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IAM District 100 Vs. Eastern and the Banks

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Abstract

The story that follows is a story of how IAM District 100, step by step, escalated a struggle over almost every major issue facing the labor movement today: concessions, control of corporate investment decisions, the power of the financial industry, management- initiated "employee involvement" schemes, workers' education, joint control over large corporate pension funds, and union leadership style. The Machinists at Eastern would begin this struggle on the shop floor and eventually take it to Eastern's stockholders meetings and to the boardrooms of the world's largest financial institutions. In this bleak period for labor, where unions are battling daily against corporate demands for concessions, IAM District 100 had the harder task of ending concessions that had already been granted.

Keywords

IAM, District 100, Eastern Airlines, negotiations, financial industry

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IAM District 100 Vs. Eastern and the Banks

by Andrew R. Banks

The Eastern Air Lines company cafeteria is packed. But those waiting in line are not there to eat lunch. The year is 1974 and thousands of Eastern's ramp servicers, baggage handlers, and mechanics have waited since their shift ended at 3:30 p.m. to vote in an election. This is not an election for union recognition (these workers have been represented by Machinists District No. 100 since 1939). It is an election to determine the board of directors of Eastern's credit union, which covers all of Eastern's 40,000 employees.

In previous years the credit union, then worth about \$100 million, had a board made almost entirely of management employees. The International Association of Machinists (IAM) had asked for some representation on the board and were turned down. So the union decided to run its own slate. The mood is militant. White-collar management employees are at the end of the line (their workday ends at 4:30 p.m.). The Machinists begin to get rowdy, chanting union and anti-management slogans. Management voters are becoming increasingly uncomfortable and begin to leave. The IAM wins a solid majority of directors' seats. Eastern and its credit union will never be the same.

The new credit union made many changes, but when they appointed an aircraft electrician as chief administrator, the entire credit union industry became uneasy. Despite the fact that Eastern (EAL) itself was on the verge of bankruptcy, they had insisted that

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the IAM "grease monkeys" didn't have the ability to effectively operate such a large financial institution. Over the next nine years, the board would make many innovations: streamlining management, paying close attention to the investment of credit union assets, and offering more services such as low interest loans and free checking. The Eastern credit union is now the largest industrial credit union in the world, worth nearly half a billion dollars, a 500% increase in nine years. Frank Borman, Chairman of the Board and President of Eastern Air Lines, claims that the company is still on the brink of financial disaster.

Little did the workers know in 1974 what an important event was transpiring when they captured control of their credit union. Lessons in administering the credit union would give many rank-and-file members—some of whom would become future leaders of the union—the wherewithal to challenge management in the operation of Eastern Air Lines itself.

The story that follows is a story of how IAM District 100, step by step, escalated a struggle over almost every major issue facing the labor movement today: concessions, control of corporate investment decisions, the power of the financial industry, management-initiated "employee involvement" schemes, workers' education, joint control over large corporate pension funds, and union leadership style.

The Machinists at Eastern would begin this struggle on the shop floor and eventually take it to Eastern's stockholders meetings and to the boardrooms of the world's largest financial institutions.

In this bleak period for labor, where unions are battling daily against corporate demands for concessions, IAM District 100 had the harder task of ending concessions that had already been granted.

The airline industry is one of the most heavily unionized sectors of the U.S. economy. Union-negotiated wages and benefits, particularly because of airline regulation, are higher than in other industries. But because of the deregulation of airlines in 1978, higher fuel costs, a series of deep recessions, and in many cases incompetent management, many airlines are in severe financial trouble. The predominant union among airline ground crews is the Machinists union. Since airline workers are covered by the Railway Labor Act instead of Taft-Hartley, representation is certified company-wide. Therefore, airline collective bargaining agreements resemble the national contracts of the auto and steel industry in this respect. In fact, the Machinists have fought hard to maintain a tradition of an "industry standard" contract. The Machinists have insisted that industry competition must not take place through a bidding war with

airline workers' wages. Even Delta Airlines, the only major non-union airline, responds to this pressure; it has historically paid its workforce from \$1 to \$3 per hour above the industry standard.

Frank Borman has emerged as the leading industry spokesperson, and Eastern has experimented with some very "innovative" (if inequitable) labor relations practices. In 1981 Borman commissioned a study by Robert Joedicke of Lehman Brothers Kuhn Loeb for financial community justification of these new practices. The study, *The Goose that Laid the Golden Egg: An Airline Industry Monograph*, blamed the workers and their union for the industry's woes and recommended major changes in management's approach to unions.

Joedicke's report provided a stunning insight into Borman's labor relations strategy. It called for wage givebacks, introduction of more pay grades, speed-ups, working out of classification, and the introduction of "employee involvement" programs and profit-sharing schemes. Joedicke suggests that management create an atmosphere of impending doom to extract these concessions. Under the guise of "cooperation for mutual benefit," Joedicke's message hits home when he states "such action has occurred in the past only when individual airlines have been in financial disasters to such a degree that union membership has felt threatened as to its very livelihood."

Finally, Joedicke saw a potential danger in a rank-and-file backlash through the election of a more militant leadership. He advised management to tell workers that:

Changing union representation to naive candidates who promise unrealistic goals to the rank and file will not change the outcome in the long run since it will be impossible to get blood out of a stone. . . .

As we will see, Joedicke's blueprint for a management strategy of concessions was taken seriously by Eastern's management.

Concessions and the Variable Earnings Program

In 1975, amid industry and press accounts of impending bankruptcy for Eastern, all of EAL's unions agreed to a one-year pay freeze and a personnel reduction of about 2,000 employees. This first round of concessions was worth at least \$80 million to the company. Eastern went from declaring a net loss of \$95 million in 1975 to a net gain of \$39.1 million in 1976. Eastern, however, was not satisfied with the concessions it had extracted from its workers. It wanted more, and developed a strategy to institutionalize substantial givebacks.

Three years later the union would uncover a confidential correspondence to Frank Borman entitled "Wage and Salary Program for 1977—and Beyond." William R. Howard, Senior Vice President of Industrial Relations, lamented that the "wage freeze was presented as a 'one-shot' program which will die at the end of 1977 unless some positive steps are undertaken." The May 7, 1976 memo stated that one of the major obstacles to advancing a new program of concessions "will be the recent apparent 'turnaround' of the company, since most employees probably see Eastern as less imperiled today than a year ago."

Howard's solution was three-fold. First, a new wage giveback program must be presented as a profit-sharing plan. Secondly, Eastern must manipulate and present its financial data in a way that makes the company appear to be in trouble. Howard suggested that Eastern announce its new concessions program in October rather than in May because of the cyclical nature of airline profits:

Any announcement of a new program at about (October) would almost certainly follow two months of serious losses and would be far more timely then, in my opinion, than any announcement at this time, on the heels of four months of excellent profits.

The third aspect of the new concessions program was to make it for a period of five years.

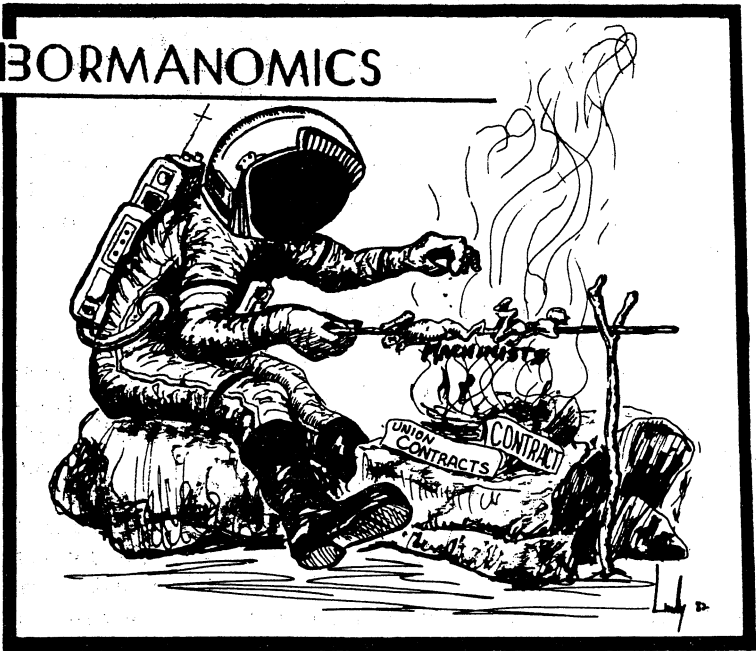
With some minor changes, Howard's proposal was accepted by the company and was labeled the Variable Earnings Program (VEP). The IAM agreed to the program for five years to expire July 4, 1982.

The VEP was sold as a profit-sharing plan. Workers would give back 3.5% of their wages each year, and if the company's profits were greater than 2% of gross revenues, the workers would receive a portion of these profits back. In five years Eastern workers lost over \$100 million under the VEP. As the IAM points out, this concession was worth more than the total value of Eastern's stock.

The District 100 leadership had sold the VEP very heavily as an investment in the company. When the rank and file eventually realized that the VEP was not a profit-sharing program but a wage concession, they felt betrayed.

In 1980, the membership elected a new District 100 president, Charles Bryan. Bryan's central campaign promise was to end the VEP and concessionary bargaining. Essential to this effort would be Bryan's belief that the union must have the expertise to analyze and expose misleading company financial data and unrealistic profit-sharing schemes.

BORMANOMICS



The company had found it easier to extract concessions from Bryan's predecessor and immediately proceeded to "teach the union a lesson." The first skirmish in what would become a protracted war occurred during Bryan's first week in office. The company decided to strictly enforce a coffee break policy in its maintenance shops in Miami. Traditionally, workers would take their 15-minute break when a job was completed and when lines were small in the break room. Now management demanded that all of the hundreds of Miami base shop workers take their break at the same time. When workers waiting in long lines for coffee were told to go back to work, they refused to do so until they received their coffee. The company then fired one 62-year-old worker for "spilling water" on a supervisor and deducted 12 minutes of pay from hundreds of paychecks.

Bryan felt the company was trying to force a wildcat strike. They would then picture the new union leadership as "crazy militants." Instead, Bryan went on a public campaign decrying Eastern's tactics as those of Martin Ludwig Bormann's scorched earth policy. Union members began wearing buttons demanding the company "Free the EAL Hostages," and the union issued bulletins and press releases

contending that "EAL USES IRAN'S TACTICS." This public embarrassment at the time that the U.S. Embassy in Iran was seized proved to be too much for Eastern. All pay deductions were returned to the workers, all disciplined workers were fully reinstated, and all previous break privileges were restored. Both sides had learned a lot about each other. EAL learned it would take a lot to get Bryan to overreact. Bryan learned the company would try almost anything to discredit the union, but that it also was very vulnerable to public scrutiny.

Pension Fund Research

Eastern administers and completely controls its employees' pension funds. Although these funds are legally the deferred wages of Eastern workers, the IAM, like most industrial unions, never bothered to seek control. The Machinists' fund at Eastern is currently worth over \$160 million, and all pension funds at Eastern are valued at well over \$1 billion.

In 1979 Marty Urra, editor of IAM Lodge 702's newspaper, attended a seminar at Florida International University's Center for Labor Research Studies. Urra was shocked to learn that the pension funds, the investments of which were largely controlled by banks and insurance companies, were being used to undermine the very jobs of those workers who legally owned them. U.S. workers' pension funds, which represent the largest pool of investment capital in the world, are financing the move of multi-national corporations overseas and to the non-union South. Urra was also to learn how these funds were being manipulated and that most had historically returned less on their investments than the passbook savings accounts at local saving and loan institutions. In this seminar Urra learned of growing union interest in gaining a role in the investment and control of workers' pension funds.

The seminar also taught how the smaller but jointly controlled pension funds of building trades unions were making higher returns, increasing benefits, giving low interest rates on members' home mortgages, and investing in projects that put unemployed members to work. Lastly, Urra learned how to use public documents such as the U.S. Labor Department's 5500 form to decipher exactly what was going on in his own pension fund. He discovered how an analysis of these documents can give unions important insights, not only about pension funds but also a company's entire financial operation.

At the time Charles Bryan won his election in January 1980, Marty Urra became president of Local Lodge 702 in Miami. Lodge 702 is

the largest local in District 100 and accounts for approximately one-half of the District's 13,500 Eastern membership. As 702 president, Urra began to investigate Eastern's pension fund. He found that the fund was returning very little on investments and that company figures distorted the company's contributions.

Later, during negotiations in 1982, the company was eager to point out that the average Eastern worker had \$1.19 per hour paid into the pension fund and that the industry standard for Machinist classifications was only \$1.08 per hour. To the company's surprise, the union had discovered that while the "average" company contribution may have been \$1.19 per hour at EAL, it was only because pilots received \$4.86 per hour while the Machinists received only \$.71. Thus, the union explained, if the company was willing to contribute the industry standard, Machinists at EAL would receive a 32% increase.

Charles Bryan appointed Urra to head a pension research committee and hired union consultant and pension expert Randy Barber to look into deeper issues.

One of the things the committee discovered was that by hiring an actuary who would unilaterally change the pension funds *investment return assumption*, EAL could save millions of dollars in pension fund contributions. As the AFL-CIO Industrial Union Department's *Labor & Investments* reports:

Eastern raised its interest assumption from 7% to 9% in 1981. The company's pension contributions were consequently reduced by over \$20 million for that and each subsequent year. . . . "With the stoke of a pen," says Marty Urra, President of IAM Local Lodge 702 in Miami, "the company saved millions of dollars on its pension contributions. But we negotiate the *benefits* on the basis of the company's *costs* under the 7% assumption. Eastern simply manipulated our pension fund for its own purposes, and our members received no benefit whatsoever from this action."

The last straw came when the union's pension fund research discovered that Prudential Life Insurance Company, which manages the Eastern funds, financed the construction of the National Right-to-Work Committee Building in Virginia (built non-union, of course); and that Eastern had "reallocated" assets from several of its funds, including the Machinists', into several others, including the pilots'.

With this information, the union embarked on a series of informational meetings throughout the country (IAM District 100 represents Eastern workers in more than 50 cities). Out of these

meetings, the union, with the assistance of Randy Barber, decided to include in the union's bargaining package a demand for joint control over the EAL pension fund. Included in the union's demand for joint control were proposals for arbitration, joint selection of a fund manager, an assistant manager hired by the union trustees, and joint selection of an actuary. Beyond this, the union asked that 25% of all new contributions to the fund be earmarked for consumer loans for participants and that the funds provide for optional retirement housing for members.

Because of the information meetings and the union's active involvement in pension research, District 100 was able to develop what is likely to become standard language for union control over single employer pension funds. Moreover, because of the members' involvement at all stages of the committee's investigation, this issue would take a prominent place on the District's priority list in negotiations.

Contract Negotiations: The Opening Salvos.

One of the major differences between the Railway Labor Act (RLA) and the National Labor Relations Act is in the area of the negotiation process. Under RLA, if the parties have not reached agreement by the expiration date of the current contract, they are prohibited from taking economic sanctions such as strikes or lockouts until a series of mediation and cooling-off periods expire. This whole process usually takes a year or more after contract expiration. During this period, the old contract is in effect except for the "time certain" provisions—those clauses in the contract that designate specific dates (other than the expiration date) for specific things to happen. For example, in the District 100/Eastern agreement, "time certain" clauses include scheduled pay increases and the end of the VEP on July 4, 1982. The expiration date of the contract was December 31, 1981. This had two major impacts:

First, unless agreed to otherwise in a new contract, the VEP payroll deduction would take place after the December expiration date up to July of 1982. Secondly, Machinists would not receive a pay increase until new increases were bargained under the new contract. Traditionally, under the Railway Labor Act, labor and management have agreed to retroactive pay increases to cover some or all of the lengthy period of time that negotiations take place after the contract expires.

In the Fall of 1981, when negotiations began for the new contract, the District negotiating team made it very clear that the union would not agree to a contract that contained the VEP or other wage concession programs. The company knew it had a real fight on its hands and prepared accordingly.

The company's plan was to repeat its previous strategy for gaining wage freezes and the VEP.

When the union announced that VEP would end, the company knew its only chance of continuing wage concessions was to win over the hearts and minds of the IAM membership. To do this, Eastern management felt it must isolate the union leadership from the workers and campaign on the shop floor for the members' loyalty.

In min-1981, management announced a voluntary "employee involvement" program for its workers. Called Quality Circles, the program encouraged small groups of workers to meet once a week under the leadership of their supervisor ostensibly to discuss ways of improving productivity.

After the program was in place for about a month, many of the shop stewards started to complain that the Quality Circles were being used to convince workers to bypass the union grievance procedure and take complaints to Circle meetings. Representatives of the Combined Shop Committee in Lodge 702 approached the Center for Labor Research and Studies (CLR&S) at Florida International University with questions about employee involvement programs. They knew that workers' sincere desire to have decision-making input on the job could be manipulated by the company's Quality Circles.

The CLR&S conducted two training programs on what workers and unions should look for in legitimate employee involvement programs. The first training program was for the approximately 200 shop stewards of the Combined Shop Committee. The second training program was for Lodge 702's general membership. The seminars discussed the strong and weak points of such quality of worklife programs and showed that historically in the U.S., many of these programs have been initiated by companies to separate workers' loyalties from their unions and, in fact, to weaken the labor movement.

Out of these seminars, District 100 established a Quality of Worklife Bargaining Committee and notified Eastern that the circles would cease until the union and the company bargained worker participation at all levels of company decision making.

After sending representatives to the University of Michigan's Summer School for Workplace Democracy in August of 1981, the committee included in its bargaining package strong language on a worker participation program.

The contract proposal called for equal union/management representation on a steering committee that would have the power to consider all of the workers' ideas. It also called for no layoffs or

station relocations of any IAM member due to any program emanating from Quality Circles, for jointly selected outside consultants, and for a 50-50 sharing of all cost savings achieved by the circles. This money was not to be distributed to individual workers, but would be deposited in a trust fund, administered by the IAM, to provide supplemental benefits to "all IAM members equally whether Circle members or not."

Needless to say, the company would not agree to the IAM proposal and the Quality Circles were dropped. It's important to note here that the union accomplished four important things.

First, as in the pension research, the union involved the leadership, the membership, and outside experts in the formulation of a *bona fide* worker participation program. This was accomplished primarily through the education program.

Secondly, by proposing an alternative to Eastern's Quality Circles that addressed more directly the members' desires to have a say on the job, the union was able to prevent Eastern from claiming that it was the company that was truly concerned about the workers' feelings, not the old-fashioned, obstructionist union leadership.

Third, the union, because of overwhelming support by the membership, was able to prevent the company from using these Quality Circle groups as a base of support for more concessions in the new contract.

Finally, (and probably most important) through the wide discussion which took place in the IAM about the whole issue of worker participation, coupled with the union's proven success at running the credit union, the rank and file began to feel that they had both a right and an ability to be involved in decision-making at all levels of the company. Thus, Charles Bryan concluded in a Quality Circle bulletin to the rank and file:

A recent gesture from Eastern Air Lines' Board of Directors to reject our participation on the Board of Directors (in their "Quality Circle" at the highest level) leads to serious doubt of the company's sincerity to truly achieve the ultimate success in a "Quality Circles Program."

At this point the union realized that the best weapon it had to end concessions at Eastern was the ability to research the VEP and Eastern's recent financial performance. Moreover, this research must take on the same form as the District's previous efforts on the pension and quality-of-worklife issues. All levels of the union must be involved, aided by expert consultants who would understand the union's philosophy, and the end product of the investigation would be a series of membership education and information meetings.

Marty Urra was appointed to head the District's Corporate Research Committee. Since the VEP was tied to Eastern's health, it was important for the IAM to investigate if Eastern's management was manipulating the company's financial profile so that it would not have to proclaim "doom and gloom" in order to continue wage concessions in the new contract.

The District hired financial researchers Steve Abrecht and Mike Locker of Corporate Data Exchange as consultants on the investigation. Abrecht and Locker had established a national reputation as corporate researchers during the J.P. Stevens campaign and for their subsequent publications of profiles of the ownership structure of U.S. corporations. The Amalgamated Clothing and Textile Workers Union had hired them to work on the corporate profile of Stevens and to expose its interlocking relationships with other corporations and the financial community.

The consultants and the Research Committee would find some very useful information about Eastern Air Lines, the VEP, and Eastern's relationship to the financial community.

The VEP agreement provided that Eastern workers would only be paid back their yearly VEP contribution if Eastern's profits reached 2% of gross revenues. In 1976, when the VEP was being "sold" to Eastern workers, 2% seemed a very reasonable profit level for a company to need. After all, if in these inflationary times Eastern couldn't make a 2% profit, then maybe the company really needed the VEP giveback. The union Research Committee found out, however, that profit levels are not normally determined by percent of gross revenue. The standard method of reporting profits is stated in terms of a company's *return on investment* or its annual percentage *growth in profits* over the previous years. And through its research, the union found that historically a 2% return of gross revenues was quite high for the airline industry.

The company had led the union to believe that the "2% of gross revenue" interpretation of profits represented the minimum level of profits the company needed in order to stay afloat. Thus, the union had been hoodwinked into accepting a definition of profit that was not a real indication of Eastern's health. As mentioned above, Eastern's workers lost more than \$100 million in wages as a result of their acceptance of the company's financial doubletalk.

When the union exposed this through bulletins and information meetings, the IAM members coined a new word to describe the company's habit of manipulating financial jargon to extract concessions: *Bormanomics*.

The Productivity Myth

On a regular basis, through correspondence to workers and numerous interviews in the press, Frank Borman would lament Eastern's performance against its chief competitor, non-union Delta Air Lines. Delta was generally considered the healthiest of all airlines. Borman focused on Delta's non-union status as a reason for its superior performance. In a message to company employees in March 1981, Borman complained:

Delta's people are more productive than ours mainly because of less restrictive work rules. . . . I am aware that many Eastern employees are tired of comparisons with Delta. I am tired of it too. But only a fool ignores his competition.

The union's Corporate Research Committee, not wanting to be fools, researched how Eastern compared with its competition. The results were devastating for Borman's claims. The committee found that Eastern was the most productive major airline. Based on figures that airlines must report to the Civil Aeronautics Board, the union found that:

- Of the world's top 25 airlines in 1979, Eastern ranked No. 1 in number of passengers carried.
- During 1979, Eastern carried 6.6 million more passengers than United with 98 fewer airplanes.
- Employees per aircraft in the same period showed Eastern best in productivity in comparison with the top 4 passenger carriers. No. 1 Eastern had 154 employees per aircraft versus No. 4 Delta with 178 employees per aircraft.
- On time performance, Eastern had ranked three rankings ahead of Delta in 1976, 1977, 1978, and 1979.
- Eastern's total operating expense was \$1.6 million per aircraft *lower* than Delta's in 1979.
- A chart of the International Air Transport Association (IATA) described the "IATA's Most Productive Airlines—1979." Eastern ranked No. 1 with 1,106 passenger boardings per employee.

Armed with this information, the District published the results in bulletins and conducted information meetings about the high worker productivity. Again, the union was able to successfully discredit the company's interpretation of its financial condition. Out of the

information meetings, the rank and file began to ask the committee what would prove to be a critical question: "If Eastern is doing so well in all of these categories, what is happening to our money and why aren't we getting a return on our 3.5% VEP giveback?" Responding to the members' request, the District decided to look into this question.

Eastern and the Bankers

When Locker and Abrecht finished their initial investigation of Eastern, they conducted a two-day training program for the Research Committee and Bryan. Out of this training program, a collectively produced corporate profile began to emerge. Even though Eastern showed a profit from 1976 through 1979, the company declared dramatic deficits in 1980, 1981, and 1982. The definition of profits wasn't important any more—there weren't any. Now the members and the Research Committee wanted to understand how Eastern could be so productive and yet lose so much money.

When comparing Eastern to its major competitor, Delta, there was one startling difference which could account for Eastern's troubles. Eastern had the highest debt of any airline in the U.S. In 1981, Eastern's debt was \$1.7 billion compared to Delta's \$282 million. Money that could have gone to pay back the VEP was instead diverted to Eastern's creditors.

Eastern had borrowed money to "modernize its fleet." Between 1978 and 1981 Eastern had taken delivery on 77 new aircraft. The union interpreted this to mean that Eastern was on a "fast-track buying spree" in order not to show a profit and to make employees feel the need to extend the VEP concessions in the new contract. Another question came up now: If Eastern was in such bad shape, why were the banks loaning it money? What was Eastern's relationship to the banking industry?

In compiling Eastern's profile, Locker and Abrecht discovered that Eastern's Board of Directors was literally saturated with representatives of the banking and finance industry. Nine of the sixteen full directors and four of the seven advisory directors were all linked to banking and finance interests. The most important and powerful committees were totally dominated by the financial community. All eight Executive Committee members, three of the six audit Committee members, and four of five Finance Committee members had ties with the financial community. Of particular interest was that the Rockefeller family (Chase Manhattan Bank) had significant representation with Peter O. Crisp and Laurence S. Rockefeller. Moreover,

Banking & Financial Interests Represented on Eastern's Board

Name	Financial Institution	Full Dir (elected)—16	Advisory Dir (appr) —7	Executive Committee—8	Audit Committee—6	Finance Committee—5
Harry Hood Bassett	Chrm, Southeast Bank Corp	X	X	X	X	
Peter O. Crisp	Rockefeller Family & Assoc (Chase Manhattan Bank)	X	X			
James A. Elkins Jr.	CEO, 1st City Bkcorp TX	X	X			
Karl Eller	Dir, Arizona Bank	X				
William Wood Prince	Dir, First Chicago Corp	X	X	X	X	
Donald Rumsfeld	Dir, Allstate Insurance	X				
Edward Smith	Former Chrm, 1st Atlanta	X	X	X	X	
Thomas R. Williams	Chrm, 1st Atlanta	X				
Frank Borman	Dir, Southeast Bank Corp	X	X			X
Roswell Gilpatric	Ptnr, Cravath Swaine & Moore (Gnl Cnsl, Chemical Bank)		X	X		
Laurence Rockefeller	Rockefeller Family & Assoc (Chase Manhattan Bank)		X	X		
E. Smythe Gambrell	Ptnr, Gambrell & Russell (atty, 1st Atlanta Corp)		X			
Paul E. Reinhold	Former dir, Barnett Banks	X				

Source: Locker/Abrecht Associates, Inc.

President and Chairman of the Board, Frank Borman, was a director of Southeast Bank Corp., while Southeast Bank Corp. Chairman Harry Hood Bassett was a director of Eastern. To the union, the picture was becoming increasingly clear as to why the banks were so willing to lend money to Eastern: potential profits could be diverted from stockholders to lenders (Eastern's common stock has not paid a dividend since 1969!). The company's workers had donated over \$100 million of their salaries to the banks in the form of interest payments on Eastern's debt.

This raised another question: How does Eastern's accelerated purchase of new aircraft fit into a scenario of bank control? There was no question that Eastern's "modernization" program was unique in the airline industry. The Research Committee discovered that in 1978, the company had projected that it would purchase 26 new aircraft over five years when, in fact, they ended up purchasing 64. What is even more amazing is that Eastern adjusted its aircraft purchases *upwards* while the economy was taking a nosedive, interest rates were skyrocketing, and passenger travel was at rock bottom. The union came to the conclusion that not only was it ethically wrong

for a company to create a climate of fear of impending disaster among workers in order to extract concessions to purchase aircraft which were unnecessary; it was also a bad management decision to make that large number of purchases.

In short, the union and its consultants could not understand why Eastern management was working against Eastern's own interests. The answer came when the union looked at the corporate structure of Boeing Aircraft, which manufactured the new B-757 jetliner.

Because of recession and a worldwide glut of inexpensive used aircraft, Boeing was in deep financial trouble. It was Boeing management's hope that their new B-757 and B-767 would bail the company out. On the other hand, it was becoming increasingly clear to Boeing's major lenders that if Boeing defaulted on its huge debt, many of the world's major financial institutions would suffer severely. It was imperative for Boeing and its lenders to have the 757 and 767 program become a financial success.

When the union discovered this, it also found some interesting links between Boeing's and Eastern's lenders. Incredibly, both Boeing and Eastern shared the same two lead lenders, Citibank and Chase Manhattan Bank. Not only did these lead banks hold significant

Common Major Lenders to Eastern & Boeing

	E	B	CL
Citibank	X	X	X
Bank of America		X	
Chase Manhattan	X	X	X
Morgan Guaranty	X	X	X
Chemical Bank	X	X	X
Manufacturers Hanover	X	X	X
Bank of Montreal		X	
Bankers Trust	X	X	X
Continental Illinois	X	X	X
First National Bank of Chicago	X	X	X
Security Pacific National Bank, L.A.		X	
Irving Trust	X	X	X
Wells Fargo Bank		X	
Marine Midland Bank	X	X	X
Mellon Bank	X	X	X
Crocket National Bank		X	
Seattle First National Bank	X	X	X
Pacific National Bank of Washington		X	

E—Eastern Lender

B—Boeing Lender

CL—Common Lender

Sources: *The Iron Triangle*, Gordon Adams, Council on Economic Priorities, 1981;
Locker/Abrecht Associates, 1983.

amounts of debt in Eastern and Boeing, they also packaged and marketed the loans for the 757 program for both Boeing and Eastern. The union discovered that of Boeing's top eighteen lenders, twelve were also shared with Eastern.

This explained everything to the union. From this time forward, Charles Bryan would base his negotiation strategy on the assumption that major financial decisions at Eastern were being made in the best interests of the lenders and Boeing, interests which may indeed conflict with the best interests of Eastern, its workers, and its stockholders. Bryan also understood that success would depend upon the credibility of the union's financial interpretation to the membership, other Eastern unions, the business press, and important segments of the financial community.

Borman constantly complained to Bryan that the union must agree to new concessions or the lenders would cut off Eastern's access to credit. The company even invited the Research Committee and Locker and Abrecht to meet with its major creditors in New York in order to have pressure put on Bryan directly from the lenders.

At the meeting one creditor told Bryan that the IAM better agree to concessions because Boeing was already building Eastern's planes in Seattle and that those planes needed to be paid for.

Instead of bowing to the lenders' pressure, the union based its bargaining strategy on the principle that the banks would not let Eastern go under. The union felt that the financial community would have too much to lose: Boeing would have difficulty paying its debt if Eastern's orders were cancelled and the lenders could not afford for Eastern to default on such a large debt.

Taking it to the Top

District 100's membership information meetings began to generate an incredible amount of discussion and support among Eastern's workers. The Executive Board of the flight attendants' union, Transportation Workers Union Local 553, asked to be included in a second training program conducted by the consultants for District 100's negotiating committee.

The company reacted harshly to this challenge of what was previously their exclusive terrain—the interpretation of company financial health and exclusive control over economic decision-making. Eastern pursued an aggressive campaign to dissuade its employees from accepting District 100's contentions. On any given day employees could expect to find letters from Borman, video tape appeals on the shop floor, and lengthy articles in the company newsletter and the *Miami Herald*.

Publicly Eastern denied what was obvious to the workers; Bryan and the Machinists' were raising important questions about the company and the rank and file was becoming increasingly mistrustful of the company and more militant in their support of the union. The company, however, claimed that the union was not in touch with the membership. As contract talks deadlocked over the VEP issue, the union felt it should make a strong show of membership solidarity.

On April 8, 1982, the rank and file showed their solidarity. For two weeks supervisors had been puzzled by IAM members sporting buttons which read "Lunch with the Bunch" printed over the face of a clock reading 11:30. At 11:30 a.m. on April 8th, virtually all of the 3,000 Machinists on shift at Miami downed their tools and took to the streets. Another 1,000 IAM members from other shifts met them at the gate. They marched along Miami's busy 36th Street. Hand-made picket signs decried their distrust of Borman, the VEP, and the bankers. Signs read: "Borman: Bankers' Pal," "I earn 96.5% of my Wings Every Day," "Earth to Frank—No More VEP" and "If VEP Flies, EAL Won't."

This was the largest labor demonstration in memory in Miami. The media went wild. The company would find it difficult, from this time forward, to convince anyone that the membership of the IAM supported its position. This demonstration of support also convinced President Bryan that his philosophy of involving the rank and file at all levels was correct. In a few weeks the rank and file would be involved again, this time at a much higher level.

Consistent with his belief that workers must have input at all levels of the corporation, Bryan made many attempts to communicate directly with stockholders and EAL's Board of Directors. At the annual stockholders' meeting in 1980 and 1981, Bryan had placed his own name in nomination for a director's position on EAL's board. It was never Bryan's assumption that he would be elected, but he wanted to take the Machinists' fight to the arena in which the most critical decisions affecting Eastern workers were made. Thousands of Machinists, flight attendants, and even pilots sent in their proxies to vote for Bryan. In 1981 Bryan received 480,000 votes for director. At the 1981 meeting, Bryan challenged Borman from the floor, listing 25 areas of corporate decision-making in which Bryan felt the company needed to give the workers and shareholders some straight answers. His last question was indicative of the concerns of the IAM members:

You [Borman] frequently quote history. Certainly you made history with Apollo 8. Why do you ignore the history lesson the British learned regarding 'taxation without representation,' by continuing to ask our employees to give, contribute, and sacrifice, *but* "don't get involved at the top"?

The business press would pick up on many of Bryan's questions and for the next two years would ask questions critical of EAL's management practices. Eastern's opposition to Bryan's election to the Board of Directors demonstrated to the workers, the media, and the public the contradictions in EAL's statements which blamed the workers for the company's financial woes. The union would claim the company couldn't have its cake and eat it too. How could Eastern demand worker concessions because of a financially troubled company on the one hand and refuse to let those same workers have the power to influence corporate decision-making on the other hand?

At the April 27, 1982, EAL stockholders' meeting Bryan decided to try a different tack from the previous two years. The massive lunch-hour demonstration two weeks earlier in Miami—combined with the knowledge the rank and file had obtained through union bulletins, education meetings, and a sometimes critical press—convinced the District that the rank and file should be heard at the 1982 stockholders' meeting.

More than 200 graveyard shift workers from Kennedy, LaGuardia, and Newark airports trekked across Long Island and New Jersey to attend the meeting at the Chemical Bank Building in lower Manhattan. Before the meeting began, these Machinists picketed outside demanding an end to "concession fever." UAW members from General Motors' Linden, New Jersey plant pulled up to take the Machinists' place on the picket line.

Ironically enough, on the same day as the lunch hour walkout several weeks before, the Linden auto workers attracted national attention when they overwhelmingly voted down proposed concessions at GM. While watching themselves on the evening news, they also saw the demonstration in Miami. One thing led to another, and here they were picketing EAL in a show of solidarity in the fight to end concessions.

Inside, Machinist after Machinist rose to ask serious and sometimes embarrassing questions about Eastern's management practices, and charge that Eastern's leaders were controlling the corporation for their own ends. Two days later in a bulletin to all District 100 members, Charles Bryan summed up the recent events:

Eastern Air Lines employees had contributed...as of this date...approximately \$110 million. For the third year in a row, Eastern Air Lines officially rejected my nomination to the Board of Directors as a spokesman for the interests of the employees... All sixteen (16) members of the Eastern Board of Directors are affiliated with banks and other institutions of *the Super Rich*. Eastern's position has demonstrated absolute contempt and disrespect for the employees and their right to representation in the decision-making and yet Eastern continues to ask the employees to sacrifice and contribute their salaries to the company treasury.

In 1776, our forefathers had a revolution against the King of England over this same issue.

The Death of VEP

As the July termination date of the VEP approached and contract negotiations dragged on, both the union and management stepped up their respective campaigns.

The company brought out the video tape machines and Borman pressed the IAM membership to continue the VEP, maintaining that it would help the company much more than the Machinists who would only have to sacrifice a few six-packs of beer each paycheck. In another bulletin to District 100 members, President Bryan expressed the members' shock at Borman's perception of their spending habits:

I have been deluged with calls from IAM members expressing indignation with the repeated reference to "3 or 4 six-packs of beer"... Most of our members could not relate to that drinking habit reference. They felt a reference to a pair of shoes or slacks or dresses for their children each week would have been better understood.

Some felt the VEP would cover their inflated electric bills each month; others suggested it would cover their weekly auto gasoline bill.

We regret that we do not have equal time on the video tape machine with you as a captive audience. However, the continued solidarity and unity of our membership is an inspiring source of strength.

Within days, thousands of IAM members were wearing buttons picturing a can of beer labeled "Frank's 3.5 Beer." The button protested "Deposit, No Return."



NO
FOREIGN
INVESTMENT
GO

LOCAL
702



MIAMI
FLORIDA

WHITE IS...
No
GIVEBACK



When the July 4th date passed and workers still found the 3.5% VEP deduction on their pay slips, Eastern's last bit of credibility among the workers vanished. As morale dropped, so did the efficient operation of the company. Even though the Federal mediator had not "released" the parties, in a record turnout, District 100 members voted on whether to strike over what Bryan labeled as the company's "VEP treachery." On August 9, 1982, the final tally was 94.8% in favor of a strike.

Because of a possible strike by September, Eastern passenger bookings were low. The company finally gave in and started to negotiate the end of VEP.

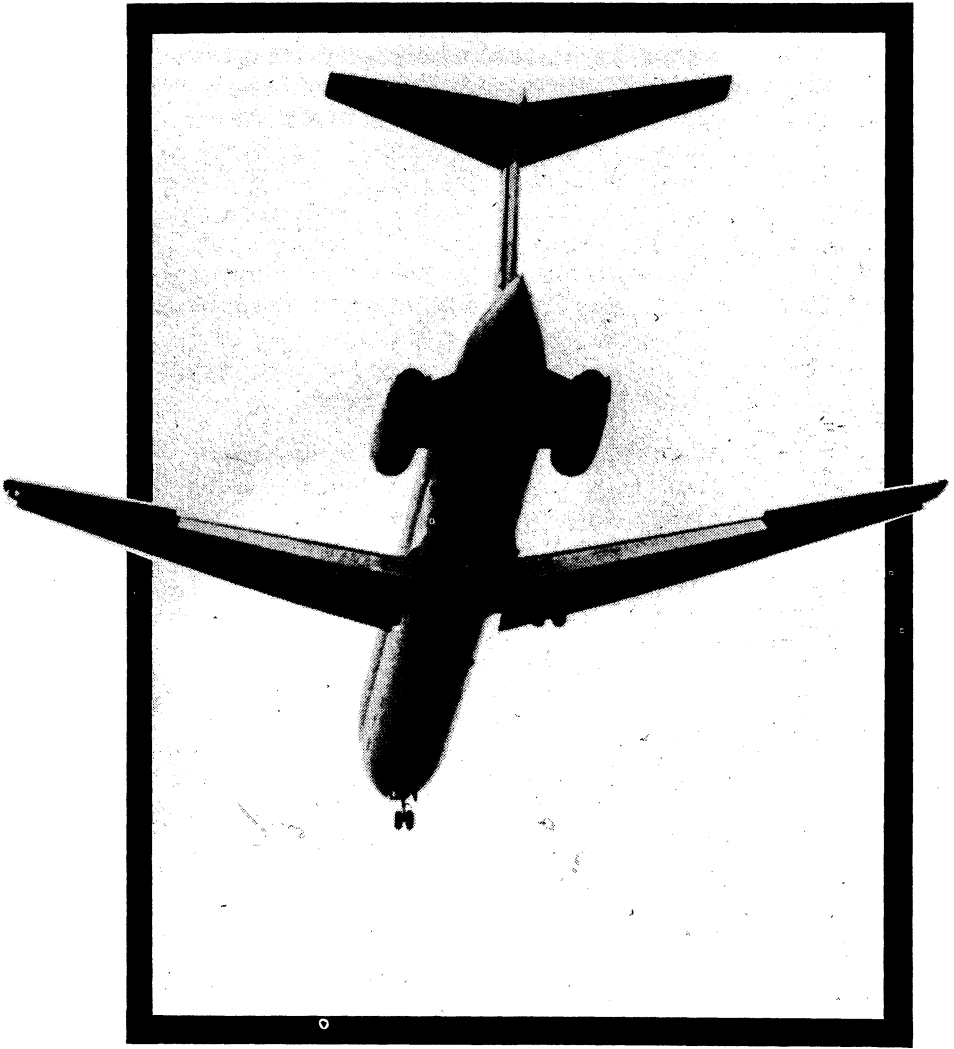
Knowing that the company would claim the union to be unreasonable and that much more needed to be negotiated before a complete contract could be settled, the District negotiating team proposed a unique end to the VEP. First of all, the program in which workers risked their wages on the possibility of future company profits was ended. For a two year period (until June 1984) the workers would still have 3.5% of their wages deducted, but in the form of a *loan* which the company *must* pay back at a favorable 10% interest rate. Even though the IAM would have preferred no program whatsoever, this new Investment Bonus Agreement (IBA) guaranteed an end to concessions at Eastern.

But though the VEP issue was settled in a satisfactory manner to most Machinists, management was pressing for new concessions in the contract negotiations.

Fight for a Contract

By January of 1983, the company began its final offensive to get concessions in the new contract. The union claimed that would-be profits were being diverted to the bankers in order to bail out Boeing. In a press release, Bryan claimed: "The balance sheet of Eastern is in a chronic economic crisis as a result of an extremist, fast-track expansion program. This desperate pace has to be toned down. Borman must start treating his employees and their money with the same priority and respect that the bankers and insurance companies demand."

In the final weeks of negotiations, the company again tried to discredit the union's claims. But the company found that Bryan's years of open communication with the members and the media had paid off. Bryan had insisted throughout his battles with Eastern that as a responsible union leader with a credible analysis of Eastern's finances, the company's board of directors, major lenders, and the



business community at large must seriously respond to the union's position. The Wall Street Journal and Business Week, as well as other business publication, had published numerous articles which basically supported the union's analysis. Even the local media in Miami, which has always been very kind to the city's largest employer, was constantly pressing the entire business community to counter the IAM's charges.

Finally, in a desperate attempt to win back some of the credibility it had lost, the company invited the union to meet with the leading lenders and it gave the union's consultants access to information that was not publicly available. Because of the union's constant public accusations that Eastern was keeping a double set of books—one set for the lenders and another for the public—the company made available documents which union consultants Locker and Abrecht claimed are "considered highly sensitive by all corporations." Wendy Cooper, a New York based financial writer, reported in the *New York Times* that an Eastern spokesman admitted that the company gave the union access to this secret information "in response to its constant charges that the company keeps two sets of books."

Locker/Abrecht Associates issued a report on March 11, 1983. Their report disclosed some very significant information:

- In a financial presentation to Eastern lenders, Eastern had projected a substantial profit of \$128.8 million by the end of 1983. Moreover, documents showed that Eastern was currently ahead of these projections by \$6.4 million. If fuel prices continued to fall, Eastern could realistically expect an additional savings which was not figured into its profit projections.
- Lenders' documents verified the union's previous suspicions about Eastern's accelerated purchase of new aircraft. The new aircraft would produce a larger cash flow than aircraft which Eastern already owned. Lenders were interested in cash flow rather than profits because cash flow is the determining factor in Eastern's ability to pay its tremendous debt.
- Confidential minutes of the Board of Directors confirmed that Boeing's financial health was important to Eastern's directors. In July 1981 and March 1982 while contemplating a deferral of new planes on order because of the deepening recession, it was decided that Eastern should go ahead with the purchases. Locker and Abrecht discovered in the Board minutes that a "factor which seems to have influenced the Board in its decision . . . was an apparent concern about the impact that a deferral of 757 purchases would have on Boeing's entire program for that aircraft."

- Moreover, the consultants found that, while EAL was purchasing new planes at breakneck speed, much of its existing fleet was underutilized. "At a company-estimated value of \$13 million each, . . . equipment worth \$195 million will be parked by year end."

Armed with this new information, Bryan felt that the union had sufficient "empirical data that would support our position *and* prove that we would not bankrupt the airline." In the following weeks, the company and the union conducted a virtual war with facts and figures.

The Federal mediator released the parties and a strike deadline was set for March 13. In the last minutes, the company gave their "final offer." The union negotiating team termed the offer a "joke," but under the IAM's constitution, a new vote had to be taken on the final offer and the strike deadline was moved back to March 23rd.

The company used this extension to attempt to persuade IAM members that the company's final offer was good. And, in case that didn't work, Borman also tried a little intimidation. In a letter sent to workers' homes, Borman declared that "I cannot guarantee your jobs if this contract is rejected," and he said that if there were a strike, the company would operate the airline without the Machinists.

Similar to how Eastern had defined profit under the VEP, the company was now describing its final offer as a 32% pay increase over three years. In fact, because of the way the final offer backloaded large percentage increases in the final two months of the contract, accumulative "rate" of pay may have been 32.2%, but the Machinists would receive only a 8.3% pay increase for three years, an average yearly increase of 2.8%. This meant that Eastern's IAM members would lose from \$6,000 to \$10,000 for that period compared to other contracts in the airline industry.

Also included in the company's final offer was language which would decrease job security, allow the use of part-timers, and change very important work rules. The company was so confident that it would win the vote, it provided buses for free rides to the strike vote meeting. In a bulletin to the members, President Bryan summarized the situation:

For the past seven years, you have lived under the threats and intimidations of bankruptcy or a scaled-down airline with massive layoffs. Management has now come out of the closet with their union-busting advice of how to resign from the union and their threats to hire strike-breakers.

The decision you must now make is whether you have had enough of a management who has demonstrated that their desire to break the union has a much higher priority than the financial success of Eastern Air Lines.

A YES vote for the company package is a vote to continue working in constant fear designed to wrench wage concessions from you forever.

The decision is yours. With strength and solidarity and a NO vote against this company offer, we will prevail.

On Saturday, March 19th, the ballots were counted. The IAM membership had voted by a 3 to 1 margin to reject the "final" offer, and to strike on Wednesday evening, March 23. Bryan offered to resume talks in Washington, and the company responded by saying

Frontloading

"Backloading" a contract grants the bulk of wage increases toward the end of the contract, while "frontloading" provides the bulk of pay raises toward the beginning. Eastern Airlines (EAL) proposed a "backloaded" contract while the actual settlement was more "frontloaded".

Both provided for the hourly wage at the end of the contract to be approximately 32% higher than that paid at the beginning. But over the life of the contract, the workers would have received a \$6,887 increase under the EAL

EAL PROPOSAL			
Dates	Number of Months	Monthly Salary	Total
Jan. 1, 82- March 31, 83	15	\$ 2,279.33	\$ 34,189.95
April 1, 83- Oct. 31, 83	7	2,416.09	16,912.63
Nov. 1, 83- March 31, 84	5	2,561.06	12,805.30
April 1, 84- Oct. 31, 84	7	2,714.72	19,003.04
Nov. 1, 84- Dec. 31, 84	2	3,013.34	6,026.68
	36		88,937.60
3 year total without increase. . . \$82,050.00/Proposed increase. . . \$6,887.60			

they would send their negotiators to listen. Prior to the strike vote, the company had insisted publicly that "if they can't accept the contract, they're on strike."

The Settlement

Eastern's absenteeism rate dropped dramatically on the first shift of March 24, 1983. Workers were anxious to let their supervisors know how happy they were that, according to one ramp service worker, "management caved in."

It is 11 a.m. Concourse B at Miami International Airport is packed with workers wearing bright yellow and blue EAL uniforms. Some had been scavenging through waste cans, looking for tossed away buttons management employees had worn all week stating "I love my job. Thanks Eastern." As one group of workers handed out the discarded buttons, another group went around taping over the word

vs. Backloading

proposal but will receive a \$14,346 increase under the actual settlement.

EAL proposed three 6% increases, to take effect on April 1, 1983, November 1, 1983, and April 1, 1984. The actual settlement provided for a 20.99% increase retroactive to January 1, 1983, a 2.14% increase on July 1, 1983, a 3.38% increase on January 1, 1984 and a 3.57% increase on July 1, 1984

The following table demonstrates the better deal gained by the workers under the actual settlement as compared to the EAL proposal.

<i>EAL/IAM Settlement</i>			
Dates	Number of Months	Monthly Salary	Total
Jan. 1, 82- Dec. 31, 82	12	\$ 2,279.33	\$ 27,351.96
Jan. 1, 83 June 30, 83	6	2,757.73	16,546.38
July 1, 83- Dec. 31, 83	6	2,816.67	16,900.02
Jan. 1, 84- June 30, 84	6	2,912.00	17,472.00
July 1, 84- Dec. 31, 84	6	3,016.00	18,096.00
	36		\$96,366.36
3 year total without increase . . . \$82,050.00/Actual increase . . . \$14,316.36			

"Eastern" with the name "Charlie."

Charles Bryan's plane was due at 11 o'clock but was delayed until noon. Workers weren't worried that their break period was over. This was their day. A young night shift Machinist had been waiting for Bryan's arrival since 9 o'clock. He brought his wife and small children to meet the president of his union.

Bryan and the negotiating team arrived at the far end of the concourse. Bryan thanked the members for their support. As he walked down the long concourse, a sea of yellow and blue followed. It was his day too.

The previous evening, only a few hours before the strike deadline, Eastern had agreed to change their "final" offer. The agreement was significantly different.

The new contract called for an industry standard increase of more than 17% over three years; a 21% retroactive increase to January 1, 1983; equal control over any future worker participation programs; partial joint control over the pension fund; increased job security rights; and the integrity of long-standing work rules.

On April 9, the IAM announced that the contract had been ratified with a vote of 90%. Frank Borman proclaimed, "This settlement could only be characterized as a rape." □