

## **DON'T CRY FOR THE PILOTS—DEREGULATION WORKS**

On Thursday, September 29, Continental Airline pilots voted to strike. They charge that Continental has chosen bankruptcy as a means of breaking union contracts, thereby forcing across-the-board wage cuts. Continental's stewards and stewardesses threaten to soon follow the pilots off the job.

This strike goes beyond labor unrest at one airline, however. The Airline Pilots' Association is nearing a decision on whether to undertake a short-term nationwide work stoppage. The unionized pilots apparently intend to establish that airline deregulation, begun in 1978, is forcing airlines into bankruptcy or into stringent cost-cutting and salary reduction measures.

The pilots and other airline employees are, of course, correct. Deregulation is the source of their problems. For those who travel on airlines rather than work for them, however, recent cost-cutting steps at airlines like Continental and Eastern should be a cause for celebration. They are visible signs that deregulation is working.

Under regulation, airlines were assigned routes and allowed to charge whatever fares were needed to cover the costs of the highest-cost airline on a particular route. There was almost no fare competition at all. This system rewarded those airlines which satisfied regulators rather than those which satisfied consumers. It encouraged generous labor contracts since the cost of high wages easily could be passed on to the consumer. Deregulation, however, subjects the airline industry to competition. This is causing a number of adjustments--just as deregulation advocates predicted. Management now must concern itself with pricing policies, marketing strategies, route selection, and, perhaps most important, cost structures. No regulators can now bail out inept management.

Those airlines now facing significant difficulty are almost exclusively the older, established firms which grew fat under regulation. As a New York Times editorial noted, Pan Am, Braniff, and Republic expanded too quickly, stretching their resources too thin. TWA and Eastern face problems because of competition with airlines entering after deregulation and enjoying lower operating costs and a more aggressive management.

Many critics of deregulation point to the fare wars, arguing that the airline industry is subject to "destructive competition," and cannot survive without pricing regulation. But in a study entitled "Competition and the Airlines: An Evaluation of Deregulation," the Civil Aeronautics Board noted that falling fares are to be expected in a market where excess capacity exists and is not necessarily indicative of destructive competition. Furthermore, fares for smaller aircraft have remained firm while those associated with larger aircraft are falling, indicating an excess supply of equipment

serving the bigger, long-haul markets. In short, the market is working exactly as it should. Through pricing and marketing strategies, lower cost producers, both established airlines and newcomers, are driving out their high-cost, unneeded counterparts. The beneficiaries of all this, of course, are the consumer and the nation's economy.

This market adjustment is causing problems for the employees of the established airlines. Accustomed to wage settlements, the costs of which merely would be passed along to consumers through regulated fare increases, pilots, mechanics, and stewardesses of the major airlines suddenly find themselves the target of cost cutting measures. This is a situation, of course, which almost all other American workers always have faced. Now competing with newer airlines with non-unionized employees, those who work for Continental, Eastern, and other old airlines, suddenly find they are being paid above the market rate for their services. These individuals thus not only find their accustomed wage increases unjustifiable economically, but are being asked to accept wage reductions to keep their employers out of the bankruptcy courts. It should come as no surprise that pilots, stewards, and stewardesses would like to return to the comfortable days of regulation when salary increases and featherbedding were accepted as a matter of course.

Has the deregulation of airlines produced the benefits promised? Absolutely. The CAB study noted that those airlines entering the industry have substantially lower costs than established carriers. This cost difference is providing downward pressure on fares charged consumers. Furthermore, airlines are tailoring route networks to match traffic flows. As a result, a greater share of connecting trips are now made online. The range of service is increasing. Quality is being tailored to meet particular market demands. Emerging are new airlines which cater specifically to business travellers, non-smokers, and those consumers who will accept minimum service for a lower fare. And despite doomsday predictions to the contrary, smaller communities continue to receive airservice. Commuter airlines have replaced jet operators in these markets so completely, that nationwide small communities actually have experienced a 25 percent increase in flights serving them. As a result, the number of people flying commercially is increasing. Deregulation has worked for the consumer.

Admittedly, deregulation is not an unmitigated good. There are those individuals who have been inconvenienced by changes wrought through deregulation. Adjustments are still ongoing in the industry. Overall, however, the introduction of competition is working just as it should, and consumers are the winners.

Deregulation advocates cited the inefficiencies resulting from price and entry regulation as a prime reason deregulation would benefit consumers. As predicted, the managements of the older airlines are finding they must cut costs and learn to read market demands better. Their employees are finding they must accept some changes, too. Passengers should recognize the complaints of airline employees for what they are, a request that consumers continue to subsidize their wages as during the "good old days" of regulation.

Deregulation is working exactly as it should--forcing established airlines to provide service at the lowest cost. The most convincing evidence to that effect is the protests now arising from the airline employees.

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For Further Information:

"CAB Finds Deregulation Improving Efficiency," Aviation Week & Space Technology, January 31, 1983, pp. 35 - 36.

"Belt-Buckling Time for Airlines," New York Times, September 30, 1983, p. A30.