“Airline Deregulation’s Impact on Labor”

Remarks of Patrick V Murphy
before

EU – US Aviation Forum on Liberalisation And Labour
Organized by the European Commission
December 3, 2008
What Should We Measure?

- Head Count
- Hourly Wage
- Annual Income
- Working Conditions and Work Rules
- Ranking of Industry Compensation to Other Industries
- Global Competitiveness
- Sustainability of Pensions
Government Airline Policy: Impact on Labor

• Labor is Not the Primary Concern – Public Is

• Labor is One of Several Considerations:
  • National Economy
  • Travelling Public
  • Local Communities
  • Airlines
  • Airline Suppliers
  • All Labor
  • Airline Labor
  • Airline Union Labor
  • Current Employees
  • Future Employees
Government Airline Policy:
Impact on Labor (cont.)

- Impacts are Short Term and Long Term (Sometimes in Conflict)
- Impacts Significantly Affected by Economic Cycle
- More Efficient Labor Costs Can Foster Industry and Create More Jobs
U.S. Airline Deregulation

- 30 years-old
- Movement Away from 40 years of 1930’s Era Government Control and of Entry and Pricing
- Markets Would Set Prices, Allow Entry/Exit
- Direct and Indirect Subsidies Would be Minimized
U.S. Airline Deregulation (cont.)

- Based to a Large Degree on Academic Work and Intra-State Airlines
- Industry was Seen as Inefficient
- Designed to Sweep away Inefficiency and Benefit the Travelling Public
- Domestic Only, but Presaged International Reform
1970’s Airline Labor

- Labor was Seen as a Part of the Problem with Regulation
- Labor was Sharing the “Monopoly Rents” of Government Protection From Competition
- Wages Were Seen as Significantly Inflated
- Work Rules Viewed as Inefficient
1970’s Airline Labor (cont.)

- Comparisons Were Made to Intra-State Airlines and Non-Airline Workers

- Expectation was that Labor Would be Pressured on Wages and Work Rules
Reality Interfered With Theory

• Complex Factors Prevented Deregulation from Dramatically Altering Labor Inputs

• Labor Gained New Leverage with the Demise of Regulatory Protection for Management

• Labor Gained Added Leverage with End of the “Mutual Aid Pact”

• Workers High Skills not Easily Replaced

• Management Gained Leverage When it Operated Through Strikes; Bankruptcies Added More Leverage
Reality Interfered With Theory (cont.)

• Pattern Bargaining Tradition Continued

• Well Established Worker Organizations, Elected Supporters, Traditions (e.g. Pay Tied to Aircraft Type) (Crafts, Pay Formula)

• Railway Labor Act

• Industry Has a Propensity to Adjust Wages After a Change in the Business Cycle Has Begun

• Consequently, Labor Costs Adjust Slowly
Overall Deregulation Impacts

• Still Debated
  • We Can Measure Growth and Fare Declines, but Those were Vigorous Even Before Deregulation

• Consensus:
  • Consumers Significantly Better Off
  • Many New and Old Airlines were Bludgeoned
  • Industry More Efficient
  • Investors Have Been Hammered (But Many have Done Well)
  • Labor Had Mixed Results

• But What Would the Results Have Been Under More Modern Regulation?

• Never Know
Impact on Labor

• Dislocations

• New Lines of Business and Employment Opened Such as LCC’s and Air Express

• Employment Levels Increased Even With Enhanced Productivity

• Wages Declined Relatively from #3 to #17 between 1978 and 1990

• Still Very Well-Paying Industry

• Labor More Competitive in a Global Economy Than it Would Have Been
Labor Dislocations From Deregulation

- Strikes: ↓
- Mergers*: ↔
- Bankruptcies: ↑
- Liquidations: ↑
- New Firms: ↑

* Merger Eliminated “Labor Protective Provisions”
Data on Numbers of Employees
Certificated Carrier Employment on Levels

<table>
<thead>
<tr>
<th></th>
<th>Full Time</th>
<th>Part Time</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>324,000</td>
<td>14,000</td>
<td>338,000</td>
</tr>
<tr>
<td>2007</td>
<td>508,000</td>
<td>117,000</td>
<td>624,000</td>
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</tbody>
</table>

Percentage
- 157%
- 836%
- 185%

* Source: U.S. DOT
## Number of Employees
### Largest U.S. Certificated Passenger Airlines

<table>
<thead>
<tr>
<th>Airline</th>
<th>1978</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>American</td>
<td>38,000</td>
<td>79,000</td>
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<tr>
<td>United</td>
<td>54,000</td>
<td>55,000</td>
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<tr>
<td>Delta</td>
<td>35,000</td>
<td>51,000</td>
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<tr>
<td>Continental</td>
<td>15,000</td>
<td>40,000</td>
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<tr>
<td>Southwest</td>
<td>0*</td>
<td>35,000</td>
</tr>
<tr>
<td>Northwest</td>
<td>10,000</td>
<td>31,000</td>
</tr>
<tr>
<td>U.S. Airways</td>
<td>9,000</td>
<td>36,000</td>
</tr>
<tr>
<td>JetBlue</td>
<td>0</td>
<td>12,000</td>
</tr>
<tr>
<td>AirTran</td>
<td>0</td>
<td>9,000</td>
</tr>
<tr>
<td>Alaska</td>
<td>1,000</td>
<td>10,000</td>
</tr>
</tbody>
</table>

* Intrastate Airline

Source: US DOT
Some Comparisons For Airline Pilots Salaries 2007

Airline Pilots, Co-pilots and Flight Engineers are one of the very highest paid occupations. (Only CEO’s and some Medical Specialties Earn More):

$ 148,810

Comparisons:

- CEO’s $ 151,370
- Psychiatrists $ 147,620
- General Dentists $ 147,010
- Lawyers $ 118,280
- Air Traffic Controllers $ 107,780
- Commercial Pilots $ 71,270
- Locomotive Engineers $ 63,180
- Captains, Mates, Pilots Water Vessels $ 62,720

Source: U.S. BLS data for 801 occupations
Some Comparisons for Flight Attendants
Salaries 2007

Comparisons:

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Salary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flight Attendants</td>
<td>$ 62,880</td>
</tr>
<tr>
<td>Registered Nurses</td>
<td>$ 62,480</td>
</tr>
<tr>
<td>High School Teachers</td>
<td>$ 52,450</td>
</tr>
<tr>
<td>Police and Sheriffs Patrol Officers</td>
<td>$ 50,670</td>
</tr>
<tr>
<td>Personal Care and Service Occupations</td>
<td>$ 23,980</td>
</tr>
</tbody>
</table>

Source: U.S. BLS data for 801 occupations
Deregulation Impacts on Airlines and Labor are Still Unfolding

• Passenger Industry has Two Business Models – Legacy Network Carriers and Low Cost Carriers

• Network Carriers Under Enormous Domestic Pressure
  • Years of Losses
  • Loss of $12 Annual High End Business
  • Costs Climbed Dramatically Pre 9-11 Just as Revenues Fell Steeply
  • 25% Cost Gap That Is Not Closing
  • Shrinking Market Share
  • Regionals Flying More Than Mainline
  • 80% Exposure to LCC’s

• LCC’s Driving The Domestic Industry
  • All U.S. airline growth since 2000
  • Market share increasing faster
Network Airlines’ Ongoing Reactions

• Network Airlines Focused on Their Core Strengthen: Hub-and-Spoke Systems

• Regional Partners and Smaller Markets, Very Important to Their Systems

• International Expansion Another Piece of the Network

• Object is Maximize the Network Strengthen
Network Airlines’ Ongoing Reactions (cont).

- International Partnerships and Potential Ownership Part of the Strategy

- International Opportunities for Network Airline Labor
  - Growth and Expansion
  - Efficiency and Competitiveness
  - Refuge from LCC’s
  - Potential Source of Capital
  - Potential Source of Funds for Struggling Airlines
  - Protectionism Can Only Help in the Short Run and Harm in the Long Run
Concern With International Liberalization

- Reasons For Concern:
  - More Complex Than Domestic Deregulation Which was Disruptive
  - Untested Concept
  - 2008 DHL Collapse (9,500 jobs lost)

- Factors Limiting Foreign Labor Substitution:
  - Immigration Laws and Large Domestic Hub-and-Spokes
  - High Efficiency of Workers
  - Comparable Wages
  - High Skill Sets
  - Union Contracts and Strength
  - Strike Threats
  - 2008 DHL Collapse (Domestic Competition Very Formidable)