

THE BENEFITS OF AIRLINE DEREGULATION

by

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Almost without fully realizing it, America has entered a new era in its transportation industry. For the airlines, it is marked by the impact of economic deregulation and new technology. For the Department of Transportation, this dynamic new environment means a new commitment, not only to the positive results of deregulation, but for unequivocal standards of excellence in safety. I emphasize our standards of air safety during this transition period, as the industry adjusts to a deregulated environment, because it is important for the American public to know there will be no compromise on safety. I have directed the Federal Aviation Administration, through its field personnel, to take extra precautions to ensure that safety standards are not compromised. Airlines must meet the same stringent FAA certification, operation, and maintenance requirements as they did before deregulation. Economic and technology may swiftly change; safety will remain a constant.

As for the economics of deregulation, the indicators are highly favorable. Third quarter operating profits for the 11 major U.S. air carriers were double the profits of a year ago -- nearly half a billion dollars. Those same carriers began the fourth quarter with a 10 percent boost in October traffic over the same month a year ago and profits of over \$165 million. Confirming this trend, "national carriers" -- airlines smaller than the major airlines and primarily serving certain regions of the U.S. -- posted higher third quarter earnings and are continuing to chart impressive gains, with Piedmont, Southwest and Frontier reporting October traffic growth levels of 39, 32 and 24 percent respectively. Airline observers are forecasting a profitable fourth quarter and predict the industry as a whole will finish 1983 in the black.

Given this good news, why have we heard several pleas in recent weeks for a return to economic regulation?

The answer, in my view, is simple. Deregulation is being used as a convenient scapegoat for the industry's real problems -- caused by sharp fuel price increases and high interest rates in 1979 and 1980, the air traffic controllers' strike of 1981 and a recession that reduced travel demand and spawned fare wars. Deregulation has also been blamed for failures and near-failures in the airline industry. Yet more old and new carriers have benefited from the new freedoms than have suffered from them.

The truth is, that without the flexibility of deregulation, the airline industry would have had a much more difficult time. And while deregulation has been temporarily painful for some carriers, it has produced a bonanza of opportunities for others. It is resulting in a leaner, more competitive and far more efficient industry than ever before. If deregulation were the villain critics claim, it seems unlikely that 22 new operators could have begun scheduled service in the first five years following passage of the Airline Deregulation Act.

As a direct consequence of the removal of Federal controls on price, entry and routes, today's air traveler has a far wider choice of carriers, fares and services. Passengers favoring the amenities of flight can still fly in the lap of luxury. Travelers looking for safe dependable air transportation, shorn of its frills, can find those accommodations. And all those in between have a variety of carriers and service levels, satisfying their tastes and pocketbooks.

In the new deregulated economic environment, a successful airline must be both cost-effective and price-competitive. Some of the new carriers have seat-mile costs

half those of their competitors. With lower operating costs and fewer amenities, they can offer air transportation at bargain fares and still show a profit. The laurels go to those companies that are efficient and develop innovative products or services, stimulating consumer demands and spurring the economy.

At the same time, it doesn't make good economic sense for carriers to serve markets that can't support the service. But this does not mean the wholesale abandonment of small communities. Under the Essential Air Service provision in the Airline Deregulation Act, 555 small communities eligible for service at the time of deregulation are guaranteed service for 10 years. But many of these flights today are being provided by commuter airlines which, under regulation, did not require "certification" by the CAB. Using equipment better suited to low-density markets, commuter airlines today are providing a more effective and less costly way of maintaining service to small communities. Under the prior system, taxpayers were contributing as much as \$106 million a year to subsidize the costs of carrier service to small communities. Even with these subsidies, and under full regulation, the CAB allowed the certificated carriers to abandon all flights to 173 points between 1960 and 1975. On the other hand, since deregulation, none of the communities receiving or eligible to receive certificated service has been left without access to air transportation. But since the carriers operating smaller aircraft are now eligible for subsidies formerly available only to the larger carriers -- those certificated by the CAB -- the cost to the taxpayer has been cut in half.

In short, airline managements have responded to the new free market in the United States in different ways: by flying new routes, offering a greater variety of services and fares, and seeking new markets. The addition of new carriers has created new jobs as well as new travel opportunities. Employment within the industry today is higher

than it would have been under regulation, and the number of flights has increased at most large, medium and small hub airports and is about the same at non-hub airports. What some may view as "cut throat" competition within the industry, many consumers see as a supermarket of fares and services. And there has been no compromise on safety. Under deregulation the big winners are the consumer and the industry itself.

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