

## Deregulation Hasn't Concentrated Airline Power, Analysis Shows

Twenty years after U.S. airlines gained the freedom to expand, merge and go after the competition, power is no more concentrated now than it was then, according to an analysis by Northwestern University economics professor Robert Gordon. Many of the airline "myths" that have evolved during the last two decades are unfounded when today's data are compared with those from 20 years ago, Gordon said. "The identity of the airlines that dominate today's hubs shows surprising similarity, and the evolution to this point can be traced back to each airline's roots in the 1930s." Major hubs for both United and American, he notes, are built around their original routes of 60 years ago.

The industry appears more concentrated today. But the percentage of domestic traffic flying on new entrants since deregulation is higher than it ever was, according to Gordon, who prepared the analysis for a George Washington University seminar on airline economics. "If you make just one adjustment, allocating Pan Am's 1978 traffic to United and Delta, which later purchased Pan Am's route rights, the structure of the U.S. airline industry looks remarkably similar to 1978, even though the surviving carriers are on average three or four times larger than in 1978," Gordon told *The DAILY*. He justified the Pan Am adjustment because the end-to-end link between Pan Am's international routes and the domestic networks of Delta and United did not reduce competition, but in fact allowed those carriers to compete more effectively with foreign carriers operating their own-hub-and-spoke systems.

In 1998, the top two carriers have a 37.7% market share, compared with 38% in 1978, factoring in the Pan Am adjustment. The top 12 airlines today have 96.2% of the U.S. market, compared with 95.3% in 1978. Even excluding Pan Am, the top-12 comparison is 96.2% today versus 94.1% in 1978. The biggest change in structure during the period has been the demise of three of 1978's top eight airlines — Pan Am, Eastern and Braniff. United swallowed up Pan Am's Pacific division, its London Heathrow operation and many Latin American routes. Its 20% market share today compares with 17.7% in 1978.

### 'History And Hinterland'

"The identity of today's dominant hub carriers can be traced to two main factors — history and hinterland," Gordon said. In the 1930s, Northwest flew north across the U.S. to Seattle via Minneapolis; United flew to San Francisco through Chicago and Denver; TWA went southwest to Los Angeles through St. Louis and Kansas City, and American went farther south to Los Angeles through Dallas. In recent years, American acquired Braniff's Latin American routes and expanded when Eastern and Pan Am left Miami and Braniff exited the Dallas market. American's share today is 17.7%, versus 12.6%. Delta, which took over Pan Am's Atlantic routes and grew quickly after Eastern left Atlanta, has a 16.5% market share this year, compared with 10.1% in 1978. The gain was due mostly to merging with Western Airlines. But according to Gordon's analysis, 33 airlines currently fly more than 100 million revenue passenger miles annually, up from 28 in 1978.

"It's a myth that the route networks of 1978 provided linear point-to-point service rather than being based on hubs," Gordon said. There were nine interior hubs in 1978, seven of them with at least 100 daily departures. "These were hubs with missing spokes, which deregulation allowed airlines to fill in, thus eliminating inconvenient and unreliable interline connections," he said. "On a route-by-route basis, the number of effective competitors has risen, because the average customer has a choice of several hubs." Despite the myth of fewer nonstops and more connections, Gordon said many more nonstops have been added than dropped, and smaller cities have much more frequent service than they ever did. He cited a 4 p.m. Delta departure from Charleston that has one-stop connections in Atlanta to 94 cities worldwide.

"Carriers with the densest route network between their hub and the local hinterland were able to create the strongest hubs of today," Gordon said, citing Delta's growth in Atlanta from 279 daily flights in 1978 to more than 600. "The carrier that controls the short-hauls to small and medium towns around a potential hub will wind up dominating that hub," he said. He pointed to the strength of Allegheny, now US Airways, which pushed TWA out of Pittsburgh and Philadelphia; Piedmont (merged into US Airways), which forced Eastern out of Charlotte, and Southern (merged into Northwest), which replaced Delta as the dominant carrier in Memphis. "This inland hub expansion also doomed airlines dependent on coastal gateways, namely Pan Am and TWA," he added.

"Overall, the development of large competing hubs, each serving many of the same spoke cities, has provided a massive improvement in nonstop flights and service frequency for hub residents," Gordon concluded, "while residents of spoke cities enjoy more competition, more alternative routings and greater frequency than with the arbitrary route system of 1978."