

Airfares: Fair or Foul? MARK MURRAY.

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Abstract:

Charleston, South Carolina, is a historic city, with its economy driven by tourism. The city is also attracting high technology firms and is building a convention center near the airport for group conferences and meetings. However, unlike other cities, the city is suffering from exorbitant airfares. The Transportation Department reports that Charleston has the nation's 5th highest airfares, which is a major obstacle for the city's economy, government, and tourism industry.

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TRY FLYING TO CHARLESTON, S.C., OR ROCHESTER, N.Y., AND YOU'RE LIKELY TO PAY THROUGH THE NOSE. CITY LEADERS BLAME AIRLINE DEREGULATION AND WANT CONGRESS TO INTERVENE. NOW.

CHARLESTON, S.C.--Look almost anywhere in this scenic Southern city and you can catch a glimpse of its rich history. In a downtown cemetery, there's the tomb of South Carolina's favorite son, John C. Calhoun. In the Charleston Harbor, there's Fort Sumter, where the first shots of the Civil War were fired. There's also a monument to the Confederate Army General P.G.T. Beauregard, who defeated the Union forces at Fort Sumter. And then there are the dozens of historic mansions, surrounded by their swaying palm trees, that overlook the Charleston Harbor. In a way, Charleston seems almost stuck in the past.

But it's also roaring into the future. The city, whose economy is driven by tourism (especially since the federal government closed its sprawling naval base there a few years ago), is busily trying to attract high-tech firms, and the metropolitan area is building a \$40 million convention center near the airport to attract weekday groups and conferences. Yet business and political leaders here--echoing complaints heard in scores of small and medium size American cities--complain that Charleston's path to economic boom times is blocked by a major obstacle: exorbitant airfares.

"A group of 40 people is not going to come from Atlanta to Charleston to have a large meeting or conference ... if they're all paying 733 bucks to come over here and back," said David Jennings, chairman of Coastal South Carolina USA, a group that's promoting the state's coast as a tourism destination. Jim Bradley, chief executive officer the Charleston Metro Chamber of Commerce, added: "When we look at the cities we're competing with for attracting new companies, they're in a better position than we are from the standpoint of air service."

Indeed, the Transportation Department recently listed Charleston as having the country's fifth-highest airfares. Moreover, the General Accounting Office, Congress's auditing unit, reported last month that the city's fares have shot up more than 20 percent since 1994, the nation's third-highest increase. The anecdotal evidence also seems overwhelming: One business consultant traveling to this city from Houston admitted paying more than \$1,000 for a round-trip ticket; another said he was shelling out \$850; and another spent \$807. This reporter's trip to and from Charleston from Dulles International Airport outside Washington was \$483--hardly cheap for a 500-mile trip each way.

Luis Idrobo, a business traveler from Houston, said that a Delta Air Lines Inc. flight here would cost him \$900. So he made other arrangements. He booked a Delta flight to Savannah, Ga., for about \$200, and reserved a car for the two-hour drive up the coast to Charleston--saving him hundreds of dollars. "It just makes a whole lot more sense to do that," he said. "I refuse to pay [Delta] \$900." (All of these ticket price examples were weekday fares purchased not more than a week before departure. Tickets purchased earlier, with an overnight weekend stay, are usually much cheaper.)

Charleston isn't alone. Business leaders in cities such as Rochester, N.Y., Des Moines, Iowa, and Richmond, Va., are griping about their sky-high fares. In other cities, such as Casper, Wyo., residents are howling about their lack of air service. Some are complaining about both. In almost all these cases, community leaders blame the lack of airline competition. They say that one or two major airlines dominate their markets, allowing the airlines to charge steep rates. "They are extorting us, swindling us, overcharging us, and exploiting us," said Thomas T. Mooney, president of the Greater Rochester Metro Chamber of Commerce.

The complaints have been loud enough to catch the attention of influential members of Congress and Clinton Administration officials. Within the past 12 months:

- * The Transportation Department, to promote competition, has established guidelines designed to prevent the major carriers from driving out the low-fare airlines through "predatory pricing." And it recently advocated abolishing the slot system--which artificially limits takeoffs and landings (or slots)--at Chicago O'Hare International Airport and New York City's LaGuardia and John F. Kennedy International airports. Major airlines control most of the slots, and eliminating this system would allow more low-fare carriers that serve smaller communities to gain access to these airports.

- * The powerful House Transportation and Infrastructure Committee recently passed legislation that would require carrier-dominated hubs to file plans explaining how they will open up the airports to competition. The bill also establishes a funding program to help smaller communities attract and promote more air service. And it eliminates the slot system at O'Hare, LaGuardia, and JFK, and opens up a few slots at Ronald Reagan Washington National Airport. House floor action is expected in May.

- * Rep. Louise McIntosh Slaughter, D-N.Y., who represents Rochester, has submitted legislation that would take some slots from large airlines and give them to the new

entrants or smaller carriers--with the understanding that a substantial portion of these slots must cater to small and midsize communities.

* The Senate Commerce, Science, and Transportation Committee passed a bill increasing the number of slots at the four slot-controlled airports and creating a program for smaller cities to help them bring in more air service. Senate floor action is expected this spring.

* And the Transportation Department recently hosted a conference on airline competition in Rochester, while the Senate Commerce Committee held a similar field hearing last month in Charleston.

But is this good public policy? Should the federal government help small and mid-size communities attract low-fare competition and bring down airfares? The major airlines and some industry analysts don't think so. They argue that these small communities don't have enough passengers to justify lower prices and more service. And they warn that meddling by Washington could make matters worse in other cities.

POCKETS OF PAIN

Before 1978, the federal government, through its (now abolished) Civil Aeronautics Board, controlled the airlines' routes and the prices they charged. But this system proved to be inefficient and hindered the growth of the airline industry. So, in response, Congress passed the 1978 Airline Deregulation Act; essentially, the measure allowed the industry to operate under the auspices of the free market. Overall, many experts say, deregulation has been a smashing success: According to the Transportation Department, average airfares (adjusted for inflation) have dropped 35 percent since 1978. And the number of airline passengers has increased dramatically since then.

But not everyone has enjoyed the ride. Thirty-nine of the 171 airports that the GAO surveyed last month have seen their ticket prices soar in the past five years. These airports, sometimes called "Pockets of Pain," tend to be located in small and medium-size cities in the South, Midwest, and Northeast. In addition, many of these airports have less air service today than they did before deregulation. For example, since 1978, scheduled departures from Charleston have dropped 2 percent, available seats have decreased 16 percent, nonstop flights have declined 10 percent, and jet service has plummeted 22 percent. Such results have incensed these communities and their leaders. "I voted for airline deregulation, and I apologize publicly," Sen. Ernest F. Hollings, D-S.C., said at the recent airline competition hearing in Charleston.

There are several reasons for the Pockets of Pain. For starters, according to the GAO, the health of a region's economy plays a significant role in fares and service: Cities in the West and Southwest--whose economies generally have performed well--have lower airfares and better service; however, the opposite is often true for cities in the East (particularly in Appalachia), where growth has been slower. Harsh weather is another explanation: Cities buried in snow several months a year are more likely to have higher fares and less service than cities in warmer regions. But perhaps the biggest reason for

their struggles, these communities point out, is that one or two major airlines dominate their markets.

Delta and US Airways Inc., for instance, control more than 80 percent of Charleston's traffic. In fact, Delta runs all but one of the city's flights to its hub in Atlanta, which happens to be the largest city near Charleston. "I suspect that Delta says, 'If nobody else is going from Charleston to Atlanta to Charleston, we'll charge whatever we want,'" said Charleston's Jennings. In Rochester, US Airways and Continental Airlines Inc. dominate the vast majority of flights. And in Des Moines, Northwest Airlines Inc. dominates the trips to and from its hub in Minneapolis; Trans World Airlines Inc. operates all of the nonstop flights to its hub in St. Louis; and United Airlines Inc. operates most flights to its Denver hub.

The major airlines not only dominate these markets, they also keep low-fare competition out, charges Kevin P. Mitchell, chairman of the Business Travel Coalition, a group advocating more airline competition. He says that the majors keep out the low-fares by controlling the gates and slots at many of the country's airports. And even when the low-fares gain a foothold at these airports, the dominant carriers have advantages to drive them out, such as frequent flier programs and higher commission rates for travel agents. Mitchell also accuses the major airlines of attempting to crush new-entrant low-fare carriers by temporarily slashing their own prices.

Washington has focused its attention on such practices, hoping to spur more competition. "I'm a committed deregulator, and I'm a committed free-trader," said Sen. John McCain, R-Ariz., who's pushing legislation in the Senate, "but when there are documented cases of unfair competition, then obviously these practices have to be [stopped]."

Having low-fare competition makes all the difference, these communities say. Rochester's Mooney offers an anecdote to make his point: One day before the Transportation Department's conference in Rochester, Mooney said he called a travel agent to get price estimates on a next-day flight to Chicago. The cheapest round-trip flight from Rochester to Chicago, he said, cost \$1,077. Meanwhile, round-trip flights to Chicago from Baltimore and Cleveland--both of which are served by Southwest Airlines Co.--were \$168 and \$270, respectively. National Journal conducted a similar survey for Charleston and neighboring Savannah, which is served by the low-fare AirTran Airways. Looking at prices on March 31, the least expensive round-trip flight from Washington Dulles to Charleston on Wednesday, April 7 (with a next-day return), was \$483. The cheapest flight from Dulles to Savannah and back was half that amount--\$248. It's hardly surprising that 170 communities last year contacted Southwest--the nation's most successful low-fare airline--asking it to begin service to their areas.

These cities argue that attracting low-fare carriers is essential for economic growth. Rochester officials say that the high fares have made local businesses think about relocating. Charleston, meanwhile, believes that a Southwest or AirTran will help it reel in the high-tech firms and convention groups it desperately wants. In fact, some Pockets of Pain are so eager for low-fare carriers that they and their local businesses have been

forging agreements with these airlines. In Detroit, for example, General Motors Corp. and DaimlerChrysler last year signed five-year contracts to fly their employees on the fledgling low-fare carrier Pro Air.

"FIELD OF DREAMS"

While Washington is weighing how to help small and midsize communities lure more competition, many aviation experts are questioning whether such actions are misguided. For one thing, argues aviation consultant Michael J. Boyd, these cities can't fill up the planes: "In most cases, the reason small communities don't have low fares is because they are small communities." In fact, some of the cities that are complaining the most have attracted low-fare carriers, but then later lost them because the residents weren't supporting them. For example, AirTran provided air service in Richmond, but was forced to discontinue it earlier this year. "We just weren't getting the passengers on the planes," said Cara Maruskin, AirTran's director of corporate communications. The same thing happened in Rochester, which lost Greensboro, N.C.-based Eastwind Airlines last October.

"In this industry, there tends to be a 'Field of Dreams' mentality--if you bring it, they will come," said John Ruzich, senior vice president of marketing for the low-fare carrier Spirit Airlines. "Well, that is not true."

Moreover, some analysts point out that air travelers can find lower fares and better service by simply driving to other cities. Clinton V. Oster Jr., a professor of public and environmental affairs at Indiana University in Bloomington, says that his city lost its air service after deregulation. But Bloomington residents drive an hour north to reach Indianapolis, which offers abundant air service. "We're not suffering at all," he said. And Alfred E. Kahn, a professor of economics at Cornell University, who's considered the father of airline deregulation, says that the same thing is true in Ithaca, N.Y., where he lives. "We can't all have two or three airlines wing for service to Ithaca. The Ithaca market won't support a lot of competition," he said. "If you want the benefit of choice, you might have to go 50 miles away."

Others contend that the claims of high air prices are somewhat exaggerated. Although the GAO reported that fares at almost a quarter of 171 airports have increased over the past five years, only three of the airports have experienced a jump in inflation-adjusted air prices since 1990. Stephen M. Wolf, chairman of US Airways Group Inc., told the Senate hearing in Charleston that 72 percent of US Airways passengers boarded a plane in that city last year with a discounted fare--often by purchasing a ticket at least two weeks in advance, or buying one with an overnight weekend stay. He concedes that walk-up prices for business travelers are steep, but says that these businesspeople are paying for the flexibility to book a seat or to change a reservation at the last minute.

"Once the plane leaves, we cannot sell that seat again," he said. "We receive zero revenue. So the price for that flexibility carries a premium to cover that risk." Indeed, the disparity between business and discount fares explains why Rochester (with its high

concentration of business flights) has higher average fares than the popular weekend destinations of Las Vegas and Atlantic City.

And despite the complaints about the major carriers' unfair practices, the nation's low-fare airlines are thriving, says Darryl Jenkins, director of the Aviation Institute, a nonprofit research group at George Washington University. In a recent study, Jenkins noted that more passengers flew on low-fare carriers last year than ever before.

Some analysts, like Boyd, predict that any legislation requiring airlines to serve unprofitable communities will result in substantial losses, forcing airlines "to raise fares everywhere else to compensate for these costs." Clifford Winston, a senior fellow at the Brookings Institution, bluntly observes: "Congressmen are not as interested in the national welfare as they are with their own districts. They are interested in getting re-elected."

ENOUGH PASSENGERS?

The Charleston metropolitan area is home to 550,000 people, and city officials say that about another 500,000 live within 50 miles. Charleston's economy is humming, with an unemployment rate just around 3 percent. Nevertheless, on a recent Tuesday afternoon around 5 p.m.--a peak time for air travel--the Charleston International Airport looked almost abandoned. Only two of Concourse A's five gates were in use, and just a few dozen people sat in its lobby area. Concourse B, which holds another five gates, was even less crowded: One Continental Airlines plane departed from the concourse's only operating gate, the concourse's snack shop was closed, and just three people waited in the sleepy lobby.

Jim Bradley, of Charleston's Chamber of Commerce, admits that the city may not be filling up its planes, but contends that the expensive fares are forcing people not to fly, or to fly from another city. "We would have a lot more air travel if the rates were competitive," he said.

Last year, the Charleston airport had approximately 1.5 million passengers. Jennings said that the most traffic Charleston ever had was in 1994, when the airport served almost 2 million. That year, the city had several flights a day thanks to Continental Airlines' low-fare service (which no longer exists). "Fares came down," Jennings said, "and people flew like never before."

That's happening now in Knoxville, Tenn. The low-fare carrier AirTran began service there in late 1997, and the results have been impressive. The Knoxville airport had 1.6 million passengers last year--up 13 percent from 1997, said Mark Neuhart, vice president for corporate communications at the Metropolitan Knoxville Airport Authority. (Neuhart acknowledged that the booming economy and low fuel costs have also contributed to this traffic increase.) Before AirTran's arrival, the GAO listed Knoxville among the cities with the highest airfares. "We are one of the success stories," Neuhart said. "Had AirTran not introduced that low-fare structure, we would still be in that 'Pocket of Pain.'"

But even in Knoxville the news is not uniformly good. After acquiring one of the coveted slots at LaGuardia, AirTran began providing nonstop service to and from Knoxville in December 1997. But the low-cost airline discontinued the service five months later because it wasn't making money: Passengers were filling only a third of the plane.

In the past decade, several regional and low-fare carriers--such as Air South Airlines, AirTran (before it merged with ValuJet), and Continental's low-fare service--have entered Charleston. But according to Sam Hoerter, director of airports at the Charleston County Aviation Authority, these airlines pulled out of the city because they couldn't get enough people on their planes.

"I've seen them all come and go," said Bill McIntosh, a Charleston travel agent and owner of McIntosh Travel. "The airlines keep trying [Charleston], but they never seem to last."

McIntosh believes that the city can support a viable lowfare airline like Southwest that provides some nonstop service. But he's careful not to wish for anything more. "I don't think [we] can expect a great deal of nonstop service because we don't have that many people," he said. "What people want and what people have aren't sometimes the same thing."

DOWN, DOWN, DOWN

Since airline deregulation in 1978, average airfares (measured in constant cents per mile) have decreased from 12.27 cents per mile to less than 8 cents per mile.

YEAR CENTS(*)/MILE

1970	14.39
1971	14.44
1972	14.04
1973	13.78
1974	14.27
1975	13.61
1976	13.51
1977	13.42
1978	12.27
1979	11.58
1980	12.89
1981	13.08
1982	11.78
1983	11.25
1984	11.27
1985	10.46
1986	9.62

1987	9.44
1988	9.69
1989	9.86
1990	9.42
1991	9.03
1992	8.60
1993	8.72
1994	8.20
1995	8.15
1996	8.00
1997	7.89