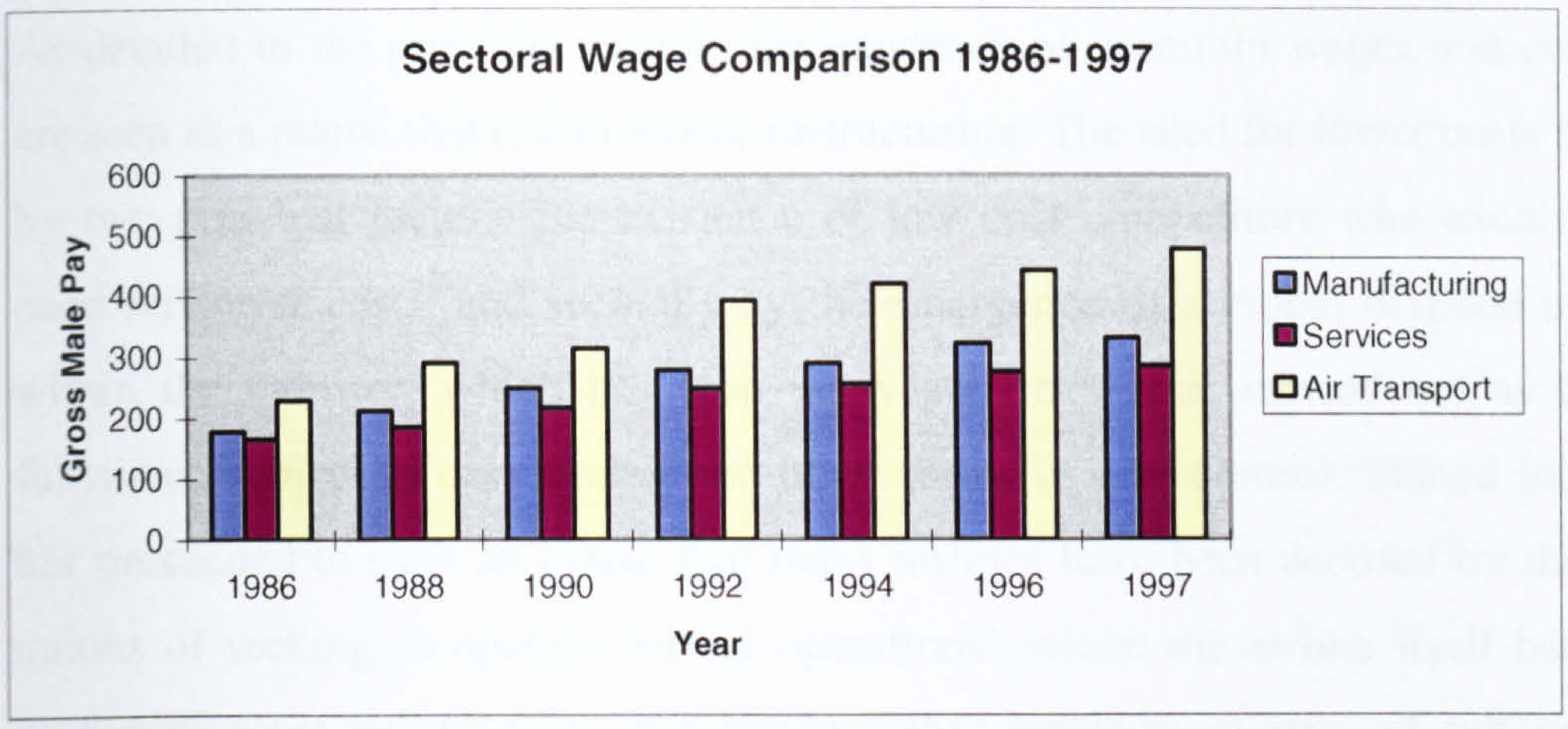
The survey in chapter 6 indicated the extent to which workers identified this regulated wage and conditions premium, indicating the scope, even after 13 years of private ownership, for reduction. From that point of view, average comparisons can be misleading. Interestingly, those airlines, which have never been in public ownership, had an AWP around 20 per cent lower than those who had previously been state owned. This provides evidence for the concept of a 'regulatory overhang' in terms of the previous regulation/state ownership of the industry, indicating that even after privatisation, wages continue to outstrip those of exclusively private competitors. Vass identifies a productivity factor of 32 per cent attributable to ownership. (Vass 1997: 26.) The importance to our discussion of the AWP is that a perception exists among airline executives that costs can be reduced relatively easily because a surplus exists. (Neven and Röller 1996: 933-940.) Thus, managers can be expected to pursue reductions in wages and benefits, particularly in the high cost carriers. There is a counter perception among airline employees that airline wage premia are an expected component of the employment package of large airlines, promoting resistance to any erosion, as we have seen in chapters 5 and 6 in the case of British Airways. Though the airline wage premium is given as an aggregate figure in the research literature, it is worthwhile comparing airline earnings with national salaries, in order to determine its extent. This is the task of the next section, which will compare wages in air transport with other sectors in order to provide a deeper look at the premium.

7.1.4 *The UK Air Transport Wage Premium*

Even within more deregulated labour markets such as the UK, airline workers have tended to preserve pay and conditions. The *New Earnings Survey* provides useful comparative information on the nature of this premium within the UK. (Dept Employment/ONS 1984-96.) Air transport wages were analysed and compared with wages prevailing in manufacturing over the tenyear period between 1986 and 1996. Although the data are disaggregated and it is difficult to obtain occupational data at the appropriate time periods, it gives a flavour of the overall trend. Figure 7.1 below, indicates the resilience of air transport wages generally, on the basis of gross weekly earnings, again an imperfect measure but one which captures the comparison between different sectors. Whilst we are unable to look at the earnings of particular groups, the data allow comparison between, for example, airline workers in general employment and outside comparators providing a broad picture of comparative trends. In 1986, one year before the privatisation of BA, gross pay for male manual workers in air transport was around 20 per cent higher than in manufacturing, by 1996 and almost ten years of privatisation, that gap had actually widened by around a third.

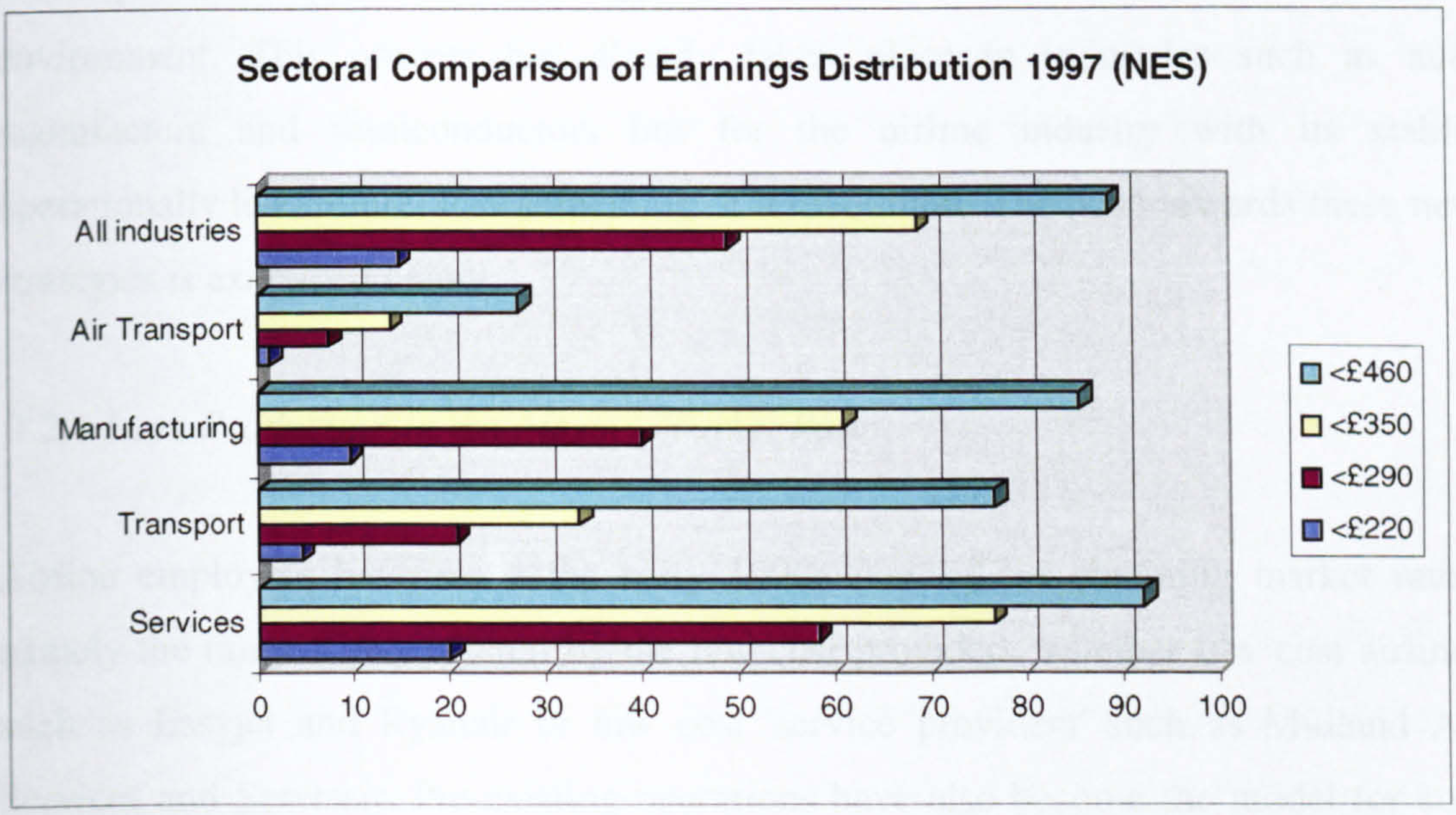
Even in nations where management has been empowered and where the external industrial relations environment is favourable, these higher then average earnings persist and more continue to rise. The wage trends demonstrated above are further amplified when we consider the distribution of wages in air transport in comparison with those in other sectors. It can readily be seen that pay is higher on average within air transport than within other industrial sectors. In 1996, the percentage of the air transport workforce surveyed earning less than £220 was only 66 per cent of that in surface transport. Taking the upper level figure, we can see that the percentage of air transport workers, whose gross earnings fell below £400, was only 40 per cent. It is almost certain that one explanation for this relatively high level of air transport earnings is the distorting effect of outsourcing around certain manual grades such as catering, cleaning and other ancillary services. These areas however are still counted within the air transport category, and the aggregated effect continues to be one of higher earnings in air transport.

Figure 7.1 Earnings Comparison: Air Transport and Other Sectors



Source: Calculated from *New Earnings Survey* (inclusive years)

Figure 7.2 Earnings Distribution Comparison: Air Transport and Other Sectors



Source: Calculated from *New Earnings Survey* (inclusive years). (Horizontal axis denotes % of sampled workers within sector in pay band.)

With demonstrably higher wages in air transport than in the comparable service sector, it is little wonder that airline managers have embarked on a concerted policy of cost reduction as they face a fiercely competitive environment.

7.2 Targeting Labour: Management Strategy In the European Airline Industry

As detailed in the previous section, the existence of premium wages and conditions are seen as a major obstacle to airline restructuring. The need for lower costs is driven by two principal factors, the existence of low cost competitors who exemplify the need for lower costs, and secondly by the emergence of a global division of labour within the industry, which has seen many activities once carried out as in-house functions, subject to outsourcing and other forms of cost control. Indeed innovation has proceeded to such an extent that many airlines have been accused by their trade unions of seeking to operate 'virtual operations', where the airline itself becomes a marketing asset, selling seats, and leaving other inputs to an array of subcontractors and franchisees. Whilst the industry is far from that model, the existence of low cost innovation, and the threat of consolidation has forced a re-examination of the airline industry's entire production strategy, in order to meet the demands of the new environment. This process has already taken place in industries such as auto manufacture and semiconductors but for the airline industry with its stable, operationally led culture, it is something of a revolution. The push towards these new strategies is examined below.

7.2.1 *Lean Production In the Air and Market Rates*

Airline employers have since the early 1990s focused on obtaining market rates; namely the rates of pay offered by the low cost providers, whether low cost airlines such as Easyjet and Ryanair or low cost 'service providers' such as Midland Air Services and Servisair. Pre-existing operations have also become the model for cost reduction, such as the charter sector demonstrates.[53] (See also chapter 3.) Easyjet, for

[53] The marginal operating costs of the charter type service providers are low. They tend to pay wages below those of the scheduled operators, tend to have greater flexibility of employment, lower general overheads and much higher utilisation of both labour and capital (Doganis 1994: Chap 7). The charter carriers subcontract most support services, as they are necessarily seasonal in nature. These cost

example, has tended to subcontract aircraft and pilots from other carriers. Its marketing operation is based on the successful telesales concepts pioneered by financial services firms such as Direct Line, with a lean back office operation. Cabin crews are recruited from 'non traditional sources' and wear casual uniforms, deliberately breaking with the 'stuffy' dress code of scheduled airlines. Check in staff are subcontracted as are ground staff. (Feldman 1997: 23.) Low cost carriers exercise just as much of an impact upon employment as they do on fares as the US experience has shown. The recent entrant low cost carriers such as Easyjet, Ryanair, and Virgin Express provide ready labour cost comparisons for major airlines, particularly on short-stage length low yield routes. On these routes, labour intensity is highest and labour costs are most crucial. (Perreira/ILO 1996 1-29.) Low cost airlines are not the only threat to airline labour, there is a simultaneous impact from low cost service providers; this is discussed in the following section.

In labour intensive areas such as ground services, labour costs typically account for some 63-78% of overall costs. (British Airways 1996.) With relatively high 'national' rates resulting from national bargaining, there is considerable scope for wage reductions. In countries such as the UK, Netherlands and Ireland liberalisation of such services has already placed downward pressure on the airline premium. BA has already started to apply low cost strategies to ground handling. Two tier wage rates have been introduced in mainline and regional operations have been forced to offer concessions. All the while, senior workers have had their pay and conditions protected, in the belief that natural wastage will flatten pay scales and deliver a lower cost structure in time. In 1996, BA identified the need for savings of £7.5 million in ground handling to achieve competitiveness. The airline faces competition from rival ground handling contractors such as Servisair/Midland Air Services. The projected cost gap, for example, between BA at current wage rates, was estimated variously at between 6 and 9 million pounds. To give an example of this cost gap, at Glasgow, Servisair's cost structure is nearly one third lower than BA. Other providers such as Northwest Airlines have costs in terms of salaries, pensions, and overtime rules that are 40 per cent lower than those of BA.

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structures are reflected in new entrant carriers, who seek to emulate the charter operators but because of the nature of their operations are still relatively high cost by comparison. (Feldman 1996: 16.)

Whilst the UK has seen fierce competition in the area of service provision, the existence of local ground handling monopolies has protected labour conditions at other European airports. Cost comparisons indicate that at airports where there are more than two ground handling companies, costs are markedly lower, as occurs in the UK. (Stockman 1996: 53.) In response to ever increasing demands from airlines for lower costs, the European Union has recently undertaken a major initiative to deregulate airport ground handling, where costs are seen as an obstacle to market entry. (Parry 1996: 62, also chapter 8.) Increasing regulatory intervention in areas such as ground handling is premised upon the need for fair competition, but undoubtedly helps airlines to manage and control labour costs. (See Bonassies 1996: 4-8.) The combined effects of both low cost operations and the threat of external providers in areas like ground handling are supplemented by another threat to airline conditions, namely the proliferation of franchising and outsourcing. In the next section, we look at these trends.

7.2.2 *Making the Local Global. Outsourcing and Franchising Strategies in Core Service Provision*

In order to appreciate the pressures on airlines and their labour forces, it is worth looking at some common strategic approaches used by management to assess their position within the global industry structure. One such approach is typified below in Table 7.5. This McKinsey analysis points to three emerging carrier types: the 'network manager', the 'capacity provider' and the 'service provider.'

Table 7.5 Airline Types and Strategies After Deregulation

TYPE	FUNCTION	SUCCESS FACTORS	EXEMPLARS
Network Manager	To integrate a network of services based on marketing whilst purchasing both flying and non flying services from other providers or suppliers	Access to global network, with major hub domination etc.	BA, Air France, Lufthansa
Capacity Provider	To provide 'non core' flight operations (e.g. low yield, secondary operations). To provide low cost services on an ad hoc basis. To provide crew and other resources	Lower costs than network manager, operational flexibility, spare capacity or ability to procure it	Manx, Maersk, Brymon (BA), Viva Air (Iberia), Transavia (KLM), City express, Condor (Lufthansa)
Service Provider	To provide 'non core' services, such as cleaning, catering and maintenance	Low cost base (often 30% below airlines)	Dobbs, Aviation Catering, OCS cleaning, MAS handling

Source: Adapted from McKinsey Avmark Report 1995

The trend is towards 'network managers' subcontracting aircraft and crews from "capacity providers." The anticipated replacement subcontracting of low yield services has not been much in evidence recently. This is probably because of the lead provided by 'network manager' type carriers such as British Airways and Lufthansa. Rather than subcontract low yield regional services, these carriers have created low cost subsidiaries within their own operations or have vertically integrated smaller operators into franchise type arrangements. In table 7.6 below, the employment options implicit in the transition from a regulated to deregulated environment are described. Most of the options described are already in progress as carriers seek to reduce costs to an absolute minimum.[54] Engineering, catering, cleaning, ramp services and ground handling have all been subjected to outsourcing in recent years. Airlines increasingly view such services as peripheral to their core operations.[55]

Table 7.6 Labour Implications of Post Deregulation Strategy (Source McKinsey/Avmark)

FLAG CARRIERS	PREVIOUS EMPLOYMENT SITUATION	EMERGING EMPLOYMENT TREND
Flight Operations	National level basic contract for all crew regardless of aircraft type	Access to low cost crew pool for smaller aircraft
Technical Maintenance	In house maintenance at home base, by national carrier, national union contract	Inter-carrier co-operation allows specialisation and scale subcontracting to third party increasing use of low cost maintenance bases. Concentration of large-scale maintenance in regional bases to take advantage of regional pay differentials and labour pools
Apron Services (catering cleaning, servicing)	Monopoly at hub, with 'expensive' union contract for staff with national carrier	Entry of low cost providers with European scale
Ground Handling	As above	Entry of third party handlers, with low wage costs (MAS)
Data Processing	Performed in house	Subject to JVs with other airlines and third parties
Marketing	In house, centralised, unsophisticated	New focus on telemarketing/relationship marketing, yield management etc. Performed at low cost centres (Glasgow, Newcastle). Increasing use of remote sourcing for technical functions (debugging, software etc.) (BA, Bombay)

Source: McKinsey/ Avmark

[54] See chapter 7 for a detailed rationale of the need for cost reduction as perceived by management.

[55] Trade unions and others challenge much of the view on the peripherality of support functions but the consultants seem to be fuelling a move toward the outsourcing of engineering and maintenance. Nevertheless, BA's stated intention to outsource engineering was challenged by consultant advice,

Even in engineering, many carriers have preferred to set up arms length subsidiaries such as BA Engineering, Lufthansa Technik and Team Aer Lingus.[56] These operations act as standalone businesses, which provided with 'weaning periods'; to either find 'third party' work, or reduce costs drastically for the main carrier. Other carriers have a much less 'contractual' intention, using outsourcing as a 'cost discovery mechanism' for exclusively 'in house' work. (Smith 1996.) The prospect of reductions in the order of 30 per cent in standard maintenance contracts makes the initial costs worthwhile. (Ibid.) Whilst outsourcing of the type undertaken in engineering is widespread, another issue is the use of benchmarking in order to reduce internal costs. This process is described below with its implications for airline labour.

Airline management have sought to develop strategies which utilise all of these capacities, and which separate functions into areas where they can be delivered at lowest cost. For some airlines this is a means of survival and amounts to the forging of alliances with major airlines and severe cost surgery. An increasing number of carriers, particularly those whose size makes them potential global competitors, have embarked upon a wholesale reappraisal of the business of the airline itself. Should the carrier compete on regional or domestic routes? Should it operate international routes? Should it employ its own low cost carrier to bring down costs? Should the airline outsource 'non core' functions? Most airlines have faced these questions and many have already taken significant steps towards implementation. British Airways, Lufthansa and SAS, which see a realistic chance of achieving a dominant alliance role and a strong regional position, have been foremost in pursuing these strategies. However, we need to be aware also of the institutional constraints and advantages, which apply, leading to differing levels of progress.

7.2.3 *Compulsory Competitive Threatening; Outsourcing Threats and Labour Concessions*

In response to the general product market pressures, many carriers are using the threat of outsourcing to secure major reductions in the wages and conditions of service of

which emphasised the co-ordinational and quality benefits of in house provision. They might also have had one eye on the industrial relations fallout.

[56] Team Aer Lingus was sold to the Danish Engineering group FLS in December 1998.

their workforces. This is quite clear from the BA case in chapters 5 and 6, and has spread to other carriers. KLM considered using contractors for ground handling and the engineering functions. (Airline Business June 1996.) Lufthansa has also established its *Technik* engineering subsidiary, with unions agreeing under the threat to move the function abroad. Operators are increasingly using global outsourcing strategies for 'back office' functions such as telesales and specialist computing. Swissair, for example, moved its reservations function to Mumbai, taking advantage of the huge difference in labour costs, whilst procuring a highly skilled and motivated labour force. (Hill 1995.) British Airways has highly skilled 'de-bugging' technicians located in Delhi at a fraction of UK costs. (Oum and Yu 1998: 64) This migration of airline jobs, however, has not been as widespread as many observers first thought and is mainly confined to specialist technical functions for which recruitment is often difficult. (Oum and Yu 1998: 64.) Although airline management has been adept at benchmarking their current cost structures against those available in low wage nations, the floodgates do not seem to have opened as many unions feared and anticipated. When functions are technically difficult to move abroad, the trend, as exemplified by BA, is for these functions to be compared to low cost domestic providers. Discussing the recent trend towards outsourcing of information technology services, the consultants DPA argued:

> 'Sometimes the real motivation behind outsourcing is to obviate employment protection and labour relation (sic) issues, faced particularly, by European carriers. By outsourcing a particular function, the airline can remove the internal IT personnel from its payroll, thereby reducing social charges.' (Airline Business 1996.)[57]

In functions such as IT, there are whole ranges of other issues allied to the decision to outsource. Certain functions can become profitable standalone businesses on the basis of third party work. The carrier may have limited investment to allocate to new IT initiatives, but many motivations come down to the desire to secure services at market cost. Many carriers have opted for the internalisation approach. That is, they have turned such activities into profit centres. Air France, Swissair and SAS have all undertaken such initiatives. Others have adopted the stand-alone subsidiary approach such as Speedwing (British Airways); and the Lufthansa System subsidiary described

[57] Can You Do IT Better *Airline Business* April 1996.

below. The current view on airline outsourcing points to the provision of services at 60 per cent of in house costs. (Smith 1995: 31.) Within highly technical and skilled functions such as IT where there exists a considerable premium for skilled technical labour, the indications are that the cost reductions are less important. What seems more salient is the obsession which many have with spinning off 'non-core' services. In any case, there has been a major re-evaluation of outsourcing in maintenance as a result of the Valujet disaster in Florida in May 1996.[58] Nevertheless, for the purposes of our analysis, we should accept the airlines' own definition of 'non-core' as summarised by Smith in his analysis of global outsourcing. (Smith: 1995: 56-59.) Analysing European carriers, Smith identifies several carriers that have a high degree of outsourcing. The extent of outsourcing differs across carriers:

Table 7.7 Outsourcing Profile of Selected European Airlines

	Heavy Main	Light Main	Engines	Flight training	Catering	Ground Handling	IT	Cargo
Air France	⌘	⌘	⌘	C	□	C	C	C
British Airways	⌘	⌘	⌘	C	✈	⌘✈□	□	□
Lufthansa	⌘	⌘	⌘	□	⌘	⌘	C	C
Ryanair	✈	✈	✈	✈	✈	✈□	□	⌘

Source: Selected From Wake Smith Airline Business August 1995.
⌘ Captive subsidiary ✈ Outsourced to an independent provider C Internal profit centre □ Internal department.

From table 7.7 above we can see that globalisation strategies effectively require localised action to restrain costs. The phenomenon of *thinking global and acting local* operates as each carrier is then forced into adapting to the decisions of other carriers.

[58] The crash was caused by the loading of oxygen generators into the hold of an aircraft in a clear violation of procedure. As pressurisation took effect these exploded killing all on board. Valujet had carved a reputation as the ultimate 'lean airline' outsourcing virtually all ancillary and support functions. A post-accident safety audit by the FAA found major violations on maintenance procedure. A chain of 11 contractors, many of whom had in turn subcontracted, maintained the aircraft involved in the Everglades crash. The lack of central oversight and control was severely criticised by the National Transportation Safety Board (NTSB) investigation in July 1996. This prompted a rethink among many airlines, and probably increased dramatically the transaction costs of monitoring maintenance contractors. The FAA was criticised for its reluctance to adequately oversee low cost operators; its principal officer forced to resign. The crash raises the question of the contradiction of charging

Given that the majority are employed within the airline's home country, any restructuring must necessarily take account of the industrial relations and wider socio-economic context within that nation. In order to reduce costs it is essential that national impediments to such business strategies be removed. It is often glibly implied that all airlines need to do is to circumvent national industrial relations structures.[59] This is singularly the most difficult objective for airline management, and attempts to do so have resulted in strikes, disruption and problems of staff morale which have ultimately affected the airline product. These issues are addressed in the next section.

7.3 Restructuring and Conflict In the European Airline Industry: Cases and Issues

7.3.1 *Strikes and Disputes*

Whatever the debate about productivity and employment growth, there is clearly a good deal of scope for restructuring within the European airline sector. Management clearly wishes to prepare airlines for the new regulatory environment, whilst employees defend wages, conditions and work practices. Several examples of industrial disputes during the period give an indication of restructuring at the national and airline level. This turn towards conflict can be understood in terms of the withdrawal of state support and the emergence of a new regulatory framework, which has empowered and emboldened management. The balance of bargaining power has shifted in management's favour, as privatisation and deregulation on a global scale increasingly dictate the nature of restructuring. (See Chapter 8.) Labour, though, retains significant bargaining power and influence through national governments and regulators. Thus conflict becomes almost inevitable as management's need for cost reduction collides with the need for trade unions to defend the terms and conditions of their members. In this section, we will look at the incidence of strike action and a detailed description of disputes at a number of carriers. The following data (table 7.5) indicate the extent of strike action within the European airline industry. Gall points to the increasing incidence of strike action to highlight labour resistance. (Gall 1996:

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economic regulators, with their 'productivist' orientation with aspects of safety oversight. (See Woolfson and Beck 1997 for a discussion re the UK offshore oil industry.) (Jennings 1996 : 74.)

255-260.) He argues that strike action was much more widespread in the European airline industry than Warhurst's 1995 analysis indicates (1995: 259-274) and that official records understate the real level of industrial action.

Table 7.8 Strike Incidence In the European Airline Industry 1985-1995

YEAR	NUMBER OF STRIKES	WORKING DAYS LOST
1985	3	14
1986	9	15
1987	19	25
1988	15	22
1989	18	25
1990	5	5
1991	12	12
1992	8	9
1993	3	13
1994	22	23
1995	55	61
Total	169	224

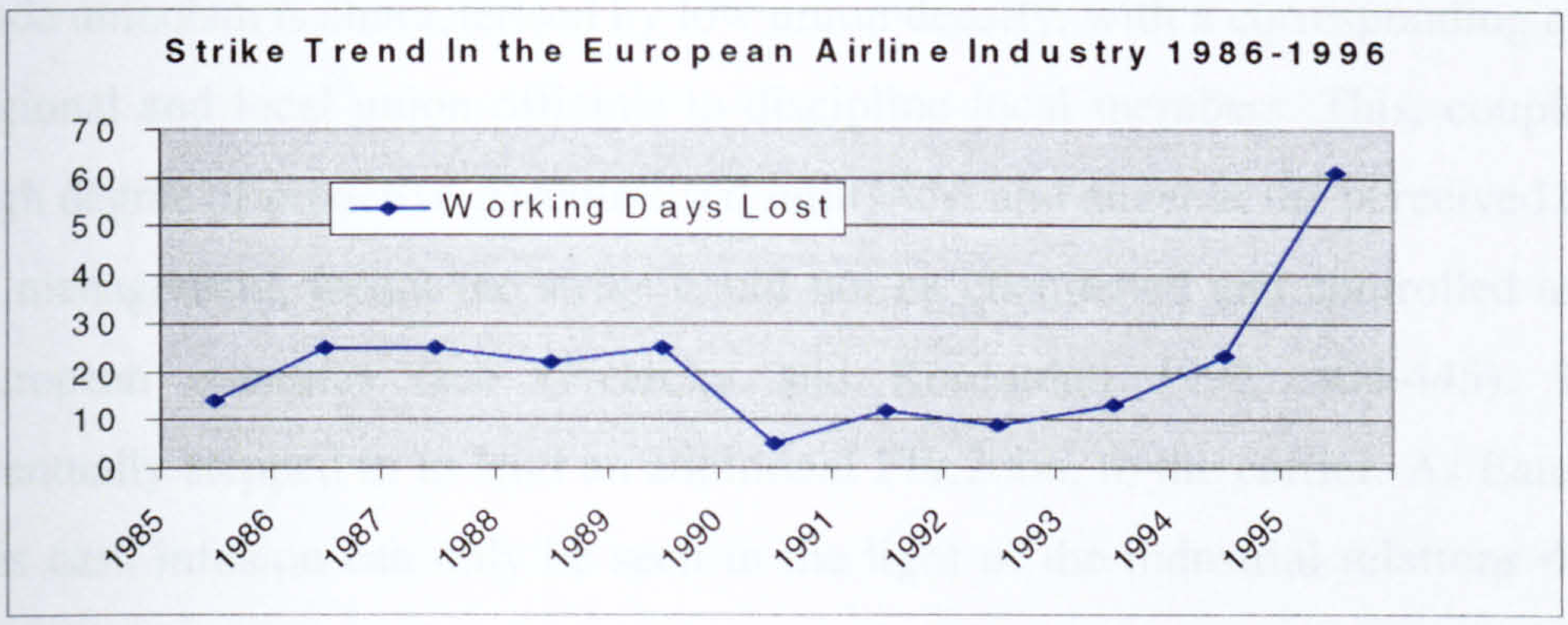
Source: Compiled from Gall (1996) table 1.

Table 7.8 provides the raw data on strike activity in the European airline industry. An upsurge in strike activity in 1994 and 1995, the most acute years of restructuring, is noticeable as can be discerned clearly from figure 7.3. Gall sees the resurgence of strike action within the airline industry from the point of view of *effectiveness*, believing that evidence of an increased incidence of strike action is a manifestation of labour's continued power within the industry. Though this assumption is questionable, it might equally be evidence of the weakness and vulnerability of labour; it reinforces Doganis's point about the disruptive power of airline unions, as figure 7.3 below indicates.

The major upturn in strike activity took place in 1995, which was the high point of restructuring conflict within the industry. However, the high number of strike days is accounted for by a relatively small proportion of the labour force (pilots) and by the effect of continued disputes at both Iberia and Air France. To an extent these levels of strike activity were short-lived, although there is a continued threat of strike action from Air France pilots and cabin crew, as late as 1999.

[59] See Neven and Röller (1996) 'Rent Sharing and Profitability: Evidence From the European Airline Industry' European Economic Review March 1996 (pp 936-940) for an example of this.

Figure 7.3 Strikes In the European Airline Industry



Source: Calculated from Data in Gall (1996 and European Industrial Rlations Rview).

Aggregated strike data however tell us little about the causes, processes, consequences or outcome of strike episodes. In order to obtain detail on these issues, we need to look at a number of case studies from airlines operating under different, regulatory, product market, and industrial relations environments. Having considered British Airways in the previous chapter, this section allows us to gauge the extent to which strikes and unrest at other European carriers were driven by similar concerns. In analysing individual cases of restructuring, we will use the models of labour market restructuring introduced in chapter 1.

7.3.2 *Air France: Under New Management and Old Industrial Relations*

Perhaps the most notorious episode of airline restructuring, and one which attracted a great deal of international interest, was the Air France dispute of 1994. Air France's productivity rate over the period 1988-92 was the poorest by far of the European carriers and its growth in employment among the highest at the time of the dispute, (see table 7.2 above). Much of the conflict can be ascribed to the compressed time scale in which action had to be taken on costs. Under the direction of its flamboyant Chairman, Bernard Attali, the carrier embarked on a deep cost reduction plan, accompanied by massive organisational change. In fact, relatively minor job cuts of 4,000 (6 per cent) were demanded from the manual labour force. However, there were a number of proposals to reduce pay and conditions within powerful sections of the airline's unionised workforce. The strike began within ground services, closing the main domestic airport, Orly, involving runway blockades and open sabotage. The strike was fairly instructive in terms of the French industrial relations system. French trade unionism is characterised by low union density, with a corresponding absence of regional and local union officials to discipline local members. This, coupled with a high degree of proactive decentralised militancy, and anger at the perceived arrogance of management, meant the strike could not be channelled and controlled as in other European countries (see Goetzchy and Rosenblatt 1992: 404-445). The state eventually stepped in to lend an additional FFr.20bn. to the carrier. As Eaton argues, this cash infusion can only be seen in the light of the industrial relations difficulties that ensued. (Eaton 1996: 20-21.) The Air France episode is also a classic case of the *labour market restructuring model* of employment deregulation identified in chapter 1. The high costs and low productivity of the carrier forced government to pursue a drastic restructuring package, by French standards, and compelled management to confront labour costs as the airline's biggest problem.

The action taken by management was, however, tactically naïve, confronting every occupational group simultaneously and concentrating on wage cuts and work intensification, rather than on developing a long-term change programme. The precipitate nature of change, in such a trade union context and within such a strategically important industry, increased the likelihood of a militant response. When workers blocked runways and paralysed both major Paris airports, Bernard Attali was removed and replaced by the public sector executive, Christian Blanc. As in many of the other episodes of restructuring, a high profile manager was unceremoniously removed by government as strikes took place. The nature of Attali's replacement, however, gives some indication that the style of management and its tactical outlook is as important as the overall strategy. Importantly, Blanc was recruited from a public sector unionised environment, the Paris Transport Authority (RATP), and his approach of recognising the long-term nature of restructuring has been markedly different from that of his predecessor. He proposed a new longer term and more tactically astute restructuring initiative, concentrating on two-tier wage rates increased productivity and controlled expansion. This policy of expansion can be contrasted with Attali's policy of retrenchment and contraction and gave unions something at least to negotiate over. The Blanc proposals were only reluctantly accepted by the union side. (Ibid. 20-25.) Industrial action continued at the Air France group of companies with a 24 hour shutdown in the Easter of 1997, a pilot strike in the month of the 1998 World Cup finals and a series of 24 hour strikes in October 1999 - the latest episode. (Chuter 1998: 14, Airline Business (Gill 1998:11.) Strikes and disputes will continue partly because of the fractious nature of trade unionism in the sector, and partly because management, although more tactical, has not relented in the pace of change. Arguably, in a global airline labour market, the pressure on both sides will continue.

Similar divergence between employees and management over the future of the carrier was to be reflected in later disputes at Iberia, Alitalia and British Airways. The dispute at Alitalia is important because it embodied many of the threats to organised airline labour now manifest in the emerging regulatory environment and is analysed below.

7.3.3. *Forza Alitalia! Rapid Restructuring and Labour's Reaction at Alitalia*

In Italy the state faced similar problems in restructuring the national airline, Alitalia. Long part of a complex state transport and utilities monopoly, the airline suffered from a lack of focus, political pressures to duplicate its route structure from the North and South, inefficient fleet planning and a variety of other operational problems. One problem, which was clearly to be tackled, was the issue of staff costs and productivity. The state airline was widely believed to be suffering from poor management, when the Italian-American businessman Robert Schisano, was appointed to arrest the decline in 1996. Schisano instituted a corporate plan, which anticipated large reductions in staffing, wages and the creation of a separate low cost carrier to operate more marginal services. With costs 6 per cent higher than the European average, and labour costs particularly high in relation to competitors, the carrier commenced its plan in the face of union opposition. (Hill 1996: 17.) This focus on labour costs again suggests a *labour market restructuring model.* The perceived strength of organised labour and its ability to capture rents, and protect restrictive work rules, was diagnosed as the major problem. One of the more provocative actions was the rental of replacement aircraft and crews to operate prestigious US flights. This 'wet leasing' enraged the pilots' union, which saw Schisano's move as a direct challenge to their powerful union, ANPAC, which had secured extra high remuneration for transatlantic flight crew. The pilots' opposition led to the resignation of the Chairman and Chief Executive, indicating yet again, the problems of European airline restructuring in the face of union opposition.

The action of pilots over wet leasing and wage cuts, involving a campaign of co-ordinated sickness reporting in lieu of strike action, has already been discussed in chapter 4. At the same time management faced co-ordinated action from ground and cabin crews, over the establishment of a new low cost carrier. Management has only recently secured approval for new working conditions and a low cost carrier christened 'Team' which will operate both European and intercontinental services on a much lower cost base. (Jones 1996: 24-32.) The carrier commenced operations in 1997 and will achieve costs 60 per cent lower than those of the parent carrier. The unions, generally, have agreed to reduce costs by $340 million over four years, with equity and board representation. The ground and cabin crew union (FIT) described their agreement to the deal as born of a desire "to be in a position to discuss how we are privatised and have a say in our future." This is an important point. The unions have effectively been outmanoeuvred, and have succumbed to cost cutting strategies although they have, as so often in the industry, secured the ceremonial scalp of the incumbent CEO. (Ibid.)

Returning to the *labour market restructuring* model three issues strengthened management and forced the hand of the unions. Firstly, the progressive withdrawal of state subsidy and the impending privatisation of the carrier have weakened labour's position. Secondly, the carrier is in a parlous situation in regard to its product market. Alitalia has an inefficient and badly planned fleet, few major routes and the continuing headache of servicing both Rome and Milan with direct international flights. The use of Ansett pilots on 'wet lease' arrangements demonstrated that these routes could be operated and further undermined the pilots and cabin crew bargaining power. An alliance between Alitalia and the US carrier Continental would have minimised the threat to transatlantic flights targeted by union action. Although Continental is much removed from the virulently anti-union carrier it became under Frank Lorenzo, the code-sharing situation would make it difficult for ALPA organised pilots there to take supportive action. Thirdly, Italian public sector workers are involved in a period of concession bargaining in order to protect job security within

Italy. Many of the employment practices common in the vibrant small to medium enterprise sector are being agreed in larger public enterprise. (Hyman and Ferner 1992: 524-681.) These include the extension of part-time working and contracts, cross utilisation and other labour practices, all of which have been accepted at Alitalia. In Alitalia, the pace of change is the major worry for unions. This pace itself is dictated by the market position of the carrier concerned. Few unions have disputed outright the need for some changes. However, in Europe the withdrawal of state subsidy and the onset of globalisation have forced management into 'panic restructuring'. In that situation the process of restructuring was contested and challenged by labour and only when management took drastic or "climactic" action in Turnbull's phrase, (1991: 25) did labour eventually succumb. The contested nature of restructuring in carriers such as Air France and Alitalia and within other carriers such as Iberia, British Airways and Sabena has fuelled the perception that airline labour markets can only be reshaped through confrontation. However in at least one context this course of action was avoided. The final case looks at how restructuring was negotiated at Lufthansa, where the institutions of German industrial relations were used to implement wholesale restructuring with minimal industrial unrest, and where despite this negotiated restructuring the carrier has managed to develop policies of outsourcing and franchising albeit at a slower pace than its rivals, but where arguably it has sought lower cost through the alliance route. The example of Lufthansa is examined below.

7.3.4 *Lufthansa: Negotiated Restructuring?*

Lufthansa commenced restructuring in the autumn of 1990. Wholly state owned at that point, the carrier faced a difficult time as the effects of the Gulf war and increased competition took their toll. The airline also confronted all the 'problems' of existing within the so-called German model of industrial relations, such as the co-determination system and the bargaining power of German industrial unions. (Air Transport World May 1995.) Nevertheless, Lufthansa has been able to engineer a comprehensive restructuring whilst avoiding industrial unrest. How has this been achieved and what are the explanatory factors in such a transition? One analysis has settled on the unique nature of the German industrial relations system, which locks management and unions into seeking high road, or diversified quality production systems of competition. Lehrer argues that Lufthansa has benefited from the constraints of the German industrial relations system to respond to a new era of 'incremental change'. He contends that lifetime employment and consensus decision making support respectively the accumulation skills and equitable sacrifice in restructuring. This, he contends, allows better adaptation to the new airline product and regulatory environment. (Lehrer 1997: 115-140.)

In this view the carrier was forced to adopt a more long term and strategic business policy because the unions on its supervisory board constrained it from pursuing more aggressive short-term policies. The analysis suggests that because it was so constrained, the carrier developed more far-reaching and negotiated solutions to its internal cost problems. Several other factors have to be taken into account before ascribing Lufthansa's less confrontational experience of restructuring to the uniqueness of German industrial relations. Clearly a crucial factor was the carrier's position as flag carrier for Europe's major economy. Given this 'global platform,'[60] Lufthansa was clearly in a strong position. In addition a combination of external and internal factors caused managers to re-assess their entire market position in early 1991. These factors, the arrival of BA in the unified German market through its Deutsche BA subsidiary, re-unification necessitating the painful absorption of the former Eastern flag carrier Interflug[61], and the growing threat of mega carriers from the US, concentrated the minds of both labour and management. Lufthansa had to decide on whether to re-align its international services towards the then growth economies of Eastern Europe and Central Asia. Management viewed their high cost base as problematic. Given the high non-wage costs in Germany, there was an obvious cost disadvantage in competing with the emerging breed of low cost carriers. In addition, the carrier's productivity performance up until 1995 worried managers, especially at the time of the Gulf War in 1991. A cost reduction strategy enacted by Chairman Jurgen Weber failed to lift that performance significantly and Lufthansa

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[60] A global platform is a pre-existing advantage possessed by firms, usually some form of state support or institutional factor. In the airline industry global platforms can be obtained from route networks, whose extensiveness is related to a nations political and diplomatic resources. Other aspects might be favourable labour market institutions allowing flexibility of long-term partnership type arrangements. (See Porter. M: (1986) *The Competitive Advantage of Nations* Harvard 1986 for a full discussion.)

[61] Adjustment required not just an integration of services, but also a strategic re-assessment of the Lufthansa hub network. Should it be centred on Frankfurt as was eventually decided; should Berlin be the source of more international flights? In addition the integration of the Eastern carrier, necessitated the usual wage equalisation agreements witnessed in other industries.

was forced to re-evaluate its entire cost structure.

Table 7.9 Lufthansa Productivity Performance 1987- 1998

Year	Employees	Labour Expenses As % of Turnover
1987	47,150	27.1
1988	49,056	27.9
1989	51,942	30.6
1990	57,567	33.8
1991	61,791	32.4
1992	63,645	33.0
1993	60,514	33.1*
1994	58,044	33.1
1995	57, 586	32.6**
1996	53,218	30.5
1997	24,933	27.3
1998	24,318	26.2

Source: Annual Reports (a) Average Tonne Kilometres*Take-over of Interflug **Commencement of Weber plan

Like British Airways, Lufthansa management chose the route of business units, franchising and internal low cost strategies to reform the structure of the airline. Separate business units were set up for maintenance, information technology and cargo. These operations were not formed on the basis of lower pay rates and inferior conditions. The effect of this on labour costs can be clearly seen from table 7.6, which indicates the shift in labour strategy towards outsourcing, with a corresponding fall in labour costs as a proportion of turnover. The results are entirely due to the removal of subsidiary companies from the overall headcount.

For example, Lufthansa System was established in a joint venture with EDS, the American IT company, to provide computing and reservation system support to Lufthansa. This involved moving the 1,080 people employed by Lufthansa to the new subsidiary. (Ibid.) Given the power of the principal trade unions the ÖTV and DAG, the carrier was unable to separate the subsidiaries from the Lufthansa pay and conditions structure. A similar initiative was undertaken with Lufthansa Technik the maintenance arm. The subsidiaries, however, were expected to become profitable through third party work lessening their dependence on the airline, and to implement the cost reduction initiatives introduced within the airline. There was little concerted change as the carrier prepared for privatisation between 1992 and 1996. However, by autumn 1996, the pace of change set out a plan to achieve cost cuts of $130 million. Central to this initiative was the introduction of a wage freeze for fiscal year 1996-1997 and a plan to increase the amount of foreign-based cabin crew with the benefit of lower wages and conditions. (Jones (1) 1996:18.) There was also a proposal to increase the number of part time and fixed term cabin crew. Lufthansa, facing fierce internal competition for the BA satellite Deutsche BA, felt that it needed similar proportions of staff on atypical contracts. Typically, Deutsche BA had 10 per cent of staff on part-time and 50 per cent on fixed term contracts. Comparable figures for Lufthansa, in Blyton et al's 1998 survey, were respectively 20 per cent and 5 per cent. (Blyton et al 1998b.) In 1994, Lufthansa had almost no staff on part-time contracts. (Lufthansa Annual report 1994.) As well as seeking increased temporal flexibility, the carrier also sought other avenues of labour restructuring. The search for cost reductions included a measure of global outsourcing, with reservations moved to the USA, following carriers like BA and Swissair, with the airline's choice of the US perhaps reflecting the relatively high cost of German based workers.

Like British Airways' Business Efficiency programme, Lufthansa devised a named plan for cost reduction purposes known as 'Programme 15'. The 'Programme 15' initiative aimed at securing a reduction in Available Seat Kilometres (ASKs) per employee of around 12 per cent. (Ibid.) The target is to be realised by the year 2000 and shows the extent to which cost benchmarking pervades the industry. Management literature emphasises the importance of devolving business units in order to reap the benefits of market focus. Cargo exemplifies the policy. Spun out as a 'stand alone' business in January 1995, Lufthansa Cargo was able to re-define its market position. The change in market focus involved the use of Sharjah in the Gulf States as a strategic hub for the Indian subcontinent.

The use of Sharjah has been predicated on its low labour costs. One Lufthansa manager commented that the cost of building a pallet in Sharjah (the main productivity indicator in cargo operations), is 15 per cent of the cost in Frankfurt. (Gallagher 1996: 28-30.) The subsidiary also re-modelled operations around certain strategic hubs, benefiting from specialisation, scale and scope. Thus, the operation followed migrating multinationals such as Siemens and Volkswagen out of Germany as they pursued lower labour costs. As freight yields fall more precipitately than passenger yields, typically by around 3 per cent annually, the management of costs becomes crucial. Lufthansa cargo benefits from lower relative labour costs, as cost cutting and productivity increases are the only road to profitability in such an environment. Thus the carrier is placing more of its workforce on separate union contracts from Lufthansa. Indeed, 'cost transparency' seems to have been the major motivation for the spin off, initially paying a large fixed fee for the possession of Lufthansa passenger aircraft belly space agreements. These measures allowed the cost base to be exposed as never before. Lufthansa negotiated with trade unions, a requirement given the German industrial relations system and the high level involvement of labour within the supervisory board structures. These structures constrained the restructuring plan and brought labour into the restructuring process, by necessity, but with the result that Lufthansa has begun major inroads into labour costs without facing industrial action. This is despite the absorption of the inefficient East German carrier Interflug and the general labour environment within Germany. A major wage agreement signed in 1990 with the unions, led to cost savings of DM 65 million (Lufthansa 1990). Lufthansa's next restructuring commenced in 1996 under Chairman, Jurgen Weber. Commenting on the plans to reduce costs Weber argued. "you have to have measures which do not involve brutal job cutting." (Airline Business November 1996.) This difference in approach can be attributed to two factors. Firstly, Lufthansa's pre-existing advantages make it less necessary for it to undertake the kind of labour cost fire-fighting witnessed at weaker carriers such as Iberia and Olympic, although it cannot afford to be complacent. Secondly, the institutional context of labour's involvement through supervisory boards makes it more difficult to pursue 'low road' type strategies such as job cutting and route rationalisation. This means working with the unions to develop a global leadership on costs and to make use of the virtues of the German industrial relations system. Management have in effect obtained through outsourcing, not cost savings, but a renewed focus for both the outsourced areas and the core airline.

Despite Lufthansa's much cited existence within the German industrial relations model, the process of *negotiated labour market restructuring* still occurred. That it occurred within a more negotiated labour market context, does not detract from the fact that restructuring was necessitated by the product market and regulatory context. Thus whilst identifying the negotiated aspects of the restructuring, particularly the role of the trade unions in protecting labour during the outsourcing process, we can still see that management were determined to push through change. The powerful position of Lufthansa within the Star Alliance, arguably afforded employees more hope of a long term assured future given its dominance as a leading partner, within that grouping. So whilst the difference is important, it is in many ways a difference in emphasis and approach, mediated through the specific labour market context, than in any distinctly diverging approach.

Whilst there has been a great deal of restructuring within the European airline industry it is difficult to discern the extent to which this has had any lasting impact. Recent improvements in productivity can be seen in table 7.10 below. Alitalia for example currently has productivity levels for both pilots and cabin crew, which are among the best in Europe. Its overall productivity levels are the highest, and the percentage of turnover accounted for by labour cost is the lowest and well above European and global performance.

Whilst these figures are snapshots, and the low base issues explains much of the improvement in many carriers, they nonetheless indicate a tentative upward direction in productivity amongst some of Europe's worst performing carriers.

Table 7.10 Current (1998-99) Labour Productivity Indicators: European Airline Industry

AIRLINE	RPK/PILOT 000s	RPK/CABIN CREW 000s	RPK/EMPLOYEE 000s	LAB COST T/O %
British Airways	34,741	7,848	2,081	26
Alitalia	34,559	12,158	2,294	24
KLM	34,278	10,502	2,098	26
Sabena	26,130	9,055	1,279	26
Swissair	25,682	8,314	1,639	26
Iberia	25,607	9,741	1,356	30
Air France	24,883	7,869	1,520	30
TAP	21,607	6,683	1,101	30
Lufthansa	20,383	7,035	2,203	26
Finnair	18,037	6,302	1,900	na
SAS	11,090	6,498	1,008	30
European average	**25,581**	**8,364**	**1,679**	**24.9**
Global average	**20,121**	**9,121**	**1,600**	**28**

Source: IATA/Airline Business 1999

Nevertheless table 7.10 also indicates that in Air France, for example, performance is currently well below average, as it is within Lufthansa. The table shows that productivity amongst pilots and cabin crew continues to be problematic.

Conclusion

The idea of stability in airline industrial relations, a trend identified in previous chapters seems to have disappeared. The old compact of high wages and exemplary conditions in return for industrial relations peace has been fractured, as airlines search for lower costs. Deregulation, competition, the entry of low cost carriers and a wave of product and pricing innovation have promoted strategies of outsourcing, benchmarking, franchising and wage cutting. These policies have, at their core, a re-shaping of labour relations. This belief that labour relations are the principal problem in the European airline market is a strong and persistent one. In this chapter we have used the *labour market restructuring model* to analyse the recent period of restructuring and labour unrest within Europe. Reform of state aid and the reluctance of governments to subsidise loss making airlines, in any case, have forced a rapid adjustment, the threat of home market penetration by strong global carriers and the challenges and opportunities of alliances mean that labour costs have to be addressed. In most of Europe's state run and previously state run airlines the high costs and low productivity identified by economists, politicians and management has been comprehensively targeted, often with considerable success. As a result Europe's labour costs are now much lower, and its productivity much higher than previously. The gap between Europe and the USA has closed considerably. The lagging performance identified by earlier analyses such as the Avmark reports has in fact improved considerably. Nevertheless the process of change in Europe has been slow and often conflict ridden.

Workers defending the prize of premium terms and conditions have resisted change for as along as possible and in airlines such as Air France, Olympic and Iberia resistance continues. Industrial relations are the key issues in the European airline industry throughout the 1990s. Airlines increasingly seek to retain on core contracts only those staff that are necessary for more profitable operations. Many other activities, as we see, can be outsourced, benchmarked, franchised or the risks shared with another operator. This is a major threat to airline labour. Already there has been a considerable reduction in the directly employed workforce as the outsourcing and integration of key services such as catering and cleaning takes place. Even in areas such as maintenance the continued pressure on costs suggest that 'in-house' airline maintenance operations are likely to be the exception rather than the rule in future. With these two effects a considerable part of the bottom and top end of the airline labour market could be removed. Premium wages for workers such as pilots and cabin crew continue to be a problem.

Yet the very real constraints imposed by industrial relations systems have altered and shaped these policies to specific institutional requirements. Thus Lufthansa's unique form of outsourcing and the failure of Sabena management to relocate short haul pilots' to Luxembourg are examples that the process of cost containment will continue, but with national and institutional characteristics. Rather than move to

Luxembourg the Belgian pilots' union agreed to a lower scale for short-haul pilots, probably delivering the same cost reductions, but through a different route.

Within the deregulated environment at least at this stage, the locomotive of management strategy continues to be labour cost reduction, although there are signs that in a situation of falling yields, and increased competition, reduced labour costs are not enough. Some analysts are now beginning to question the fixation with labour costs, as indeed are some airline executives. The CEO of Continental Airlines, ironically given its role at the forefront of downward directed cost oriented strategies, recently questioned the obsession with cost and the corresponding neglect of revenues. (Odell 1995.) However, Bethune's airline benefits from among the lowest costs in the US industry. There are variations on this theme in Europe, British Airways, for example, which, having pursued cost reduction to the point of damaging strikes and low morale, has gone for a quality based strategy involving new investment and capacity re-alignment. For most European airline workers the future is still one of increasing demands for change, as management concentrates upon cost reduction.

These episodes of contestation and conflict were analysed using the labour market restructuring approach to employment. Within this model labour costs and productivity are identified as the principal obstacle to restructuring. Policies are therefore designed to challenge the accumulated rents and protective work rules of an airline labour force 'featherbedded' by regulation and public ownership.

As privatisation and restructuring takes place there will be more conflict on both the early adapting and late adapting carriers. Yet the industry cost structure in Europe is improving, as labour market restructuring takes place. However there is a limit to which restructuring can take place on a national basis. The influence of institutions is only one dimension but there is increasing evidence that supranational and structural considerations will determine the nature of restructuring in future. Deregulation and liberalisation, merger and acquisition and the growth of alliances have combined in a developing trend towards *global product market convergence.* This trend is accompanied by a pronounced change in the scope and structure of regulation, with a turn towards 're-regulation' on the basis of the interests of large airlines allowing management the freedom of action to target labour costs in an era of falling profits. These issues and the wider global impact of deregulation and product market change upon the airline labour market are discussed in the final chapter.

8

From Regulated Control to Global Product Market Convergence: The Emerging Regulatory Framework and The Airline Labour Market

8.1 Deregulation Market Power and Labour Costs In the Airline Industry

In essence, this chapter provides a concluding overview of the long-term interconnections between changes in regulation, industry structure and the product market, identifying their pronounced effects on employment. As the industry evolves on the basis of global collaboration, large firms are able to control the market and to an extent the industry. By developing a political economy of restructuring within the airline industries of the USA, Europe and globally, we will expose the permissive stance of regulators towards concentration and market power as a feature of both the US and Europe. As earlier chapters demonstrated during the regulated era, the state protected the terms and conditions of labour, reasoning that this would help pursue the state's growth and stability. With deregulation however, the state's priorities have changed markedly. The state continues to promote the airline industry, on both a domestic and supranational basis, but, given the importance of labour costs and labour flexibility to the competitive success or survival of carriers, is unwilling to protect labour from the ravages of deregulation.

In order to explore these issues and to outline this new industry framework, we will firstly look at the process of market entry, bankruptcy and consolidation in the USA. Staying with the US, we will then examine the specific labour market effects of the mergers and rationalisation, which followed. Next, these processes are located within trends towards state toleration of market power and the enhanced domination of the major carriers. Again, the rationale for this is the need for continued growth and stability. We will then look at the effects of the limited competition provided by low cost operators, pointing to their labour market implications. It is argued overall that such a structure of competition and market entry allows capital the room to continually reshape labour costs, which have became increasingly important.

In the case of Europe, a more measured process of deregulation actually resulted in more pronounced labour market effects. Firstly, the state has been forced to withdraw from airline ownership as competition rules outlaw direct subsidy. A corollary of this is the fact that aid can only be given for restructuring, which normally involves attacking labour costs. Secondly, given the allocative benefits often claimed for deregulation, it will be seen that, despite high profile low cost entry in certain markets, major carriers still, as in the regulated era, dominate the industry. The reluctance of regulators to enforce competition where majors enjoy a stranglehold is then contrasted with the willingness of competition and sector authorities to promote supply side measures that allow carriers to enjoy further labour cost reductions. Thirdly, as carriers seek to exploit the deregulated European airline labour market and 'open skies', they increasingly pressure regulators and governments for greater labour utilisation under the fig leaf of harmonisation. This issue is illustrated in terms of proposals to alter flight duty time limits for European flight deck and cabin crews.

The chapter then draws together the experience of the USA and Europe to investigate the emerging trend towards alliance and oligopoly within the industry. This trend towards enhanced concentration is described with some observations about the likely implications for airline labour. It is argued overall that these are pushing the industry towards a model of *global product market convergence* whereby overarching global markets and large scale dominant firms have the power to influence and control national and global labour markets within particular sectors. The airline industry provides a powerful example of this trend. Whilst these issues present major challenges for airline labour, it would be a mistake to see them as unambiguously detrimental. The dynamics of shifting product market structure have, as Blyton et al (1998b) argued, provided both threats and opportunities for organised labour. The chapter therefore concludes with an evaluation of labour's responses and attitudes towards global restructuring.

8.1.1 *Market Power and Labour Deregulation*

In looking at the process of US deregulation it is easy to be seduced by short term factors, such as the fairly rapid entry of low cost carriers between 1980 and 1986, into believing that a new competitive structure emerged to replace the dominance of the 'big six' carriers who profited from regulation. Taking a much longer-term view however, we can see that the post deregulation situation can be better described as one of the *competitive hegemony* of the majors. In his account of long run regulatory and product market trends, business historian Richard Vietor (1990) describes deregulation as a process of short run market entry, followed by a period of large carrier adaptation and response. This he argues often resulted in the integration of low cost entrants through mergers and acquisitions. After an initial threat from new entrants, such as People Express and New York Air, the large carriers were able to match the fares of these low cost carriers and out-compete them using economies of scale and scope.[62]

As chapter 1 indicates deregulation brings forward a series of major changes in industry structure and product market which can affect the labour market. In chapter 4 we looked at how initial US domestic airline deregulation can be described as a process of *competitive disengagement.* Here the state's withdrawal from overt economic regulation of the industry affects the labour market. However as argued in chapter 1 the labour market effects of regulation and deregulation are dynamic. In this chapter we will gain an overview of how the dynamic of deregulation in its various phases impacted upon the labour market through time.

One of the key determinants of the effect of deregulation upon labour was the rapid change in industry structure, which occurred in the wake of deregulation. In the initial phase of deregulation there was a flood of new entrants, and an expansion of services

[62] Economies of scope simply include superior hub and spoke networks, proprietary Computer Reservation Systems (CRS,) brand loyalty promotions and vertical integration. These options are related to size and scale (see footnote 3 below).

by existing carriers. However as competition become widespread, profitability was affected by the decline in yields as carriers offered seats at wafer thin margins, failing to cover long term and fixed costs. (Dempsey and Goetz: 1992: 293.) This competitive frenzy, coupled with reckless speculation and debt leveraging, resulted in a cycle of bankruptcies and cost cutting facilitated by the provisions of Chapter 11 of the US bankruptcy code. Bankruptcy allows not just a re-allocation of poorly performing assets into better productive use as the neo-classical literature assumes, it also affects the labour market, as the next section explains.

8.1.2 *Seeking Protection from Labour: US Deregulation Bankruptcy and The Contest for Cost Reductions*

The US bankruptcy statutes are designed to allow the restructuring of the bankrupt company on a long-term basis, effectively providing a shelter from the pressures and demands of other parties. As such, they are biased in favour of the debtor, allowing it to avoid obligations and to price at marginal cost. The result is a market distortion well recognised by airline executives like the former United Airlines chief, Stephen Wolf:

> 'In a truly free market the oversupply would be temporary. That is the least efficient producers will exit the market. US bankruptcy laws however, in effect, displace the realities of the marketplace and have now become a barrier to exit. Carriers are able to operate literally for years without repaying their debt obligations; consequently, their capacity is artificially retained in the system, the result is economic havoc for all.' (Wolf 1995:13.)

Among the principal creditors are workers and their trade unions, who find themselves under two main pressures. Firstly, they have to see the abrogation of fairly negotiated contracts reducing their standard of living. Secondly, workers more generally can suffer from the atmosphere of concession bargaining which results.

Employers like Continental and TWA were in the forefront of using bankruptcy in this way.[63] These carriers made opportunistic use of bankruptcy to withdraw from fairly negotiated labour contracts. Using the exit/voice dichotomy of Hirschmann,

[63] Both Frank Lorenzo of Texas Air, the owner of Continental and Eastern, and Carl Icahn of TWA used bankruptcy to escape from labour contracts. Lorenzo rehired all employees on new non-union contracts at significantly below pre-bankruptcy terms. (Demspey and Goetz pp. 69-73 and 133-141.)

(1981) the use of bankruptcy as a bargaining threat can be regarded as the ultimate withdrawal of voice by the threat of wholesale exit. Firstly, as bankruptcy takes place there is a huge reduction in jobs at the bankrupt carrier. After Continental filed for bankruptcy in 1983, their pilot workforce was reduced by 75 per cent. An overall reduction in jobs of all grades took place as it reduced its route network by 40 per cent between 1984 and 1989. Secondly, even viable carriers are 'whipsawed' into following the labour cost cutting strategy, regardless of whether their revenues are actually falling. Bankruptcy has the effect of allowing a retrenchment of labour costs and a generalised dampening of labour expectations. Restructuring takes place on the basis of wage cuts, furloughs, two tier agreements and reductions in pensions and medical benefits. In addition, the onset of bankruptcy usually voids the collective agreement, leading to a re-negotiation of wages and work rules.

The experiences of Continental, TWA and America West are cases in point. The effects of bankruptcy were not confined to the workforce of the 'stricken' carrier. An atmosphere of anxiety and fear was transmitted throughout the industry. Firstly, in concrete terms, cost cutting was necessitated by the predatory pricing policies of the bankrupts. Secondly, bankruptcy was understood by workers as a sign of industry sickness and thus lowered general labour demands and expectations. The industrial relations climate is crucial in this regard. In the USA of the 1980s and early 1990s, an atmosphere of concession bargaining and employer hostility created a mood of job insecurity and anxiety, even among highly skilled unionised workers. (See Moody 1988: 64, Walsh 1994: 48.) The prolonged nature of bankruptcy protection amplifies all of these effects. Bailey and Dong (1995: 473) question the viability of bankruptcy statutes, which allow extended and prolonged survival and ask why such market distortions are not tackled. It can be argued that whilst the rationale of regulators and government is the preservation of competition, the disciplinary effect on labour of the policy is equally important. As Belzer argues in the case of trucking, prolonged bankruptcy increases the chances of a generalised effect on employment terms and conditions throughout an industry. Carriers are obviously disadvantaged by the ruinous pricing strategies of bankrupt carriers but the labour effects can be seen to benefit them. (Belzer 1993: 17.) Regulatory and governmental tolerance of such practices should therefore not be viewed as irrational and counterproductive for bankruptcy is the ultimate management bargaining 'position'. Moreover, in most cases bankruptcy leads to liquidation (under Chapter 7) and eventual merger, benefiting the major industry carriers who profit from reduced competition and acquire assets, including aircraft and routes at extremely low cost. Whilst labour lobbied Congress to modify the bankruptcy code, the scope remains for companies to scrap labour contracts because of the creditor bias of the law. The next section goes on to describe how carriers' interests are upheld and labour's interests ignored in this process of consolidation and merger that follows bankruptcy.

8.1.3 *Merger, Consolidation, and Scale: The Effect on the Labour Market*

As chapter 3 indicated, one consequence of the regulated era was a protection for workers from the consequences of merger and acquisition. The CAB and its successors oversaw a relatively stable industry structure, with little entry on trunk routes and with strictly controlled mergers. One consequence of deregulation bankruptcy and financial instability within the US industry was a trend towards concentration as the routes and assets of failed operators were acquired by their major competitors. With carriers like Ozark acquired by Northwest, People Express by Continental and Piedmont by US Air, competition within major airports and routes virtually disappeared. Consolidation took place in the aftermath of merger. Airlines such as TWA, United and Northwest became the target for leveraged buyouts (LBOs) and burdened with debt to pay for the acquisition. (Dempsey and Goetz 1992: 226-228.) When the bankrupt carrier is acquired, then economies of size can be derived.[64]

[64] Many airline economists refuse to term these advantages economies of scale. Doganis for example cites Strazheim's 1969 study which identified a positive correlation between increased carrier size and reduced direct operating costs.[64] (Doganis 1991: 106.) As Doganis explains however since deregulation researchers do not regard these effects as attributable to *scale* but to the innate differences between *large* and *small* carriers in terms of route structure, aircraft type etc. This is of course true. Airline size *alone* does not bring falling costs over a rising output. Increasingly the advantages which airlines acquire through size are ascribed to *scope* not *scale.* In Willig's words: "with economies of scope, joint production of two goods by one enterprise is less costly than the combined cost of production of two speciality firms." (Willig (1979: 346.). However a large airline would have to be particularly inept in its pursuit of strategy if it did not choose to maximise activities such as Computer Reservation Systems (CRS), Frequent Flyer Programmes (FFP), and hub and spoke networks. These key scope economies alongside integrated purchasing, vertical integration and the like tend to be related to scale. As Hanlon argues scope is often related to network size, which in turn is related to airline size. (Hanlon 1995: 39.) It does seem a semantic distinction to argue that such costs which do fall with increasing output are not due to scale but *scope.* Scope economies can be viewed as similar to economies of scale because scale is necessary to benefit from scope. In any case a review of the literature on economies of scale in the industry argue that recent findings on the multiproduct nature of the industry, show potential benefits in both scale and scope for cost advantage. (Hayes and Ross 1996 493-509.) Taking account of the network basis of airline services Starr and Stinchcombe (1992: 1-21) argued that hub and spoke

In the aftermath of merger, although difficulties can arise in the process of integrating the two airline 'cultures' and prioritising goals, one goal which seems uppermost is staff rationalisation. Bankrupt airlines were bought over in a huge wave of merger and consolidation beginning in the mid-eighties. The permissive attitude of the DOT under the Reagan administration to such mergers in 1987 and 1989 exacerbated this effect.[65] The majors vertically absorbed precisely 120 new entrants, in many cases commuter/regionals. Prices plummeted in the short term but once the competitive frenzy was over fares began to creep up. Table 8.1 below collates information on hub domination using a measure of dominance developed by the author, namely single carrier market share. This measure provides a reliable indication of the *stability of concentration* over time. Whilst aggregate measures of concentration such as the Herfindahl-Hirschman Index appear to have fallen slightly since 1979[66], the evidence below in table 8.1 shows a consistent and increasing trend towards monopoly at major airports.

Table 8.1 Concentration Over Time: Selected Airports: 1977-1997 Pre-Deregulation until Present

AIRPORT	Single Carrier Market Share 1977 (%)	Single Carrier Market Share 1987 (%)	% Difference 1977-87	Single Carrier Market Share 1997 (%)	% Difference 1987-1997	% Difference 1977-1997
Baltimore	24 US Air	60 US Air	36	55 US Air	-5	31
Cincinnati	35 Delta	68 Delta	33	92 Delta	24	57
Detroit Met	21 Delta	65 Northwest	44	79 Northwest	14	58
Houston Intcl	20Continental	71 Continental	51	76 Continental	5	56
Memphis	40 Delta	87 Northwest	47	n/a	n/a	n/a
Minneapolis	50 Northwest	82 Northwest	32	81 Northwest	-1	31
Pittsburgh	44 US Air	83 US Air	39	85 US Air	3	41
St Louis	39 TWA	82 TWA	43	74 TWA	-8	35

* Merged with Delta in 1986

Sources: Dempsey and Goetz (1992) and *Airline Business* Jan 1997.

networks confer economies of scale as each additional city included in the network increases traffic density to all other cities. They argue that on the basis of such an analysis, the industry can be viewed as natural monopoly. It could be argued that adhesion to the notion of the absence of economies of scale and the refusal to relate economies of scope to *size* helps deflect regulatory criticism of mergers. Empirical evidence, which points to a reality of increasing concentration and natural monopoly characteristics, might promote a less indulgent regulatory response.

[65] Dempsey, S Goetz, A *Airline Deregulation and Laissez Faire Mythology* (p 227).
[66] The HHI which squares the market share of the largest firms in terms of sales revenue. An HHI of 0 indicates a high number of competing similar size firms. An HHI of 10,000 indicates pure monopoly. The HHI depends very much on the type of concentration situation measured. The US airline industry HHI according to Belobaba and Van Acker (1994), was 4920 in 1979, 3360 I 1985 and 4020 by 1991. Given the importance of the HHI measure in the evaluation of mergers by the US Dept of Justice and other anti-trust authorities, it is surprising that few other studies have been undertaken.

It can be seen from table 8.1 that there has been a significant increase in the market share of the major carriers over the period of nominal deregulation. The trend of concealed consolidation pertains even in an era of increasing low cost entry. The data are based on weekly seat capacity. These levels of market power cement the already strong position of the major operators.

Whilst most airline economists have argued that such levels of concentration are unproblematic, detailed evidence points otherwise. In a major study of concentration in the US industry, Kim and Singal (1993), compared consumer fares (product prices) in both pre-merger (announcement) and post-merger (completion) periods. They identified two distinct types of mergers, that of distressed carriers and normal carriers. The financially distressed carriers tried to stem passenger losses in the pre-merger period by offering fare discounts. However, post merger, Kim and Singal found a positive correlation between higher price levels and higher concentration levels. Their data dispute the notion that efficiency gains were the dominant outcome. They argued that most mergers resulted in increased market power usually exploited in the form of fare increases. The US General Accounting Office found that during 1988-90, fares were 27 per cent higher at concentrated than 'non-concentrated' airports. (ITF 1994.) The level of hub concentration shown above certainly points to the possibility of such effects. One certainty of merger policy is that it allowed firms to consolidate operations and reap economies of size. In a detailed study of airport dominance, Wilson (1993) recommended that regulators should prioritise access to stimulate competition. (Wilson 1993: 17.) Yet, aside from its desire to deflect foreign control, for example, by restricting foreign carriers to below 25 per cent of U.S. carrier voting stock, regulators have been largely tolerant. As a result, the pattern of competition has settled into one of competition between rival hubs but with such high levels of hub domination, there is little effective choice for consumers. The level of collusion between major carriers is in fact increasing with code share arrangements underway between American and US Airways and United and Delta. (Flint 1998: 39.)

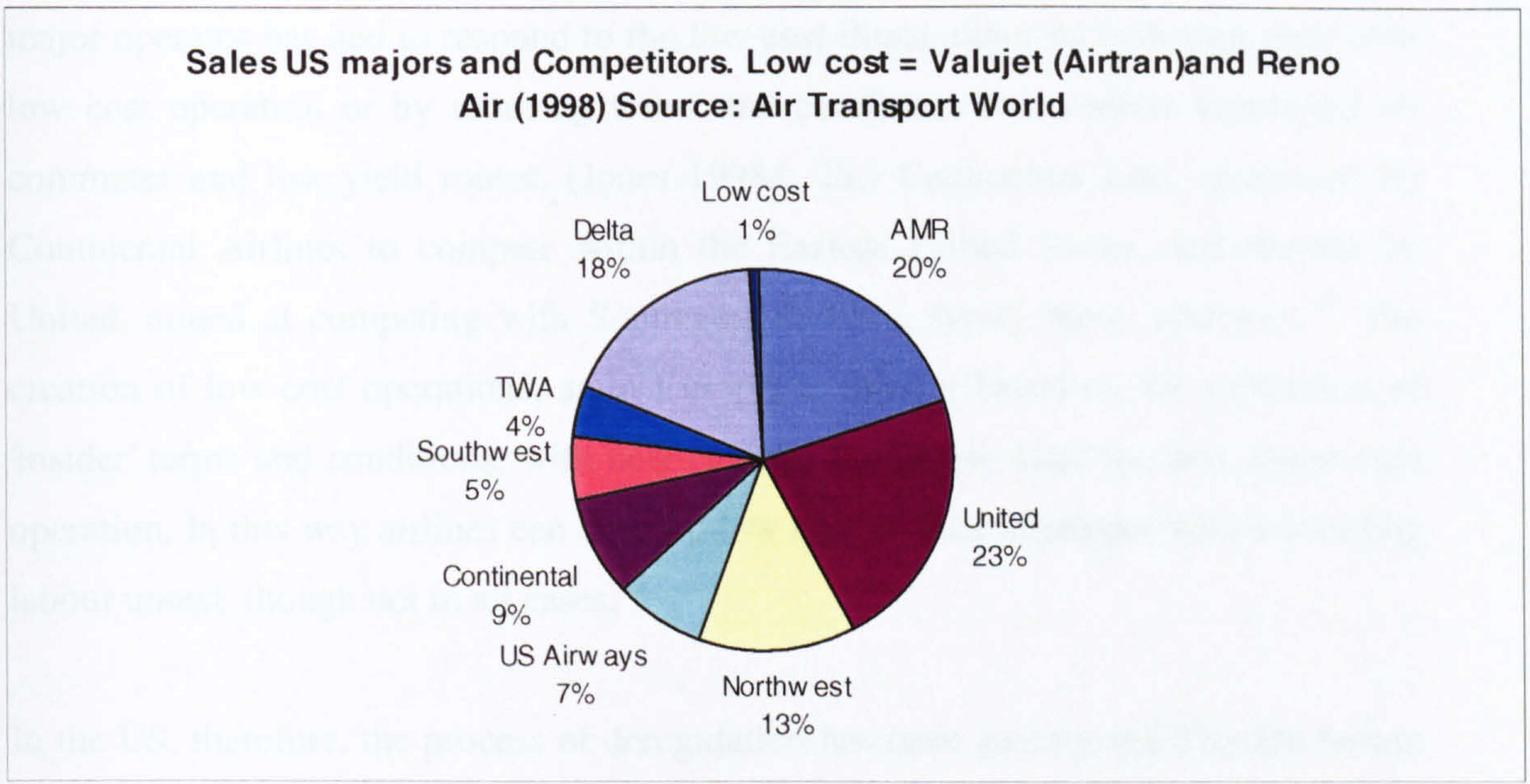
Mergers have affected labour primarily through the absorption of bankrupt carriers and in many cases, the effects have been positive, as merged workforces benefit from higher major carrier pay scales. Nevertheless, there have also been negative consequences in the shape of rationalisation of ground and maintenance crews, often with considerable levels of redundancy (Sleigh 1995), and loss of seniority for some grades, most notably pilots and flight deck staff. Despite the high levels of concentration, however, there is a level of competition provided by low-cost carriers, who in Penrose's (1959) terminology operate at the "interstices of the market." As the next section explains, the labour market effect of these carriers is considerable.

8.1.4 *Contesting Labour Costs: The Real Impact of Low Cost Carriers*

Whilst there has been little effective competition between the major carriers, the existence of low fares in many market segments owes much to the continued impact of low cost carriers. Many of the most vaunted new entrants such as People Express, New York Air and Air Cal suffered from an *Icarus effect* as they expanded too early and became complacent in the face of major competition. These carriers were then digested into the route networks of the major carriers against whom they competed. Later low cost entrants, such as Valujet, Kiwi, Reno Air and Pacific Western, which are often invoked to prove the contestability of US airline markets, have in fact also succumbed to bankruptcy and merger. In the case of Valujet, the negative publicity around the horrific Everglades crash of 1996, forced a name change but the carrier has not recovered. In fact the crash almost acted as a negative advertisement for all low cost carriers, and probably had an effect on the revenues of others. However whilst these later entrants have failed or are failing, a more resilient band of low cost carriers continues to operate, driving down fares and provoking the major carriers.

Possessing network economies such as CRS, FFPs and proprietary hubs is, of course, preferable to the undifferentiated approach of the low cost carriers. However, whilst the low cost airlines provide ultra low fares, disciplining major operators from exploiting their monopoly position, their impact is geographically confined and the most successful of them have similar advantages to their major competitors. The more resilient low cost carriers, such as Southwest, Continental and America West, play a crucial role in the deregulated environment. They offer ultra low fares, affording a large measure of public approbation to the process of deregulation. From a labour market point of view, these low cost carriers provide convenient 'cost comparators' for the major carriers. Their seat mile costs tend to be much lower than the majors and their eschewal of the expensive full fare service options and use of standardised fleets make them extremely important in competing at the margins. They force large carriers to examine their own cost structures, particularly in terms of labour utilisation. (Wells 1999: 474.) Southwest, for example, has endured because it was inaugurated as an intrastate carrier after the CAB relaxed the rules for such operators in the early 1970s. Its near monopoly of Dallas's second airport allowed it a huge advantage in a high growth sector of the US economy. Despite regulatory limitations on its scope to enter new markets, Southwest has challenged the so-called 'mega carriers' with low fares, no frills service. Yet, as figure 8.1 shows, even the most successful low cost carriers account for a small proportion of the overall sales. In fact because of their marginalised position many low cost carriers, despite offering low fares and having low operating costs, have gone bankrupt. Western Pacific, which ceased trading in 1997, is a case in point. Figure 8.1 below demonstrates the limited overall effect of the low cost carriers compared to the major operators.

Figure 8.1 Market Share Comparison Major and Low Cost Carriers



The latest new entrants have limited impact and often use older noisier equipment, which effectively excludes them from operations in many of the more lucrative markets where restrictions apply. Valujet, a much trumpeted low cost niche operator which commenced operations in October 1993, accounted for only 4 per cent of weekly seats offered at its main base, Atlanta, in 1995.[67] Its share had doubled by January of 1996 and another low cost operator, KIWI International, offered 3 per cent of seats. However, although Atlanta was one of the most contested markets, the combined market share of the two low cost operators is dwarfed by the 75 per cent controlled by Delta, which uses Atlanta as a proprietary hub. The latest data for the top US airports point to a marginal impact from low cost carriers. The majors, like United, American and Delta, have crushing superiority at many of the major hubs. Often, however, the impact of low cost carriers, though marginal in terms of overall traffic share, dynamises the product market exposing in particular the need for management to control labour costs. The low cost threat though marginal in terms of overall market share is a very potent one, because hit and run competition from these operators drives down yields. There is also an element of management using the threat to extract labour concessions. Nevertheless it is the effect of these operators at the margins of the product market which is important.

Essentially the existence of low cost competition encourages carriers like United, Continental and Delta to initiate their own low cost niche operations. Virtually every major operator has had to respond to the low cost threat either by initiating their own low cost operation or by reducing terms and conditions for workers employed on commuter and low yield routes. (Jones 1998a: 28.) Continental Lite, sponsored by Continental Airlines to compete within the Eastern United States, and Shuttle by United, aimed at competing with Southwest Airlines, typify these strategies.[68] The creation of low cost operations, as in Europe, is usually based on the protection of 'insider' terms and conditions, with new entrants tending to staff the new lower cost operation. In this way airlines can develop low cost counter strategies whilst avoiding labour unrest, though not in all cases.[69]

In the US, therefore, the process of deregulation has been accompanied by the failure

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[67] The carrier is now known as Airtran in a clear attempt to deflect public attention from its role in the Everglades disaster of 1996 (see Chapter 7).
[68] Altered Images: Airline Business February 1995 (the airline subsequently abandoned the strategy succumbing to a fare war with United and US Air.
[69] These option have been somewhat frustrated by the power of the pilots union ALPA and the Allied Pilots Association (APA) which represents flight crew at American Airlines. Both, particularly the latter, have opposed the introduction of separate pay scales for pilots operating small capacity jet aircraft, thus stifling the creation of low cost commuter operations.

of new entrants and the bankruptcy of established carriers. These market changes either had a pronounced effect upon the labour market, as carriers sought to replicate the settlements at bankrupt carriers, or were forced to by industry recession. As a wave of consolidation took place, regulators stood back and allowed carriers to grow, thus allowing them to reap economies of size, particularly of scope, enabling them to further reduce costs. This process of market selection was assisted by the permissive stance of regulators, who failed to tackle the problem of bankruptcy, thus allowing stricken carriers to attack labour costs, whilst other carriers took advantage of the general bargaining climate. After the resultant mergers, which resulted in short term job loss and wage reduction, regulators tolerated massive concentration and effective monopoly of hub airports. When the industry settled down into a pattern of major dominance, as Vietor (1990) describes, large firms were able to take advantage of the entry of low cost carriers to further rationalise and reduce the cost of their operations. In so doing, they particularly focused on labour costs. None of these market effects can be seen in isolation, but their combined effect indicates that by allowing a certain type of market structure to develop, regulators can influence the nature of labour costs within the industry. This aspect of the changing regulatory environment is even more apparent in Europe as the next section demonstrates.

8.2 European Competition Policy: Servicing the Majors?

8.2.1. *From Cosy Cartels to Competitive Consolidation?*

Deregulation within Europe has developed in a series of phased liberalisation packages and has been more gradualist than the cathartic deregulation seen in the USA. (Button et al 1998.) In chapters 1 and 4 we described how the labour market effects of European deregulation could be described as a process of *controlled competitive disengagement*. Under these conditions the state's more gradualist policy allowed carriers more time for adjustment, but eroded the long-standing pay and conditions premia, which had accrued to airline workers.

To that extent, whilst the implementation of policy was different, the outcomes have been broadly similar. A similar pattern of consolidation and monopoly has occurred within Europe. In Europe national regulatory policies have created some scope for a downward movement on fares, as has the existence of the low cost charter sector. In a sense this is comparable to the US, although the process has been slower. The process of consolidation in Europe has not been brought about through bankruptcy, as in the USA government support has prevented this, but by the championing policies of national governments. British Airways' acquisition of both British Caledonian (1988) and Air Europe/Dan Air (1993) can be seen in the light of the UK government's desire to see BA as a global carrier, possessed of a wide route structure and able to compete with US and Asian carriers. Similarly the Air France take-over of the domestic carrier Air Inter and the long distance operator UTA, all were aimed at allowing the 'national champion' to attain the size and route network necessary to challenge the so called 'mega carriers'. Part of that process of building 'champion carriers' has been the establishment of or acquisition of major shareholdings in airlines operating within other nations. Thus BA acquired a major stake in TAT in order to secure slots at Orly airport. Similarly it acquired Air Liberte, in order to build a presence in Southern France, at the same time it created Deutsche BA to challenge Lufthansa's dominance in the German market. KLM has been active in acquiring stakes in other countries, most notably through its acquisition of Air UK, which now operates as KLM UK. British Midland is now in effect a partially owned subsidiary of SAS. The nature and extent of the competitive challenge in the more liberalised parts of Europe is therefore as sharp as that which occurred in the US market.

Competition therefore occurred between newly enlarged flag carriers who could offer integrated route networks, thus luring passengers into their hub system, and from carriers acquired or established within second countries. When competition policy is examined, it can be seen that the EU, despite its stated preference for a policy of liberalisation and its imposition of conditions on mergers, has consistently taken the view that airlines should become 'international champions.' (Kassim 1995.) This policy has to be seen in the light of the growth of US carriers on the basis of an equally tolerant merger policy. To compete with these mega carriers, Europe wants mega carriers of its own. These areas of competition were largely between rival flag carriers, but another level of competition also existed. As in the US low cost carriers made their mark, and their existence has led to a considerable re-alignment in major carrier operations. This is discussed in the next section.

8.2.2 *European Low Cost Operators: Cheap Fares and Cheap Labour?*

Europe's experience with low cost carriers has been similar to that of the USA. The existence of the charter sector and independent operators such as British Midland and Air Liberte (now owned by BA) meant there had always been some challenge to the cartel pricing which characterised European air transport before deregulation. Periodic attempts were made to challenge the transatlantic cartel, with the most celebrated example being Laker Airways of the 1970s. However from about the mid 1990s a new breed of low cost entrants began to operate in the more liberalised aviation environments of the UK, Ireland and the Netherlands. Their avowed intention was to 'grow the market' for air travel in countries like the UK and Ireland with spare terminal capacity, albeit at regional and secondary airports, compete with 'bloated' majors, and effect a demographic shift in air travel preferences. The most successful such as Ryanair and Easyjet were fashioned on the US low cost operator Southwest and like their US counterparts they operated linear, point to point route structures, with low initial frequency and ultra low fares, attracting the less time-sensitive leisure traveller. Given the low yield, these carriers operated much tighter cabin configurations and as in the US dispensed with on board food and other 'frills'. There were very few frills in their operating structures, with aircraft and crews being leased, cabin crew recruited from non-traditional areas, and functions such as handling and maintenance outsourced from the start. (See chapter 7.)

There was nothing revolutionary about this operating structure in Europe, as many charter operators had long operated in such a way however, the real impact of the low cost operators was on the labour cost of the major operators. Whilst carriers like BA and the then Air UK dismissed the threat of Ryanair, they restructured operations so that regional operations became in effect, lower cost operations. This included a restructuring of regional operations within many carriers and signalled the seriousness with which the low cost threat was taken. Given the high margin on European business class fares, there has also been market entry from premium low cost operators such as Debonair of the UK and Azzura of Italy.[70] The acquisition by Richard Branson of the Belgian low cost operator TEA, and its re-branding into Virgin Express in 1996, was designed to secure lucrative business traffic from Northern Europe, operating under the new European liberalisation 'freedoms'. As a result flag carriers in Italy, Spain and Germany have established or are negotiating the introduction of internal low cost operations in order to compete with home based and 'inward' low cost competition. The establishment of these operations has led to significant reductions in pay for all grades of staff. (See chapter7.)

Yet despite the effect of low cost carriers on the European airline industry, their impact is still constrained by infrastructure. Furthermore, it has yet to be tested by a lengthy recession, which would probably impact upon the low cost carriers' mainstay, the leisure market. For this reason low cost operators are trying to diversify their market by attracting price sensitive business travellers as did Southwest in the USA. However, the size of the market and the demographic and geographical features of the European market, with heavy concentrations of such markets around major cities, make this a difficult strategy. In order to reach these markets and a considerable segment of the leisure market, these carriers need access to slots at the major business hubs such as Heathrow, Frankfurt and Charles de Gaulle. At the moment they have to make do with connections between regional airports, which are unattractive to time sensitive travellers, and their lower frequencies make delays less acceptable to this demanding market. It seems clear that the low cost carriers prefer to avoid the hub airports with their high costs and that they prefer not to compete head to head with the major carriers. Nevertheless though they do not compete in the same markets, they have drained passengers away from the full fare major carriers in every country. These carriers find it difficult to compete with the cost structures of low cost carriers. Both the effect of low cost carriers and the low cost operations of strong and efficient flag carriers has forced European governments to re-evaluate the state aid, which has traditionally been used to maintain state carriers. Thus, there has been high level institutional support and encouragement to privatisation, both in response to EU statutes and aspirations, but also as a method of disciplining and reforming the

[70] Debonair Italian owned and UK based went bankrupt in the Autumn of 1999. The reason offered by analysts was its failure to identify a definite market segment. The airline tried to target high yield passengers but failed in this strategy (see Pearse (Airline Business) October 1999).

European airline labour market. The state has used its competition policy in effect to sponsor privatisation within the industry. These issues are discussed in the next section.

8.2.3 *State Aid Policy: Market Investor Principle or Labour Market Restructuring on Principle?*

The EU policy on state aid is specified within the Treaty of Rome within the general competition rules. (Articles 92 and 93.) However, the specific rules on state aid for the airline industry are prescribed within the 'second memorandum' of 1978. The memorandum policy is in flux, yet a consistent thread runs through it. In essence it treats aid on the basis of two distinct guidelines. First, it allows state aid on the basis of the *market investor principle*. This means a government could only provide support if an individual or institution, seeking a commercial rate of return, would do the same. In such cases, the Commission then retrospectively evaluates the aid measure to ascertain whether the market investor would have placed equity in this way.[71] If not, then, the second criterion comes into play. The Commission can disallow the aid or it can permit aid within the specific criteria that the aid is designed to 'facilitate the development of certain economic activities'.

The first criterion is problematic and as such is often strongly contested by member states. Firstly, it almost immediately rules out aid to a carrier that does not have an extensive route network and global potential attractive to the private sector leading to a potential 'catch 22' situation. In essence if the state is prohibited from investing, it will be unable to attract private sector investors. Secondly, governments faced with the imminent collapse of state airlines have provided aid regardless of the evidence of actual investor sentiment on the airline. Alitalia, Iberia, Air France, Olympic and TAP have all attempted to secure state aid on that basis. However, from the end of 1993, with the exception of the Air France case, the Commission has tended to allow aid only on the second criteria: that of facilitating the development of certain economic activities. Within these criteria goes the 'one last time' policy of restructuring aid. This policy has been endorsed by the most recent enquiry into the European airline

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[71] Ibid.

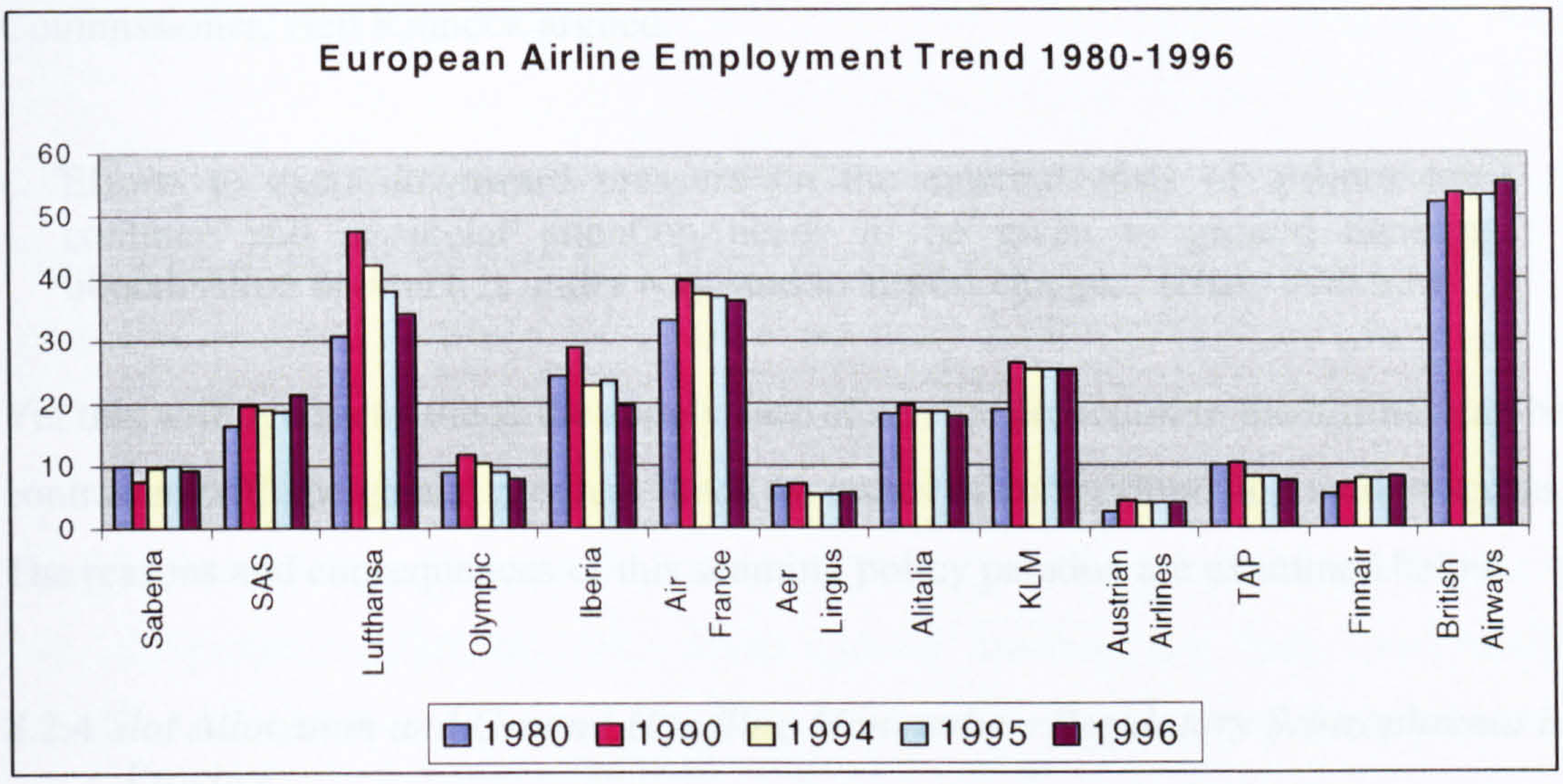
industry, the report of the *Comitè De Sages.* (European Union 1994.)[72] The so-called 'wise men' report stipulates that state aid should be used only for restructuring.

Restructuring however often implies job loss, wage reductions and the intensification of work. Pointing to Europe's low productivity in comparison with the USA, the report attributes these differentials to the continuing existence of state aid. Nationalised airlines, they argue, are susceptible to overstaffing, bureaucracy and inflexibility, echoing the rent sharing, X-inefficiency analysis discussed in chapter 1. This gives an indication of the extent to which the perceived need for labour market rationalisation informs policy. With this belief, privatisation becomes an irreversible trend, given the wage premium in nationalised airlines and their generally lower productivity and wider macroeconomic problems of servicing budget deficits. The continuation of a large public sector, financed largely by government debt, directly threatens the Maastricht criteria. (Button et al 1991.) Though the state aid criteria are nebulous enough for governments to channel finance into failing national carriers, the trend is towards privatisation. The central driver towards privatisation in the European airline industry is the restructuring of the labour market. Without the state as lender of last resort and with the management empowerment which is supposed to result, airlines can fundamentally re-order the employment relationship -

[72] Expanding Horizons: *Report of The Comite De Sages Into The Future of European Civil Air Transport* (Brussels 1994.)

The following graph (figure 8.2) gives an indication of the staffing reductions undertaken by major European airlines in the period 1980-1996, when much restructuring took place.

Figure 8.2 Employment at Major European Airlines 1980-1996



Source: ICAO Fleet and Personnel Statistics

It can be seen from the chart that there is a steady trend of employment reduction from the crisis point of 1991, when the impact of the Gulf war induced losses equivalent to the historical profits of the industry. A revival in employment within the major airlines is apparent within some major carriers by 1995. In the post Gulf war period, and subsequent world air transport boom, airlines such as BA, Lufthansa and KLM were able to effect major cost surgery. BA obtained a commitment to close the scissors between costs and revenue, securing savings of nearly £1.5 billion. KLM was able to implement a 'Competitive Cost Levels Program' to secure a labour productivity increase of 57 per cent, unit cost reductions of 20 per cent and an increase in fleet utilisation of 11 per cent. (Airline Business November 1995.) Most of these savings have been achieved by increasing the intensity of operations. Even with the post Gulf war recovery, the industry continues to make cost reductions. Some of these cost reduction strategies superficially inflate the overall level of employment. For example, in the case of British Airways, the acquisition of Dan Air conceals the 10 per cent reduction in core BA staff undertaken since the Gulf war.

In the wake of the *Comitè De Sages* report and various other ad hoc enquiries and investigations into the competitiveness of the industry, it becomes clear that although European carriers have been reducing their workforces and increasing their productivity, this process is hampered by perceived rigidities in the input costs which they face for certain key services. In a recent interview, the EU transport Commissioner, Neil Kinnock argued:

> 'Efforts to exert downward pressure on the external costs of airlines must continue and particular attention needs to be given to ground handling, liberalisation of which is under way, and to airport charges.' (Hill 1998: 52.)

Yet this willingness to attack the supply side of service provision to the airlines can be contrasted with the glacial progress made on issues of competition and market access. The reasons and consequences of this seeming policy paradox are examined below.

8.2.4 *Slot Allocation and Ground Handling Monopolies: Regulatory Schizophrenia in Practice*

The current EU policy on Slot Allocation compels the larger carriers to *use or lose* their slots, allocating such under used slots to a pool for distribution to new entrants. In effect this amounts to a policy of *ad hoc* unbundling, with slots used as a bargaining chip in negotiations over mergers and alliances. Given the difficulties of market entry and access to the most lucrative hubs, this is hardly likely to have a significant impact on the structure of competition.[73] The major airlines still enjoy the privilege of block exemption in this regard. Arguably, the proliferation of alliances and code sharing makes it more difficult for regulators to identify abuses than under the previous regime. During the regulated period major flag carriers pooled revenues in price cartels, their chosen policy nowadays is to sign route-by-route code shares with regulatory approval. (Feldman 1998: 49.) The fact that these arrangements have block exemption status means that regulators have decided to tolerate them in any case.

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[73] A recent UK Civil Aviation Authority (CAA) paper entitled *Slot Allocation: A Proposal for European Airports* (CAA Cheltenham Gloucs. Feb 1995) pointed to a lack of consumer benefits with a large proportion of routes being operated by two carriers who the report alleges were 'more used to co-operating than competing' ('Air Competition Warning', Financial Times 11.02.95).

This permissiveness in the face of industry consolidation can be contrasted with the relative zeal with which the European authorities have attacked situations of minor importance in the overall competitive picture namely the deregulation of ground service monopolies (GSMs). These ground handling monopolies have *lost* block exemption status with the Third Package of deregulation measures implemented in 1993 (Van Moutte 1993: 283).

GSMs, which control the provision of airside services, such as baggage handling, cleaning and catering, are viewed by many as a supply constraint, locking carriers into inflexible contracts, usually with rival national carriers. There is evidence of overcharging, but EU regulatory oversight has already been brought to bear. The break up of GSMs could lead to a downward bidding of wages and conditions as the International Transport Workers Federation (ITF) argues. There is already evidence of this development within the UK, where ground handling has been substantially deregulated. A new wave of deregulation based on lowest cost tender has had major effects on airport ground staff. The imposition of two tier wage rates, non-union, low cost competition and a large expansion of part time work have all been features of the UK experience. (Darlington 1995.) British Airway's latest attempt to secure so called 'market rates' for regional ground handling activities, clearly indicates the impact of low cost downward directed competition in the UK. Labour costs are hugely important within ground handling functions, (see chapter 7). If airlines such as Iberia and Air France are forced to surrender their GSM, then the business will be parcelled out on the basis of some form of competitive tendering. Given the low capital intensity of functions such as check in, information baggage handling and other areas, and the imposition of regulatory price caps, airlines will be able to negotiate low handling prices only at the expense of wages and conditions for already low paid workers. This will only benefit the major dominant carriers, rather than new entrants, who tend to use secondary airports where GSMs are less common. (Reed 1998: 55.)

The policy paradox between slot allocation and ground handling demonstrates the willingness of the European authorities, under intensive lobbying from carrier interests, to tackle cost issues on behalf of the airlines whilst ignoring their own market dominance. In the European single aviation market, efficient labour utilisation has become the essential component of carrier strategy. Any national or regulatory rules, which constrain efficient utilisation, are subject to challenge and lobbying. With national regulatory guidelines and trade union agreements, there is a wide disparity between nations. Thus, many airlines have argued, somewhat disingenuously, that harmonisation is necessary between different jurisdictions in order to conform to EU objectives. The apparent willingness of the regulatory authorities to promote measures, which facilitate labour market change, is seen in the extension of flight crew utilisation proposed by the Commission under the so-called Joint Aviation Authority Regulations (JAA). The next section examines how this policy, which is actually based on a need for increased utilisation of flight and cabin crew, has been promoted as an issue of competition and market convergence.

8.2.5 *Joint Authority Regulation: Extending the Power of the Majors?*

Since most operators are subject to industrial agreements, which determine the level of effective utilisation of flight and cabin crews, harmonisation could, in principle, mean convergence on the practices of more heavily regulated nations such as France and Germany. However, airline operators have made it clear that they wish to see convergence on the practices of the more 'liberal' jurisdictions such as Romania, the CIS and Turkey. This policy allows the operators to dilute national regulatory safeguards under the veil of 'harmonisation'. The policy effectively allows airlines to challenge national terms and conditions without confronting their own national unions. The regulations designed to allow carriers to benefit from third package 'freedoms', have been presented as a harmonisation measure. Yet as the UK airline pilots' union, BALPA points out only 12 out of 23 countries party to the JAA proposals are EU members.[74] The proposals would allow carriers to roster crews for continuous duty on those routes that involved multiple stops. Non-productive periods would be subtracted from the total flying hours, allowing a two pilot crew to fly London-Glasgow-New York-Boston on a duty time of 12 hours 50 with flying time of 9 hours 50 minutes. (Ibid.)[75] Research by the UK flight deck union BALPA points to a large disparity between the JAROPS proposals and the national regulations sponsored by the UK regulator the Civil Aviation Authority (CAA).

[74] The Log October/November 1995.

The agreement considerably exceeds the limitations imposed within the British Airway's Industrial Agreement, which is in turn more restrictive than the CAA's own guidelines CAP 371. (Ibid.) The EU already allows considerable freedom to carriers to 'wet lease' aircraft and crews, in effect subcontracting aircraft and crews. These crews are often, though qualified, trained under a more lax regulatory regime such as that of the CIS or Turkey. An incentive for hiring these crews is their ability to disregard the hours limitations of the country concerned. By 'flagging out' in this way, some carriers effectively circumvent the more restrictive regulations imposed by the national aviation authorities. JAROPS would harmonise the regulations at the level of some of the most lax countries. Whilst there has been some backtracking in the face of labour campaigning, the prospect of a set of common scheduling and duty time limitations is a real threat.

The more *explicit* labour market effects of issues such as ground handling deregulation and adjustments to flight duty limitations are at least readily identifiable as labour issues. This allows a more co-ordinated response from airline labour. However, other issues, which carry an implicit threat to labour, are less readily identifiable as specific labour issues, yet arguably these have even far more reaching implications. Thus the trend towards increasing interfirm collaboration, ranging from joint marketing and shared capacity agreements right through to the creation of global alliances, is a major industrial relations issue although its labour market consequences are often elusive and difficult to analyse. The next section examines how global alliances affect airline labour.

8.3 Airline Alliances: Towards Global Product Market Convergence?

Whilst internationalisation and globalisation are often confused in analyses of international restructuring (see Ruigrok and Van Tulder 1995), the airline industry is clearly undergoing a global transformation. Oum et al point to the emergence of a group of international trading blocs around the Americas, Europe and Asia whose airlines will compete globally. (Oum et al 1993: 17.) From a European point of view,

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[75] Ibid.

such blocs will be dominated by those airlines enjoying significant global reach, such as British Airways, Lufthansa and Air France. These airlines dominate alliances, locking smaller national airlines into feeding their proprietary hubs. (Hanlon 1996 201-202.) The major airlines in turn will build alliances with US carriers in order to secure access to the huge US market and with Pacific Rim carriers to ensure access to the expanding Asian market. According to Oum et al, due to national sensitivities over ownership and the possibility of anti-trust suits, such alliances will be based on joint operations (code sharing) bolstered by significant shareholding.[76] Airlines in a junior position will have no choice but to become feeders for those carriers. (Ibid.) The issue of alliances is therefore a crucial 'regulating mechanism' within the industry and it is increasingly being left to the most dominant firms to oversee this process. This has major implications for airline labour, which are explored in the next section. According to the German political economist and industrial relations theorist Wolfgang Streeck:

> 'Globalisation, by increasing the mobility of capital and labour across national borders, extricates the labour supply from national control and enables the financial sector to refuse doing service as a national utility. By internationalising and thereby disorganising capital and labour markets, globalisation dissolves whatever negotiated co-ordination may have been nationally accomplished between them and replaces it with a global hierarchical dominance of the former over the latter.' (Streeck 1997: 49.)

Streeck's view is essentially a macro-political one, however, the similarity of the environment of globalisation within the airline industry is apparent. Airlines have traditionally been national entities supported, subsidised and shepherded by the state as instruments of national prestige and policy (see Hanlon 1996 chapter 1). However, the pressure of deregulation, competition and economic restructuring are undermining this national focus and replacing it with an increasingly global focus. Whilst collaboration on routes, fares and services has been a feature of the industry since the early years, the industry had little global focus. In the advanced stage of deregulation, this multinational focus has been superseded by a drive towards globalisation, as major operators seek to expand into markets outside their own domestic and

[76] The authors were mistaken in believing that shareholding would be important. Actual equity stakes are largely irrelevant, and in fact regulatory tolerance of alliances is based on the understanding that they do not involve significant equity and therefore remain 'virtual' rather than 'real' mergers.

transnational sphere. In order to do so, they need to overcome the barriers, which remain to acquisition and ownership of state airlines, both from a regulatory and political viewpoint. The favoured policy has been that of global alliances. Alliances here relate to any form of cross carrier business collaboration, and not just the large-scale global alliances which tend to dominate policy consideration. Thus issues such as franchising, code sharing, joint ventures in service provision are all considered under the term alliances.

Alliance activity has recently reached a new level of intensity. According to the latest annual survey, 204 airlines are involved totalling 501 alliance agreements. Only a small proportion (10 per cent), involve equity stakes. (Airline Business Alliance Survey June 1999.) Yet this lack of direct financial involvement conceals a very deep level of operational involvement. Most alliances involve highly specified contracts, and those with anti-trust approval such as the Star Alliance, have complete revenue pooling authority. Even those without regulatory approval, because of their dominant position on key routes, such as the BA American 'Oneworld' network, are able to collaborate to a high degree. The principal alliances are given below in Table 8.2. It can readily be seen that they account for a substantial proportion of world passenger traffic, the greater proportion of revenues and over half the directly employed airline workforce. When those in service companies are taken into account the proportion is around 70 per cent.

Table 8.2 The Major Global Airline Alliances in 1999

Alliance	Star Alliance United Lufthansa, Air Canada, SAS, Thai Intl., Varig, Ansett, Air NZ, ANA Singapore	Oneworld BA, AA, Canadian Intl, Cathay Pacific, Qantas, Finnair, Iberia, Lan Chile	Northwest/KLM Northwest KLM, Alitalia, Continental	Atlantic Excellence/Qualiflyer Austrian, Swissair, Sabena, Delta, Air Europe, AOM, Crossair, Lauda TAP, Turkish
Passenger RPK (bn)	540.6	467.1	287.0	93.0
World traffic share (%)	20.6%	17.8%	10.9%	3.5%
Passengers carried (mn)	261.0	185.5	133.3	47.4
Revenue ($bn)	58.6	36.2	44.0	14.6
Employees	302,660	315,198	149,669	114,380

Source: Compiled from Airline Business Alliance Survey 1999

8.3.1 *Airline Alliances and Airline Employment*

Early studies of airline alliances, such as those of BA/US Air, KLM/Northwest and United/Lufthansa have emphasised the marketing and sales benefits. Undoubtedly these have been considerable. Alliances are undoubtedly profitable. KLM/Northwest, for example managed to increase their combined market share on Atlantic routes from 7.5 per cent to 11.5 per cent. British Airways identified $55 millions in savings from its ultimately failed alliance with US Air, which were non-attributable to revenue. In other words they resulted from operating economies. (Airline Business June 1995.) Although there are considerable scope economies in terms of marketing and purchasing, alliances also have a considerable employment dimension. The likely employment implications are outlined in table 8.3 below.

Table 8.3 Principal Forms of Inter-firm Collaboration in the Global Airline Industry

Type of Collaborative Venture	Description	Likely outcome
Code Share/blocked space agreement	**Involves joint designation and sometimes operation of services by two or more airlines. The flight is advertised with a joint designation. Tariffs are set independently.**	**Will involve long-term rationalisation of major services with subsequent staffing reductions. Example: NW/KLM**
Equity Alliance	**Usually in the form of cross equity stakes whereby airlines agree to adopt equity holdings. This involves either cross equity holdings or a unilateral stake.**	**Tends to result in cost pressure from the larger to the smaller carrier. Examples: Swissair/Sabena, BA/TAT, Deutsche/BA**
Franchising	**Based on a subcontracting type relationship whereby airlines vertically integrate feeder traffic into their networks. The franchise carrier usually carriers the livery and branding of the major.**	**The major procures low cost advantages of the franchisee selected because of lower cost base. The workforce of the major are then compared with the franchisee, and cost reduction negotiated. Examples: BA/Manx, possibly BA/Ryanair.**

Source: Author.

Within these alliances, each airline manages its own labour force but strategically share capacity. In the current phase of alliance development, the strategy of airlines is to avoid labour conflict through the alliances given the threat of cross alliance trade union co-operation. (See section 8.3.3 below.) Nonetheless the existence of a partner airline can be used as a bargaining threat. This has been the case at Northwest, where the use of KLM to operate key European routes has been used to gain work rule changes in Northwest's core operations, in addition to the \$886 million cost savings negotiated since 1983, when the airline faced bankruptcy. (Airline Business November 1995.) Code sharing and alliance strategies also reduce the potential bargaining power of airline labour unless there is co-ordinated action between labour groups in both carriers. In the case of a strike, its alliance partner on duplicated routes could replace the affected carrier, and the non-striking partner's spare capacity could be utilised. Alliances pose a greater threat to some categories of staff than others. Ground crew and check-in staff in particular, as the most readily replaceable of the labour force with both low mobility and low training levels are liable to replacement with partner airline crews. Cabin crew whilst less replaceable than ground and check-in staff would be potentially more vulnerable in operational strategies such as crew sharing which would give partner crews familiarity with each others aircraft and routes. Even highly skilled maintenance staff are vulnerable to replacement in a dispute situation as there is ample excess 'third party' capacity and the likelihood of duplication across alliances.

Current thinking on maintenance policy estimates that the minimum efficient scale (to justify in-house maintenance) is 50 engine overhauls per engine model per year. Pressure exists therefore for the maintenance function, or the most expensive aspects of it, to be 'spun out' from the core business. Airlines involved in joint ventures can be expected to rationalise maintenance work in labour intensive operations such as engine overhaul, interiors and external painting where they fail to meet tightly specified cost criteria. Such business strategies have a number of implications for airline labour. Lucrative, labour intensive work on larger aircraft can be transferred to a partner's larger maintenance facilities to reap economies of scale. This is already the case with KLM, where older labour-intensive DC10s are being maintained at Northwest facilities in Minneapolis. (ATW Oct 1995.) The scale in this case is important as the aircraft types are being phased out. Since Northwest operates a greater number of these aircraft, it makes sense to place maintenance within their facilities. The economies of scale are incidental in this case, but are important when it comes to the establishment of joint facilities, often in a third low labour cost country. The buyer power which combined airlines can command is leading to the export of large scale maintenance to overseas facilities such as the Hong Kong Aircraft Engineering Company (HAECO) in Guangdong province, China, where wage rates are typically a tenth of those payable in the USA. Other operators have built similar facilities in Mexico, Brazil and Poland. Again, regulatory approval of measures that facilitate cost reduction is evident.

For these strategies to be possible, the regulatory regime has to play a part. In the case of maintenance, the main domestic and international regulators have to permit the cross border certification of aircraft maintenance. The US authorities lead the world on this because of their size and role in aircraft manufacture, and have undertaken a leading role on cross border approval. In 1988, the US Federal Aviation Authority (FAA), the industry technical regulator, approved a regulation (FAR Part 145) allowing US operators to perform scheduled maintenance work overseas. Previous regulations permitted this only for emergency repairs at foreign locations or where there was insufficient maintenance capacity at home, a point made by the major US maintenance union. (Peterpaul 1993: 21.) This regulatory adjustment was made despite misgivings about certification and inspection standards within the USA itself; anxieties likely to be magnified when countries with less restrictive safety and certification rules are involved. The International Association of Machinists (IAM), the main aircraft maintenance union in the US, points out that there are 311 FAA certified foreign repair stations, with only 16 FAA licensed inspectors to police them. (Ibid.) Once again, the desire of regulators to sponsor the development and growth of the industry has conflicted with labour conditions and ultimately safety. Deregulation advocates and airline management may well dismiss these concerns as protectionist, but given the level of protection being afforded to large scale carriers in terms of restrictions on foreign holdings, lax anti-trust laws, tolerance of concentration, it seems once again that labour is bearing the cost burden. Regulations seem to be considered from the viewpoint of facilitating cost reduction.

8.3.2 *Global Product Market Convergence in the Airline Industry*

These developments point to a discernible process *of global product market convergence* within the airline labour market. This form of convergence is not to be confused with the convergence of national employee relations practices based on an HRM model as asserted by Warhust (1995: 259-74). Nor does it assume a convergence at the institutional level (see Lane 1991: 515-539, and Baldry 1994: 96-107, for respectively empirical and theoretical critiques of the convergence issue). As Baldry argues, the issue of convergence/divergence, when used within an industrial relations context, is a socio-structural concept and its misapplication creates theoretical and empirical confusion. The form of convergence, which is taking place within the global airline industry, is not a progressive fusion of product and labour market; rather it is a convergence on product market constraints. Each carrier faces the same parameters of competition and market access, and as a result each is constrained in how they operate within that setting. However the *strategy* which carriers pursue in meeting those objectives is mediated by their own industrial relations, and national product market context. Therefore convergence within the *product market* limits and constrains the choices and strategies of both management and unions whilst national and industrial relations systems allow them some latitude to pursue diverging paths. However this has no *overall* impact on the *outcome* of the convergence process, which in the airline industry is towards the fragmentation of labour markets, the growth of scale within services and support functions, and an agglomeration of core airline services within alliance networks. In short the national labour market policies pursued are simply different paths on the road to convergence.

With this trend towards *global product market convergence* labour conditions come under increasing pressure. Changes in the regulatory structure and product market and the advent of genuine transnational strategies begin to re-order the labour market. This is due to four principal reasons: the salience of labour costs in the deregulated environment; the global division of labour within the industry; the asymmetries of power between major and minor carriers in terms of their route and operating structures; and lastly, the feasibility of interfirm co-ordination on wages and conditions. These issues are discussed in turn below.

Firstly, in the globalised airline environment the relative stability and intractability of other costs, such as fuel and equipment, means that labour costs become ever more important. This aspect of restructuring relates directly to the second point.

Secondly, within the spatial dimension of production it is feasible for management to develop a globalised division of labour. The international comparison on the proportion of labour costs in the structure of overall costs makes this clear. Labour costs range from 20 –25 per cent of overall costs in the Asia-Pacific region to around 30-35 per cent within Europe. (Merz 1995.) These cost differentials make the relocation of labour an attractive proposition, especially in high-cost areas such as engineering; they also provide management with an incentive to constantly re-order and restructure operations to obtain labour cost advantages. All of these aspects of the *globally converging product market* are developing realities within the industry. As discussed earlier, joint ventures in maintenance have taken advantage of such low labour costs, particularly within China, South America and Eastern Europe. However, there is also a re-allocation of employment to low cost areas of Europe, particularly the Irish republic and the UK, where wage and non-wage costs are lower. (See Airline Business June 1999.) The growth of the Internet and advanced communications technologies make the relocation of many administrative and technical functions relatively simple and cost-effective. The much lower labour costs of skilled technical and professional labour make the policy attractive to airline executives. This is evident from global outsourcing strategies undertaken by Swissair, British Airways and Lufthansa (see chapter 7). A related issue is the rationalisation of service provision, notably catering and ground handling as large service providers capture the majority of the operations on the basis of superior scale. As airlines outsource the catering function, service providers such as LSG Skychefs, (owned by Lufthansa) and Gate Gourmet (owned by Swissair), now operate a duopoly within the airline catering market. (See chapter 7.)

Thirdly, the asymmetric nature of market power, operating and route resources within alliances means that large alliance partners could increasingly dominate the smaller airlines. Recognising the high relative costs of many subordinate partner airlines, the principal players may well develop strategies which curtail the activities and scope of these smaller airlines. Thus, a carrier like Iberia could find itself playing the role of feeding traffic from Southern Europe into the BA/American Hub at Heathrow and would probably maintain some routes where it enjoys a level of cultural as well as commercial fit, notably to South America. However, it would almost certainly lose routes across the Atlantic and to the Far East, which it operates expensively, and without a great deal of hub traffic. The principal hub partners would operate these routes, whilst subordinate alliance carriers would operate the low yield routes. This process of route rationalisation would also affect the major carriers and their employees. British Airways for example might lose Southern European short-haul routes, and possibly those to South and Central American gateways. This may lead to an overall net reduction in employment. In effect the long haul traffic of junior alliance 'partners' is already being fed into the route networks of major players via the hub system. A deeper 'division of operations' is a possibility, with the primary obstacle a differential in labour costs being eroded by restructuring.

Lastly, as alliances and interfirm collaboration deepen and extend the possibility of common wage structures, bargaining and employment policies become possible and even desirable. There is evidence that labour is beginning to organise across carriers. The best example so far is the ITF co-ordinated steering groups for the major

BA/American alliance 'One World' and the rival United/Lufthansa Star alliance. BA and American pilots have concluded a solidarity agreement, which guarantees no cross cover in strikes, joint negotiation on common training initiatives, regular meetings and campaigns. (Gill 1998: 46.) Other workers are set to follow suit, thus thwarting some of the potential impact of alliances on industrial action, labour organisation, and ultimately jobs and conditions. (Ibid.) Unions are also looking at the possibility of developing cross alliance bargaining and common conditions. This has raised the issue of 'global bargaining', although a more likely scenario is global co-ordination on wages, conditions and common campaigns.

Though there would be too many differences in costs and operating structure for 'system wide' co-ordination, it is possible that there may be 'convergence of the fittest', i.e. the lead alliance operators would have co-ordinated wages and conditions with subordinate operators within the hierarchy excluded. The dynamics of alliance trade union co-ordination already suggest that trade union co-operation is hierarchical and instrumental. (Observations ITF Star alliance forum Dec 1998.)

8.3.3 *Delaying the Inevitable? Trade Union Strategies In the Global Airline Industry*

The possibility of global bargaining and the current fact of cross alliance trade union co-operation suggest that whilst there are obstacles for trade unions and organised labour they are not insurmountable. Despite the emergence of a converging regulatory and competitive framework, with pronounced labour market effects, labour has not acquiesced. Not only has labour resisted restructuring and employment change within a variety of contexts, it has also adapted its response towards the new airline environment. In order to gauge the extent to which labour has been able to respond it is necessary to finally to examine the nature of labour's response. As we shall see the response has been varied and diverse separating along occupational and national lines. Though there has been no uniform response, there have been a number of strategies ranging from militant opposition to collaborative partnership as befits trade unionism within a dynamic and constantly changing environment.

In the popular BBC *Doctor Who* science fiction series, an army of highly efficient cold and determinedly heartless robots called the *Daleks* rolled over any form of opposition, emitting their refrain, "Resistance is useless." International airline restructuring on management terms is often presented as inevitable and even ineluctable; labour resistance is viewed as pointless, many commentators question the value of industrial action when strikes ultimately harm the carrier. Yet, even when labour has ultimately had to concede on restructuring, resistance has been fruitful. Strike action in the face of autocratic, insensitive and quite often inept management has led to the removal of a clutch of airline chairmen. At some airlines, organised labour has maintained a great deal of power, even after agreeing to major change. Resistance and contestation are still an important part of the industrial relations landscape. Increasingly, however, resistance is being redefined. Labour has managed often, in the face of strident opposition and *Dalek* - like imperviousness, to establish its right to a voice as a major stakeholder within the industry and advance its own solutions on restructuring. Increasingly, these solutions require labour groups to become involved in restructuring, and the opportunity to influence and shape the process of change. Often at its most basic level, trade union action has been about curtailing the worst excesses of cost cutting management. This has often involved promoting 'high road' strategies of restructuring, whereby a quality/customer service focus is advanced and business strategies prioritising high yield routes and services favoured. Streeck indicates the extent of such diversified quality production strategies within the world car industry, but the concept is equally applicable to airlines. (Streeck 1987: 437-62.) Unions have also become more involved in the political arena, lobbying agencies such as the EU and the national governments against practices such as *wet leasing*, and cross border employment, where this is used simply to cut labour costs. Other campaigns have been co-ordinated at international level to protect airline jobs from the ravages of restructuring. For example, the International Transport Workers' Federation (ITF), is pursuing a policy of seeking full licensed status for ground handling staff in much the same way as licensing covers engineers, pilots and cabin crew. The organisation is using misgivings about safety and security to argue that only employees with secure permanent jobs should be employed on ground handling functions. (ITF 1997.) The organisation has also been lobbying the international regulator ICAO, to have employee considerations taken into account within the policy-making arena and is trying to conduct similar work with the national regulators and employer organisations. This represents a co-ordinated attempt by labour groups to influence the emerging regulatory structure. Interestingly, it marries traditional union arguments about safety and job security to the new regulatory and market framework.

Unions are also independently pursuing a number of different strategies; primary amongst these are co-operation forums across the various alliances discussed earlier. This is clear from the author's involvement in a recent research project, which looked at the issues of globalisation and trade union response within the industry. (Blyton et al 1998b.) The project involved a survey of 52 airline unions on a wide range of labour market and regulation issues. (Blyton et al 1998b Table 4.2.) Table 8.4 below provides evidence on union strategies.

Table 8.4 Union Ranking of Effectiveness of Strategies (%)

	Effective	Ineffective	Neither
Industrial action	82	11	7
Education of members	81	11	8
Cross border trade union co-operation	75	10	15
Cross-alliance co-operation	74	15	11
Inter-union co-operation at national level	70	14	16
Political campaigns	57	22	21
Management-union co-operation	46	28	26
Concession bargaining	37	41	22

Source: Cardiff Business School/ITF Survey 1997 (Blyton et al 1998b)

The key finding is that industrial action was still viewed as the most effective strategy, with strong support for education campaigns and trade union co-operation. The report discusses the issue of 'assertive co-operation', whereby unions are able to co-operate with management in restructuring after having asserted their position through adversarial industrial action. (Cohn 1993.) These strategies are also being supplemented by policies which seek to increase participation. These include providing statutory worker representation on airline boards, a feature of Spain, Ireland and Germany.

Another aspect is the granting of equity shares to airline employees as witnessed in Italy and France.

Table 8.5 Trade Union Attitudes Towards Product Market and Regulatory Policies In The Labour Market (%)

	Support	Neither/No opinion	Oppose
Uphold union recognition and collective bargaining	98	2	-
Harmonise minimum terms and conditions	94	4	2
Support harmonised limits on flight duty times	90	10	-
Enforce existing social protection (e.g. social chapter and ILO)	88	10	2
Provide for statutory worker representation on boards	67	24	9
Allow workers and management to negotiate their own solutions	57	25	18
Support workers right to obtain a stake in their airline	41	37	22

Source: Cardiff Business School/ITF Survey 1997 (Blyton et al 1998b)

Table 8.5 (above) provides evidence on the views of trade unions within the industry towards state and regulatory policies as they affect the labour market. In all of these cases, trade unions are asserting their right to be involved in restructuring and to be a key participant on behalf of airline employees in considerations of regulation, policy and ultimately business strategy. Unsurprisingly, unions support the continuation of recognition and the upholding of collective bargaining. They also favour the harmonisation of terms and conditions, although they differ from management in terms of the *direction* of that process. However, other aspects of the survey found that the 'bargaining level' had in many cases changed, with much more union support for company level bargaining.

There was also wide support for the policy of placing worker representatives on airline boards and less support for the ESOPs issue (final question Table 8.5). Although ESOPs are nominally individual relationships, the US experience shows that workers can gain power through the pooling of voting power in union blocs. Thus there was higher support for the policy of worker representation, given the collective orientation of the trade unions especially general unions, who view ESOPs with suspicion. (Table 8.5.) Given the effect on organised labour of changes in the wider product market and regulatory setting, the survey revealed that unions favoured the preservation of national ownership and the regulation of low cost carriers, as the most important issues. Table 8.6 below provides evidence on union views of the product market and regulatory situation:

Table 8.6 Trade Union Attitudes Towards Product Market and Regulatory Issues (%)

	Agree	Neither/No opinion	Disagree
Uphold national sovereignty	73	18	9
Regulate low cost carriers to prevent cost cutting	71	19	10
Preserve state aid to promote service to remote communities	63	27	10
Restrict global scale alliances	58	28	14
Promote genuine 'open skies' policies	50	33	17
Provide state support when required	49	27	24
Accept that state aid is necessary to protect jobs	45	33	22
Government support should only be provided to facilitate restructuring	36	28	36
Allow only market-based criteria for state financial support	28	35	37
Take action against anti-competitive practices	27	58	15
Accept that state aid is uncompetitive and should cease	25	20	55
Accept that state financial support promotes inefficiency and high fares	25	24	51

Source: Cardiff Business School/ITF Survey 1997 (Blyton et al 1998b)

Much of the rhetoric around airline restructuring assumes that politicians and airline executives are buffeted by union pressure. (Doganis 1995.) However, managers and politicians are not just responding to union pressure, as Doganis asserts, because unions are in control, very often they are not, but rather because ill-thought and precipitous change programmes have increased the likelihood of a militant response from labour. There is growing evidence, however, that labour is becoming involved in the process of change and that unions are brokering change to their members, even in countries such as Italy, Germany, Ireland and Spain where there is a nominally higher level of labour market regulation. The buzzword of partnership has recently invaded the airline management vocabulary and whilst the term is contested, there is one common and unifying meaning: it is the notion that labour should be involved in the restructuring of the industry. This might mean simply co-opting union leaderships into the change programme as occurred within Sabena under its Swiss CEO Paul Reuthlinger. As Gallagher demonstrates, the partnership policy is based on little more than a requirement for cost reductions:

> 'The push for partnership has been closely complemented by the pursuit of necessary hard cost savings. Major union concessions on job numbers and salaries have been made and there is a clear understanding that they must continue. Since the agreement with unions in October 1996 the airline has seen a 2 per cent decrease in payroll costs, and a new pre-downturn plan appropriately named 'fit for the cycle' aims at a reduction in unit seat cost of 15 per cent, by the end of 2000.' (Gallagher 1998a: 22.)

Reutlinger continues to pursue the relocation of short haul Sabena pilots away from the higher non-wage costs of Belgium, despite his more emollient stance with the unions. This type of 'co-optational partnership' can be contrasted with the more corporatist policies at both Aer Lingus and Iberia where the policy is based on genuine worker involvement and where unions accept as much as management, the need for adaptation to a hostile competitive environment. (See Blyton et al 1999.) At both carriers, management has developed a quality-based partnership (predicated on full privatisation), which seeks to retain most services in house against the general industry trend. This may seem to contradict the earlier argument about the pattern of the globalising industry, however unlike Sabena, neither carrier has been integrated into a major alliance. Aer Lingus has yet to join an alliance and Iberia has only recently become part of the Oneworld network. The crucial issue is that both carriers are, to use Encoua's (1998) terminology, late adapting carriers whose need to restructure is encouraged by their need to become integrated into one of the major alliances. As the discussion of Iberia above indicates, once integrated, these carriers could be forced to play their role within a prescribed alliance hierarchy. In that event, national industrial relations polices would be less relevant.

As we have discussed, a key variable in the development of the global airline employment pattern is the influence of national systems of regulation. Clearly countries such as Spain, Ireland, Germany, France, Belgium, the US and Japan vary enormously in their forms of labour regulation. These divergent forms of labour regulation are important limiting factors in the response to a globalised product market and can provide both threats and opportunities for organised labour. For example, as Blyton et al (1999) demonstrate, the fact Lufthansa is restrained by the German system of industrial relations from pursuing short-term cost reduction, so favoured by BA, means that it has been forced to 'adapt' by developing the Star alliance and seeking to obtain cost savings globally. However, national industrial relations particularities are not impermeable. The restructuring of Alitalia described in chapters 4 and 6 was based on an accommodation to the global convergence pressures of the airline industry rather than the Italian institutional environment. Similar pressures are taking place within both Japan Airlines and Cathay Pacific.

Unions have, as the evidence on wage premia indicates, managed to retain a great deal of control over wages and conditions. However, the diversity within unions needs to be understood. Strong labour groups, particularly pilots, benefit from labour market characteristics which have allowed them to resist or deflect change and even when accepting that change to continue to influence its implementation. These workers have also proved adept in influencing the regulatory regime, for example, in the case of the JAA proposals and in pursuing their safety and technical agenda. In doing so, these workers have been able to influence the new regulatory regime; however, they are also building more effective cross border co-operation to preserve global bargaining threat. For less skilled workers, there is less opportunity to influence the regulatory process or even to negotiate over restructuring. The erosion of wages and conditions in ground handling and the removal of favourable work rules for cabin crew, for example, has commenced and will deepen, especially as the industry enters a downward cycle. These workers have as yet been unable, despite the actions of their co-ordinating international union bodies, to influence matters at the regulatory level. Their ability to resist rests on a capacity to take strike action, given the costs to management of a successful strike, these workers still retain considerable power. However, the costs of conflict have been increased as the section on strikes and their aftermath in chapter 7 has demonstrated.

Conclusion

The refusal of regulators to address the consolidation of the industry into a tight oligopoly has had consequences for the airline labour market. In the USA, Chapter 11 bankruptcy protection pushed the burden of deregulation onto the labour force. Permissiveness on the anti-trust front allowed an unprecedented level of hub concentration. In both the USA and Europe there has been a reluctance to implement measures which increase the scope of competition and which deter consolidation. At the same time, measures which improve the supply side of labour have been prioritised.

This is not to argue that greater competition is the Holy Grail for airline labour. On the contrary, non-union market entry at depressed wage rates would be disastrous for the welfare of airline workers. On a worldwide scale, authorities have been reluctant to assess the impact of industry collaboration such as code shares and joint ventures. This is particularly the case with vertical integration through the franchising of feeder operators. Given the reduced transaction costs associated with such strategies they have become the preferred method of expansion for large carriers. It is argued that mergers, the traditional concern of regulators, are being superseded by these co-operative ventures, whose often-nebulous form makes them difficult to gauge.

However, this is no accident or oversight. In a globalised and deregulated industry, with stable costs for most inputs and finite infrastructure, airlines increasingly rely on the control of staff costs as their preferred strategy. Even when airlines increase demand by lowering prices, they fall into the trap of falling yields, which renders the control of labour costs even more important. Such a background explains the thirst of industry analysts for further labour cost reductions. Even those carriers such as British Airways and Lufthansa, which have made most progress on costs, are set to secure further cost reductions.[77] The onset of alliances is, it is argued, very much about procuring these cost reductions on a global scale.

[77] In November 1999 BA was negotiating with pilots to devolve low yield routes from London Gatwick to the low wage Cityflyer Express, a BA franchise. Negotiations were also taking place with cabin crew. The driver for these renewed attempts at cost reduction was BA's profits slump. (See Airline Business November 1999.)

Within the old regime, the form of regulation favoured all producers and particularly labour in a form of producer corporatism. Now the emerging regulatory patchwork has shifted the risk towards the airline labour force. This new form of regulation has allowed consolidation, merger, vertical integration and the achievement of cost economies across a range of functions. Simultaneously, measures which protect labour conditions, either directly or indirectly, have been jettisoned or are under increasing challenge. These policies range from the abolition of state aid for weaker carriers, the deregulation of airport handling, the proposed lifting of constraints on working hours and a more 'liberal' operating environment. This process has undermined the power and position of airline workers on a global basis. This process of *global product market convergence* will increasingly shape and influence policy although it will continue to be mitigated by systems of industrial relations and labour market regulation within particular nations. However, as carriers seek to undermine labour regulation through supranational channels, these systems will often be superseded.

As described in chapter 5, it is not enough for carriers to pursue their own labour strategies within the industry, facing the resistance of organised labour. They increasingly seek to escape national constraints, confronting labour at a global level. This new era of *global product market convergence* effectively provides a re-regulation of the product market on the basis of the interests of the dominant firms whilst deregulating the labour market and allowing these firms to manage and control labour costs as never before. Airline workers are experiencing trends evident in other deregulated industries as described in chapter 1. Labour, as the final section indicated, has resisted and continues to resist. In particular, through industrial action where it has asserted its right to be involved in the restructuring process. However, labour is employing more long-term strategies. In particular, addressing its concerns through international trade union bodies such as the ITF and through international trade union co-operation, particularly within alliances. Its success and failure is very much dependent upon its strength and resources which vary across occupational groups. Though many airline workers have benefited from their own scarcity and power, the new environment is much more difficult for labour. As in other industries a deepening globalisation presents new threats and challenges for organised workers.

Labour's response and adaptation to this emerging regulatory environment will determine the landscape of the airline industry beyond the millennium.

9

Conclusion

In the opening chapter we introduced the issue of deregulation, with the argument that whilst the policy is almost always publicly justified on the basis of allocative efficiency, the labour market often assumes great importance. Labour market deregulation occurs because the state not only withdraws its control over prices and market structure, but also because it permits a regulatory framework conducive to labour market reform. That is one, which allows the *re-regulation* of the product market whilst affording management the scope to restructure the labour market. This is often though indirectly, a consequence of decisions made in the regulatory arena. It was demonstrated that in the case of UK bus deregulation, the state fostered a market structure which favoured the largest operators and allowed them to acquire their competitors. Following the massive wave of consolidation and merger, labour lost out in terms of wages, and conditions and witnessed the decline of collective bargaining and unionisation. It was demonstrated that the real impact of regulatory reform in the bus industry case was to reduce the rents, purported to accrue to labour. Further evidence for this was provided by a number of studies including US trucking, and UK ports and utilities. With labour weakened and with its bargaining power neutralised, a general attack on unionisation and collective bargaining took place.

Permissiveness and tolerance of concentration, merger and market dominance, have effects on the labour market as was argued in the case of price reform within US rail freight. Eventually the confluence of deregulation, product market change and regulatory intervention/nonintervention, change the labour market and employment relationship. In the US it was not just the deregulation of trucking, but state permissiveness on mergers and consolidation which broke the power of the Teamsters' union by allowing the largest firms to confront organised labour.

To truly understand these interconnections required a study of an industry, which has been subjected to regulation, and then deregulation in various stages, and to examine and explain the developments in regulatory, product and labour market change. Such an understanding of regulation had to be comparative across contrasting economic and political systems, and it was therefore decided to undertake a study of the airline industry in both the US and Europe. This approach provided an emerging comparison of the interplay between the forces described.

It was necessary therefore to develop an understanding of the linkages between regulatory, product and labour market change. How did the state enact regulatory structures, which offered capital protected markets, free from excessive competition, thus protecting prices? How were labour's interests addressed within this framework and wider legislation? Thirdly, did labour and capital pursue their interests within recognised constraints, delimited by the state's own desire for stability and growth? In short we argued that under regulation capital could make profits whilst labour could bargain freely for a share of those profits. Thus **chapter 2** developed an analysis of this *regulatory compact* which had arisen in the US and UK airline industries. The chapter demonstrated how the state encouraged the parties at various stages to move from positions of contestation, towards one of limited contractual co-operation, enforced through collective bargaining and product market regulation. So whilst in the US the state strengthened the hand of labour through the legislation of the New Deal period and the thorough 'technical' regulations such as Decision 83, curtailing the power of employers in the process, this was conditional. It did not hesitate to curb labour's bargaining power, by permitting the Mutual Aid Pact of 1957, when it judged labour's action detrimental to the future stability of the industry.

In the UK the state was seen to intervene against the autocratic management of Imperial Airways by providing limited bargaining freedoms to labour, whilst eventually constraining the most powerful labour groups within the structures of bargained corporatism. In the USA firm level bargaining took place, with multiple unions and multiple representation for occupational groups. This benefited workers with industry specific skills such as pilots and maintenance personnel, with their potent and largely un-fragmented craft bargaining power. In Europe, exemplified by the UK, state ownership meant national level bargaining, often with a single employer, where labour's disruptive power was counteracted by highly codified procedurally-based industrial relations institutions, typified by the UK's NJC CAT. Within that framework pilots as the key occupational group were constrained and limited, although the structure of the UK industry meant that when they decided to exercise their power the disruption would be much more immediate and widespread than in the US. The state's intervention however was not static. The state reserved its right to 're-balance' the regulated employment relationship when it saw the need as occurred with the Mutual Aid Pact and limited market entry in the early 1970s, and the UK government's intervention of the 1970s.

Having analysed the nature of industrial relations and collective bargaining within the *regulated* era, a more grounded understanding of what transpired in the de-regulated era became possible. Having seen in a sense what went before, it became easier to put into context what followed. This allows the focus on regulatory change to be located, not as a novel and distinct 'event', but as a continuing and evolving process.

Chapter 4 therefore examined how *deregulation* affected pilots as the strongest and most organised occupational group. Evidence from both the US and Europe described the experience of pilots as varied and complex. Whilst data on earnings from the US show that pilots suffered falls in line with general earnings, this data can be compared with other evidence which charts the change between regulated and deregulated regimes indicating that pilots lost out significantly in the short-term.

The earnings and employment picture and thus pilot fortunes on the bargaining front were examined. Given their ability to maintain protective rules on scheduling and their long run ability to protect wages, pilots made tempting targets in a downturn. The state's refusal to implement the protective clauses in the Airline Deregulation Act of 1978 meant that it was almost impossible for US airline labour to establish a link between deregulation and specific job losses, and avoid these totally as first hoped.

It is easy to lose sight of the fact that pilots suffered when we look at the longer-term aggregated earnings data. But lose ground they did, largely through wage freezes and wage cuts, curtailment of pension rights, loss of health benefits and a raft of other concessions. But since pilots tended to recoup their losses in periods of expansion, real and pronounced short-term reductions in pilot wages were disguised in pay studies such as that by Johnson (1995). Even deep cuts in wages could always be recouped. The periodic tightness of the pilot labour market made it difficult for carriers to discipline wage expectations with two-tier wages in any case. These gains were liable to swing back to labour in better times, and sometimes as in the case of Northwest's 1998 contract could be taken back with interest. Perhaps more important was the fact that pilots managed to preserve for the most part their restrictive work rules on crewing and scheduling. This rendered negotiations an ever-receding horizon for airline management, and encouraged a new approach towards restructuring characterised by ESOPs. Arguably the quantum shift came with the United Airline's deal, whereby labour, particularly pilots, agreed to increased productivity and lower earnings in exchange for participation in the management of the carrier. Whilst they continued to try and influence regulatory policy it seems that in the US at least pilots were seeking to develop their influence within the firm.

In Europe we noted that regulation and a 'negotiated' deregulatory environment was blamed for the fact that pilots delivered lower relative productivity and enjoyed higher relative wages than their US counterparts. The productive hours and utilisation of European pilots were lower due in part to differences in route structure, and stage length. Nevertheless, many ascribed this to the persistence of state ownership and attendant rent sharing. In a sense this aspect revisited the discussion initiated in **chapter 1**, where the usual rent seeking explanation that labour profits under regulation, and then loses under deregulation, was seen as inadequate. It was stressed that we had to look both at countries and sectors, and at differences both between and within occupational groups. Thus there was evidence from both the US and Europe of pressure on pilot pay and benefits from the entrance of low cost carriers, the creation of regional operations and the extension of franchising.

The pattern was very much set by US experience. Non-union entry provided a cost comparison against which management could benchmark costs within the majors. The major carriers introduced limited two tier wage levels and modified work rules to counteract the low cost threat. By allowing bankrupt carriers only to service their debts, and to break their contractual obligations on wages and conditions, the state strengthened the hand of employers.

By the time the industry settled into a post bankruptcy pattern of consolidation, labour recouped losses suffered in the earlier period. However, the state left the machinery of the Railway Labour Act intact; its refusal to deal with the consequences of the regulatory environment allowing employers the upper hand. In that sense the state recognised the need for carriers to restructure their labour costs in the light of deregulation and provided a regulatory framework tolerance of bankruptcy and permissiveness on concentration, which allowed carriers to focus on labour costs. In Europe, whilst deregulation has not been as precipitate as the US, arguably management's response has been more pronounced. As carriers respond to deregulation and the entry of new carriers they develop cost reduction strategies. Low yield services are spun out and expansion in these markets is procured by policies of external growth, namely franchising. The effect of such low cost policies was shown when UK pilot salaries were related to the salaries of both low cost subsidiaries and franchise carriers. As in the USA European pilots, particularly those at the state owned carriers, have faced demands for wage cuts, and work rule changes. This is due to the withdrawal of state aid and the threat of new entrants especially after the liberalisation of intra-European services in 1996. However given the considerable bargaining power, which pilots even in weakened state carriers continue to hold, many of these strikes have ended in stalemate. Often restructuring occurs with equity based concession as witnessed at Air France, Alitalia and a number of other European carriers. At the same time pilots in Europe have rather adeptly moved towards bargaining with supranational authorities, sensing that it is here and not within individual airlines, major decisions affecting their livelihoods are made. Thus the lobbying of the European pilot unions over the introduction of more relaxed regulatory rules on cockpit hours, a measure which would have cut across national jurisdictions, indicates this desire to continue to seek influence where it can best be used. Looking at both the USA and Europe therefore the picture is mixed. Pilots continue to enjoy the strength of their unique disruptive capability, though are unable to resist all of the changes being introduced, but they retain significant bargaining power, though the costs of their taking action are higher than under a regulated/state controlled environment. We analysed these changes in terms of the *competitive disengagement model* of restructuring. In essence the withdrawal of the state in both nations had fairly major consequences for pilots, but long-run sustained demand for pilots and the effectiveness of strike action allowed pilots to resist. Whilst there has been some tailing off in wage levels it is not clear that this describes a long-term trend. The experience of the US industry suggests that pilots will sustain their earnings and protect many of their work rules. The environment in which they are attempting to do this is however a more hostile one and concessions have come because pilots have been convinced of their necessity in the face of a transformed industry environment.

Pilots, as we have noted, are specialised labour and the analysis of them in both the regulated and deregulated periods is intended to indicate what happens to the most powerful labour group within the industry. To understand what happened to workers generally it is necessary to look at the outcome for less powerful occupational groups. Those workers who did not have the skill premium or bargaining power of pilots were interesting for a number of reasons. These workers continue to enjoy a significant earnings premium above comparable workers in outside industry. Workers develop the expectation favoured by long run state involvement and the prestige, which often attaches to airline jobs that these premium wages are part of the package of working in civil air transport. This perception is heightened when those workers are employed within large and profitable airlines. One of the reasons why workers have resisted the demands for lower wage levels greater productivity and more flexible working practices is that they cling to the employment contract of the regulated period. Thus expectations of the labour contract under deregulation are informed by past experience, this phenomenon is identified by the author as the *regulatory overhang*. This is especially relevant when the carrier has been state owned, where premium terms and conditions apply for all industries. In order to investigate this it was decided focus on a case study of a large successful carrier, which had demonstrated long run profitability, on the basis of post deregulation expansion, from a history of state ownership. British Airways fulfilled that criteria and **chapters 5 and 6** formed the core of this case study into the concept of the *regulatory overhang*. This involved a large-scale questionnaire survey of general occupations within the industry in order to determine the extent of the overhang.

In **chapter 5** the case study was contextualised with a brief description of the post privatisation history of British Airways. It was argued that the carrier was privatised into a 'negotiated environment' where its 'global platform' of a comprehensive route network and domination of the world's principal international hub allowed expansion. Management strategy at that time emphasised customer service and quality. Within such a framework trade unionism and collective bargaining were tolerated, though the culture change programme attempted to marginalise these perceived hangovers of nationalisation. This had no lasting effect on trade union organisation *per se* as strong union representation existed at other levels of the organisation. Wages increased and terms and conditions were preserved largely intact. The carrier profited from its ability to undertake growth in key expanding markets, and to acquire the routes and equipment of UK competitors. In this period product market deregulation was confined to mutually negotiated bilateral pacts, and the carrier's major hub was protected from further encroachment. Competition consisted mainly of weakened US carriers with poor service reputations although all of this changed as **chapter 5** indicated. The replacement of weakened US carriers by vibrant and profitable ones, and the presence of Virgin Atlantic, was accompanied by the entry of low cost domestic airlines. To adjust to this new product environment the carrier began to re-evaluate its operations, involving several pronounced changes in labour conditions.

Firstly, the understanding on national wages and conditions and the unified firm focus was broken by the creation of regional business units and franchising. By about 1994 competition from a new breed of low cost, non-union carrier, typified by the Luton based Easyjet, began to demonstrate the possibility of a lower cost base. The working practices of these carriers were characterised by a high incidence of seasonal and atypical contracts, short training periods and wages reflecting external 'market rates.' Secondly, the presence of low cost carriers forced management to look at the way in which labour was utilised within the airline, and to radically re-evaluate the cost base, in particular the wage premia accruing to most BA workers. Labour however was still wedded to the unified firm focus, full time work, premium earnings and a commitment to company wide collective bargaining. What then would be its view of such changes? The survey was designed to look at all of these issues and to ascertain employee attitudes. Having been conducted amongst unionised workers in the Autumn of 1996 when attitudes on new employment polices and management strategies apparent since the early 1990s had had time to permeate, the survey provided a timely insight into change within BA.

Chapter 6 provided the questionnaire evidence and it was seen that in the majority of cases unionised workers in the survey sample opposed BA's policies to procure low cost services across regional and European services. The results were similar for workers based in the regions and those based at the main bases. Another set of questions sought the view of unionised workers on the extension of part-time work. BA is seeking temporal flexibility in order to service peaks and troughs in demand efficiently. The responses here were equally negative indicating that such workers see the extension of such working practices as a threat to the premium terms and conditions enjoyed by BA workers, who lead the UK industry in terms of remuneration and working conditions. The issue of outsourcing and other contentious issues of the period were also addressed in the survey. The issue was viewed in terms of how workers would see being separated from the unified firm, as exploratory interviews had shown general and predictable hostility to outsourcing. Outsourcing often took place during the survey period and since, under the threat of the airline withdrawing completely from many activities. The unionised workforce rejected this 'core/periphery airline' concept. When asked what aspects of working for BA would be missed in the event of outsourcing, they provided some interesting responses.

Most important in terms of worker ranking was the job security of working for a large airline, followed by the protection of national terms and conditions and the protection of trade union agreements. Interestingly the more unitarist statement 'the common purpose of working exclusively for BA' was ranked highest by only half of respondents. This indicates that the terms, conditions, and job security, all of which can be traced back to the regulated era, are uppermost in workers' minds, providing more evidence of the *regulatory overhang*.

However the *regulatory overhang* is not a permanent effect, it can be and is modified by the competitive environment. At the time of the survey, BA was adjusting to a new globalised environment. Over a third of respondents supported the statement that cost reduction should be seen as the overriding priority, and three quarters supported the strategy of 'increasing productivity as much as possible.' High levels of support were indicated for ending state aid to BA competitors, taking over and acquiring other airlines and building alliances with other carriers. There was little support for the policy of moving functions abroad to lower labour cost countries. When these globalisation policies were operationalised into specific statements about employment, a different picture emerged.

A significant proportion believed that globalisation would lead to reduced job security, specifically moving jobs to low labour cost nations. These misgivings were then translated into direct effects on the jobs of the respondents. Thus the majority felt that such polices would lead to reduced wages and benefits. In addition, a lower number believed that it would lead to reduced allowances and shift payments. This was similar across the two principal trade unions covered: the TGWU and the AEEU. Given the importance of collective bargaining and national level negotiation in preserving aspects of the *regulatory overhang* a final set of questions looked at employee perceptions of the proposed abolition of national collective bargaining. The majority of respondents felt that unions would be marginalised, that workers would be under the constant threat of outsourcing and franchising, that management would bypass trade unions, and that pay and conditions would be negatively affected. Most were sceptical that there would be any positive outcome. The existence of national level, or in BA's case company wide, collective bargaining is in a sense the institutional lynchpin of the regulated compact, something which BA explicitly recognised when they tried to abolish it in 1996. The process of national bargaining was seen to guarantee all the benefits that accrued since regulation, and which workers wish to retain. Thus, the perceptions of general employees are revealed in the survey to be influenced by the past regulatory compact and the bargaining environment that accompanied it.

Having established the *regulatory overhang* and management attempts to undermine it within the British airline industry it then became necessary to investigate trends within Europe. Thus, **chapter 7** looked at how European airline management has responded to the deregulated environment in its own attempts to force change. European airline workers had enjoyed wages high above external industry, and nationalised and Southern European carriers in particular enjoyed this protection above others. The resilience of the Airline Wage Premium (AWP) was indicated in the case of the UK where despite ten years of privatisation and deregulation the premium for workers in air transport has remained high and stable, outstripping earnings in all other services and in the highly paid manufacturing sector. The vulnerability of these premium terms and conditions was demonstrated in our analysis of management strategy within Europe. We saw that airlines were seeking wage cuts and work rule changes as in the US, but in many cases going much further. A new pattern of industry organisation based on the procurement of low cost in service provision and competitiveness in core airline services threatened airline labour in Europe. Certain occupational groups such as ground and support staff were more vulnerable to these strategies than others such as engineers and pilots. In order to examine the process of restructuring within Europe we utilised the *labour market restructuring* model. This indicated that particularly in the case of Southern European carriers such as Alitalia and Iberia, restructuring was premised on a need to confront the power of organised labour. Detailed case studies of Air France, Alitalia, and Lufthansa indicated the product and labour market constraints faced by these carriers, and the different approaches towards restructuring. It was argued that quite often the tactical deficiencies of senior management exacerbated conflict and provoked an inevitable reaction. Nevertheless, European airline workers faced a major challenge as the industry began to restructure based on a global product market and regulatory regime. The search for market rates as labour cost become central saw a concerted attempt to erode the airline premium, as **chapter 7** indicated.

Chapter 7 demonstrated the tortuous nature of deregulation and labour market change in Europe, and the difficulties carriers face in confronting organised labour within individual nations and airlines. **Chapter** 8 demonstrates how labour's capacity to resist is being undermined by a process of global product market convergence. Firstly, the emerging industry pattern of consolidation and merger allows carriers to attain economies of scale and scope, allowing ongoing labour cost reduction. Secondly, the entry of low cost carriers allowed cost comparisons with unionised and state carriers, and thus a downward pressure on labour costs. Thirdly, a process of industry restructuring around core strategies of network management and service provision has allowed ancillary services to be divorced form core airline operations. Fourthly, a related pattern of alliances and collaboration is allowing carriers the scope to procure cost options over a wide range of carriers and affords the possibility for cost containment on the basis of yield. All of these aspects of global product market convergence negatively impact upon the terms and conditions of airline labour.

But a further dimension of *global product market convergence* is the willingness of regulators to pursue supply side reforms in the labour market, whilst remaining largely tolerant of industry consolidation. The state, with a new goal of fostering national and supranational champions, is increasingly supporting carrier pressure for labour market reform. The development of alliances presents regulators with the conundrum of how to regulate without inhibiting the growth of strong regional alliance partners. The aim of most regulators is to nurture their own home based carriers into alliance networks and to aid them in assuming dominance. Increasingly domestic competition and market access have come second to the projection of that global strength. In Europe the regulatory permissiveness of large scale alliances and policies on state aid and restructuring have allowed airline management to restructure the labour market. These measures, which allow deep restructuring of costs and large improvements in productivity, are designed quite literally to fatten 'moribund' state airlines for the alliance market. Once integrated into the alliance networks their role is unclear, although their routes and functions are likely to be rationalised.

Since many of the protections labour enjoys are nested within specific local labour market arrangements, and labour tends to be strong and combative, a new approach has been adopted towards confronting labour within alliances. Thus the push towards harmonisation and a level playing field is designed in effect to level specific national labour market conditions, which protect airline labour. The deregulation of ground handling arrangements and the creeping harmonisation of flight crew duty hours and licensing requirements is fundamentally, and at root, an attempt to circumvent the effect of national labour market regulation. This is not to say that labour has been quiescent or complacent in that process.

We noted how labour was able to influence that process through industrial action. Despite platitudinous statements that nobody wins in a strike situation, clearly airline workers have gained from deploying that tactic. This is the case whether unions operate within first mover or late adapting carriers, because the issues under dispute though similar are often simply at different stages. It is perhaps surprising, that pilots who have the most industry specific skills and the most human capital invested in the airline industry have been at the forefront of disputes and threatened disputes, but they have in almost every carrier, in every corner of the globe, a great deal to lose. It is not just through strike action. Unions are increasingly taking to the road of cross union collaboration, building alliances within and between occupational groups to push forward the labour agenda. International federations have long existed but new times in the industry have re-vitalised them. Labour is also to a large degree at least tactically and strategically co-operating with airline management, as both face a hostile environment. Often this works best when it occurs against a background of traditional industrial relations, and when some form of participation is involved be it employee equity, board representation or forms of ownership and governance. At United airlines and a range of other North American operators, ESOPS have been used to motivate employees into concessions. Whilst legal, political and institutional obstacles prevent widespread ESOP type solutions in Europe, other forms of management/employee co-determination exist there. Lufthansa with its supervisory board and labour direct strategic and corporate involvement has to an extent managed to square the restructuring circle. Aer Lingus, long written off as a 'basket case" airline hobbled by excessive labour market regulation and government interference, has made a steady if not entirely pain free advance from state controlled chaos to state shepherded transformation. Labour has been fully involved and included in that profoundly corporatist partnership process.

At the root of restructuring and transformation within the industry is a simple but key issue. Labour needs some say in the future shape and structure of the airline industry; alliances cannot and should not be made above the heads of workers in the industry. Undoubtedly, the persistence of the 'regulatory overhang' in the expectations of airline workers means that in most airlines, workers will initially resist restructuring. But the evidence indicates that workers accept the need for change, recognising the changed environment and the fact that national protections and previous competitive advantages cannot be retained. If firms can collaborate and influence regulator policy, then workers and their trade unions should be allowed to do the same. Key labour groups have demonstrated that they have enormous power to disrupt even within the new regulatory framework. As the industry emerges towards a global structure of inter-firm collaboration tempting management into rationalisation on the basis of labour costs, unions will seek influence. Without a seat at the regulatory table, labour is developing its own methods of cross national influence and solidarity.

This is the rationale for the cross-national trade union alliances, which are being built across the industry (Gill (2) 1998: 16). Only a framework of regulation, which involves all parties, can and will avoid this.

With the vesting of enormous power in the hands of the major airlines, there is need for a system of regulation and restructuring, which respects the commercial freedom of carriers, but involves labour as a stakeholder. The consequences of labour's estrangement are seen in the various strikes and disputes at Air France and British Airways. Both episodes show that even where management has the institutional freedom to pursue its interests to the end, it is always constrained. BA could use the UK's employment laws to dismiss striking cabin crew but did not. The implications for morale, commitment and thus service quality were probably the most important constraint on this action. In Air France, though the unions have the law on their side they have not completely defeated the company's restructuring plan. Partly this is because the weakness of Air France's position in the airline market. The unions are aware that with the removal of state subsidy and the protection of 'cosy' bilateral agreements future job security is under threat.

In the US which was 'first mover' in the deregulation process the fortunes of labour have settled down. Pilots at Northwest, as we discussed, have effectively eliminated two tier wage scales and secured a 12 per cent increase over the four-year contract. An important aspect of the strike was the internationally co-ordinated support from KLM pilots who refused to operate Northwest flights and the support of other pilot groups. This is yet another indication that labour deserves and demands to be listened to, and increasingly labour is asserting that right in various ways. When pilots at Delta vetoed a code share with United Airlines, believing this would lead the carrier into a subordinate role, they were expressing their misgivings about a regulatory system, which allows carriers great freedom of action, and potentially threatens jobs and conditions. (Gill 1998 : 11.) Labour therefore needs to be involved in the regulatory process, not in a partial or technical role, but as a key stakeholder within the industry. This approach is a long way off, but not impossible. Without labour's involvement on issues such as cabin crew licensing and flight duty limitations only airline employers' voices will be heard. The regulatory process has already provided the framework for management to obtain economies of scale and reduce labour costs; some recognition of labour right to participate would begin to bring labour into that process also.

Suggestions for Future Research

One of the principal findings of the thesis was the persistence of a *regulatory overhang* in terms of the expectations of airline workers. It was clear from the BA survey that this would continue to frustrate attempts to restructure the airline industry. Future research should try to measure this more definitively and analyse it over time. The importance of the case study approach was shown in the analysis of British Airways. The author would suggest six principal directions for future research in airline employment. Firstly, more case studies and qualitative investigations are needed. This will allow the full depth and extent of employment relations to be understood, allowing research to get beyond the aggregates and headlines, which tend to characterise the field.[78] Secondly, there is a need for data to be collected on the goals and aspirations of airline unions. An international survey on restructuring and labour issues was conducted for the International Transport Workers' Federation as part of the same project. Thirdly, whilst there has been a great deal of concern within airline industry circles about the impact of alliances upon competition and market structure, it would be timely to conduct a study of the employment impact. The incidence of crew sharing and facilities pooling has had limited effect but employment impacts can be expected in the future. Fourthly, work needs to be done on the micro-level interactions between firms and labour markets in the airline industry, particularly in respect of the spread of outsourcing and franchising. What sorts of contracting and employment relationships are airlines hoping to develop? How sustainable are these from the point of view of employee commitment and motivation? Is the 'virtual airline' no more than a concept, a consultant's dream, or are management actively seeking to pursue such strategies? Will the policy witnessed in both the USA and Europe of 'de-structuring' areas such as cabin crew and ground handling by the introduction of temporary contract and tiered wage structures, lead to adverse effects on quality?

[78] The author is jointly involved in a four case comparison funded by the Leverhulme Foundation and based at Cardiff Business School, to investigate developments in employment and restructuring in four major European carriers.

In this regard, research needs to be carried out on the low cost sector and the premium sector given the latter's tendency to subcontract most functions. How do such carriers manage without unions and collective bargaining? To what extent are major airlines following suit? In addition there is a need for research on the increasing use of financial participation in the global airline industry. Are workers being given shares in a depreciating asset, in the hope that they will trade wages and work rules; are structures genuinely participatory or merely using labour for concessions? Do such policies offer an optimum restructuring strategy in weak state airlines? Finally the thesis has shown that the airline industry is developing an increasingly global focus, it would therefore be worthwhile for researchers to address the implications of these trends for bargaining and industrial relations. Will global collective bargaining develop across alliances? Will there be global benchmarking of wages and conditions within alliance groups? How and in what ways can labour influence these developments? These questions and issues suggest a research and policy agenda for airline labour relations, which is distinct from costs and productivity. Though neglected in the European literature to date, the airline industry is a complex and fascinating sector, two adjectives, which describe why industrial relations scholars should be addressing it in greater numbers. The author hopes to have provided some encouragement to that endeavour, by developing an analysis of the industrial relations and regulatory environment of the industry.

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