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# Rescue Mission: Bailing Out Boeing and Rebuilding It to Thrive

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# INTRODUCTION

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Boeing is in big trouble, and not just because of the coronavirus. It is in trouble because it has gradually lost the ability to build safe civilian and military aircraft. America needs to spend money to tackle the economic damage caused by both crises. But before taxpayers throw any more money at the problem of Boeing, regulators and legislators must set conditions that force Boeing to save itself. This brief describes those conditions, laying out a framework for using public assistance to return Boeing to a functional, productive, and innovative state.

Long before it began appealing to the Trump Administration for a \$60 billion bailout, Boeing needed federal intervention.<sup>1</sup> For most of its lifespan, Boeing was an extraordinary engineering enterprise. The company produced a host of important civilian aircraft such as the 707, the first commercially successful jetliner, and the “Queen of the Skies” Jumbo Jet 747. Its lunar orbiters paved the way for the Apollo program, and its lunar vehicles allowed NASA to explore the surface of the moon.<sup>2</sup> But in the late 1990s, a combination of a merger with McDonnell Douglas and new Wall Street-focused management transformed Boeing. The company became less a producer of aircraft than a producer of cash for shareholders. Over the past decade the company has squandered more than \$65 billion on stock buybacks and dividend checks alone.

Boeing’s new financial focus came at the expense of the company’s once-legendary enterprise capacity. In addition to prioritizing shareholder payouts, Boeing wasted what analysts expect to be at least another \$30 billion on rebates, kickbacks, goodwill charges, and lost orders related to its 737 Max—the deadly aircraft that killed 346 people in two crashes five months apart. Boeing also squandered at least \$30 billion bringing its much-delayed 787 Dreamliner to market after the company’s disastrous—and unsuccessful—decision to outsource huge portions of the plane’s design. Then, Boeing wasted another \$5 billion developing an aerial refueling tanker engineers say will never be able to competently refuel a fighter jet. These are classic symptoms of a corporation that has lost its ability to carry out its core mission.

Rescuing Boeing means implementing a temporary, but not short term, effective nationalization of the company. Boeing has been sufficiently mismanaged in the name of “shareholder value” that there will be calls to wipe out its shareholders altogether. While the Treasury Department should certainly seek to acquire the company at a discount to its current market capitalization, it is important to understand that Boeing is not a generically insolvent business but one of the only two significant makers of commercial airplanes in the world. A low enough bid will invite

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<sup>1</sup> “Boeing Statement on Support for Aerospace Manufacturers,” Boeing, March 17, 2020, <https://boeing.mediaroom.com/news-releases-statements?item=130642>.

<sup>2</sup> Natalie Guevara, “How Seattle-based Boeing contributed to Apollo 11’s ‘one small step for man’ 50 years ago,” Seattle PI, July 16, 2019, <https://www.seattlepi.com/business/boeing/article/Seattle-Boeing-Apollo-11-moon-landing-50-years-ago-14100507.php>; “Historical Snapshot,” Boeing, accessed March 20, 2020, <https://www.boeing.com/history/products/lunar-roving-vehicle.page>.

relief from vulture investors who may have little interest in protecting Boeing’s workers and suppliers—or in instituting the dramatic changes necessary to put our largest exporter back on the road to long-term success. Thus, the precise financial terms of Boeing’s bailout are far less important than the terms Congress and the Treasury Department must set in exchange for a lifeline.

## SOLUTIONS

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### DISSOLVE BOEING’S BOARD OF DIRECTORS

Within days of the first 737 Max crash in October 2018, Boeing—and no one else—knew the culprit was a sloppy piece of software it had programmed into the plane’s flight control computers.<sup>3</sup> Any responsible Board of Directors would have voted to ground the plane or, at the very least, force the company to issue detailed instructions for overriding the software. Boeing’s board not only failed to do either, it also used its next meeting after the crash to expand its stock buyback program by another \$20 billion.<sup>4</sup> When interviewed about the decision after the second crash in March, the then-lead director said that he not only didn’t regret the decision, he insisted, “I don’t think we got it wrong.”<sup>5</sup> That director is now Boeing’s CEO, David Calhoun.

Like five other members of the board, Calhoun is a veteran of the private equity business. And as one would expect from the industry that invented the “dividend recapitalization,” these five men have time and again made bad financial and engineering choices around major research and development projects while pushing Boeing to pursue short-term gains with catastrophic results. Nor do the other board members provide much in the way of technical guidance. They include Caroline Kennedy, Ronald Reagan’s Chief of Staff Ken Duberstein, three Fortune 100 CEOs, a former US Trade Representative, and two Admirals, one of whom is the board’s only engineer. Former FDIC chair Sheila Bair characterizes the board’s performance as “the aircraft industry version of Wachovia, but ten times worse”—because Wachovia didn’t kill anyone.

Any bailout of Boeing should come conditioned on firing and replacing Boeing’s board of directors. This is hardly a radical proposition; even the Economist in December called for regulators to “beef up” the board.<sup>6</sup> Longtime aviation analyst Scott Hamilton has implored Boeing to replace its members with two representatives chosen by Boeing’s engineers and

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<sup>3</sup> Bjorn Fehrm, “Boeing’s automatic trim for the 737 MAX was not disclosed to the Pilots,” Leeham News and Analysis, November 14, 2018, <https://leehamnews.com/2018/11/14/boeings-automatic-trim-for-the-737-max-was-not-disclosed-to-the-pilots/>.

<sup>4</sup> “Boeing Board Raises Dividend 20 Percent, Increases Share Repurchase Authorization to \$20 Billion,” Boeing, December 17, 2018, <https://investors.boeing.com/investors/investor-news/press-release-details/2018/Boeing-Board-Raises-Dividend-20-Percent-Increases-Share-Repurchase-Authorization-to-20-Billion/default.aspx>.

<sup>5</sup> Douglas MacMillan, “Safety was just a given’: Inside Boeing’s boardroom amid the 737 Max crisis,” Washington Post, May 5, 2019, <https://www.washingtonpost.com/business/2019/05/06/safety-was-just-given-inside-boeings-boardroom-amid-max-crisis/>.

<sup>6</sup> “Boeing’s misplaced strategy on the 737 MAX,” Economist, December 18, 2019, <https://www.economist.com/leaders/2019/12/18/boeings-misplaced-strategy-on-the-737-max>.

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machinists unions, and with a pilot, among other reforms. Perhaps more important than drawing representation from labor and safety advocacy, however, is eliminating the malign influence of what Bair calls the financialization or “math” cabal, for whom success is always necessarily derived from some spreadsheet-masterminded mix of short-term cost cutting—i.e., laying off workers, manipulating earnings per share by buying back stock, and using low interest rates to finance growth through acquisitions. The Treasury Department and Congress should limit corporate representation on a new Boeing board to leaders of companies with robust research and development investments and minimal dividend yields.

## **FIRE CEO DAVID CALHOUN**

Nothing about David Calhoun's history or resume—he's the third Jack Welch protege in Boeing's past four CEOs—inspired confidence when he became CEO in December 2019. One of his first moves as Boeing CEO was assuring investors he would not touch the dividend, barring something “dramatic.” But the interview he gave the *New York Times* earlier this month to commemorate the first anniversary of the Ethiopian Airlines crash—in which he blamed his predecessor for the Board's fixation on the stock price and strongly implied that the 737 Max crashes would have been avoided by American pilots—was a fireable offense.<sup>7</sup>

Calhoun's resume reads like a brief history of financialization: he joined General Electric fresh from college, rose rapidly to become a favorite of the late Jack Welch, presided over thousands of layoffs at the company's railroad division in the nineties and its aircraft engine unit in the aughts, became a senior director at the private-equity firm Blackstone, and joined the Boeing board a few years after they interviewed him for the CEO spot in 2005. Boeing should not receive federal bailout funds if Calhoun remains at its helm.

It would be more challenging to make the case that Calhoun needs to go immediately if an inimitably qualified replacement was not waiting in the wings, but he is: former Commercial Aviation CEO Alan Mulally, who left Boeing for Ford after 37 years with the company. Friends of Mulally's say he is heartbroken by his old company's collapse and eager to take the job. (Reached at his home outside Seattle, his wife Nicki said he was traveling in Arizona and that she had no comment.) “Alan would be the perfect CEO for Boeing if he wants the job,” says Bair, who met

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<sup>7</sup> Natalie Kitroeff and David Gelles, “It's More Than I Imagined: Boeing's New C.E.O. Confronts Its Challenges,” *New York Times*, March 5, 2020, <https://www.nytimes.com/2020/03/05/business/boeing-david-calhoun.html>.

him during the auto bailouts and says Mulally demonstrated a humility she found unique. “Alan had seen the downturn coming and prudently reserved cash, and Ford did not need a bailout; in fact, he could have probably profited from the misery of his competitors,” she remembers. “But he came to Washington to support their relief because hundreds of people were going to lose their jobs.”

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## **PROHIBIT LAYOFFS, BUYBACKS, DIVIDENDS, BONUSES, SUPPLIER-SQUEEZING, AND STOCK-BASED COMPENSATION <sup>8</sup>**

Boeing was hardly alone in aiming to “return” 100 percent of its free cash flow to its shareholders in the form of dividends and stock repurchases.<sup>9</sup> The 50 largest U.S. companies spent a staggering \$1.1 trillion on buybacks over the past five years; over the last decade, S&P 500 companies spent about \$5.3 trillion buying back their own stock.<sup>10</sup> The airlines that buy Boeing’s planes together spent fully 96 percent of their cash flow on buybacks over the last decade.<sup>11</sup> This means that, instead of using their cash or profits to invest in workers or research and development, Boeing and its airline customers used nearly every cent to inflate their stock price and further enrich their shareholders and executives. (Incidentally, the practice of share buybacks was illegal until 1982.)

Boeing’s buybacks were destructive, and will be viewed as such by historians attempting to explain how one of the last nations impacted by a global pandemic became the first to need a trillion-dollar bailout. Any bailout package to Boeing must prioritize the stakeholders that have been shortchanged over the past two decades of Jack Welch-style mismanagement: labor, safety, a supply chain that was already devastated by the shutdown of 737 Max production before the coronavirus hit.

Compensation restrictions, including on executive bonuses and stock-based compensation, would address some of the problems with short-term thinking that led Boeing into this mess in the first place. They must establish clear, bright line rules and not be subject to the discretionary whims of a special master-type structure. Finally, they must have real teeth and meaningful

<sup>8</sup> Julie Johnsson and Peter Robison, “Boeing Is Killing It by Squeezing Its Suppliers,” Bloomberg Businessweek, February 14, 2018, <https://www.bloomberg.com/news/features/2018-02-14/boeing-is-killing-it-by-squeezing-its-suppliers?sref=ZvMMMOkz>.

<sup>9</sup> Adam Levine-Weinberg, “5 Things Boeing Co.’s Management Wants You to Know,” The Motley Fool, October 30, 2017, <https://www.fool.com/investing/2017/10/30/5-things-boeing-cos-management-wants-you-to-know.aspx>.

<sup>10</sup> “Stock Buybacks and the Coronavirus Crisis,” American Economic Liberties Project, March 2020, <https://static1.squarespace.com/static/5df44e0792ff6a63789b5c02/t/5e722fbc6f15503e9ec1fd78/1584541628729/Stock+Buybacks+Interested+Parties+PDF.pdf>; Andrew Tangel and Doug Cameron, “Boeing Asks for \$60 Billion in Aid for U.S. Aerospace Industry,” Wall Street Journal, March 17, 2020, <https://www.wsj.com/articles/boeing-asks-for-60-billion-in-aid-for-u-s-aerospace-industry-11584489179>.

<sup>11</sup> Brandon Kochkodin, “U.S. Airlines Spent 96% of Free Cash Flow on Buybacks,” Bloomberg, March 16, 2020, <https://www.bloomberg.com/news/articles/2020-03-16/u-s-airlines-spent-96-of-free-cash-flow-on-buybacks-chart?sref=ZvMMMOkz>.

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enforcement, unlike the mechanism set up under the TARP bank bailouts that bankers went to great pains to escape.<sup>12</sup> In short, Boeing needs to stop excessively focusing on its share price and return to its former engineering-focused self.

## **RETURN MANAGEMENT TO SEATTLE AND REVIVE THE “WORKING TOGETHER” CULTURE**

The defining fixture of Alan Mulally's leadership was the meeting: weekly project manager meetings in which leaders were rewarded for being as candid as possible about their anxieties and concerns. Coordination meetings pairing engineers and machinists whenever a new plane was in development. Meetings to facilitate collaboration between military and commercial projects. Meetings that fostered Boeing's ability to innovate, and to identify and raise concerns before they cost lives.

Starting with its abrupt two thousand mile move of the company headquarters to Chicago in 2000, however, Boeing leadership has systematically undermined the company's “working together” culture.<sup>13</sup> For twenty years, the company has forced a series of arbitrary reorganizations that relocated various units of its business to a dozen often random different faraway locations, often at the expense of safety and labor standards. A 787 plant opened by McNerney in 2009 in South Carolina, for example, sought to capitalize on then-Governor Nikki Haley's aggressive antipathy toward unions.<sup>14</sup> The plant is now a cesspool of shoddy standards,<sup>15</sup> whistleblower sabotage,<sup>16</sup> and illegal union-busting;<sup>17</sup> at least one airline won't accept the plant's planes. (Haley served on Boeing's board until she resigned last week.)<sup>18</sup> Outsourcing, too, has been a great plague for Boeing, which lost tens of billions of dollars—and three years of business—after its attempt to outsource the design of critical parts of the 787 Dreamliner left engineers in Everett with a mishmash of parts that didn't fit together.

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<sup>12</sup> Exiting TARP: Repayments by the Largest Financial Institutions, Office of the Special Inspector General, September 29, 2011, [https://www.sig tarp.gov/Audit%20Reports/Exiting\\_TARP\\_Repayments\\_by\\_the\\_Largest\\_Financial\\_Institutions.pdf](https://www.sig tarp.gov/Audit%20Reports/Exiting_TARP_Repayments_by_the_Largest_Financial_Institutions.pdf).

<sup>13</sup> Julie Johnsson and Peter Robison, “Boeing Is Killing It by Squeezing Its Suppliers,” Bloomberg Businessweek, February 14, 2018, <https://www.bloomberg.com/news/features/2018-02-14/boeing-is-killing-it-by-squeezing-its-suppliers?sref=ZvMMM0kz>.

<sup>14</sup> Rudolph Bell, “South Carolina: Union jobs aren't welcome here,” USA Today, February 20, 2014, <https://www.usatoday.com/story/money/cars/2014/02/20/no-south-carolina-union-jobs/5642031/>.

<sup>15</sup> David Wren, “Airline surveys point to ongoing production problems at Boeing's SC plant,” The Post and Courier, August 3, 2019, [https://www.postandcourier.com/business/airline-surveys-point-to-ongoing-production-problems-at-boeing-s/article\\_0e75f53a-b2d6-11e9-9606-0ffafccd055e.html](https://www.postandcourier.com/business/airline-surveys-point-to-ongoing-production-problems-at-boeing-s/article_0e75f53a-b2d6-11e9-9606-0ffafccd055e.html).

<sup>16</sup> Nick Krueger, “Lawsuit claims Boeing SC supervisors lied about bird strike to plane, then fired flight line worker,” WIS News, May 16, 2019, <https://www.wistv.com/2019/05/16/lawsuit-claims-boeing-sc-supervisors-lied-about-bird-strike-plane-then-fired-flight-line-worker/>.

<sup>17</sup> David Wren, “Boeing SC hit with charges it fired workers due to union support,” The Post and Courier, August 19, 2019, [https://www.postandcourier.com/business/boeing-sc-hit-with-charges-it-fired-workers-due-to/article\\_e089c0e6-c281-11e9-8338-97633239f3db.html](https://www.postandcourier.com/business/boeing-sc-hit-with-charges-it-fired-workers-due-to/article_e089c0e6-c281-11e9-8338-97633239f3db.html).

<sup>18</sup> Anthony Adragna, “Nikki Haley resigns from Boeing's board over bailout pursuit,” Politico, March 19, 2020, <https://www.politico.com/news/2020/03/19/nikki-haley-boeing-resign-138086>.

One only has to scan some of the internal emails released by the congressional subcommittee investigating the development of the 737 Max to see how the far-flung nature of Boeing’s various teams have drained the workforce of trust, morale, institutional memory, and most devastatingly, the ability to do their jobs. (The dysfunctional 787 Dreamliner project was paralyzed until Boeing’s engineers union convinced management to hold meetings with its members and listen to their assessments of the plane’s problems.)

Any bailout package to Boeing must fix the corporation so its planes are safe, functional, and don’t put lives at risk. As a condition of federal assistance, Boeing will need to spend money to “insource” certain functions and begin rebuilding its culture. Engineers and technicians who work on such functions as customer relations and simulator training—relocated to Seal Beach, California and Miami, Florida under McNerney—should potentially be re-relocated back to Seattle (and their staffers offered relocation assistance) in the interest of the safety of the broader aviation system. The labor unions who have long served as a critical check on the company’s financial engineering must also play a critical role in steering and rebuilding the new Boeing.

## **SPEND 10% OF REVENUES ON RESEARCH AND DEVELOPMENT AND HIRE BACK “GRAYBEARDS” TO FACILITATE**

Nike has a policy of spending ten percent of its sales on marketing and advertising, because brand value is the key focus for Nike. Boeing must adopt a similar policy for investing in its own future—with a focus on building a radically more energy-efficient aviation and aerospace industry. While commercial airplanes emit fewer emissions per passenger mile than most cars, Leeham News analyst Bjorn Fehrm says experts are not optimistic that airplanes will maintain this advantage. Because commercial-scale electric planes are unlikely to be suitable for anything but short hauls, the industry may have trouble piggybacking on carbon reduction advances made by the auto industry. And Boeing’s most important customer—the American military—is the single biggest producer of carbon emissions in the world.<sup>19</sup>

The “old” Boeing had a policy of keeping very senior engineers on staff as go-betweens between military and commercial project staffers and upper management. It was those veterans who not only provided the vital program development checks that would have prevented the 737 Max disaster, but also drove long-term planning and lobbied for new projects. Senior engineers have been routinely pushed out of a financialized Boeing. A taxpayer-rescued Boeing needs to aggressively recruit back this engineering talent and charge them with leading a rapid transition to low-carbon aviation.

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<sup>19</sup> Scotty Hendricks, “The U.S. military emits more greenhouse gases than Sweden and Denmark,” Big Think, June 17, 2019, <https://bigthink.com/politics-current-affairs/us-military-greenhouse-gasses>.

## ESTABLISH A SYSTEMIC RISK COUNCIL TO REGULATE THE AVIATION INDUSTRY

Even as Boeing outsourced more and more of its design and production functions to suppliers over the past two decades, the Federal Aviation Administration (FAA) loosened its titular oversight, allowing the company to effectively regulate itself. By the time Boeing rushed the 737 Max to production, the company was performing as much as 96 percent of the work involved in certifying the plane.<sup>20</sup> This self-regulation effectively forced employees to sideline safety concerns. A 2016 survey of Boeing employees found that more than a third reported experiencing “undue pressure” from program managers to cut corners and meet unrealistic deadlines.<sup>21</sup> And three quarters of those said they feared being fired or demoted for speaking up. Notably also in 2016, the version of MCAS—the flawed software that downed the 737 Max—was developed. Internal documents show that test pilots identified the critical problems with the software, but the company then minimized and concealed them from the FAA.

Various international oversight bodies have since spent a year attempting to pinpoint where the 737 Max’s certification process derailed so catastrophically; one issued 71 pages of detailed recommendations for overhauling the process.<sup>22</sup> Implementing all of them would be a challenge, even in the absence of the past twenty years of FAA funding cuts or Boeing’s arsenal of Washington lobbyists.

But one significant act could make an important shift in the right direction: convening a systemic risk council charged with determining whether a company’s business model undermines its safety and reliability. This council should consist of individuals like Chesley Sullenberger and Boeing whistleblower Curtis Ewbank,<sup>23</sup> as well as labor leaders like Sara Nelson of the Association of Flight Attendants-CWA, Transit Workers Union president John Samuelson, and Dennis Tajer of the American Airlines pilots union. A year of hearings held to probe where the FAA failed yielded much evidence—marshaled less often by regulators than safety-minded labor unions—that commercial

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<sup>20</sup> David Gelles and Natalie Kitroeff, “F.A.A. Leaders Face Scrutiny Over Boeing 737 Max Certification,” New York Times, July 31, 2019, <https://www.nytimes.com/2019/07/31/business/boeing-max-faa-senate.html>.

<sup>21</sup> Leslie Josephs and Thomas Franck, “Boeing survey showed employees felt pressure from managers on safety approvals,” CNBC, October 20, 2019, <https://www.cnbc.com/2019/10/20/boeing-survey-shows-safety-workers-felt-pressure-from-managers-report.html>.

<sup>22</sup> The Joint Authorities Technical Review (JATR) – Boeing 737 MAX Flight Control System, Skybrary, accessed March 20, 2020, [https://www.skybrary.aero/index.php/The\\_Joint\\_Authorities\\_Technical\\_Review\\_\(JATR\)\\_-\\_Boeing\\_737\\_MAX\\_Flight\\_Control\\_System](https://www.skybrary.aero/index.php/The_Joint_Authorities_Technical_Review_(JATR)_-_Boeing_737_MAX_Flight_Control_System).

<sup>23</sup> Natalie Kitroeff, David Gelles, and Jack Nicas, “Boeing 737 Max Safety System Was Vetoed, Engineer Says,” New York Times, October 2, 2019, <https://www.nytimes.com/2019/10/02/business/boeing-737-max-crashes.html>.



aviation's hard-won safety culture is under assault from extractive business practices at Boeing's suppliers and airline customers alike. A systemic risk council would address this problem by cross-referencing inspector audits and whistleblower reports with financial statements, management conference calls, and anonymous employee surveys of the companies it regulates. A systemic risk council would also stiffen fees and penalties on repeat flouters of safety culture. Boeing's biggest FAA fines have topped out around \$20 million, a comically minute sum for a company that in better years generates \$100 billion in annual revenues. Any proceeds from systemic risk fees would be used to hire more and better-trained inspectors and facilitate the flow of information and safety best-practices within the aviation community.

## **STRUCTURE THE BAILOUT AS A CONSERVATORSHIP WITH A MINIMUM TEN-YEAR HORIZON**

Any structure in which the government provides financing to Boeing, via debtor-in-possession or lender of last resort or any other mechanism, should be organized in the form of conservatorship. This would be similar to the approach the government took with Fannie Mae and Freddie Mac in 2008. Boeing's board and executive management should be replaced, as described above, and its debt restructured to prioritize obligations to employees and suppliers, government loans, and then senior private creditors.

One possible route would be for Congress to create an Aerospace Reconstruction Agency to provide financing to Boeing and take the corporation into conservatorship. The ARA should be an independent agency with a bipartisan set of commissioners who have experience in large scale government bailouts, complex supply chains, or civilian aerospace in the pre-McDonnell Douglas-Boeing merger era.

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The effective nationalization of Boeing can be temporary, but not short-term. The 2008 auto industry bailouts have been widely maligned as the only bailouts that failed to “turn a profit” for the Treasury Department, because the government began selling its General Motors shares only two years after it acquired them, when the Dow had just broken 11,000. The automaker's profits were soaring when Treasury divested its final shares in 2014—but that didn't stop executives from embarking on a layoff spree that left tens of thousands of autoworkers unemployed once the government was “off its back.” Boeing's return to health will be slower and more challenging than GM's, and it will take at least five to seven

years for a new strategy to bear significant fruit. When it does, regulators must ensure the company does not fall prey to the financiers who left it so ravaged. As the past 20 years have demonstrated, Boeing is too vital to America's competitiveness, its labor force, and its national security for its rescue to be judged on the basis of a short-term rebound in its stock price.

## CONCLUSION

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Over the past few weeks, Boeing has been battered by a public health crisis over which it had no control. But long before the Covid-19 pandemic brought commercial aviation to a halt, Boeing's long history of showering cash on shareholders at the expense of employees, suppliers, safety, and its own long-term survival made a compelling case for federal intervention. Now, a substantial infusion of cash is clearly needed to save a company so vital to America's economy, export industry, and national security. Any bailout of Boeing must be incumbent upon swift and dramatic changes in the company's toxic leadership, and to the defanged and defunded federal regulatory apparatus that oversees its operations. A successful nationalization of Boeing can secure not just an iconic company and its thousands of suppliers, but a radically more competitive and energy-efficient future for commercial aviation, aerospace, and defense.

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