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Do Dominant Hubs Boost Regional Economies?

It has been generally accepted that having a major airline hub is essential to the well being of the economy of metro areas such as Pittsburgh. The rationale goes something like this. First, the presence of a dominant hub carrier means there are several thousands more jobs than would exist absent the hub. Second, the presence of the dominant carrier means there are non-stop flights to perhaps as many as 100 destinations making the region more attractive to businesses that place a premium on having non-stop travel to many locations.

But let's look at the role of fortress or dominant hub carriers from another angle. The logic above would suggest that economic growth should be faster in areas with dominant hub carriers (over 50 percent of market) compared to regions without such airlines. However, an examination of several metro areas with hub carriers and several without hub carriers shows very clearly that the presence of a hub airline does not go hand in hand with strong economic growth. Indeed, many faster growing areas do not have dominant carriers while the cities with dominant hubs have shown very slow job gains.

Our sample of dominant hub cities includes Pittsburgh, Cincinnati, St. Louis and Cleveland. The non-hub cities include Austin, Richmond, Columbus, Nashville, Phoenix and Las Vegas. Job gains in the hub cities averaged 9.9 percent from 1990 to 2002. Employment growth in the non-hub cities averaged 44.9 percent over the same period. We did not include the 91 percent jump in Las Vegas in the non-hub average because of the set of extremely unique factors driving that area's tremendous growth.

The obvious conclusion is that non-hub cities (metro areas) can grow extremely well with relative few non-stop destinations and airport jobs compared to the situation at cities with a dominant hub carrier. Indeed, in these cities passenger traffic has been driven by the economic gains in the community. Moreover, all of the non-hub airports tend to have a large number of airlines who divide up the traffic. Consider Austin with its employment growth of 69 percent (270,000 jobs) in the 12-year period. There are 12 carriers at Austin's airport serving just 33 non-stop destinations. Southwest, the largest service provider at the airport, accounts for about one third of the traffic.

While the relationship of faster growth to the absence of a hub is compelling, it does not necessarily reflect a causal relationship. It merely suggests that rapid gains are possible

without a hub and that the presence of a hub is no guarantee of substantial job creation. There are many factors specific to each area that drive or restrain economic growth.

Another important element characterizing most of the non-hub airports in our sample is that they have a significant presence by Southwest Airlines or another low cost carrier. Unfortunately, many of these carriers will not go heavily into markets such as Pittsburgh where there is a fortress hub. It is not economical to challenge a carrier with flights to 100 destinations who will attempt to hold on to passengers by matching the low cost carrier's fare.

What does all this suggest for Pittsburgh International? The guiding principle the Pittsburgh region should take in positioning the airport is very simple-- Where do we want to be in three to five years? Would we better off with a Columbus or Nashville situation with many competing airlines providing good service to the local community or remain stuck with a problematic fortress hub carrier who keeps competition out?

Ideally, we could have the best of both worlds. In such a scenario, USAirways and the new MidAtlantic regional jet airline would maintain a substantial presence at Pittsburgh International but would not be the dominant airline we have today. With cutbacks at USAirways, opportunities would arise for new carriers to come in and establish market share. Competition would increase and consumer choices would be expanded. It might even be possible to grow local originating traffic by attracting passengers back to Pittsburgh from Cleveland and induce some of the folks who drive to places such as Harrisburg and Washington to fly instead.

Obviously, creating such a desirable outcome is tricky. For one thing, it will probably not occur until costs at the airport are lowered, primarily through a reduction of the enormous annual debt service at the facility. Moreover, transitioning from having a dominant hub carrier to merely having a sizable hub carrier will bring some short-term pain. There will be further cutbacks in employment. And while new airlines entering the market would add workers, they are unlikely to hire enough to offset the cuts at USAirways, at least not for some time. However, as we become known as a place where a variety of airlines are producing competitive pricing, the airport could become an enormous asset in promoting economic growth in the region.

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