

# An exchange of letters on United Airlines and “employee ownership”

4 August 2004

*The following is a letter received on “United Airlines halts pension payments: a major attack on retirement programs in US” , and a reply by the author, Joseph Kay.*

Joseph Kay,

UAL halts pension payments. How is this possible? UAL is an *employee-owned* company, according to all the media hoopla of a few years back when all the employees were handed company stock.

Going by this, what is happening now does not make any sense, of employees doing this to themselves.

Or, is this a case as I have witnessed in many developing countries, with the elite in government agreeing to land distribution to the poor. As soon as the land deed papers were issued, the elite cronies started combing the countryside buying up for *a song and a dance* the land deed papers and the whole affair is back where it started, with the capitalists in control of the land.

In the UAL case, the capitalists obviously must by now all be back in control of the UAL stock by having it bought up in the stock market from the foolish employees who were conned through 24/7 TV advertising of the capitalist system into spending it on useless items such as SUVs, speedboats, campers, houses beyond their means to maintain them, etc, etc.

Please explain to us readers of the WSWS web site how this did happen to a company owned by employees, because there are other employee “owned” companies. AVIS car rental was one of the first employee-owned.

As always,

FB

Dear FB,

Thank you for your email regarding my article. Indeed, the case of United Airlines is a graphic demonstration of the fraud of so-called employee-

owned companies.

This, however, cannot be explained by the “foolishness” of workers or some misplaced obsession with consumer goods. The deception carried out by both management and the union leadership does not involve “conning” the workers into selling their shares of company stock. Legally, the United workers still own the majority of company shares. However, the “employee ownership” plan is deliberately structured so as to deprive the workers of any real control over either “their” stock or the workings of the company.

In 1994, United Airlines became what at that time was the largest “employee-owned company.” What did this employee-ownership mean? United was then facing enormous financial troubles and was seeking to transfer the burden of these troubles onto the backs of its workers. Management was threatening to liquidate the company if it did not receive adequate concessions.

In exchange for massive wage-cuts (15 percent) and other cost-cutting measures valued at nearly \$5 billion, the unions at United agreed to a deal whereby employees gained nominal ownership of over 50 percent of the company’s stock. In fact, this stock was transferred to the trusteeship of the State Street Bank & Trust Co., which managed the shares of the Employee Stock Ownership Plan (ESOP). As part of the deal, representatives from three of the unions obtained seats on the company’s board of directors.

What was the content of this deal? It was essentially an agreement between the trade union bureaucracy and management at the expense of the vast majority of the workers at the company. In exchange for the wage concessions, the only “control” that the workers received was through the corrupt union officials, who have repeatedly demonstrated since then their determination to work with management against their own membership.

In a letter to the United Airlines board of directors, the Air Line Pilots Association and the International Association of Machinists indicated the nature of the deal: “We believe that our plan will catapult the company light-years ahead of its competitors by enabling it to serve the global community more flexibly and efficiently than any other major American carrier and to compete head to head with ‘low-cost carriers’ in the short-haul marketplace.”

As was the case with so many companies that brought in ESOP plans, workers were promised that they would not have to face further cuts or layoffs in the future. After all, now they “owned” the company.

Of course, it did not turn out this way. As the company has faced financial strains in the past several years, it has again demanded a new round of pay cuts. Before the company declared bankruptcy in 2002, it secured from the unions on the board of directors a new deal granting concessions valued at \$5.2 billion. In spite of these arrangements—made in the face of enormous opposition from the rank and file—the Bush administration pushed the company into bankruptcy in order to force even more attacks on workers. The federal Air Traffic Stabilization Board (ATSB) denied the company a loan guarantee, forcing the Chapter 11 filing. The ATSB wanted concessions of \$9 billion.

In the end, all the stock in the ESOP plan was rendered virtually worthless (dropping from a high of \$100 to \$1). To make matters worse, the bank with trusteeship over the plan decided to sell all its holdings when the stock was at a low point. In exchange for cuts valued at \$5 billion, workers were left with \$50 million from the stock sale. And since bankruptcy, United has moved to cut costs even further, lay off workers, and dismantle their pension program. Nothing will be left of the employee-ownership plan when and if United emerges from bankruptcy.

The case of United is typical of the real character of “employee-ownership.” Genuine democratic control of production by the working class is incompatible with capitalism. So-called employee-owned companies like United remain within the framework of the capitalist system, which means that they are subordinate to the laws of the capitalist market. They are forced to cut costs under the pressure of competition and the demands of investors for profit. In the end, the collusion of the trade union bureaucrats in the whole

series of attacks against workers at United is not simply a consequence of their corruption. This corruption itself has deeper roots—in the fact that the union bureaucracy is wedded to the profit system.

Even if workers at a single company were able to organize themselves and take control of the company, the company could not be run in the interests of the workers so long as it remained within the framework of a world market dominated by the giant banks and corporations. It would ultimately be forced to obey the laws of the market or be starved of funds and resources.

Democratic control of the forces of production—that is, socialism—is not possible except through the mass mobilization of the working class in a conscious political movement against the entire system of capitalist relations. This means the transformation of the giant forces of economic life—the banks and major corporations—into public utilities, controlled by the working population and run in the interests of social need, not private profit.



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