Deregulation schedules U.S. airline service for a return to the 1930s

by Leif Johnson

Four years ago President Carter embarked upon his first easy victory. He put before a well-prepared Congress his plans to deregulate the airline industry—the first of the transportation industries to be released from government "constraints."

Within a year Congress passed the Airline Deregulation Act of 1978, which phased out the route-certification structure, allowed entry and exit from existing airline routes, admitted new carriers, and permitted fare and freight rate changes of great magnitude and complexity within a ceiling set by the Civil Aeronautics Board until 1983, at which time all fare and route regulation as well as the CAB itself will be abolished.

This era of "free enterprise" brought exuberant promises from the White House and its congressional sponsors centered in the office of Massachusetts Sen. Edward Kennedy. Free competition would permit fares to come down or show minimal increases, service would improve as management strove to attract passengers, new routes would open up to serve unexploited markets. Management would be free of crippling government-created paperwork and regulations which distorted management initiatives and lowered efficiency and productivity of management and labor alike.

It is remarkable, as the nation nears completion of the third year of deregulation, that the *Wall Street Journal, New York Times, Washington Post,* and the weekly magazines still herald the great promise of deregulation—as do the David Stockman-type ideologues in the Reagan administration. Haven't the readers of the *Wall Street Journal*—7 million every weekday—and the proponents of "free enterprise"—many of whom travel by air—noticed that the reality is different from the *New York Times*'s "facts"?

Fares haven't come down, remained the same, or increased moderately. They have exploded. In the last two years fares, averaging in commuter runs, local and regional service, and domestic trunk and international service, have increased 60.7 percent. The average fare this year will increase between 30 and 35 percent, an increase seven times as great as the average yearly increase during 1970-77, the years prior to deregulation.

United Airlines, in its 1980 annual report to stockholders, reports that a $100 ticket bought at the beginning of the year cost $152 by the end of the year.

In the three years from October 1977 to October 1980, flights per week went from 216,000 to 204,000, a decrease of 5.6 percent. By April 1982, at the conclusion of the airline "scaledown," the total number of flights is expected to reach 157,000 a week, a drop of 27.1 percent.

Since deregulation, 207 cities have received increases in flight departures, while 317 have lost departures, including 40 cities that have lost air service altogether. Two of those 40 cities are state capitals.

Figure 1
Top five U.S. air carriers—1980

Carrier	Overall revenue passenger miles (million)	Employees	Total operating revenues (000)	Profit/Loss (million)
United	37,900	50,016	$4,737	–$ 23.2
Pan Am	30,200	32,259	4,638	– 247.6
Eastern	28,200	40,503	3,452	– 17.4
American	28,200	40,656	3.675	– 75.8
TWA	28,100	33,852	3,278	+ 21.9

Source: Air Transport Association; *Air Transport 1981*

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In the period from November 1978 to January 31, 1981, individual air carriers have terminated all service at 216 locations, and had termination requests for another 50 points. Then, in the two months following, February and March 1981, airlines requested full termination of individual carrier service at an additional 224 destinations. These figures do not reflect the effect of the recent Federal Aviation Administration (FAA) order of a 25 percent cutback in flights.

If arguments about falling fares and better service were believable before deregulation was accomplished, the assertion that deregulation of the airlines would foster competition was laughable from the beginning. The 22 carriers are a cartel controlled by the financial groups that established the lines during the Depression. The air industry is essentially an extension of railroad finance and the Harriman-Morgan-Rockefeller interests, which, along with their investment-banking associates and their policy controllers among the London banks and old European family funds, have continuously determined the direction of the industry since that time.

Airline finance was carried out in the 1930s specifically to *preempt* effective competition and prevent actual entrepreneurs like Henry Ford or, later, Howard Hughes, from dominating the sector. The bankers' intent (especially after the dissolution of the airmail contracts by President Roosevelt in 1933) was not to build airlines, but to prevent independent investors from developing the new technology. It was not until the advent of World War II that the financial oligarchs allowed significant development of aircraft, even in the armed forces. Regulation was used as an additional means of keeping industrial capitalists out of the industry.

Like the railroads, the airlines are not run as bona fide capitalist firms that require profits for technological and service growth, but as levers of overall economic policy. The 1960s decision to dismantle the industrial structure of the United States—the famous "Age of Aquarius" countermove to the industrial applications of NASA's scientific achievements, which, it was feared, would create a new generation of growth-minded Americans—mandated a long-term restructuring of the airlines as well as other branches of industry and transportation.

This postindustrial Aquarian planning was reportedly conducted by an array of individuals at Lehman Brothers-Kuhn Loeb, Lazard Frères, Citibank, Chase Manhattan, Bankers Trust, Wells Fargo, and Bank of America, as well as at think tanks like RAND, Stanford Research Institute, Battelle Institute, and the Brookings Institution. The planning had two premises:

1) **There would be no further development of aircraft design.** The supersonic aircraft would be shelved and the next generation of aircraft would be modifications of the 1950s technology currently in use in the industry.

2) **The domestic air network would be gradually devolved into regional networks** as part of a scaledown of all national air service. International routes would be ceded to Third World airlines, most of which would be located in British Commonwealth nations and funded through the Commonwealth's illicit drug channels. Air travel would once again become the exclusive privilege of the wealthy and their immediate appendages.

The first of these decisions has been largely carried out. Environmentalist groups were funded to try to obstruct the landing of the French Concorde supersonic passenger craft, and the American supersonic transport (SST) was hit with news-media charges of waste, impracticality, and excessive cost.

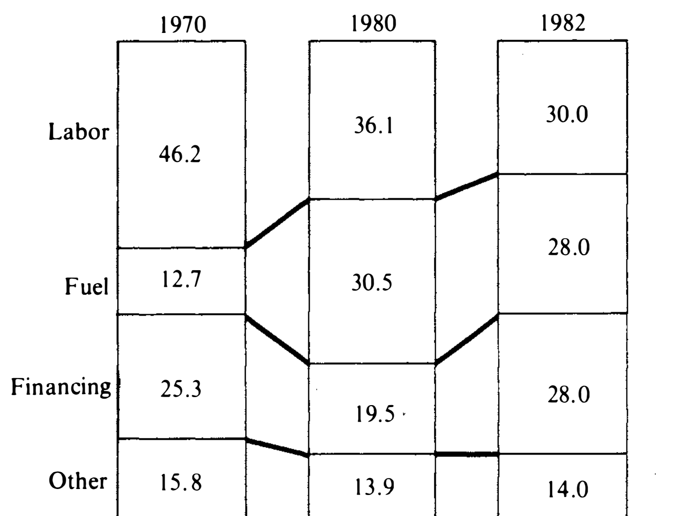
Few appreciate the technological backwardness of present-day aircraft. Each advance in design has come from government-sponsored R&D, most of it military-related. The postwar four-engine airships came from the development of heavy bombers; the current generation of jets represents redesigns of the Korean War-era B-52 and later military transports. By decoupling the design and materials achievements of NASA from the introduction of new commercial aircraft design (contrary to claims in certain advertisements), the industry is locked into modified forms of three-decade-old technology in its new planes.

The second aspect of this plan, the dismemberment

Figure 2

Distribution of airline operating expenses

(in percentage of total costs)



Note: *Labor* includes wages, fringe benefits, pensions; *financing* includes long- and short-term debt, leasing, and other financial payments; *other* includes fees, advertising, maintenance materials, and commissions, insurance, legal. Figures for 1982 estimated from current scale-down plans of certified U.S. carriers.
Source: Air Transport Association, *Annual Report 1981*

Three major carriers: who really runs them

United Airlines

Financial control: An amalgam of top New York, Chicago, and West Coast finance, including: British Empire financier Clement Melville Keys; New York international banker Rufus Dawes; Chicago elites Philip K. Wrigley, Lester Armour, Phil Swift, and Marshall Field II; and West Coast interests linked to Wells Fargo, Bank of America, and Boeing, which have connections with Warburg and Italian financial oligarchs. The present board reflects the same groupings including two trustees of the Ford Foundation, Stanford Research Institute and RAND Corporation and two directors of the American Security and Trust, a Harriman bank.

Corporate strategy: Created UAL as a holding company identical to railroad holding companies being formed in 1970 to milk the operating companies for the financial benefit of the holding company and its financiers. Diversified into hotels: merged with Western International Hotels in 1970, acquired three Hawaii hotel groups including Olohana Corporation from Laurance Rockefeller in 1979, and bought GAB Business Services, Inc., an insurance adjustment and appraisal company in 1975. Given holding-company asset mix, airline losses can profitably shelter other income. Airline company has asked employees for work-rule and wage reductions based on 1980 operating losses.

Eastern Airlines

Financial Control: Emerged from the breakup of the postal-airmail contracts in 1933 as a Mellon-Rockefeller company with strong ties to the Caribbean. Became a vehicle for incorporating an Atlanta elite into the New York-British financial circles who still control Eastern through such individuals as directors Laurance Rockefeller; Harper Woodward (Rockefeller Family & Associates); Wesley Posvar (University of Pittsburgh/Mellon); Roswell Gilpatrick (Cravath, Swaine & Moore); and Clifton Phalen, chairman of the Marine Midland bank, which voluntarily merged with Dope, Inc.'s central bank, the Hongkong and Shanghai Bank.

Director Felix G. Rohatyn, Lazard Frères partner, is an important link to the European financial networks of the "black nobility."

Corporate strategy: In 1970, Eastern worked with Laurance Rockefeller and Rockresorts to build the Cerrmomar Hotel adjacent to the Dorado Beach Hotel in Puerto Rico; both hotels disposed of in 1976, but condominium properties kept. Purchased National Distribution Services, Inc. and Caribair in 1973. Pattern of acquisitions similar to other airlines. On the basis of airline losses, the company has asked employees for wage and work-rule modifications.

Pan American Airways

Financial control: Originally, a creation of New York-London international bankers through South American, Far Eastern, and New York operations. Included William Vanderbilt, Cornelius Vanderbilt Whitney, William Rockefeller, and longtime Pan Am President Juan Trippe, scion of a Baltimore banking family. Early operations included flights for Dope, Inc.-linked United Fruit Company in Central America and the mail route from Key West to Havana. Was also financed to shut the Germans out of South America and open links to the Far East—the well-known Pan Am Clipper service. Said to have been run by the British Admiralty which designed Pan Am's flight rules; a major investor was Winston Guest, a cousin of Winston Churchill. Later directors included Global 2000 advocates Otis Chandler (*Los Angeles Times*), Frank Stanton (Arco), James S. Rockefeller, Cyrus Vance, and Thomas Watson, Jr. (IBM), Sol Linowitz (Coudert Brothers, a top oligarchic law-intelligence firm).

Corporate strategy: The leader in creating a hotel, real-estate, and services conglomerate around the airline, it is also the worst managed, and the biggest loss-maker. With an international advisory board of much renowned oligarchs, including Peter G. Petersen, chairman of the Lehman Brothers-Kuhn Loeb, Andrew Heiskell, former chairman of Time, Inc., and Chinese history Prof. John K. Fairbanks, the bad management must be considered part of an international money operation. The airline has asked employees for a 10 percent wage cut and has begun very heavy layoffs, currently at the 15 to 20 percent level.

of the national airways system, springs from the postindustrial considerations of the Aquarian doctrine. To reduce population levels, the basic purpose of the doctrine, the citizenry must be induced to accept lower standards of living, the dismantling of the industrial base, and increasing restrictions on personal freedoms. Curtailing mobility is an important psychological element in leading a population into the zero-growth feudal world presupposed by these financial strategists; the first and most important move was, in the persistent formula of the weekly magazines, to "break America's love affair with the automobile."

Since the airlines carry 86 percent of all intercity passenger traffic not traveling by private car, the airlines represented a second-round attack against living standards and mobility.

If baldly introduced, the Aquarian policy would never have been accepted, especially by businessmen, who are the largest class of airline users and do not share the assumption that it is desirable to have less business activity and therefore fewer business travelers. A public relations effort was required, not to pave the way for a truthfully stated objective, but to reshape the consequences of the policy so that they would either be seen as a positive good or as the airlines' necessary and rational response to circumstances beyond their control.

Deregulation

The decision to deregulate the airlines was made in 1969 by the industry's financial group, long before the academic treatises and government studies were issued to soften Congress for the passage of necessary legislation. Deregulation is the third of four elements, or flanks, of the Aquarian strategy: environmental controls, oil-price hoaxes, deregulation, and runaway inflation and borrowing costs. All were devised at the same time but implemented over the course of the next decade.

These policies were necessarily of the same package. Deregulation alone, in an economy that was still growing, might introduce an element of chaos, but would not allow for large-scale route abandonment and price increases.

But if environmental restrictions, such as the noise standards that are scheduled to ground half the present air fleet in 1985, and vastly increased costs, such as the 900 percent increase in jet-fuel price and the increase in interest rates from an average 5 percent to 20-22 percent occurred *at the same time,* the airlines would have to respond to "market conditions"—the ostensible purpose of deregulation.

Environmental legislation of the early 1970s, the costly 1968 Occupational Safety and Health Administration harassment, and the hefty tax increases levied to pay for Lyndon Johnson's "Great Society" (a cover for the already visible deterioration of basic industry), figured heavily in the passage of deregulation.

Under the circumstances, which included a punitive attitude toward small and medium-sized contractors by the Defense Department, many Americans were fully persuaded that any reforms eliminating the hand of government in private business could be nothing but beneficial; independent businessmen mistakenly assumed that the airlines were businesses like their own, instead of vehicles of a larger, New Dark Ages postindustrial philosophy.

Then came the "objective studies" by the professors, led by Alfred Kahn of Cornell University. A former New York State official under Gov. Nelson Rockefeller, a professed admirer of the Nazi economy, and Jimmy Carter's chief inflation-fighter, Kahn wrote two volumes entitled *Economics of Regulation.* Johns Hopkins University, Harvard, the Brookings Institution, and the British-controlled American Enterprise Institute contributed their scholarship, while a former Justice Department antitrust lawyer, and subsequently Harvard law professor, Joseph Beyer, joined the staff of Edward Kennedy in 1974 to prepare Kennedy's 1975 hearings that publicly regurgitated the volumes of academic and think tank "research" and forced Nevada Sen. Howard Cannon, then chairman of the Aviation Subcommittee to accept deregulation. At Cannon's 1976 hearings, Paul Ignatius, president of the Air Transport Association (ATA), the industry trade and public-relations arm, testified that deregulation "could spell the beginning of the end of the nation's air transportation system as we know it today."

Air service cuts for selected cities

The following are percentages by which air service to representative cities in the U.S. has been cut since 1977.

City	Cut
Bakersfield, Calif.	−39.5
Brownsville, Tex.	−41.0
Chattanooga, Tenn.	−22.2
Chicago, Ill.	−10.1
Concord, N.H.*	−100.0
Grand Rapids, Mich.	−35.7
Jackson, Miss.*	−20.6
Kansas City, Mo.	−22.7
Laramie, Wyo.	−41.1
Lincoln, Neb.*	−44.3
Oklahoma City, Okla.*	−21.1
Salt Lake City, Utah*	−13.2
Santa Fe, N.M.*	−57.9
Worcester, Mass.	−67.5
Wilmington, Del.*	−100.0

* State capital.

He knew exactly what he was saying, but his testimony was taken to represent the selfish motives of the established carriers—who were at that time feigning opposition to deregulation. Early in 1975, George James, the head of the financial section of the ATA, ran a computer study at Lockheed on the results of deregulation, and declared that one-third of all nonstop routes would be eliminated. Possibly even without any computer study, James knew what was being done, but his small bit of truth was dismissed as airline industry cavilling.

As the Ford-Rockefeller administration pushed deregulation, the airline industry suddenly broke ranks. United now affirmed its support of deregulation. The other carriers fell in line with a good-guy "we can compete" image. The ATA withdrew from the stage of this charade. Republicans from the Western states, which would suffer most from the planned airline scaledown, were pushed into the herd demanding deregulation. When the Aquarians' Trilateral Commission, delegated in the United States to the Rockefellers, put Jimmy Carter into office in 1976, Carter was told to make airline deregulation his first major legislative victory. Flanked by industry and congressional leaders, Jimmy Carter signed the Airline Deregulation Act on Oct. 14, 1978.

The scaledown plan

The airline financial group planned that, after deregulation was passed by Congress, the industry would be scaled down, its routes reorganized, and its total service reduced by an average 25 percent.

Federal Reserve Chairman Paul Volcker's credit restriction in October 1979 helped.

However, 1979 was a banner year for the airlines, and was widely used by the deregulators to effect trucking deregulation where, unlike the air transport industry, no cartel existed and there was also a powerful union whose ultimate concern was the health of its industry. Similarly in the rail industry, although virtually completely cartelized since the turn of the century, the shippers and local manufacturers and communities exert strong pressures on their congressmen to halt the massive abandonment planned by the railroad financiers.

Airline deregulation was exhibited to the nation as a successful experiment that must be spread to all transportation and energy production.

The "success" was over by the beginning of 1980. At the end of that year the cost of a gallon of jet fuel had risen to $1.10—exactly 10 times what it was a decade earlier. The cost of fuel as a percentage of total airline costs had soared from 12.7 percent in 1970 to 30.5 percent in 1980.

The tenfold increase in fuel prices in turn imposed an enormous cash drain on the airlines, with appropriate cries of distress from operating executives. Yet the increase is difficult to explain. Other fuel prices like gasoline and diesel fuel rose between four and fivefold, a multiple that could be attributed to increases in crude prices. The jet-fuel inflation is best understood as a transfer of funds from the airlines to the oil companies as the airlines prepared for their planned 25 percent cutback.

The fares

Since deregulation compels the airline industry to reflect "actual market conditions" more closely, fares began to soar as the fuel price rose. In the third quarter of 1979, the average coach fare was 11.74 cents per mile on domestic trunk airlines and 16.06 cents on local service. A year later domestic trunk fares averaged 14.17 cents per mile, an increase of 20.7 percent, while local service fares went to 22.50 cents per mile, an

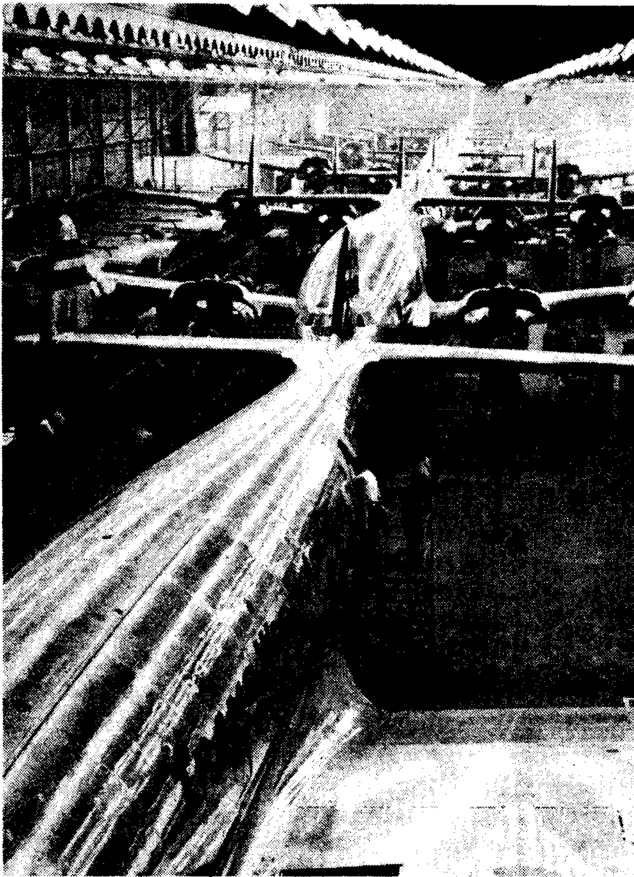
Figure 3

Average coach fare per mile by carrier group

(third quarter 1979 to third quarter 1981)

Carrier group	3rd quarter 1979	3rd quarter 1980	3rd quarter 1981 (est.)	Percent change 3Q '79-3Q '81	Percent of traffic 1/81
Domestic trunk	11.74¢	14.17¢	19.23¢	63.8%	84.2%
Local service	16.06	22.50	24.58	46.5	11.0
Other carriers	12.70	16.03	18.35	44.5	4.4
Average fare per mile (3Q '81)			19.59	60.7	

Source: Civil Aeronautics Board, *Passenger Origin and Destination Survey, 1981.* Third quarter figures obtained by extrapolating first quarter figures. Actual fares may be higher.



TWA Constellations in 1947: further technology did not take off.

increase of 40.1 percent. Extrapolating the CAB first-quarter fare figures into the third quarter of this year (a conservative estimate), we find that domestic trunk fares will have risen 63.8 percent over the two years, and local service coach fares will show a 46.5 percent boost.

The overall increase in coach fares for the two years will be 60.7 percent, an increase unknown in any other domestic industry.

Analyzed in mileage terms, by the coming quarter fares for distances up to 150 miles will show a 60.9 percent increase.

The service

The Department of Transportation, traditionally run by the railroad financiers, will be the receiver of the bones of the "sunsetted" CAB in 1983; it had shaped the Professional Air Traffic Controllers strike to trigger the full-scale 25 percent airline industry cutback. Yet even before the strike had begun, service cuts were evident in every part of the country.

Flights from large hub to large hub had declined 6.4 percent from October 1977 to October 1980. Flights between medium hubs were down 13.4 percent; from small hub to small hub, 10.4 percent; the number of flights between non-hubs (very small airports), dropped 16.5 percent. Total flights decreased by 5.6 percent.

Under the airline scaledown plan, which was to have been completed by April 1982 but may be completed earlier, under the FAA order reducing overall domestic flights by 25 percent, overall service is estimated to drop by 27.1 percent below that of 1977 by the end of this year.

The resulting configuration of air service is a gradual dissolution of the national air network into a series of regional airways grouped around individual hubs. This means that connecting service, the backbone of a national air system, will gradually disappear, just as George James of the ATA predicted in 1978.

Figure 4

Average fare per mile by distance on domestic routes

(third quarter 1979 to third quarter 1981)

Mileage bloc midpoint	3rd quarter 1979	3rd quarter 1980	3rd quarter 1981 (est.)	Percent increase 3Q '79-3Q '81
100	27.95¢	40.20¢	44.98¢	60.9
200	21.13	35.28	26.74	26.5
300	17.38	20.79	24.89	43.2
400	15.81	19.64	22.78	44.1
500	15.61	20.42	24.38	56.2
700	13.58	17.79	21.16	55.8
1,000	11.33	13.88	16.18	42.8
1,300	10.80	13.03	15.39	42.5
1,600	10.34	11.26	18.09	74.9
1,900	10.10	11.71	17.64	74.6
2,200	8.81	11.12	16.74	90.0
2,500	7.63	7.33	15.67	105.4
2,800	8.37	8.91	11.19	33.7

Source: Civil Aeronautics Board, *Passenger Origin and Destination Survey, 1981*. Third quarter figures obtained by extrapolating first quarter figures. Actual fares may be higher.