Airline Labor Relations
1980 to Today and Beyond

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Objectives

• Review Evolution since Deregulation

• Understand Recent Pressures & Problems

• Explore Variations Across Carriers & Reasons

• Suggest How to Avoid the Coming Crisis
"And you thought the passengers were mad. Airline employees are fed up, too—with pay cuts, increased workloads and management's miserly ways, which leave workers to explain to often-enraged passengers why flying has become such a miserable experience." —*New York Times*, December 22, 2007.
Key Features of Airline Labor Relations

- 70% unionized—most highly unionized industry in US
- Occupational groups bargain separately in each firm, but linked through strong “pattern bargaining”
- Covered by Railway Labor Act
- National Mediation Board:
  - must “release” from mediation before a countdown to a strike can occur
  - can recommend “Public Emergency Board” (PEB)
- Lengthy Negotiations (16 months), long periods of mediation, very little use of PEBs, few strikes
Figure 5
Airline Dispute Resolution under the Railway Labor Act

Source: Airline Industrial Relations Conference
Figure 6

Source: Airline Industrial Relations Conference; and Federal Mediation and Conciliation Service
Variations Over Time-1980-93

- Early 1980s: Post Deregulation and Recession
  - new non union entrants (People Express, NY Air...)
  - labor concessions--wide use of “2-tier” wage structures
  - Frank Lorenzo--Texas Air, Continental, Eastern...
- 1985-90: Economic Recovery
  - End of Concessions: Some restoring of wages & gains in bargaining but with lower cost structure
  - 1985 United Pilot Strike as a turning point
  - Lorenzo’s empire collapses in bankruptcy
- 1990-93: Recession and wages held back again
Variations over Time-1994-2000


• Slow return to wage growth--very slow negotiations

• 1998-2000 Negotiations Climate--Expectations Gap:
  – Workers looking to make up for wages foregone when times were good
  – Companies looking forward to tough times ahead
  – Result: Increased labor conflicts, slowdowns, protracted negotiations and ultimately very large wage settlements
Average 4-yr Change in Pilot Pay Rates by Aircraft Type vs. 4-yr Change in Revenue per Employee, 1993-1997 & 1997-2001

Source: Department of Transportation Form 41 (from Database Products, Inc.) and Airline Industrial Relations Conference
Variations over time: 2000 to present

• 2000-2001: Traffic down, Losses Return...
  – frustrated public; embittered labor relations

• 9/11 & Beyond: Struggling to Recover

• 2003-6: Restructuring/Concession Agreements in or near Bankruptcy: UA, AA, US Air, Delta, NW

• 2006-present: lead up to upcoming negotiations—pent up expectations about to explode…
POSITIVE VIEWS OF HOW MANAGEMENT IS RUNNING THE AIRLINE

- Source: The Wilson Center for Public Research, Inc. – based on 150,674 interviews conducted with pilots or flight attendants from 1/1/2001 to 9/20/2005
POSITIVE VIEWS OF MANAGEMENT’S TREATMENT OF EMPLOYEES

• Source: The Wilson Center for Public Research, Inc. – based on 150,674 interviews conducted with pilots or flight attendants from 1/1/2001 to 9/20/2005
Variations Across Carriers

- Traditional Collective Bargaining
  - AA, UA, NW....
- Union Suppression-Busting: Lorenzo
- Union Substitution: Delta up to 1993
- Joint Governance-Ownership: UA after 94
- Workplace Culture-employee centered:
  - Southwest; Delta pre 1993; Continental after 94
- Low Cost Airlines—same variations among them???
Labor Costs: Only Part of the Problem & Solution

- Real unit labor costs 21% lower today than 1980
- But RASM are 32% lower than 1982—costs exceed revenues
- Labor costs of low cost airlines were 50% lower than top carriers; more recently converging
- Wage movements out of synch with revenue movements
- Past Labor cost reductions provided short term relief but not long term improvements in operational performance (productivity or service)
Labor Relations & Firm Performance

**Low Conflict**

- Labor Relations
  - Wages
  - Unionization
  - Shared Governance

- Positive Workplace Culture

**Operational Outcomes**

- Labor Productivity
- Aircraft Productivity
- Service Quality

**Financial Outcomes**

- Operating margin
- Asset returns
Summary of Results

• Unions increase wages
• Unions & wages increase aircraft productivity
• Union & wage effects on margins not significant
• Shared governance: reductions in wages bring short term rise in margins—no sustained performance benefits
• Strong positive effects for workplace culture
• Strong negative effects for labor conflict
• Source: The Wilson Center for Public Research, Inc. – based on 150,674 interviews conducted with pilots or flight attendants from 1/1/2001 to 9/20/2005
Labor Relations Quality Matters!

• Positive workplace relations linked to shorter contract negotiations and less labor conflict

• Lower labor conflict & positive culture linked to higher service quality, productivity, and margins
Two Key Conclusions & a Question

• Wage cuts/weakening unions will at best bring short term cost relief but not long term performance improvements

• Recovery strategies need to focus on improving quality of workforce and labor relations

• Are we headed for another crisis—”a perfect storm” as contracts once again come up for re-negotiations???
Key Conclusions

• All firms seeking to compete on low costs

• Labor cost gaps narrowed but not total costs

• Labor cost reductions of post 2000 era:
  – Necessary but not sufficient for recovery
  – Has produced extremely low morale, pent up demands for equity of sacrifice and recovery of wage concessions

• Successful, sustained performance improvements require improved employee and labor-management relations
  – Commitment, positive workplace culture, coordination
  – Labor peace—in organizing and in negotiations
  – Engagement of unions: Shared vision and support for firm and industry wide strategies
The Future for the US Industry:  
3 Potential Scenarios

1. Status quo: Headed toward a “Perfect Storm”
   - Multiple contracts in major firms due 2009-10
   - Pent up workforce pressures will explode
   - Economy and transportation system in crisis

2. Firm by firm/union by union transformation
   - Possible, difficult, mixed results in the past

3. New government policy as a catalyst for transforming airline labor relations as part of response to current economic crisis?
Potential Scenario 3: Elements of a Recovery Compact?

- Joint efforts to engage workforce, build positive culture, achieve coordination across work groups

- Company-wide negotiations and compensation strategies
  - Gradual recovery of wages tied to cost of living
  - Expanded pay-performance linkages
  - Equity in wage growth; including management/executive compensation
  - Long term agreements: predictable wages; labor peace

- Transparency, information sharing, consultation