

Will United Airlines pilots' takeover bid fly?

By David Moberg

CHICAGO

THE LATEST HIGH-STAKES CORPORATE RAID is not a Texas oil billionaire or a *nouveau riche* New York stock speculator: it's a union. The Air Line Pilots Association's \$4.5 billion bid for United Air Lines surprised and infuriated United Chairman Richard Ferris. This is not what unions are supposed to do.

But increasingly, U.S. unions are turning to forms of employee ownership and other "capital strategies." With capital strategies, unions contest dearly-prized management prerogatives and seek to influence or control the use of capital to protect their members' interests.

Conglomerate spinoffs, outsourcing, plant closings, overseas flight of capital and restructuring triggered by mergers and takeovers are some of the woes that have pushed unions to seek new strategies to control capital. In an era of growth and expansion, unions could stick to demands for better wages, benefits and working conditions and do reasonably well. But "we're in an era when

unions cannot fully protect interests of members in traditional ways," argues labor adviser Randy Barber.

In the past workers could laugh or curse at managerial incompetence. Now they find it costs them their jobs or hard-earned benefits, and they must combat it for their own sakes, as case studies in the current *Labor Research Review* demonstrate.

Going after UAL, Inc.: The post-deregulation airline industry has been the arena for a turbulent clash of fragmented unions with strong-willed but often wrong-headed managers. In 1985 United pilots staged a spectacularly well-organized and effective strike, yet even in "victory" made concessions. But with new cohesiveness as a union and the conviction that UAL, Inc., Chairman Richard J. Ferris was managing the company badly and at their expense, the pilots retained the investment banking firm of Lazard Freres to investigate purchase through an employee stock ownership plan (ESOP). Although ESOPs have been abused by companies, especially in management-leveraged buyouts, they can offer workers special advan-

tages. Since the ESOP can deduct both principal and interest payments on its debt from taxes, and lenders can deduct half of interest payments, ESOP bidders have a financial advantage.

Ferris is pursuing two strategies that distressed the pilots—and much of Wall Street, ALPA manager of economic analysis Jalmer Johnson said. First, he is spinning off profitable parts of the airline, such as the company's lucrative reservation system, as separate entities under the UAL, Inc., holding company. That would leave the basic airline operations stripped down and less profitable and its employees more vulnerable to attack.

Second, Ferris has taken cash from the airline and bought—at prices widely thought inflated—Hertz and Hilton International hotels (to add to UAL's Westin chain). He wanted to make UAL an integrated travel company, soon to be known as Allegis (a costly name change to what sounds like "a world-class disease," according to real estate mogul Donald Trump, whose interest in UAL's hotels might mesh neatly with the pilots' proposal). "If we were running the airline, we'd probably have a newer, quieter, more fuel-efficient fleet of airplanes," ALPA spokesman Jim Waters said.

Financed by a voluntary diversion of assets in one of their pension funds, a 25 percent wage "redirection" from their paychecks into ESOP stock and a 10 percent productivity increase, the union's bid would involve an agreement not to strike for seven years and a wage freeze as concessions to bankers.

Mixed response: Although the flight attendants have shown some interest, the Machinists, the other major United union with an historically distant relation with the pilots, have been cool to the deal. (Technically the buy-out would not be done by the union but by employees. But those in unions can participate only if the union negotiates it.) Machinist Vice President John Peterpaul said he had philosophical "problems with using the union as an investment vehicle," although the machinists had exchanged stock for concessions at several troubled airlines. Also, he thought the proposed financing unfairly burdened employees and loaded the company with potentially harmful debt

used simply for the purchase, not improvements.

Is the pilots' plan a good deal for workers? That depends on the alternatives. "There's potential for substantial cuts in pay in the next round [of bargaining in 1988]," Johnson said. "They have even threatened to liquidate the airline. We feel our future and the future of the airline are very cloudy. The pay cuts [in the buyout] are relatively small compared to the costs of interrupting our careers." Pilots are more vulnerable to corporate shakeups than machinists because their pay is so dramatically tied to seniority within a particular company.

Another buyer could take over United, or Ferris could fight a takeover by buying back at great expense stock the company just issued. In either case there could be increased debt and concession pressure. And in either case the money to finance the deal will come from banks and pension funds—other workers' money—and will be repaid by United workers' concessions. And the deal will enrich a few wealthy people who will very profitably sell the company again when the debt is repaid, argues Malon Wilkus, president of American Capital Strategies. "The employees wind up paying anyway," says Corey Rosen, director of the National Center for Employee Ownership. "So they might as well own it and take control of their destiny."

Unlike earlier, not very successful airline employee investments, United is a healthy industry giant, and the union has acted with careful planning to forestall an expected crisis, not to respond to one. "The pilots have put the company in play, and they can take it out of play if management agrees to treat them better," Wilkus argues. "Even if they fail in the buyout, they may nevertheless succeed with a collective bargaining strategy."

Despite the publicity of worker-owners saving failing firms, such ESOPs make up only about 2 percent of the estimated 7,000 plans. Most involve takeovers of privately held firms from retiring owners. But the era of big-worker bids for prosperous public companies may be starting. Last year American Capital Strategies helped the UAW and the Steelworkers to bid for the Robertshaw Controls Company in order to halt its shift of manufacturing to Korea, Mexico, Brazil and Taiwan. But their \$418 million offer came in second. Other bids for large public companies by unions are now in the works. Also, Wilkus is helping to organize an equity ESOP fund with assets from labor-management jointly administered pension funds that can help finance union-initiated buyouts.

Most unions are still reluctant to propose alternative directions for capital. Some fear an erosion of the union adversarial role and of worker solidarity if workers become little owners identifying with the firm. Others simply are daunted by the new challenge of trying to be a better boss than the boss. There certainly are risks, especially if unions do not have a clear strategy that builds worker power from the lowest levels on up. But there are also great risks in not challenging management's use of capital.

Capital strategies cannot replace collective bargaining and certainly not political action, which can accomplish more than union pressure to redirect capital. But they can win limited gains, give new legitimacy to unions as representing the broadest social interests and, most of all, make the use of capital a public issue. □

Potpourri of union capital strategies

Examples of union capital strategies to influence management and investment tried in the last several years are few but varied:

- Steelworkers forced the resignation of Wheeling-Pittsburgh's chief executive.
- Machinists forestalled wage givebacks by showing Eastern Airlines how to save \$137 million over three years.
- Allied Industrial Workers gained jobs by "contracting in" work at Harley-Davidson they proved they could do efficiently.
- Steelworkers won strong language against contracting out and the UAW won guaranteed jobs at John Deere and Caterpillar for 90 percent of workers during the life of the new contracts.
- GM and the UAW set up a jointly administered fund for new investment (although it hasn't been used yet), and Philadelphia-area Food and Commercial Workers set up a grocer-financed fund to start worker-owned food stores.

- The UE (electrical workers) fought—unsuccessfully—for conversion of a South Carolina GE plant to produce alternative energy and environmental protection equipment.
- Steelworkers and the Tri-State Conference have pushed for use of eminent domain to take over steel mills and create a regional steel authority.
- Construction trades unions have used pension funds to build low-cost housing and to start unionized, employee-owned contracting firms.
- ACTWU (clothing and textile workers) blocked a management-leveraged buyout, and other unions are devising "poison pills" or worker "tin parachutes" as merger protection.
- Numerous unions have demanded that companies open their books to prove need for concessions and often have pressed for management concessions and stock to balance worker givebacks. —D.M.

By Salim Muwakkil

MOBILE, ALA.

FOR A MAN WHO SAYS HE BELIEVES IN PEACE and pluralism, Ishmael Jaffree sure has caused a lot of trouble in this sleepy Gulf Coast city. First, he challenged Alabama's moment-of-silence school prayer law in a lawsuit and won. This triumph was seen as a defeat by most Alabamians, but his victory was further crowned with a favorable Supreme Court ruling. Then Jaffree sued again to make sure the state's recalcitrant officials actually would follow the ruling.

Although the 43-year-old black attorney has lived here for only a decade, he's managed to thoroughly antagonize the city's black and white leadership alike; given the historical divergence of those two groups' interests, Jaffree's performance is a marvel of political dexterity. Most established black leaders disagree with his civil libertarian views and distrust his lack of religious passion, while white leadership in this town of the Deep South simply regards him as a black atheist, which places him a rung or two above Satan.

His most consistent public opponent, however, is U.S. District Judge W. Brevard Hand, whose recent edict banning certain textbooks from the state school system for pushing "the godless religion of secular humanism" (see *In These Times*, April 1) alerted opponents of theocracy to the need for greater vigilance. Hand's ruling was stayed by an appellate court's temporary injunction, but Jaffree says the judge's action represents the opening salvo in another of their ongoing legal battles.

When Jaffree sued to end the moment-of-silence practice, it was Hand who flagrantly disregarded legal precedent and ruled against him. Hand's ruling was rejected on appeal and in 1983 the Supreme Court struck down the Alabama law. According to Jaffree, Hand perceived the court's decision as a personal affront more than a legal defeat.

"It's as if Judge Hand and his fundamentalist allies are out to show me—who they see as an uppity nigger—that I can't stop white folks in the heart of the Bible belt from teaching what they consider to be God's true religion," Jaffree says. After losing in the Supreme Court, Hand transformed the defendants from the Jaffree case—about 600 fundamentalist parents and teachers—into plaintiffs in the refashioned "secular humanism" case. And as his recent ruling indicated, Hand is not yet ready to concede defeat. There's a virtual consensus among legal experts, however, that the judges' decision will again be overturned.

Is he crazy? Hand's motives are easy to discern: he wants to protect the traditions of the Christian South from assaults by godless liberals. But why would an outspoken black man, already a prime target for racist scapegoating in a region where whites still lynch "uppity" blacks, risk further jeopardy by attacking hallowed religious traditions?

"My wife is a Baha'i and I am an agnostic in matters of religion," he explains. "At the beginning of our marriage we agreed not to force religion on our children. We wanted them to be free thinkers and learn about various religions and philosophies without being pressured to accept any of them. But when they went to school we soon discovered they were being literally indoctrinated into an aggressive 'born-again' style of Christianity. This meant that all of our plans for the children were being undermined by those teachers who doubled as preachers."

A civil libertarian in the Deep South finds few friends, black or white

Jaffree first tried informal methods to protest their blatant proselytizing, but he says the school board ignored his complaints. He sought allies among the area's small populations of Jews and Buddhist refugees from Indochina, but apparently they found his offer easy to refuse. He says the city's black community told him he was barking up the wrong tree.

It was black leadership's reaction that most demoralized Jaffree. "Black leaders are too parochial in their interests," he argues.

IN PERSON

"If it doesn't immediately concern something with racial overtones or have a civil rights angle, most black leaders don't want to get involved."

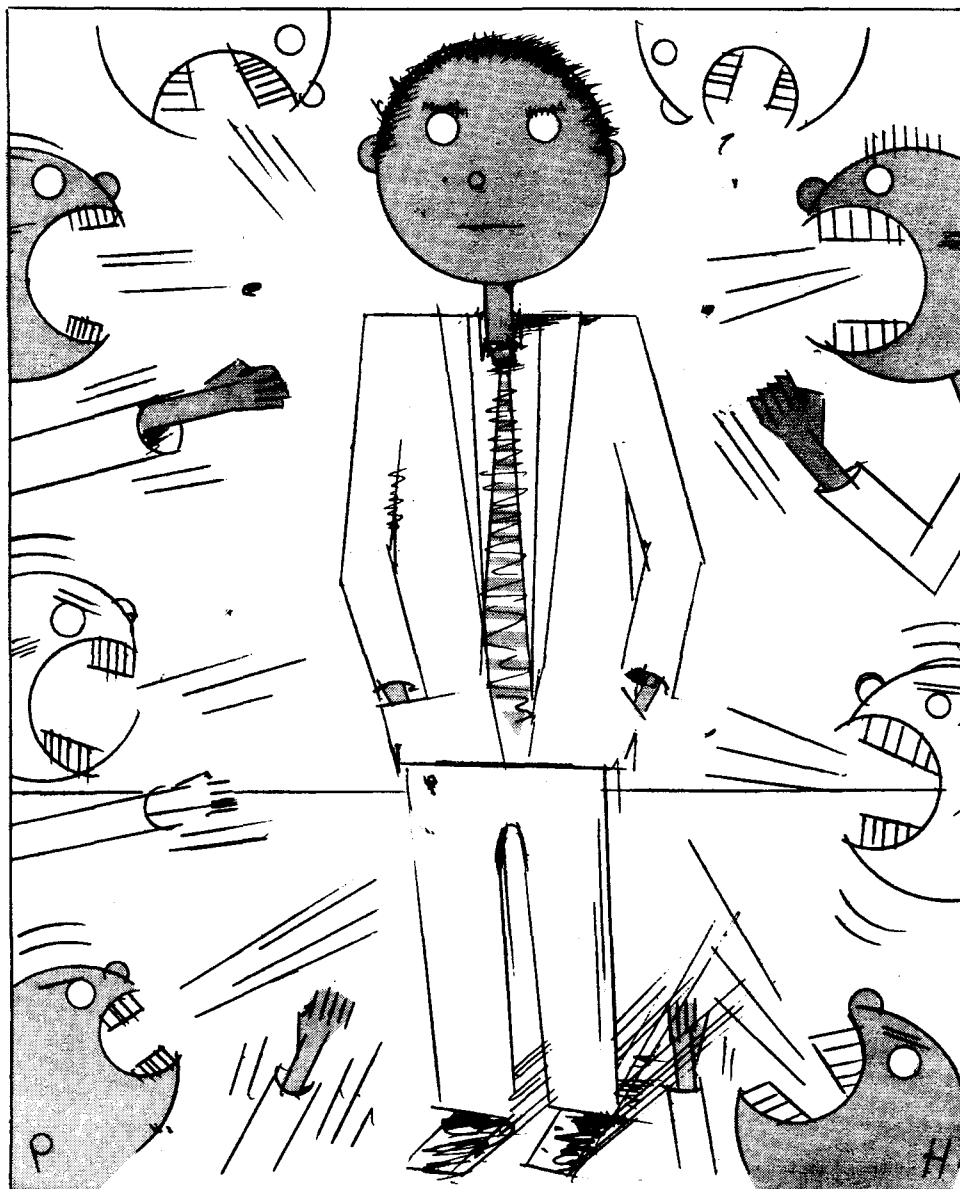
Jaffree explains that when he initially filed his moment-of-silence suit, he was strongly denounced from the black community's numerous church pulpits. Though careful to pay homage to African-Americans' religious traditions, Jaffree wonders if the black community's interests are being hampered by the predominance of Christian clergy in

leadership positions.

He's not alone. For example, the question of whether black leadership's overwhelming commitment to Christian dogma could produce a blind spot in their understanding of the need for protecting minority rights is being raised with increasing frequency by a wide range of analysts. With the national emergence of Rev. Jesse Jackson's Rainbow Coalition, a group purporting to link black—primarily religious—leadership with left/liberal white leadership, the question acquires added urgency. For instance, can homophobic preachers and advocates of gay liberation inhabit the same coalition? This is just one aspect of the issue provoked by Jaffree's speculation.

Another aspect was highlighted when *In These Times* sought comment on Hand's secular-humanism decision from Rev. Abraham Woods Jr., leader of the Alabama chapter of the Southern Christian Leadership Conference. Although Woods is a seasoned veteran in the struggle for blacks' civil rights, he found nothing disturbing about Hand's order to ban selected textbooks. In fact, he demonstrated some support. "As a clergyman I certainly can't agree with any philosophy that gets rid of God," Woods said.

Ishmael Jaffree says whites in Mobile think he's an "uppity nigger." To the black community the lawyer is a "crazy, dangerous atheist." But, as he notes with pride, "I've been a non-conformist since day one."



A nightmare: Jaffree says he lived in hell for the entire year after he filed the suit. "The black community of Mobile treated me like I was a crazy, dangerous atheist," he recounts. "They simply couldn't conceive of any black person who wasn't religious, specifically Christian. I received absolutely no support whatsoever from any black civil rights group. Don't they understand that if we allow a tyranny of the majority in one area, all other minorities' rights are threatened?"

During his hellish year, he says, even his six children hated him. "They thought I was a fool to go up against such daunting opposition. For a while, they didn't even want to be seen with me." Things improved a bit when he was vindicated by the Supreme Court. "All of the media attention finally convinced them that their father wasn't just some cranky old fool."

Jaffree admits to being a chronic iconoclast. "I've been a non-conformist since day one," he notes with pride. On that day, he was in Cleveland, Ohio, and he remained in his native city until he migrated in 1977 to Alabama. He considers himself a product of the militant '60s, with all its passions and paradoxes.

"I was touched by everything that was happening in those days," he recalls. "The writings of LeRoi Jones (a.k.a. Amiri Baraka), Frantz Fanon, Claude Brown and Malcolm X were very influential in the development of my ideas, as was the example of [Rev. Martin Luther] King." He says he also became involved in the movement that in 1967 helped elect Carl Stokes the first black mayor of a major U.S. city. But Jaffree didn't squander all his energy on the frenetic activities of that era; he also managed to earn undergraduate and law degrees from Cleveland State University.

After some rough-and-tumble times in Ohio's largest city, Jaffree became disenchanted with the climate, pollution and politics of the industrial North and he began looking to the South as a way out and up. "I thought the future for black people was in the South, on the land, so I pointed myself in that direction. I eventually hooked up with the Reggie Fellowship Program, which pays attorneys to work in less accessible parts of the country, and I was sent to Alabama."

Jaffree no longer has romantic notions about blacks in the South. He says he's ready to return to the North, or perhaps go west. He counts the intellectual isolation he's suffered as his greatest loss. "I can't remember the last time I had an intellectually or politically stimulating conversation with anyone down here but my wife," he complains.

He's wrong about that, of course, although it would probably be difficult to convince him of his error. But every time the religious right attempts some legal strategy to further blur the boundary between church and state, Jaffree's reasoned voice is heard. His pitched legal skirmishes with the tendentious Judge Hand probably have stimulated more meaningful conversations about the dangers of majoritarian tyranny than years' worth of cultured debate in the top intellectual parlors. If only he could get the black community to join in the conversation....

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