Unfriendly Skies

It's time to admit that airline deregulation has failed passengers, workers—and economic efficiency.

David Dayen, Prospect.org | NOV 3, 2017

When Dr. David Dao was forcibly removed from United Airlines Flight 3411 on April 9, with cell phone cameras documenting the display, the uproar was immediate. People were infuriated by United's resort to brutality, by the use of law enforcement to solve an overbooking problem, by the bloodied face of the doctor, and by United CEO Oscar Munoz's ham-handed apology for "re-accommodating" customers.

But the real outrage should be directed at the fact that abuse of passengers is the logical endpoint of a 40-year trend since the government liberated the airline industry. Until 1978, air travel was heavily regulated. In that year, some of the nation's most celebrated liberals joined conservatives in trusting free markets. A brief rush of competition in the 1980s gave way to consolidation and monopoly power, at the expense of workers and passengers alike. Today, four carriers control 80 percent of all U.S. routes.[1]

The industry's recipe for record profitability has been to ratchet up misery on travelers bit by bit. You cannot opt out of the suffering; you cannot vote with your wallet to find another flight—if you want to get from Chicago to Louisville, you have to sit back (not very far back) and take it. And if the airlines want to violently pull you off the plane? What are you going to do, drive?

Today, democracy ends at the gate entrance. The government relinquished control of the airline industry to a handful of CEOs—and more important, to a handful of shareholders on Wall Street. We merely converted regulation by and for the public into regulation by plutocrats, who now rule the friendly skies in their own interest. The airline industry's spiral epitomizes the shifts in our economy since the Reagan era—deregulation, financialization, wage stagnation, and abuse of market power. "It's the perfect example, too perfect in some ways," says Northeastern University economics professor John Kwoka. "And since we all spend our lives in the air, it hits home."

Access to air travel is as important to the economic vitality of U.S. cities today as rail access was in the 19th century. If manufacturers or farmers could use railroads to get goods to market, they could thrive. Rail barons used this inherent power to fix prices and gouge customers dependent on their services.[2] Eventually government stepped in to regulate railroads as public utilities, ensuring broad access throughout the country while allowing a reasonable profit for the private companies that managed them.

The United States adapted the public utility model to air travel in 1938, putting control of the fledgling industry under the auspices of the new Civil Aeronautics Board (CAB). Officials recognized that, similar to railroads, a reliable aviation network was a potent economic development tool. You can't be a major-league city and attract business investment without an airport with national reach. The Roosevelt administration believed air travel, like rails, was a "public convenience and necessity," instead of hoping the free market would provide it.

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[1] aiR footnote: …and, if you get the data on how much competition exists on city-pair direct-routes, you likely will find half or more offer one-airline monopoly service.

[2] aiR footnote: Click here for a closer look at the various forms of FAA regulatory capture, and some insight into the early rail barons example from the 1880's.

CAB guaranteed airlines a 12 percent profit on a flight that was 55 percent full. If fuel or other fixed costs rose, fares could go up; if they fell, prices had to drop. In addition, airlines had to serve the entire nation, with more popular routes effectively subsidizing the flights to the outskirts. CAB's control was rather strict; airlines had to get permission to alter routes and fares, or even change uniform colors. But the idea was to maintain a standard of accessibility and reasonable service for every American.

It's strange to see CAB so derided in retrospect, since it presided over tremendous growth in commercial aviation. New jets like the 747 (initially a military cargo plane) and the DC-10, which could transport hundreds more passengers per flight, made air travel available to the masses. There's a myth that, before deregulation, flights were restricted to the privileged few. In actuality, while only 33 percent of Americans over 18 had taken a plane trip in 1962, by 1977 (when airlines were still regulated) that number had climbed to 63 percent.

But aviation is incredibly sensitive to the business cycle. Fuel price spikes and recessions (which lead to cutbacks in lucrative corporate travel) hit hard. The 1973 oil embargo and subsequent malaise led to CAB-approved fare increases and a moratorium on new route licenses. "It was a rational move by regulators and the industry, but it appeared to consumers as anti-consumer," says Paul Stephen Dempsey, a law professor at McGill University.

THE DRIVE TO KILL CAB came from a surprising source: liberals. Ralph Nader, for example, attacked the board for being captured by an industry it protected from competition. But the real ringleader was Ted Kennedy. Future Supreme Court Justice Stephen Breyer, a staff aide who ran Kennedy's Senate Judiciary subcommittee on administrative practices and procedures, convinced his boss that taking on CAB would make him a hero to the consumer, amid spiking inflation and unemployment. Labor unions objected, but market-oriented liberal economists longed to ditch central planners like CAB.

Deregulation Dupe: Alfred Kahn, President Carter's head of the CAB, favored dismantling it. (AP Photo/File)

Alfred Kahn, then a professor at Cornell, was a leading voice, promising that deregulation, then a new concept, would make airlines more efficient, and benefit consumers, employees, and stockholders. Airline routes, Kahn said, were "contestable," no matter the huge startup costs. Dismantling CAB would force even a monopoly carrier to lower prices because of the mere threat of competition.

As Paul Stephen Dempsey wrote in a 1990 chronicle of deregulation for the Economic Policy Institute called "Flying Blind,"[3] economists believed entry and pricing restrictions led to

[3] aiR footnote: Click here for online copy, or here for 93-pg PDF copy archived at aiReform.com

"excessive service" for passengers who were paying for more frills than they really wanted, while airlines were denied "adequate profits." In other words, the fliers were too comfortable and the corporations too poor. Making flying less relaxing to the passenger and more profitable to the corporation was the real premise of deregulation, regardless of hype about open competition and lower prices.

Kennedy's subcommittee held hearings and issued reports throughout the mid-1970s, winning support from Democratic Senator Howard Cannon of Nevada, who had jurisdiction over the matter. (Cannon also got pushed by casino owners in his state who desired cheaper tourist flights.) And when Jimmy Carter became president, he appointed Kahn to run CAB.[4]

The Airline Deregulation Act of 1978 passed almost unanimously; liberals and conservatives united in anti-government sentiment. When Carter signed it in October of that year, he said: "When I announced my own support of airline deregulation soon after taking office, this bill had few friends. I'm happy to say that today it appears to have few enemies."

But there was at least one opponent. At one of the hearings, a man Tom Petzinger Jr. described in the book Hard Landing as a "mean-looking fellow with pointed teeth and slicked-back hair" approached a Kennedy staffer and told him, "You [bleeping] academic eggheads! You're going to wreck this industry!" That man was Bob Crandall, then American Airlines' head of marketing and later its CEO. "And I think they have wrecked it," Crandall said to me in an interview, 40 years later. "They didn't take into account the need for a universal system. And there's simply no competition. Trading all that off against cheap fares is a crock of shit."

IN THE IMMEDIATE aftermath, deregulation appeared to work as predicted. A rush of low-cost brands like People Express and Air Florida took on the majors. Prices did go down—although some important context, conveniently forgotten by boosters of the policy, needs to be included. Deregulation fortuitously coincided with a crash in oil markets; prices dropped from $37 a barrel in 1980 to around $14 by 1986. This accounts for much of the airfare plunge.

Plus, fares were plummeting by 1978, even amid an oil spike. At the time of deregulation, America already had the world's lowest airfares. In Dempsey's paper "Flying Blind," he used the industry's own data to determine that, once adjusted for fuel costs, airfares fell about 2.7 percent annually in the decade prior to deregulation, and 2 percent annually in the subsequent decade. In other words, the price drops just continued a trend—decelerated it, in fact—seen well before Alfred Kahn and friends came on the scene. Most of the post-deregulation price benefits came in 1978 and 1979—decreases slowed to a crawl after that. "The case for a gain to consumers from deregulation," Dempsey wrote, "is entirely vacuous, to put it charitably."

This is a critical point. If airfares fell at a slower rate after deregulation than they did before, it blows up the primary case for the entire change. Yet Dempsey and David B. Richards, another researcher who reached the same conclusions, were practically the only economists to make this connection. The official story typically only boasts about the post-deregulation period. "Go online and try to find the pre-1980 prices," says David Morris, co-founder of the Institute for

[4] aiR footnote: Notably, Carter was from Georgia, home of Delta Airlines and one of two perennial world-busiest hub airports.

Local Self-Reliance and a critic of the impact of deregulation on smaller cities. “You won’t—it’s like the world started in 1980.”

After deregulation, the system of delivering air travel also changed, from nonstop point-to-point service to a hub-and-spoke setup, with more connections from airports dominated by a single carrier. “It’s an efficient way to market their product because it allowed a larger array of destinations,” said Dempsey. “But it’s an inefficient way to provide the product.” Centralizing activity in hubs maximized pricing power and added airport congestion. The environment suffered from extra takeoffs and landings and out-of-the-way detours to hub cities.[5] Startup airlines gradually found open slots at hub airports hard to come by. Even the hub cities did not benefit greatly from becoming hubs; passengers just changed planes at the airport rather than experiencing the city.[6]

As the old CAB guarantee of a national network ended, airlines dropped unprofitable routes and smaller cities became virtually frozen out of air service. A hundred cities fell off the commercial aviation map in just the first two years of deregulation. By the 1980s, the only way to fly into state capitals like Dover, Delaware, or Salem, Oregon, was by private plane. Inaccessibility made these outposts less attractive to business, with jarring effects to local economies.

Before long, the burst of competition led to a washout. Just in the 1980s, 200 airlines went bankrupt, including majors like Eastern and Braniff. Competition turned destructive, as price wars quickly crippled businesses with large fixed costs like airplanes. CAB had denied additional city routes; critics liked to bring up the horror story of Continental waiting eight years to get approval to fly from Denver to San Diego. But CAB based its determinations on customer demand. Without bureaucrats holding the reins, competitors rushed into unprofitable routes and imploded.

Bankruptcies led inexorably to concentration. After CAB dissolved, the Department of Transportation took jurisdiction for airline mergers, and they never denied one, finally losing the authority to the Department of Justice in 1990. Between 1979 and 1988, 51 airlines merged. Even Alfred Kahn, architect of deregulation, admitted in 1990 that the industry was a “tight oligopoly.”

Incredibly, the Airline Deregulation Act specifically directed the government to guard against “unreasonable industry concentration” and “excessive market domination.” But somehow Kahn never saw it coming. “Alfred Kahn was one of my teachers at Cornell,” said David Morris. He described writing a letter to Kahn showing no difference in pricing trends before and after deregulation. “His response was he overlooked the possibility of monopoly.”[7]

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[5] aiR footnote: This is precisely what we see happening today, as FAA enables the airlines to fortify hubs, including newer hubs such as Charlotte (American) and Seattle (Delta). The impacts have devastated some communities, and are only intensifying with NextGen.

[6] aiR footnote: As these hubs generate ever-higher percentages of THROUGH-passengers, noise and air pollution impacts increase with no real economic gains to the communities. Only the airlines enjoy the benefits, as profits. Airline hubs with this pattern of corporate gain against community loss include: Boston (American, Delta and JetBlue); JFK & La Guardia (American, Delta, JetBlue, and Southwest); Baltimore (Southwest); Reagan National (American); Atlanta (Delta); Chicago (American and United); Phoenix (American and Southwest); and Seattle (Alaska and Delta).

[7] aiR footnote: This is a common pattern in modern politics: find an esteemed expert and parade them in front of the news cameras at Congressional hearings, to pitch a proposal as one thing when in fact the goal is something else

TODAY WE'RE DOWN to three legacy carriers: United, American, and Delta. Southwest maintains its reputation as a “low-cost” disruptor but has begun to control certain airports as well. “When they dominate, they don’t leave money on the table either,” says economics professor John Kwoka. Four out of every five passengers in America flies with one of these four companies. And in 93 of the top 100 airports, either one or two airlines control a majority of all seats. There is a tacit understanding to stay out of each other’s turf, to protect everyone’s pricing power; competing airlines only schedule a handful of flights into a competitor’s hub. “You don’t find Delta trying to get into Chicago, you don’t find United getting into Minneapolis or Atlanta,” says Morris. “You have these little fiefdoms.”

This dominance flowed from two critical bend points, each coinciding with economic catastrophe. First there was September 11, which fundamentally transformed air travel and the companies that provide it. The financial crisis of 2008, which hit just as airlines had clawed back to profitability, had a similar crushing effect. Every major airline declared bankruptcy in the 2000s, primarily employing it to shed “legacy costs,” or what workers call wages and benefits.

About one-fifth of full-time airline jobs were eliminated between 2001 and 2005. Mainline jobs evaporated as airlines contracted with the equivalent of low-cost temps, regional jet companies who wear the same colors as United or American but actually work for a different carrier.[8] Those left at the majors suffered across-the-board wage cuts of 30 percent to 40 percent, according to Sara Nelson, president of the Association of Flight Attendants, the largest flight attendant union. “The pay is not for a middle-class income anymore,” she says. Crews made up for it by flying more; a cap on time in the air was lifted to increase workloads. Starting salaries for pilots, particularly at the regional airlines, can be as low as $20,000 a year. Reduced options due to industry consolidation left most employees with no choice.

A lesser-known consequence of worker restructuring was the outsourcing of repair work overseas, to low-cost operations in El Salvador, Mexico, and China. While U.S. maintenance jobs fell nearly one-third since 2000, planes now routinely get serviced abroad, away from Federal Aviation Administration inspectors and in ways that local mechanics have criticized as slipshod. Most of the overseas repair workers don’t speak English even though the technical manuals are written in English.

The main targets for airline bankruptcies were pensions. US Airways terminated its pilot pensions and shifted to 401(k) plans in 2003; Delta did the same in 2006. United used a grueling, 30-month bankruptcy to terminate pension obligations for four plans affecting 134,000 workers in 2005. Attorney James Sprayregen, who handled the bankruptcy for United, admitted to PBS’s Frontline that the company deliberately dragged out the process, adding concessions gradually to prevent labor unrest.

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generally not even being discussed. We have Shuster and Calio pushing the same game-plan today. Also, one has to wonder: in 1978, what did it take to get Kahn to NOT see the obvious possibility of monopoly?

[8] aiR footnote: It is critical that people understand the significance of these regional feeder airlines. They are contracted to deliver passengers to the main airline, normally at the hub airports for that main airline. As such, when you study ‘competition’ at say Charlotte, you need to count all the flights by Republic, Piedmont, PSA, Envoy, and others; similarly, at Seattle and Portland, count all Horizon flights as Alaska operations, to see the full extent of hub concentration.

Existing pensions shifted to the Pension Benefit Guaranty Corporation, where payouts dropped significantly. An inspector general's report in 2011 found that the PBGC cut United pensions too deeply, and US Airways pilots fought for higher payouts for over a decade. "It really affects workers close to retirement, five to ten years away, who are not able to retire," says Sara Nelson.

According to Paul Stephen Dempsey, Ted Kennedy never recognized at the time how deregulation might impact labor, especially as the industry bust shook out. "This never came out," Dempsey said, "but Kennedy subsequently said to his staff, you never told me this would be the result."

AFTER BANKRUPTCY shed costs, four key mergers represented the final consolidation of the industry after the 2008 meltdown. Earlier, the Bush Department of Justice had blocked a proposed US Airways/United deal in 2001. But when Northwest and Delta petitioned to merge in 2008, Bush's DOJ waved it through, without any conditions. That encouraged the rest of the industry to follow suit. "D.C. finally threw its hands up and said, 'Let the airlines consolidate,'" says Dempsey.

Under President Obama, the United/Continental and Southwest/AirTran deals followed, the latter notable because it removed a low-cost carrier that was aggressively forcing prices downward and just starting to expand. Finally, American and US Airways announced their intentions to combine in 2013. Obama's Justice Department initially filed suit to block the merger, arguing that "increasing consolidation among large airlines has hurt passengers"—even though they played a major role in that by allowing the United and Southwest deals.

But within three months, DOJ changed course, after significant lobbying from former Obama administration officials, including ex–Chief of Staff Rahm Emanuel, who signed a letter written by an airline lobbyist encouraging the deal. DOJ merely forced the divestiture of some gate slots at airports in Washington and New York. "If you have smaller entrants that can step up, that's good to inject competitive

"We're Number 14": Big hubs maximize airlines' pricing power but add to congestion. (Piotrus/Creative Commons)

discipline," says Diana Moss of the American Antitrust Institute. "I worry that with so few low-cost carriers, we don't have that dynamic."

Crandall, the former American CEO, supported the merger, but only because the industry was too far gone. "You already let consolidation, you can't say to US Airways and American, you can't do it," he says. "If I was king of Spain, I wouldn't allow any mergers of any kind anywhere in the business world. I'd rather have millions of CEOs making decisions than three."

Just 18 months after the American deal closed, the Justice Department opened an investigation into airlines colluding to reduce flight schedules, crowd cabins, and raise fares. "This was in their own complaint!" Kwoka notes, pointing to the Justice Department's initial lawsuit, which detailed numerous examples of airline coordination. The investigation quietly closed this year with no action taken.

The notion that airlines coordinate is comically self-evident. Airlines have their own internal price-tracking tool called the Airline Tariff Publishing Company (ATPCo). Owned by the airlines, ATPCo delivers real-time information on every published fare across the United States. Large teams of number-crunchers at every airline monitor ATPCo daily for fare changes, and copy the competition's movements. With large carriers entrenched in hubs and particular routes, a sort of non-aggression policy can emerge, where one airline agrees to not go after another's main sources of revenue. (The Justice Department sued the airline industry over ATPCo in 1992; the case was settled with few restrictions and ATPCo's use went on.)

Capacity cutbacks, the focus of DOJ's collusion investigation, are practically celebrated inside the airlines as one of the major legacies of deregulation and consolidation. From 55 percent targets in the 1970s, planes are now nearly 85 percent full on average, and that doesn't count crew members shuttling to catch their next flight. Supply and demand dictates that fewer seats lead to higher fares, while maximizing revenue from every takeoff. Airline executives want to keep it that way; in industry conferences, they've explicitly talked of maintaining "capacity discipline" on flight schedules.

Though prices increased after mergers began, the industry claims that fares have fallen for the past three years. This statistic is incredibly misleading, because it doesn't count ancillary fees, a growing profit center. In essence, practically everything you used to get for free on a plane now costs you: a hot meal, a comfortable seat, an in-flight movie, checked baggage, the flexibility to change flights. Airlines added fuel surcharges and kept them on even after oil prices dropped; in 2011 they raised base fares when FAA authorization lapsed and federal taxes could not be collected temporarily, pocketing the difference without the consumer realizing it. Fees and other charges represented a little over one-tenth of all revenue in 1995; today the figure is over one-quarter. Last year, U.S. airlines made $20.2 billion in ancillary revenue, according to research firm IdeaWorks; that's more than two times industry profits.

The ancillary fees play off other innovations to maximize the revenue potential of travelers' behavioral responses. For instance, checked-bag fees give passengers incentives to bring their roller-bags on board. That makes getting on first to find space in the overhead bin a priority. So airlines started charging for pre-boarding. Plus, moving baggage onto the plane allowed airlines to cut costs on baggage handlers. Eliminating meals in the main cabin enabled airlines to reduce the size of the galley, opening more space for seats. The personal entertainment device on the seat-back seems like a new amenity, until you realize it allows airlines to isolate and charge for viewing in ways they couldn't with a communal screen.

Airlines have also shrunk what is called “seat pitch,” the measurement from one seat to the one behind it. Every inch removed between rows equals another row of seats that can be added to the back of the plane, and at least six more paying customers. The cramped quarters lead many to cry uncle and pay for “preferred” seating, which mostly have the same seat pitch that was standard in coach 10 or 20 years ago.

Fee structures like this can only work if there’s no competition on quality to lure passengers away from being nickeled and dimed. Virtually all airlines have added the same charges; if anything, the low-cost carriers like Spirit Airlines are worse, charging for seat assignments, online booking, a soda, and any carry-on larger than a purse. While most carriers derive about 26 percent of their revenue from ancillary fees, for Spirit it’s a whopping 46 percent. The ticket fares simply bear no resemblance to how much you’ll pay.

United and its legacy colleagues have taken cues from Spirit with “Basic Economy” fares, which entitle you to little more than a seat and a seat belt. According to industry consultant Mark Gerchick’s book Full Upright and Locked Position, the ancillary fee gurus at IdeaWorks ran a weekend “ancillary revenue training camp” in 2012 to brainstorm additional revenue streams. Airline lobbyists call it “giving customers more choice,” but for passengers it comes down to how much they’re willing to pay for a modicum of comfort.

This gouging and cramping and inconveniencing was bound to manifest in cabin rage, with underpaid, understaffed flight crews on the front lines. “Airlines are staffing at the minimums in the domestic market,” says union leader Sara Nelson. “In some cases, there’s a 50 percent reduction, with more seats and more people filling seats.” Flight attendants are taught to de-escalate and keep problems off the plane, but frustrations have boiled over.

In April, a worker at American appeared to hit a woman with a baby stroller; she was suspended. Another video showed a Delta pilot smacking a woman to break up a fight between passengers. A woman flying United in May said she was forced to urinate in a plastic cup mid-flight because the seat belt sign was illuminated. A Frontier crewmember kicked off a father and daughter in August (after the flight was delayed eight hours) after overhearing them criticizing the flight attendants; the crewmember said she felt threatened. United gave a 2-year-old’s seat away accidentally in July and made his mother hold him the entire three-hour flight from Houston to Boston. The woman said she didn’t make a scene because “I started remembering all those incidents with United on the news.”

Delta Blues: Travelers endured hundreds of canceled and delayed flights during Delta's global computer outage in August 2016. (AP Photo/Rick Bowmer)

The consequences for passengers can be grave. Disobeying a flight crew constitutes a federal felony under the Patriot Act. Paul Hudson of Flyers Rights, a consumer organization, estimates between 400 and 500 prosecutions on that statute since 2002, none of them terrorism-related. "This has essentially been a license to crack the whip on passengers," Hudson says. And there's a severe power imbalance at work, he adds. "People don't realize, as a practical matter passengers are exempted from all legal remedies except for injury or death."

Hudson explains that deregulation prevented states from instituting rules based on "service," which industry attorneys have interpreted to mean anything the airline does in terms of operations. The Department of Transportation takes complaints—they have jumped 70 percent since the Dr. Dao incident in April—but mostly they're filed away for statistical purposes. "If an airline violates a rule they can be fined, however the individuals involved, they don't get a thing," says Hudson. And typically the fines are reduced or even waived if the airline cooperates and promises to improve. For dragging Dr. Dao off Flight 3411, United won't even face a fine.[9]

But blaming passengers or crewmembers for flare-ups in the cabin, as an anonymous Delta employee pointed out, misses the point. They are both exploited by unforgiving corporate behemoths. The raised tension inside the plane draws attention away from the elephant in the aisle. Deregulation was supposed to increase competition. Mainly, it increased concentration and market power. That's why airlines keep getting away with the relentless degradation of service.[10]

THE PROBLEMS ON the airplane are magnified by the problems getting off the ground, which monopolization has significantly worsened. Hub-and-spoke setups inevitably lead to delays if one of the hubs experiences bad weather or some other tie-up. The vast majority of all flight delays can be traced back to a handful of large airports—such as New York and Chicago—where giant amounts of air traffic flow through on a given day.[11] (Hurricane Harvey could cost United as much as $265 million because its hub in Houston controls 17 percent of its flight capacity.)

The smaller competitors don't value getting their planes off the ground and to destinations on time. "We don't necessarily believe that it's cost-effective to end up in the top quartile for on-time performance," senior vice president at Frontier Airlines Daniel Shurz said to Bloomberg. They simply don't want to spend the money honoring the arrival time stamped on your ticket.

For the major carriers, scarcely a few months go by without hearing about a computer glitch grounding thousands of flights. American suffered a system-wide crash in 2013; United in 2015 and 2017; Southwest in 2016; and Delta both last year and this year. With so few carriers, individual airlines service a higher percentage of flights, so these glitches cascade through the system, causing planes stranded at gates, missed connections, and inability for crews to keep on schedule. And with pricing algorithms making sure planes fly nearly full, the system has little if any spare capacity to deal with cancellations. One glitch can snarl traffic for a week.

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[9] aiR footnote: Every year, there is a steady stream of fines levied by FAA, against airlines, maintenance shops, manufacturers, etc. This stream dupes the general population into believing FAA is aggressively regulating, but since much or all of the 'fines' are reduced or waived, the whole process is more of a show than a regulatory action.
[10] aiR footnote: Excellent summary. The reality of how and why Airline Deregulation is a total failure.
[11] aiR footnote: FAA has the authority to impose capacity restrictions (they could get away with citing the key reason as 'safety'); FAA fails to do this, so overscheduling worsens, hub concentration worsens, and subsequently delays continue to expand.

In the regulatory era, passengers were able to take a ticket for a delayed flight to another airline and have it automatically honored. Now the "reciprocity rule" is voluntary. And because airlines have gotten so big and have so few empty seats, they've refused to re-book customers from competitors. Ironically, Delta, the most troubled airline recently in terms of computer meltdowns, kicked this off by denying re-booking for United and American passengers without more compensation.

As Delta's CEO has admitted, airlines do not typically upgrade IT after mergers, instead piling one legacy system of reservations and flight departures and crew schedules on top of another. With multiple mergers going back decades, this means that computer networks have elements lurking in them dating back to the 1990s. A report from Diana Moss of the American Antitrust Institute has demonstrated how computer meltdowns become more prevalent after mergers.

These mergers were actually sold on the basis of creating "efficiencies," specifically from integrating computer systems. But the efficiencies seldom work out, and the integration costs always end up higher than the initial estimate. "Few of these cost savings are being realized," Moss said. "The behemoth airline with a behemoth IT system is not working well." But since passengers have nowhere else to go, airlines aren't terribly interested in making the investments to remedy the situation. It's not really about efficiency; it's about market power.

THE GREATEST BOOSTER of airline industry concentration is Wall Street. There was a time when investors steered clear of airline stocks. But in a 2014 research note, Goldman Sachs highlighted airlines as part of its "dreams of oligopoly," counseling investors to "look for opportunities created by disruptive consolidation" that generates "greater … pricing power with customers due to reduced choice, … stronger leverage over suppliers, and higher barriers to new entrants all at once."

After rumors of the American/US Airways deal arose in late 2012, the four major airline stocks jumped more than 135 percent within a year. This May, Brad Gerstner, chief executive of Altimeter Capital Management, told the prestigious Sohn investment conference that the sketchy past performance of the sector is dead and buried: Industry consolidation is "making all the difference." By July, stocks were at a 16-year high, though they have fallen since then due to pilot disputes and rising fuel costs (fuel is so central to airline fortunes that Delta bought an oil refinery in 2012). And the beneficiaries of this monopoly-infused rally are so few, you could probably fit them all in United's executive suite.

A growing body of research looks at the trend of "common ownership," in which large institutional investors own nominal competitors in a particular industry. In March, Martin Schmalz, José Azar, and Isabel Tecu wrote a research paper showing that asset management firms BlackRock, State Street, and Vanguard, hedge fund PAR Capital Management, and Warren Buffett's Berkshire Hathaway (a recent convert to airline stocks) are all among the top ten investors in the four major airlines. BlackRock, Vanguard, and PAR also hold large shares in the next two, JetBlue and Alaska. There was a day in April, in the midst of United's Dr. Dao fiasco, where Warren Buffett made $104 million on his airline holdings in just one trading session.

The researchers found that ticket prices on the average airline route are 3 percent to 7 percent higher under this brand of collective Wall Street ownership than they would be under separate ownership. In other words, common ownership was a surprisingly damaging manifestation of market power, according to the data. Schmalz, an assistant professor at the University of Michigan's Ross School of Business, sees the lack of competition from common ownership as mostly unconscious. "Investors say, we don't tell firms to compete less. I ask, do you ever call up two firms and tell them to compete aggressively? They say that's absurd. I say, if you weren't the largest owner, somebody else would call them up!" In other words, the very fact a common owner in airline stocks may not specifically call executives allows those executives to have a "quiet life," unburdened by pressure from above to secure additional market share, whether through price wars or expanding route capacity.

That's not to say that Wall Street hasn't made their intentions for the industry known. Public earnings calls are filled with minute discussions of specific routes. Schmalz's paper cites one portfolio manager criticizing "growth initiatives out of L.A., Seattle," and warning that "adding capacity into other airlines' hubs diminishes your shareholders' confidence and jeopardizes [your stock price]." Another investment manager is quoted as saying, "I'd like to see [Southwest Airlines] boost their fares but also cut capacity." Stock analysts write reports longing for airlines to "rein in supply growth."

Cramped and Gouged: Underpaid and understaffed crews suffer along with the passengers (Oxfordian Kissuth/Creative Commons)

In 2014, JetBlue CEO David Barger decided to compete on quality. The company's sparkling planes offered 34 inches of seat pitch in the main cabin, the best in the industry. Checked bags and WiFi service were free. And stock analysts hated it. They beat up Barger for being "overly concerned" with customers rather than shareholder returns. And they essentially ran him out of town. Two months after Barger stepped down, JetBlue rolled back the legroom and raised fees on baggage and Internet. "You've got to conform to the model," said John Kwoka. "Deviations from the norm get punished."

More recently, in late April, American Airlines CEO Doug Parker announced modest pay increases for pilots and flight attendants, who previously were making below the industry average. Wall Street again went ballistic. "This is frustrating. Labor is being paid first again. Shareholders get leftovers," scribbled Citi analyst Kevin Crissey. J.P. Morgan's Jamie Baker said the action "establishes a worrying precedent, in our view, both for American and the industry." Not only did American's stock price tank, so did every major airline stock, as investors punished the whole industry because one of its leaders dared to side with employees.

"The boards of directors and management of the airlines have got to be mature and tough enough to say to Wall Street, I'm running it, you're not," says Bob Crandall, American's former CEO. But the line between executive and shareholder isn't so clear-cut. Bonus packages for top executives in the industry are now almost entirely tied to short-term stock performance; awards linked to customer satisfaction or on-time arrivals have been jettisoned. The executives want to ditch the old days of fare wars and comfortable passengers as much as the investors.

IN SUM, AIRLINE deregulation has been disastrous for workers, frustrating for travelers, and devastating for communities. When hubs pulled up stakes in cities like Cincinnati, Memphis, and St. Louis, their link to the global economy withered, as business travel became difficult and exceedingly expensive. "It's like Walmart came into town and then Walmart left town," says David Morris. As Washington Monthly detailed in 2012, major businesses and convention-goers have abandoned heartland cities because of the inability to easily travel across the country.

Delta has touted how it takes advantage of the paucity of regional air service by raising fares and profit margins. Leaving communities behind like this would have been impossible under CAB. This aerial divide fosters regional inequality, with societal gains going disproportionately to a handful of cities lucky enough to have a functioning airport and reasonable prices. "It's also what helped put Donald Trump in the White House," says Crandall, reasoning that the large clusters of regions not benefiting from economic growth rebelled against the regime in Washington that presided over their plight.[12]

So what can be done today? Consumer advocates like Flyers Rights have begun to fight back, against large odds. In July, the group scored a major victory in federal court, forcing the FAA to issue rules it requested in 2015 mandating minimum seat sizes and legroom on planes. "We did it on safety and health grounds, because they claimed no jurisdiction for comfort," Paul Hudson of Flyers Rights says. "We said confining on long-haul flights increases chances of blood clots." In advance of the ruling, American tossed out a plan to drop seat pitch to 29 inches on its 737 planes, perhaps running into its customers' breaking point.

The Dr. Dao incident (which was settled out of court) has at least temporarily led to a slowing down of the standard practice of overbooking flights. Southwest pledged to stop overbooking, and United vowed to use data analytics to reduce the need to bump passengers. In August, the Transportation Department found that passengers were bumped in the first half of the year at the lowest rate since 1995, with the biggest drop coming after Dr. Dao's removal in April.

Pilot and labor groups activated when President Trump floated a plan to privatize air traffic control, which critics charge would hand over primary oversight of air safety to a board comprised disproportionately of representatives of airlines and major airports. This could block competition even further, by preventing traffic over certain prized territories. Sully Sullenberger, perhaps the most popular aviation figure in America, narrated ads warning against allowing "a corporate monopoly to make decisions that put profits ahead of safety and would devastate rural communities." The Senate rejected the Trump plan, though it's still lurking in a House version of an FAA reauthorization bill that must pass in September.

This is not to say that Washington has neutered the airlines meaningfully. The main industry trade group, Airlines for America, and individual corporations in the aviation sector spend over

[12] aiR footnote: This idea is not far-fetched. Take a look at Ohio, a state filled with massive airport capacity (CVG, DAY, CMH, CLE), all severely under-utilized, while the airlines intensify schedules (and generate system delays) at hubs in New York, Virginia, and North Carolina. Also, recognize there is a larger region being abandoned by major airlines, outlined by a circle from St. Louis to Detroit to Pittsburgh to Memphis. Click here for an aiReform Post with figures for declines at STL, DTW, PIT, MEM, CLE, and other heartland airports.

$85 million a year in lobbying. They've personally asked Trump to prevent foreign competition from Middle Eastern airlines on domestic routes. The last serious legislative win for consumers, a regulation preventing airlines from stranding passengers on the tarmac for more than three hours, took eleven years to complete.

But importantly, advocates and even ordinary people are thinking and speaking about the airlines in a new way. People understood the violent ejection of Dr. Dao as a byproduct of an oligopoly that doesn't have to care about consumer comfort. People no longer look at deregulation with reverence; they're skeptical of its benefits and see clearly its negative consequences. People no longer want to accept the mental and physical toll just to get from point A to point B. Even the Democratic Party's "Better Deal" campaign specifically goes after the airline industry as too concentrated and too powerful.

An Airbus A321 jetliner, belonging to American Airlines, lands at McCarran International Airport in Las Vegas (Larry MacDougal via AP)

"The passenger is basically expected to sit down and shut up," says Paul Stephen Dempsey. "If you don't like it, what are you going to do about it?"

Changing the mindset is the first step to changing the policy. If we agree that regulation by CEOs and investors doesn't serve Americans, we can return to rule by the people. We can restore federal authority to impose quality-of-service standards. We can mandate universal access, giving every citizen, regardless of his or her location, the opportunity of air travel. That includes cross-subsidizing less-profitable routes and reinstituting some form of reasonable price regulation. We can talk about building new airports—there hasn't been a single major one built in America since 1995, in Denver, which bulldozed their old one the same day—or at least opening up slots in existing terminals through forced divestment. We could mandate reasonable service throughout the country as an economic engine for smaller cities and regions. We could use the antitrust powers for what they were meant for, to eliminate anti-competitive behavior. If that means breaking up the big airlines, so be it.

More broadly, we need to see the airline industry as a microcosm of the way the U.S. economy now works: for the benefit of small groups of shareholders and executives rather than the mass public. The freedom of movement is too important to leave its governance to such a tiny sliver of the population. The problem with airlines reflects the problem with democracy in America. And we don't have to stand for it, or sit with our seat belt securely fastened.