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Rationalization and contraction: the goal for the U.S. airlines

by Leif Johnson

A 25 to 30 percent scale-down of the airline industry, conceived two years before the 1978 deregulation and concretely planned two years ago, is now in full implementation.

The scale-down includes a phased reduction in trunk line routes, resulting in fewer connections at traditional major airports, fewer small cities served, and less capacity to handle peak demands during holiday seasons.

The airline labor force will undergo one of the most thorough reorganizations ever performed in any industry. New nonunion carriers who are absorbing large chunks of the industry markets will recycle the industry's labor force, rehiring workers at entry-level pay as the major airlines lay them off. Seniority will be largely abolished and work rules shifted or abolished.

As the national air transportation system is unwoven over the next 12 months, fares will rise faster than the 24 percent increase of the past year. According to one analyst, "There will still be no-frills excursion fares to certain destinations like Miami or Los Angeles, but much air travel will return to the conditions of the thirties and forties, a sort of exclusive club of air travelers who can afford the luxury."

The strike pretext

The trigger for scale-down implementation, expected to be nearly complete by next April, is the strike by Professional Air Traffice Controllers (PATCO), which began Aug. 3. "With the public diverted with this strike and sympathetic to the airlines because of their big operating losses, this is the time to cut the routes," claimed an Air Force industrial expert.

Airlines are already reaping the first benefits of the PATCO strike. Load factors, the percentage of seats occupied by paying passengers, have bounced up from the dismal 56 percent of the first half of the year to comfortably over 70 percent after the strike began. According to industry estimates, when load factors rise over 60 percent on domestic flights, the industry is running in the black. Largely on this basis, airline stocks have taken a jump upward: American rose $1\frac{1}{8}$, to $15\frac{1}{2}$; United Airlines climbed $1\frac{3}{8}$ to $22\frac{7}{8}$ and TWA added $\frac{5}{8}$ to $20\frac{7}{8}$.

A leading airline industry analyst emphasized that the increased load factor was not the only benefit to the airlines. "The real advantage comes through 1982 when the airlines eliminate 20 to 30 percent of their air and ground crews.

"The [PATCO] strike was just what the airlines needed. They are getting a 20 percent across-the-board cutback which they wanted and could not have gotten in any other way. They knew that the third and fourth quarter would be all downhill. Load factors were slipping and fares would continue their 20 percent annual climb.

"The problem was," the analyst explained, "that individual carriers could not easily pull out of selective markets because that would give the traffic to competitors. The strike gave them what they wanted."

As of Aug. 14, strike-related airline layoffs had reached 5,000, after American Airlines announced layoffs for 1,650 of its 36,000 workers, including at least 200 pilots.

Some airline watchers believe that with a 20 to 30 percent cutback of personnel the airlines could be made so profitable that internally generated profits will become the major source of financing for the new, smaller aircraft they are now ordering. Even so, the airlines are not expected to buy as many as they claim.

Personnel cutbacks mean fewer flights and smaller revenues. Therefore, the labor savings due to layoffs are minor compared to the savings due to recycling the entire labor force.

The explosive entrance of new airlines after the 1978 passage of the Airline Deregulation Act is the most notable feature of the post-regulation period. Except for a handful of smaller airlines that have expanded their routes, all the new entrants are nonunion. Moreover, they are hiring workers laid off from the majors at entry-level wages. The wage reductions for the relatively

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high-seniority staffs such as pilots, mechanics, and other ground personnel are very large. A pilot with average seniority at a major airline would typically earn $62,000 a year. If he were to decide that he may not be called back from furlough at his present airline, he might accept a job at a nonunion line such as New York Air or U.S. Air or People Express. His entry salary would be $25,000 to $30,000 a year for probably more flight time.

Although this is comparable to entry-level pay at unionized airlines, it is the loss of seniority that would eliminate half or more of his paycheck. (As for flight attendants, if recycled they earn $900 a month compared with $1,500 at the average seven-year seniority level.) Recycling is already well under way. Ten percent of all pilots are presently on furlough, reflecting the 5 percent drop in ridership from 1979 to 1980—the largest decline ever registered in U.S. domestic air industry history. Trans World Airline, the nation's fifth largest, has furloughed 1,120 of its 3,250 pilots. Nine years ago, the airline employed 4,400 pilots.

It is from this pool of furloughed employees that the nonunion carriers are recruiting.

'Please disappear'

The established major carriers have been conducting a "productivity" campaign over the past year to discourage furloughed workers from believing that they will get their jobs back and to discourage employed workers from making salary demands. In a letter to a laid-off employee, for example, John Treux, vice-president of in-flight services at TWA, said, "At the time you were furloughed. . . . future planning indicated you would probably be recalled in the spring of 1981. We have just completed the financial planning and staffing levels for 1981 and it now appears that we will not have an increase in staffing sufficient to warrant any recall prior to the second quarter of 1982." The letter concludes, "On behalf of TWA, may I wish you the best possible holiday season and a brighter 1981 for all of us."

In addition to such "kindly disappear" letters, TWA's president, C. Edwin Meyer, recently sent employees a notice that, in light of the August 1981 contract negotiations, they should expect no wage increase for at least one year and no makeup of that wage loss at any time in the future.

Using a heavy mix of entry-level-paid employees and hand-me-down aircraft, the new entrant airlines can absorb increasing portions of the majors' traffic. When World Airways entered the Washington, D.C. to Los Angeles market in 1979 for example, it was able to capture 42 percent of that traffic by October 1980. The loss by some majors was staggering: TWA dropped from 14 to 12 percent of the market, United plunged from 37 to 24 percent of the market, and American, whose year-earlier market share was 49 percent, was left with only 22 percent.

Balkanizing air routes

With the coming of deregulation and the accelerated phaseout of the Civilian Aeronautics Board (CAB), new airlines can enter and leave routes virtually at will. The resulting restructured air transportation grid, already significantly advanced, is a plethora of smaller airlines grouped around various hubs, instead of nationally coordinated major airlines. Such hub-oriented service is cheaper, since the airlines are increasingly local or regional carriers flying out of one or a few centers.

While this cuts layover time, and other staff-scheduling problems, it breaks the network of connections that defines a national air transportation service.

With the cutback of subsidies to lightly traveled routes and the Federal Aviation Administration's announced intention to shut 22 domestic airports, service to smaller communities is being rolled back. Between April 1, 1980 and 1981, forty cities lost all air service, including the capital of New Hampshire, Concord. From April 1, 1978, prior to deregulation, to April 1, 1981, flights per week have fallen 6.2 percent nationally with the greatest loss 20.5 percent occurring in small airport-to-small-airport flights.

One of the major causes for the drop in air passengers has been skyrocketing fares. The year-to-year increase in domestic fares from third quarter 1979 to third quarter 1980 was 23.8 percent. The airlines blamed the big hike in jet-fuel costs for the large increase, but, while the price of jet fuel has decreased by 7 percent over the past year, fares in the first half of 1981 increased by 12 percent. Thus 1981 promises to be another 24 percent fare-hike year.

In the year from the third quarter of 1979 to 1980, first-class fares on domestic trunk lines soared 37.7 percent while coach fares on local commuter airlines—supposedly the cheapest service—bounded up by 40 percent to 22.5 cents a mile or 2 cents per mile more than first-class trunk-line service. Although fare increases have been large, when the CAB is phased out, the airlines will be allowed any fare structure they wish. One scheme is to create a free-enterprise market for airline tickets, charging whatever the market will bear. According to its author, Columbia University Prof. William Vickery, the plan "would set up a speculative commodity market for tickets with lightly sold flights selling at below cost and heavily sold planes selling at above price." Passengers would have to call the airline to get a quotation on the price, which would change from moment to moment, depending on demand. Vickery admits that this would encourage airlines to fly fewer planes.