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Taken for a Ride by USAirways

Will government officials ever learn that lavishing tax dollars on firms is not an antidote for market trends? It seems a simple lesson, but one that permanently escapes them. The Pittsburgh region suffers dreadfully from this affliction as demonstrated by the subsidies for a department store (the now defunct Lazarus), shopping centers (the struggling Pittsburgh Mills complex), and professional sports teams among many other examples.

Still, the most galling case is the region's support for USAirways over the years. Allegheny County built the airport facility, designed to accommodate 50 million passengers per year, largely to house the USAirways hub and the anticipated surge in traffic through the airport. Unfortunately, passenger traffic never substantially surpassed the approximately 20 million achieved during the first year of operation at the new facility. However, USAirways dominance in Pittsburgh did increase and its monopoly status produced some of the highest airfares in the country.

Almost continuous financial problems arising out of extraordinarily high costs at the airline finally led to bankruptcy in 2002 and again in 2004. Those bankruptcies eventually resulted in a merger and a dramatic drop in the airline's presence at Pittsburgh International Airport with flights falling precipitously from well over 500 per day to just over a hundred currently. USAirways employment in the region fell in concert with the decline in flights from 12,000 in 2001 to below 3,000.

The large drop in flights has significant negative financial implications since the construction bonds are paid for, in part, by landing fees. As a consequence, the Airport Authority has asked for and received a promise of $15 million in gaming tax revenue to help meet debt obligations. That is $15 million that could be used for other purposes including tax relief.

And USAirways has the temerity to ask for more assistance to build a new flight operations center. This time the airline disguised it as a "competition" between Pittsburgh (who already had US Airways' flight operations center), Phoenix (the home to the smaller America West flight operations center), and Charlotte. The County Executive and Governor responded by offering the airline substantial subsidies for the $25 million operations center and "won" the bid despite higher subsidies being offered by Phoenix (Charlotte's bid was never revealed). At the time news reports lauded the announcement in early 2007 as saving 450 local jobs with the possibility of adding another 150.

The problem is that the “competition” was almost certainly a ruse. Moving the heart of the operations system on the fly is clearly impossible. To move the center during operations would have required creating a parallel system at great cost.

Now, conveniently after the local assistance package for the flight operations center was in hand, the airline announced another large round of flight cuts, lowering local daily flights from 108 to 68 starting in January 2008. The flight reductions will be accompanied by an additional 450 local jobs being lost and the relocation of 500 pilots and flight attendants. This brings US Airways employment levels in the region to 1,800—a drop of 85 percent in employees over the last six years. So the more than $16 million in subsidies used to guarantee 450 flight operations jobs, for which ground was also broken in September, will not offset the loss of 450 jobs and the relocation of 500 others.

This action has extensive ramifications. Pittsburgh International will no longer be a major player in the carrier’s flights. It was stripped of its “hub” status to one of a “focus city” and that standing is now in danger. And that means the prospects for the resumption of international flights have dwindled even further. Without a significant hubbing operation, there simply will not be enough passengers in the Pittsburgh market to justify such flights. How much damage that will do to industrial recruitment remains to be seen.

And that may not be the last of the reductions. When asked if this is the last of the cuts, airline CEO Doug Parker responded, “you never say never.” His comments were met by resignation from Allegheny County Chief Executive Onorato who commented “the flying public makes that decision. I wouldn’t hold my breath until they figure out how to be competitive in Pittsburgh.”

The ongoing USAirways saga should be an object lesson for government officials. Stop using taxpayer money to support private firms in decisions that are not financially viable absent the subsidies. It is far better to keep taxes low and create a favorable labor climate. But of course if those were present, all this doling out of subsidies would not be necessary to persuade companies to invest in the region and state.

Frank Gamrat, Ph.D., Sr. Research Assoc. **Jake Haulk, Ph.D., President**

Allegheny Institute for Public Policy
305 Mt. Lebanon Blvd.* Suite 208* Pittsburgh PA 15234
Phone (412) 440-0079 * Fax (412) 440-0085
E-mail: aipp@alleghenyinstitute.org