



# MERGER WATCH

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## **The Failure of Airline Deregulation**

Airline CEOs are loudly calling for government controls to prevent oil speculation, but they vigorously resist meaningful regulation of their own industry. Airlines have repeatedly stumbled and often collapsed while trying to operate in a deregulated environment. Since the Airline Deregulation Act was signed in 1978, more than 160 airlines have gone bankrupt or disappeared entirely, ranging from small regional carriers to global giants like Pan Am and TWA. From 2001 to 2006 *alone* the industry lost \$28 billion. Airline management's response to the never ending crisis has been a repeating and predictable cycle of downsizing (in and out of bankruptcy), layoffs, consolidations and employee concessions. Time has proven that these actions do nothing to stem the gushing flow of red ink.

The current crisis, instigated by outrageous fuel prices, would be easier to manage in any other industry by properly pricing the product to cover at least the cost of providing it to the consumer. Instead, airlines irrationally set fares so that if every seat on a plane is full, the airline will still lose money on the flight. Airline management is too willing to accept losses in an effort to run other airlines out of business. This flawed mentality has crippled the industry.

To their credit, most airlines have stopped talking about senseless mergers because of the high cost of fuel. Northwest Airlines and Delta Airlines, however, seem oblivious and appear committed to destroying both companies through a merger that will create an unmanageable behemoth with \$15 billion in long-term debt.

The American taxpayer is subsidizing this failing industry. The burden of administering failed airline pensions has been thrust upon the federal Pension Benefit Guaranty Corporation, which has absorbed more than \$12 billion of underfunded airline pension plans. Likewise, the loss of promised retiree healthcare benefits and massive job cuts have forced airline employees and retirees to turn to the nation's Medicare, Medicaid and unemployment insurance systems for assistance. The impact on suffering communities that endure reduced air service from airline cutbacks, and the jobs losses they bring, is also substantial. Therefore, the federal government has not only a right, but an obligation to step-in and regulate the industry.

If the cost of fuel is cut in half tomorrow, the underlying problems plaguing this dysfunctional industry will remain. The airline industry is in urgent need for the type of intervention that only the federal government can provide. Consumers, employees and shareholders are all being beaten as airlines fight for survival. Some form of limited, sane regulation is long overdue.