The JetBlue fiasco: Private profit vs. the public interest

Kate Randall
2 March 2007

On Valentine's Day, an ice storm resulted in hundreds of JetBlue passengers being forced to sit for hours on end in airplanes stranded on airport tarmacs in New York City. For days afterwards, the airline was unable to meet its flight schedule, stranding thousands more travelers around the country.

The JetBlue debacle sheds light not only on conditions at one low-cost carrier, but rather on the US airline industry as a whole. The traveling public is held hostage—literally, in Jetblue's case—to the failings of an industry dominated by the drive to cut costs in the interests of corporate profit.

When the ice storm hit John F. Kennedy International Airport on February 14, JetBlue went into an operational meltdown. Packed aircraft, with overflowing toilets and air so fetid the crew had to open doors to let in freezing gusts from outside, sat on runways for as long as 10 hours before returning to terminal gates. The passengers had little more than tiny bags of pretzels to eat.

The cascading effect of the initial disruptions forced JetBlue to cancel more than 1,000 flights. The airline—a darling of Wall Street and the media, which promoted it as a low-cost, high-service alternative to the more established airlines—launched a public relations campaign to avert financial disaster.

Until February 14, JetBlue's rapid ascent to commercial success was ascribed to the virtues of "free enterprise" and the "entrepreneurial spirit." Founded by CEO David Neeleman in 1999, the airline promised to put customer relations first. It boasted larger, more comfortable seats and provided a personal TV screen for every passenger. Fashionably dressed flight attendants were instructed to speak to customers in complete sentences. The company pledged never to sell more tickets than seats, and rarely cancelled flights.

JetBlue was one of a handful of airlines that steered clear of the post-9/11 slump that hit the industry, largely because it had one of the lowest per-passenger mile cost structures. It kept labor costs low by avoiding unionization, staffing its reservations department with work-at-home agents, and maintaining a workforce with no "surplus" employees.

But all it took was a winter snowstorm—by no means an unusual or unexpected occurrence in the northern US—to expose the shoddy foundations upon which this capitalist "success story" rested. It became clear that the company's profitability rested to a large extent on a neglect of basic infrastructure—training of staff, internal communications—and had made no serious preparations for precisely the types of problems that nature inevitably throws up for commercial air carriers.

A number of factors intersected to produce the breakdown which began February 14. JetBlue's efforts to assemble flight crews were frustrated by an inability to track down pilots and flight attendants stranded by the storm in other cities. It began to develop a database system for this purpose only in the course of the crisis.

Poor management and cost considerations delayed decisions to cancel flights and take passengers back to terminal gates. While most carriers proactively cancelled flights in advance of the storm, JetBlue gambled that conditions would not be so bad, a bet that proved disastrously wrong.

The airline attempted to maintain its aircraft in the queue for takeoff long after most other airlines had abandoned hope of getting their flights airborne. Canceling flights translates into diminished profits in the form of refunds, rebookings and other costs. With virtually every flight packed full of passengers, as a result of an industry-wide drive to reduce the number of flights, cancellations have become even more costly in recent years.

When JetBlue did finally cancel flights, it was also not in a position to redirect passengers to other airlines—a procedure called "inter-lining." Such arrangements are expensive and are not typically offered by low-cost airlines, which offer lower fares by foregoing such "extras."

Throughout the weekend and on Monday, the airline's reservation agents were unable to handle the torrent of angry calls from customers trying to rebook flights. Some callers were forced to wait an hour to reach an agent.

JetBlue's 2,000 agents for the most part work out of their homes in Salt Lake City, an unconventional set-up that Neeleman first devised at his initial airline venture, Morris Air.

The JetBlue breakdown was an extreme example of system failure, but the underlying factors that produced it are not limited to a single company. JetBlue's fiasco exposed the consequences of drastic cost-cutting throughout the airline industry, to the detriment of the traveling public and airline workers alike, which has made the system even less capable of meeting the complex and growing demands of an expanding flying public.

No one traveling on a US airline in recent years needs to be told that the flying experience has drastically deteriorated. Arriving hours before their flights, passengers are often obliged to stand in long lines at security checkpoints, to then be packed like cattle into narrow seats and served by disgruntled, overworked and underpaid flights attendants.

Much of this decline can be traced to the deregulation of the airline industry, which began in 1978 under the Democratic administration of President Jimmy Carter, when government controls were lifted on routes and fare structures, giving a green light for a brutal offensive against the jobs, wages and working conditions of airline workers. Hailed as a move that would let the “free market” work its magic, resulting in lower fares and better service, the opposite has been the case.

Deregulation unleashed cutthroat competition, with airlines imposing drastic cost-cutting measures, particularly in the form of concessions from their unionized workforces. Tens of thousands of airline workers lost their jobs, and nine major and 100 smaller carriers went bankrupt. When 13,000 members of the Professional Air Traffic Controllers Organization (PATCO) struck against the Federal Aviation Administration in 1981, the Reagan administration responded by firing them all, with the backing of a Democratic Congress.

One of the outcomes of deregulation has been the emergence of low-cost start-up airline companies, AirTran Airways (formerly ValuJet) and JetBlue. Like many of the entrepreneurs and speculators who established these discount carriers, David Neeleman, 44, had no experience in the building, flying or management of commercial air fleets.

In 1984, while still in his mid-20s, Neeleman co-founded Morris Air. In 1993, Morris was sold to Southwest Airlines for $130 million. After working briefly at Southwest, Neeleman became the CEO of Open Skies, a touch screen airline reservation and check-in systems company, while also helping to start up Westjet, another low-cost carrier. In 1999 he founded JetBlue, utilizing the capital he had gained in his previous ventures.

While remaining profitable for its first five years, JetBlue lost money in 2005—$20 million—followed by a smaller $1 million loss in 2006. It embarked on a “Return to Profitability” plan which involved expansion to new cities and the introduction of a new aircraft model—the 100-seat Embraer 190, further complicating training and maintenance operations.

These financial considerations increased pressure on JetBlue to trim costs from an already cut-rate operation. However, all airlines, not just the discount carriers, are stretched perilously thin: planes, gates and employees are often scheduled to full capacity, and when severe weather hits, there is little room for maneuver.

Major carriers have also stranded passengers for hours. Last July, a United Airlines flight sat on the ground in Harrisburg, Pennsylvania for eight hours as a result of bad weather in New York City. The plane refueled twice before the airline gave up hopes of operating the flight and offered to bus passengers to New York.

Last December 29, storms in Dallas forced American Airlines to divert planes to other airports, stranding several flights. Flight 1348 sat on the runway for nine hours in Austin, Texas before the captain taxied the plane to an empty gate—without permission from air traffic control. American has now capped the length of time passengers can sit on diverted flights—to four hours!

Despite enormous technological advances—computerization, satellite communications, the development of the Internet—such breakdowns in air travel occur with increasing frequency. This points to a glaring contradiction between the development of technology on the one side, and the irrational underpinnings of the airline system on the other.

In the end, all considerations are subordinated to the scramble for profit of competing airline companies and the further enrichment of CEOs and major Wall Street investors. The cost of basing air travel on such backward and socially destructive principles is borne by airline workers, passengers and the general public.

Inevitably, one casualty is the safety of the flying public.

The JetBlue fiasco underscores the need for a radical reorganization of the airline industry. A system that provides safe, comfortable travel for passengers and decent wages and working conditions for airline employees cannot be patched together on the basis of private ownership of the airlines and the domination of the market. It can be achieved only by transforming the system, not only in the US but internationally, on the basis of rational planning and coordination, and this requires removing the airlines from private ownership and making them public utilities subject to the democratic control of the working population.