

## Grounded: Frank Lorenzo and the Destruction of Eastern Airlines

By Aaron Bernstein  
Simon and Schuster  
256 pp., \$19.95

### By Osha Gray Davidson

# Capital takes flight as Frank Lorenzo makes a cash landing

history of the airline industry." **The empire strikes out:** Lorenzo's empire—made up of Continental, Texas Air and Eastern—lay in shambles. In one nationwide study, consumers rated Continental as the worst company of any kind in America. Texas Air lost over \$1.6 billion in the last two years of the '80s alone (each year a record loss in the industry).

The sordid tale of what Lorenzo did to Eastern Airlines, the jewel in his crown, takes center stage in Bernstein's timely and important book.

One of this country's oldest airlines, Eastern began in the '20s carrying mail between New York and Miami in a fleet of eight single-engine open-cockpit biplanes. Within a decade, the company discovered that there was big money to be made ferrying vacationers between the two cities (Eastern hawked their flights with the radio jingle: "From frost to flowers in 14 hours").

Under the leadership of World War I flying ace Eddie Rickenbacker, Eastern quickly became one of the four early major U.S. airlines (along with United, American and TWA). But the company's labor troubles also started early and grew right

along with the airline. By the time former astronaut Frank Borman took over the reins in 1975, Eastern had a long history of labor disputes, fights that intensified under Borman.

Borman caused many of the problems by trying to run the airline as if it were a military operation ("I give the orders. You follow them"). But, points out Bernstein, there were also thorny economic issues at work as well. For example, Eastern was weighted down with excessive debt, and after deregulation the company was forced to lower fares in order to keep passengers from going to cut-rate airlines. These factors cut heavily into Eastern's profits.

**Rank-and-file rancor:** Borman tried to save money primarily by cutting wages, a tactic that, predictably, resulted in heated and protracted labor-management battles, especially with Eastern's well-paid and generally militant machinists union members, headed by a tough negotiator named Charlie Bryan. Borman and Bryan could agree on almost nothing. In the midst of a particularly rancorous contract dispute in 1986 (this time involving all three of Eastern's major unions: machinists, pilots and flight attendants), Borman played his trump card: if the

unions didn't give in to his demands, Eastern would be sold to Frank Lorenzo.

Lorenzo's hardball tactics had already made him one of labor's chief bogeymen. Workers remembered all too well that Lorenzo had taken Continental into bankruptcy, torn up labor contracts, halved employees' wages and crushed the unions.

Borman had never really planned on selling Eastern to Lorenzo; he had thought the mere threat of the sale would be enough to send the unions scurrying for cover. But Borman misjudged the unions, and after he had opened this Pandora's box, Frank Lorenzo would not be stuffed back inside. In a flash, Lorenzo put together a deal and rammed it through Eastern's board. As Bernstein writes about the fateful bargain:

*Lorenzo offered a mere \$615 million for the entire carrier. Moreover, only \$256 million would come from Texas Air [Lorenzo's holding company]. The remainder would come from Eastern itself: \$231 million from a new preferred stock that Eastern would issue; \$108 million in cash that Eastern would reimburse to Texas Air; and the \$20 million "inducement fee" that Eastern would pay Texas Air for the privilege of being pur-*

*chased by Lorenzo. Texas Air would take over a carrier nearly three times its size for little more than peanuts.*

Once in the pilot's seat, Lorenzo quickly went to work on the unions, blaming the "exorbitant wages" earned by Eastern employees for all the company's problems and demanding hefty concessions. But high wages were not among the airline's most pressing problems. Union pilots and airline attendants had already accepted a 20 percent wage cut (on the night Eastern was sold), and the carrier ranked fourth in the industry in regard to labor expenses. The unions were taking the fall for a panoply of problems, including a history of poor management decisions that, together with the effects of deregulation, had gotten Eastern into trouble.

**Lorenzo's looting:** Reading the remainder of *Grounded* is like watching a videotape of an air disaster run in slow motion. Bernstein has done an admirable job of charting the airline's downward trajectory as Lorenzo stripped the company of asset after asset, looting Eastern of some \$750 million in resources as it hurtled toward insolvency.

In the end, a federal bankruptcy judge took the airline away from Lorenzo—but only after he had effectively bled it dry and laid off nearly 42,000 workers in the process.

Bernstein lays most of the blame for Eastern's destruction on Lorenzo's doorstep, but he clearly feels others share responsibility for the debacle. The staunchly pro-management bankruptcy judge, Burton R. Lifland, allowed Lorenzo to get away with financial murder before taking action. Drexel Burnham Lambert, which supplied much of the money Lorenzo used to build his empire, is not blameless either. And President George Bush comes off looking less-than-statesmanlike for his role in the affair. Bush lent Lorenzo support in his union-busting efforts (ignoring the possible effect on the airline), in an attempt to duplicate Ronald Reagan's highly successful—from a political standpoint—victory over the air traffic controllers' union in 1981.

While Bernstein doesn't provide the rich character development found in *Barbarians at the Gate*, the best-selling chronicle of the fight for RJR-Nabisco, *Grounded* does provide a far better analysis of the political issues involved.

One can only hope that CEOs take to heart Bernstein's conclusion that "confrontation is not the path to success" in the 1990s—perhaps the most important lesson of Eastern's sad affair. ■

Osha Gray Davidson is the author of *Broken Heartland: The Rise of America's Rural Ghetto* (Free Press). He is currently at work on a book about leveraged buyouts.



**The Politics of Illusion: Republicanism and Socialism in Modern Ireland**

By Henry Patterson  
W.W. Norton, 248 pp., \$25.00

**The British State & The Ulster Crisis: From Wilson to Thatcher**

By Paul Bew and Henry Patterson  
Routledge, Chapman & Hall  
154 pp., \$9.95

**The State in Northern Ireland, 1921-72: Political Forces and Social Classes**

By Paul Bew, Peter Gibbon and Henry Patterson  
St. Martin's Press (1979)  
231 pp., out of print

**Marxist Perspectives in Northern Ireland**

*Science & Society* (special issue)  
Vol. 53, No. 2  
Edited by Ellen Hazelkorn  
Guilford Publications, 120 pp. \$6.00

By Wim Roefs

**N**ORTHERN IRISH POLITICAL SCIENTIST Henry Patterson's long overdue book should educate, among others, the left (socialist and otherwise) in Great Britain, Europe and the U.S. *The Politics of Illusion: Republicanism and Socialism in Modern Ireland* analyzes the many attempts since 1921 of, as Patterson calls them, "social republicans" in Ireland to combine purist Irish nationalism with socialist politics. These attempts were, above all, full of contradictions in terms of ends and means. The latest, and perhaps last, attempt is the Provisional IRA and its political wing, Provisional Sinn Féin.

Patterson's analysis of the republican movement is merciless and void of the sentiment and nationalistic romanticism that often characterizes leftist writings on Northern Ireland. *The Politics of Illusion* fits into a series of books by Patterson and fellow socialist Paul Bew. Their research is unpopular among most of the left, which has linked itself in a politically and intellectually lazy way to the slogans of Irish nationalism, including those of the Provisionals.

Many on the left claim to be "critical supporters" of Irish republicanism, but their "critical attitude" doesn't prevent them from ignoring a vast body of left-wing revisionist analysis on Ireland, of which the "Marxist Perspectives on Ireland" special issue of *Science & Society* (Summer 1989) gives some good examples. Bew and Patterson's work is part of the revisionist trend. Although the style of their writing and the organization of their material is frequently rather sloppy, nobody interested in Northern Ireland should ignore these analyses.

**Historical recap:** In 1921, the partition of Ireland made the south independent, while Northern Ireland was established for the Protestants who wanted to stay within the United Kingdom. All over Ireland, the IRA remained actively opposed to the settlement but increasingly found it-

# Political openings and Irish schisms



Northern Ireland: exploring the contradictions of economic and ideological poverty.

self in the margins of Irish politics. From the '20s to the present, the organization has tried to compensate for the defeat of purely militarist and politically backward republicanism by taking up social and economic issues. In doing so, the IRA or its political wing, Sinn Féin, tried to create a mass movement for the "anti-imperialist struggle" against the British presence in Ireland. Patterson writes that the working class "was significant as a resource to be mobilized behind a pre-existing objective," the unification of Ireland.

This instrumental approach to "socialism" and social agitation created severe problems for the social republicans. First of all, they got in trouble when taking their social agenda seriously; the struggle for a united Ireland, particularly the IRA's violent campaigns, interfered with their capability to attract broad support. They never considered, however, that the real needs of the masses might not be compatible with the republican objective.

Secondly, their traditional Irish nationalist perceptions and their fixation on uniting Ireland resulted in a severely distorted view of Irish political realities. They overestimated the chances for the creation of a broad social movement and the possibilities for Irish unification.

The present republican movement is an example of this. By the mid-'70s, the Provisional leadership took up social issues to build a broad movement that would support the

IRA's armed struggle for unification. Yet despite existing strong national sentiments, "an organization which sought to link economic and any other domestic issue to support for the 'armed struggle' [in the North] was doomed to perpetual marginality in the Republic," Patterson concludes.

In the North, the Provisionals did create a successful movement during the '80s, but the contradictions

## IRELAND

of social republicanism are felt there as well. IRA violence prevents Sinn Féin from making progress beyond the present support of 11 percent of the total electorate. Furthermore, the party's rallying call for jobs is offset by IRA violence, which might jeopardize investments. It contrasts even more with the IRA's bombing of "economic targets," which destroys jobs.

Sinn Féin's instrumental approach

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to "socialism" is also reflected in the opportunistic way the party refers to it. In the early '80s, a confident republican movement seeking the support of the British left emphasized the struggle for a socialist united Ireland. By the end of the decade, however, a stagnating movement pursued cooperation with conservative Irish nationalist parties, insisting that "socialism" was not on the agenda.

Patterson argues that the basis for the Provisionals' support is not the old slogan of "completing the national revolution" but the fact that they give "a bitter ... expression to real needs" of the Catholic population. Therefore, if these needs would be seriously addressed by a British government, "social republicanism" would be consigned to the history books.

In *The British State & The Ulster Crisis*, Patterson and Bew argue that substantial state-sponsored reforms, particularly an economic face-lift, could well be the key to some sort of decent settlement in Northern Ireland. Bew and Patterson have been accused of 'Marxist economism' in expecting economic reforms to ease nationalist feelings. Yet nobody expects economic reforms to do away with Irish nationalism, nor that they are an instant solution. The argument is that happy Catholics are less likely to make the nationalist cause their top priority, which in turn would make Northern Ireland a less explosive and polarized community.

In this respect it should be remembered that the present Catholic revolt started 20 years ago as a civil-rights movement, not as a nationalist movement. Decent political and economic reforms in the past might well have prevented the mess of the last two decades. Whatever the outcome of substantial economic reforms now, the bottom line is that any settlement is unlikely as long as the unemployment rate among Catholics is twice as high as among Protestants.

One of the most powerful dogmas of Irish republicanism in the last two decades goes against the argument of reforming Northern Ireland. Unlike the social republicans of the IRA in the '60s who tried to reform Northern Ireland as part of their strategy to create a socialist united Ireland, the Provisionals claim that Northern Ireland will be irreformable as long as partition exists, because Northern Catholics will suffer severe discrimination. After 50 years of structural, state-sponsored discrimination, the failure of the '60s civil-rights movement to win substantial reforms from the Protestant regime was seen as the ultimate "proof" of this notion.

The Protestants are seen by republicans as one monolithic reactionary bloc who have always been unwilling to compromise. Since it was the British presence in the North that gave the Republicans the power, British presence is said to be the key problem. The fact that the British

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