Robert Poole, Jr.

# Let 'Em Fly

Even before Braniff International filed for bankruptcy in May, opponents of airline deregulation had gone on the offensive. World Airways chairman Ed Daly, former TWA vice-president Melvin Brenner, and American Airlines president Robert Crandall have all been denouncing "disastrous" and "irrational" price competition and urging a return to some form of regulation. And Braniff's demise seems to be bringing out the long knives. So it's about time to set the record straight on airline deregulation.

First of all, did deregulation do in Braniff? Hardly. Not even the airline's own management makes that claim. Braniff's former leaders simply miscalculated, expanding willy-nilly to 26 new cities in the first year of deregulation. Former chairman Harding Lawrence—who had lobbied vigorously against deregulation—actually expected that the new law would be repealed within a few years. Hence, his aim was to grab every route in sight before the music stopped and controls were clamped on again. Needless to say, the gamble failed.

All right, deregulation can't be blamed for Braniff's fate. But what about the charge that it is nonetheless destroying the airline industry via cutthroat competition? First of all, those who make this charge can't separate the forest from the trees. They point to the aggregate losses of the 12 "major" airlines ($577 million last year), failing to note that (1) the more efficient of those *made money* and (2) most of the "nonmajor" airlines *prospered* throughout 1981. Overall, 15 of the top 27 airlines made a *profit* last year.

Why that happened is no mystery. Former *intra*state carriers like Air Florida, PSA, and Southwest have been freed to go after lucrative *inter*state traffic, bringing their aggressive, low-cost methods along with them. Likewise, brand-new trunk lines like Midway, New York Air, People Express, and Jet America have come into being—for the first time in 40 years! Using younger, nonunion personnel and flexible work rules, they can operate at much lower cost than the dinosaurs that grew fat and lazy under 40 years of Civil Aeronautics Board protection. *Aviation Week* reported last summer that the nonmajor airlines served an average of 1,801 passengers per employee in 1980-81, compared with only 850 for the majors. And even with their low fares, the nonmajors earned 13 percent more operating revenue per employee.

This competitive challenge has forced the majors to respond. The three-pilot versus two-pilot controversy has been settled in favor of the latter. Pilots have agreed to fly more hours per month. Unions have given up wage increases and made concessions on work rules. And the majors, too, have cut fares. Despite huge increases in fuel costs, interest rates, and other costs, airline fares overall have risen only modestly. In 1981 fares in the top 100 markets were only 87 percent of what they would have been under the old CAB formula; in the second 100 markets, 90 percent of the regulated level. Only in the smallest markets were fares above regulated levels, at 112 percent.

What all this means for consumers is generally very positive. Not only do the vast majority get lower fares, but they also get more convenient service. A 1981 CAB study found that in the top 200 markets nearly 30 percent more travelers can reach their destinations without having to change airlines at a connecting city, thanks to changes in route structures. And even in small, out-of-the-way cities where big jet service has been eliminated, people often have two or three times as many *flights* to choose from, thanks to the proliferation of commuter airlines flying smaller, fuel-efficient planes.

Most airline officials agree that, despite today's hard times, they're still better off than under regulation. "The economic problems facing the airline industry over the past two years would have been much more severe in the absence of management decision-making latitude made possible by deregulation," says James E. Landry of the Air Transport Association. Industry leaders like Eastern's Frank Borman and United's Richard Ferris agree.

Unfortunately, there is another threat to deregulation besides the occasional disgruntled executive or former regulator. *Re*regulation of airline route structures has crept in the back door as a result of the air traffic controllers strike. In order to operate with its limited supply of trained controllers, the Federal Aviation Administration imposed limitations on the number of landings and takeoffs at the nation's 22 busiest airports. This has severely restricted the ability of new carriers like Muse Air and New York Air to expand or even to operate. The old-timers have thus been given a marked competitive advantage.

As air traffic control capacity began to increase this year, the FAA began holding lotteries to parcel out the new takeoff "slots" at the 22 airports. All 70 passenger airlines had equal odds—so that unknowns like Rosenbalm Aviation and Fleming International suddenly found themselves with very valuable assets. So in May the FAA allowed a 30-day experiment under which such slots could be bought and sold. Slot brokers came into being, and some slots changed hands for as much as $2-$3 million.

One week after the start of the experiment, Braniff folded. Although Braniff had hoped to count its 361 slots as assets, the FAA parceled them out for 60 days to other airlines—106 at the FAA's discretion and the other 255 by lottery.

Clearly, the FAA is playing with fire. Take-off slots are a scarce resource and, as such, they command high prices. There is no "fair" way for a bureaucracy to allocate such resources, by lottery or otherwise. As with any other economic good, the slots will go to their most valued uses in a free market. If Muse Air really needs more slots at Dallas, let it pay for them. But let's not have the FAA playing God by handing out and withholding slots.

Deregulation is working. The CAB is scheduled for a well-deserved sunset. The last thing we need is a "son of CAB" restructuring the airlines in the guise of air traffic control. The market can and will do the job. It's high time we allowed it to work.

Robert Poole, Jr.

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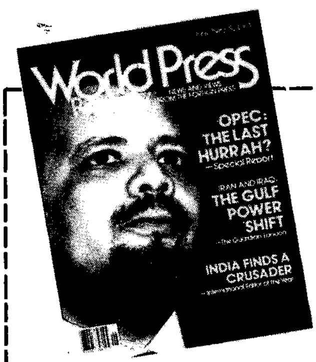


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# Letters

## Antiwaste Inspiration

Enclosed is a copy of a bill I introduced regarding military waste. The initiative for this legislation was inspired by an article in your magazine by Dina Rasor ("Fighting with Failures," Apr.).

Keep up the good work. We are very interested in many of the fine ideas in REASON magazine.

*Robert Garcia,*
*Member of Congress*

## Bursting the Bubble

"Panic to the People" in the May issue describes a number of situations where the federal government created unnecessary fear in large numbers of people by acting precipitously on the basis of poor, insufficient, or inaccurate information. One of the most fear-inspiring situations was omitted from that article, namely, the Nuclear Regulatory Commission's "creation" of an explosive hydrogen bubble in the Three Mile Island (TMI) nuclear power plant accident in 1978.

The NRC told news reporters that a bubble of hydrogen gas had formed inside the pressure vessel of the damaged TMI reactor and that, if the bubble exploded, it could fracture the vessel and release massive amounts of radioactive material to the surrounding countryside. Several scientists and engineers quickly demonstrated to the NRC staff that there never was and never could have been any explosive potential from that bubble (the hydrogen *did* exist) because there was no free oxygen in the vessel to combine with the hydrogen to make the explosion happen. However, the NRC did not tell the news reporters about that useful piece of information, and to this day much of the public still believes there was great danger from that hydrogen bubble. Even when the Kemeny Commission's report was issued, clearly confirming the nonexplosive character of the bubble, neither the NRC nor the media sought to carry that message loudly and clearly to the public so as to allay its fears.

I applaud REASON's efforts to get the truth about these fear-producing fallacies out to its readers. Perhaps there could be a continuing department in REASON that would debunk similar fear-inducing frauds.

*A. N. Tschaeche*
*San Jose, CA*

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## Taxing Choice

I was amazed and disappointed to find the article "After the Budget Ax Falls" by Dale H. Gieringer included in the May issue!. . . Mr. Gieringer implies that what he is proposing will provide both consumer choice and an alternative to the government providing certain "public goods." I grant that his proposal may be an alternative, but what kind of "choice" is it for the consumer? Having some "choice" in how monies are collected from you at the point of a gun (as taxes are) does not make taxation any less onerous or any more justifiable, it simply makes it a little more bearable; the pill becomes a little easier to swallow, so to speak. . . .

*Martin L. Edwards*
*Los Angeles, CA*

**Mr. Gieringer replies:** In no way is my article intended to justify compulsory taxation. Rather, it suggests an ameliorative reform that could only lower, and in no case raise, anyone's taxes. Since even Mr. Edwards concedes that charitable tax credits would provide greater (though admittedly not complete) freedom of choice, it is difficult to understand why he should be so upset.

Evidently, any proposal short of complete abolition of taxes would dissatisfy Mr. Edwards. But would he therefore suggest that we ignore such ideas as tuition tax credits or tax substitution (see Fred Foldvary, REASON, Nov. 1978)? On the contrary, experience shows that successful political reforms seldom coincide with pure ideological principles. If only socialists had rejected the income tax because it fell short of *their* goal of abolishing private property! In this imperfect world, where many voters are indifferent or hostile to the principles of liberty, my article suggests a practical political reform by which we might hope to replace creeping socialism with its opposite.

## Taxing Problems

Mr. Machan's editorial "Stop This Stealing!" (Apr.) was interesting and true, but I think he has overlooked the basic concept of the income tax—namely, that it is based on greed and nothing more. The original income tax law passed by Congress in 1913 did not tax the first $20,000 of income. It was the intention of those who voted for this tax that it should ap-