Major US airlines investigated for collusion and price-gouging

Gabriel Black
11 July 2015

The United States Justice Department (DOJ) has begun investigating allegations of collusion between the major US airlines. They are suspected of deliberately stopping expansion in order to limit seats on airline flights, which is driving up prices for customers and restraining competition, all at the expense of the flyer.

At last month's annual meeting of the International Air Transport Association (IATA), where airline bosses from around the world mingle, the *New York Times* reported that the "buzzword" of the conference was "discipline."

Statements at the conference suggested that airlines were working together to severely limit expansion. Delta Airlines CEO told the audience that his airline was "continuing with the discipline that the marketplace is expecting." Air Canada's CEO stated, "People were undisciplined in the past, but they will be more disciplined this time."

Companies that did not follow suit, such as Southwest Airlines, which announced an eight percent expansion a few months ago, were sharply criticized. In response to the criticisms, Southwest shelved its growth plans.

Senator Richard Blumenthal (D-Conn.) who, following the *Times* article, urged the Department of Justice (DOJ) to intervene, told the press, "The conclusion seems inescapable that the remarks made at the IATA conference were targeted at Southwest, and that its capitulation was the result of the 'fire' aimed at the company."

He added, "Consumers are paying sky-high fares and are trapped in an uncompetitive market with a history of collusive behavior."

Blumenthal also quoted a previous DOJ complaint surrounding the merger of US Airways and American Airlines in 2013, a merger the DOJ ultimately supported. The complaint stated, "The structure of the airline industry is already conductive to coordinated behavior … the legacy airlines closely watch the pricing moves of their competitors. When one airline 'leads' a price increase, other airlines frequently respond by following with price increase of their own. ... Coordination becomes easier as the number of major airlines dwindles and their business models converge."

The conditions prevailing in the airline industry are not a recent development. They are the result of a decades-long process of deregulation and monopolization that the DOJ has played a central role in facilitating.

The ruling class has always treated the airline industry as the pioneer in deregulation and labor disciplining. In 1977 to 1978, Alfred Kahn, the chairman of the now defunct Civil Aeronautics Board (CAB), began deregulating the industry. Kahn, a liberal Democrat, was appointed by Jimmy Carter.

With enthusiastic support from Senator Edward Kennedy, the Carter administration expanded the deregulation campaign. The CAB, which used to regulate airfare costs for consumers, was scrapped, paving the way for the current scheme that allows the major airlines to price-signal, to keep service low and prices high.

It was the Democratic Carter administration which drew up plans for breaking the power of the air traffic controllers' union, PATCO, implemented in August 1981 by Republican President Ronald Reagan, with support from the Democratic-controlled House of Representatives.

The smashing of PATCO was a turning point in class relations in the United States. Employers everywhere went on the offensive against labor, pushing for concessions and austerity contracts. Airline workers struck against these proposed contracts but were isolated by the AFL-CIO and defeated at Continental Airlines (1983), United Airlines (1985), TWA (1986) and Eastern Airlines (1989).

Like many other industries, the airline industry faced declines in their profit rates. To preserve themselves, they not only cut wages and benefits, but also merged with each other, becoming larger and larger conglomerates.

Today, one sees the outcome of this process. Four airlines—Delta, Southwest, American and United—control 80 percent of the US market. In the past 13-14 years, there have been a wave of bankruptcies: United (2002), Northwest (2005), Delta (2005), US Airways (2002 and 2004) and, most recently, American (2011). With each bankruptcy comes a new opportunity to slash workers' wages, release obligations to pensions and benefits, and further consolidate the industry.

The DOJ, for its part, has allowed this consolidation to go forward, with only minor criticisms not intended to stop the general process. The federal government under both Democratic and Republican administrations, as well as the Congress, have given free rein to the airline industry to make profits at the public expense.