

## AFD Ep 310 Links and Notes - Airline Bailouts and Deregulation

- the post 9/11 airline bailout (Rachel)

<https://www.cbsnews.com/news/9-11-airline-bailout-so-who-got-what/>

- \$5 billion was earmarked for direct payments to stabilize the nation's air transportation system.
- For example: \$20 million was shoveled to three bankrupt airlines like Vanguard, Midway, and Reliant. Nearly \$165 million went to package-delivery companies. Another \$5 million went to helicopter companies that, among other things, ferry workers to oil rigs and run tours to the Grand Canyon. Even three companies that arrange travel from the U.S. to Cuba cashed in.

<https://mckinneylaw.iu.edu/ilr/pdf/vol36p367.pdf> Margaret M. Blair

[From the conclusion]: The problem, however, is that the airline transportation system is made up of individual airlines. So any decision to subsidize or shore up the industry as a whole must either grapple with the question of how to subsidize the industry in a way that is neutral as to which airlines get the benefit of the subsidy, or it must pick "winners and losers" by subsidizing some more than others. The Air Transportation Safety and System Stabilization Act proposed to do some of both. The cash grants and insurance subsidies probably operated in a neutral way because they were available to all airlines the same terms, and on a more-or-less prorata basis according to the volume of business each airline did prior to September 11. Yet the loan guarantee part of the Act required case-by-case negotiations over terms, which inevitably forced the Air Transportation Stabilization Board into the role of deciding which airlines were worth saving, and on what terms. For This reason, the loan guarantee part of the Act was the most controversial from the beginning, and the Bush Administration, which was called upon by Congress to administer the ATSSSA, actively resisted playing the role of banker. So far, the loan guarantees actually approved by the ATSB suggest that the policy of the Board is to demand terms that are nearly as stringent as (and maybe more stringent than) the airline would face in the private financial markets. The guarantee granted to America West required a restructuring of claims against the company comparable to what might have been required in a Chapter 11 restructuring. The offer of a loan guarantee for US Airways did not keep this airline out of bankruptcy, and it remained unclear as of early November whether the airline would be able to re-emerge from bankruptcy, even with a federal loan guarantee. Meanwhile, United Airlines was unable to muster a sufficient amount of concessions from its unions and creditors to satisfy the ATSB and was compelled to file for bankruptcy after the ATSB denied its loan guarantee request.

So far, the loan guarantees that have actually been provided by the ATSB appear to have been little more than substitutes for Chapter 11. Thus, in practice, they have mostly provided a symbolic subsidy, not a real one. Yet the cash payments doled out last fall were real, and the promise made last fall of further subsidies, though perhaps only symbolic, probably had real effects. Given the negative connotations and sense of failure associated with reorganization through the bankruptcy courts, it was probably useful symbolically last fall to offer airlines an alternative approach to restructuring that does not carry the stigma of bankruptcy. The ATSSSA has done that. It remains to be seen whether the ATSB can respond to the applications it has received, and still manage to get out of the way

and let the airlines reorganize themselves to serve a more cautious, price-conscious market in a way that allows them to make a profit and stay in business.

Between 2000 and 2005 US airlines lost \$30 billion with wage cuts of over \$15 billion and 100,000 employees laid off.

- the recent covid-19 airline bailouts (Kelley)
  - USA:
    - As Tim Wu, author of *The Curse of Bigness: Antitrust in the New Gilded Age*, wrote in the *New York Times*: “The major airlines know that unlike a local restaurant, they will never be allowed, collectively, to fail completely. In practice, the public has subsidized the industry by providing de facto insurance against hard times in the form of bailouts or merger approvals. And now here we go again.”
    - Yes, the pandemic and huge reductions in air travel have put the airlines in a vulnerable position, but airlines have also spent billions on stock buybacks and sending dividends to shareholders in recent years, leaving them even more vulnerable in this type of downturn. The US’s biggest carriers spent [96% of available cash on stock buybacks](#) in recent years. Additionally, top executives at places like American Airlines have seen huge increases in pay and front line workers saw very little of the increase in profits.
    - [From WaPo](#): “From 2014 through 2019, United spent a total of \$8.57 billion for stock buybacks and paid no cash dividends. Southwest spent \$8.53 for buybacks and \$1.38 billion for dividends, for a total of \$9.91 billion. American spent \$11.895 billion for buybacks and \$1.064 billion for dividends, for a total of \$12.959 billion. Delta spent \$10.08 billion for buybacks and \$3.168 billion for dividends. These numbers, which come from the companies’ SEC filings, total \$39.076 billion for buybacks and \$5.612 billion for dividends. This means the airlines sent a combined \$44.688 billion to Wall Street, which is about 90 percent of the proposed \$50 billion bailout fund for the whole airline industry.”
    - Twenty-five billion in [Payroll Support Program](#) to airlines is exclusively to pay employees - 70% if grant funding and 30% is a low interest loan. Airlines must retain at least 90% of their workforce through September. In exchange, [US government secured warrants](#) for the stock and could end up with 3% of American Airlines, 2% of United, 1% each of Delta and Southwest. On top of this, there is another \$25 billion in loans allocated to the airline industry to cover costs and expenses besides payroll.
    - It’s unclear if bailouts are even enough to save the airline industry. The [flight attendant union](#) predicts that airlines will still go bankrupt. And what’s supposed to happen to airline workers after their jobs are no longer protected by the bailout?
    - Would [Chapter 11 bankruptcy](#) be a better option? It could keep employees employed while forcing airlines to restructure into more sustainable organizations and would have fewer benefits to equity groups and investors?
    - P.S. Flying near-empty “ghost flights” seems like a bad idea.
  - Europe:

- [European Airline Bailout Tracker](#) : Large bailouts being made across Europe, mostly in the form of loans and loan guarantees.
- [Lufthansa / Germany](#) : Germany received a 20% stake in the company and veto power in the case of a hostile bid in return for a loan and an injection of capital. The goal is to prevent a takeover of the airline. Germany plans to sell back the shares and turn a profit for the German people once the airline is on more solid footing.
- [Alitalia / Italy](#) : Perhaps the most drastic assistance to an airline has been Italy's plan to re-nationalize Alitalia. Alitalia hasn't made a profit since 2002, declared bankruptcy in 2017 and has been run under state administration while looking for a buyer. Airlines aren't super attractive investments right now, so the Italian government stepped in to takeover and re-launch Alitalia. There are unresolved questions about how the state will address the lack of efficiency that caused the airline to file for bankruptcy in the first place.
- [Air France / France](#): France [flirted with nationalization](#) of the airline, but landed on a loan and state-guaranteed funds with some requirements to reduce emissions, although green activists say there is not enough accountability or transparency around measuring those requirements.
- European Union has restrictions on nationalization of companies as it can introduce an unfair market advantage.
- General Thoughts:
  - In a hurry in the middle of a pandemic is a challenging environment in which to make meaningful regulations, and the US Congress (and governing bodies across the globe) failed at this and offered some of the [sweetest deals to airlines](#). In fact, in the US
  - However, these bailouts are an opportunity to get something in return for the people (taxpayers) bailing out corporations. One of the things government should be requiring is [a decreased carbon footprint](#) from the airline industry that is becoming the fastest-growing source of carbon emissions.
- airline deregulation in general (Bill)
  - [https://en.wikipedia.org/wiki/United\\_States\\_government\\_role\\_in\\_civil\\_aviation](https://en.wikipedia.org/wiki/United_States_government_role_in_civil_aviation)
    - A great deal of early industry standardization (safety) and infrastructural investment in the US civil air industry was done by the US Postal Service and the Commerce Department (including building a network of lighted airfields and radio beacons across the whole country)
  - Civil Aeronautics Board (1938-1985): [https://en.wikipedia.org/wiki/Civil\\_Aeronautics\\_Board](https://en.wikipedia.org/wiki/Civil_Aeronautics_Board)
    - Regulated which routes (across state lines or out of the country) could be used by which airlines
    - Regulated (minimum or maximum) prices to be charged on each route
  - Airline Deregulation Act of 1978: [https://en.wikipedia.org/wiki/Airline\\_Deregulation\\_Act](https://en.wikipedia.org/wiki/Airline_Deregulation_Act)
    - Check out this absurd quote from Justice Stephen Breyer in Businessweek in 2011: *What does the industry's history tell us? Was this effort worthwhile? Certainly it shows that every major reform brings about new, sometimes unforeseen, problems. No one foresaw the industry's*

*spectacular growth, with the number of air passengers increasing from 207.5 million in 1974 to 721.1 million last year. As a result, no one foresaw the extent to which new bottlenecks would develop: a flight-choked Northeast corridor, overcrowded airports, delays, and terrorist risks consequently making air travel increasingly difficult. **Nor did anyone foresee the extent to which change might unfairly harm workers in the industry.** Still, fares have come down. Airline revenue per passenger mile has declined from an inflation-adjusted 33.3 cents in 1974, to 13 cents in the first half of 2010. In 1974 the cheapest round-trip New York-Los Angeles flight (in inflation-adjusted dollars) that regulators would allow: \$1,442. Today one can fly that same route for \$268. That is why the number of travelers has gone way up. So we sit in crowded planes, munch potato chips, flare up when the loudspeaker announces yet another flight delay. But how many now will vote to go back to the "good old days" of paying high, regulated prices for better service?*

<https://www.bloomberg.com/news/articles/2011-01-20/airline-deregulation-revisitedbusinessweek-business-news-stock-market-and-financial-advice>

- Most of the stated rationale for adopting the Airline Deregulation Act makes very little sense. The comparison to recent rail bankruptcies and the necessary formation of Amtrak is nonsensical because airline passenger revenues fell sharply once price regulation was removed. The belief that more competition and new carriers operating in different markets would end hub dominance was also proven wrong as hub-and-spoke became vastly stronger and regional market domination by specific carriers grew. (Prices overall dropped but quite inconsistently because of some of these de facto regional monopolies.)
- From 1978 to just pre-9/11, 8 major carriers went bankrupt and disappeared, 100 minor carriers were liquidated or went bankrupt (including a lot that launched after deregulation) ... also all of the other "legacy" carriers from the pre-deregulation era eventually did go bankrupt at some point after the year 2000 even if they didn't disappear, often as a pretext for breaking and renegotiating union contracts. See also: [https://en.wikipedia.org/wiki/Airline\\_deregulation](https://en.wikipedia.org/wiki/Airline_deregulation)
- Essential Air Service government subsidies for rural flight provision was supposed to last 10 years and continues to present-day (because obviously the free market can't provide those services!) despite conservative think tank efforts to just push the hundreds of millions of dollars in subsidies onto states or counties (also obvious is that actual conservative politicians from rural areas largely favor keeping them) [https://en.wikipedia.org/wiki/Essential\\_Air\\_Service](https://en.wikipedia.org/wiki/Essential_Air_Service)
  - Connor Wroe Southard published a short piece about the experience of flying the subsidized United Airlines route from Denver to Laramie Wyoming <https://medium.com/san-antonio-stories/united-is-already-nationalized-in-wyoming-67de9761d1ea>
- Comparative politics: Many airlines around the world are state-owned [https://en.wikipedia.org/wiki/Flag\\_carrier#List\\_of\\_flag-carrying\\_airlines](https://en.wikipedia.org/wiki/Flag_carrier#List_of_flag-carrying_airlines)