1965

Effects of major airline fare structure changes 1957-1964

Samuel Oakley Raffety

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EFFECTS OF MAJOR AIRLINE FARE STRUCTURE CHANGES
1957-1964

by
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B.A., Montana State University, 1938

Presented in partial fulfillment of the requirements for the degree of
Master of Science
MONTANA STATE UNIVERSITY
1965

Approved by:
Chairman, Board of Examiners
Dean, Graduate School
Date
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CHAPTER I

I. INTRODUCTION

Since 1957 the level of fares offered by the domestic trunk airlines has increased several times. During this period these airlines have changed their basic fare structure, consisting of first class and coach, by the introduction of several fare discounts and the addition of new classes of service. To a certain extent these changes have offset the fare level increases.

In this paper the major fare discounts and new classes of service used during the period 1957-1964 are examined to determine their effects with regard to revenue diversion, traffic increases, long term versus short term effects, and intra-industry price competition.

Airline pricing is regulated by the federal government and, to a certain extent, is also influenced by general economic conditions. Because of the importance of these two factors to this study, the following review of each is presented, prior to an explanation of the fare discounts and new classes of service examined.

II. GOVERNMENT REGULATION OF THE AIRLINES

Civil Aeronautics Act of 1938. The trunk airlines of the United States are regulated by the government under provisions of the Civil Aeronautics Act of 1938, and subsequent changes and additions to the Act. This Act provides public utility type control over the
air transport industry. As this control extends to pricing, it is necessary to present a brief review of the regulatory environment under which the airlines must prepare and present their tariffs. Economic regulations of the Act are administered by a five man Civil Aeronautics Board. Title I of the Act sets forth a general declaration of policy designed to guide the Board in determinations of public interest or of public convenience and necessity. As this section of the Act contains inter-related parts it is presented in full:

In the exercise and performance of its powers and duties under this Act, the Board shall consider the following, among other things, as being in the public interest, and in accordance with public convenience and necessity:

(a) The encouragement and development of an air-transportation system properly adapted to the present and future needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the national defense;

(b) The regulation of air transportation in such manner as to recognize and preserve the inherent advantages of, assure the highest degree of safety in, and foster sound economic conditions in, such transportation and to improve the relations between, and coordinate transportation by, air carriers;

(c) The promotion of adequate, economical, and efficient service by air carriers at reasonable charges, without unjust discriminations, undue preferences or advantages, or unfair or destructive competitive practices;

(d) Competition to the extent necessary to assure the sound development of an air-transportation system properly adapted to the needs of the foreign and domestic commerce of the United States, of the Postal Service, and the national defense;

(e) The promotion of safety in air commerce; and

(f) The promotion, encouragement, and development of Civil Aeronautics.

Procedures Regarding Airline Pricing. In general, the airlines are required by the regulations of the Civil Aeronautics Act to publish tariffs (rates) and abide by such rates. Proposed changes in rates are subject to suspension by the CAB, if they are deemed to be unjust or unreasonable, or unjustly discriminatory or unduly preferential. In such cases the Board may determine and prescribe the lawful rate (or the maximum or minimum, or both.)\(^2\) The CAB is also empowered to change an existing tariff, when in its opinion the tariff is unjust or unreasonable, or unjustly discriminatory, or unduly preferential.\(^3\) Factors the Board takes into consideration when evaluating an airline tariff are: effect on traffic, public need, quality of service, the inherent advantages of air transportation, and carrier revenue requirements.

Role of CAB. The Civil Aeronautics Act of 1938 provides the regulatory basis upon which the CAB is authorized to control airline pricing. The Board is empowered to perform primarily an overseeing function in the rate and fare field, while the primary initiative for price policy rests with the carriers.

In practice, the CAB has been mainly concerned with three possible results of airline pricing. These are excessive competition, excessive discrimination, and excessive profits. The Board has on occasion refused to permit specific airline fares that it believed would result


\(^3\)Ibid.
in any of these excesses. It has permitted the airlines to publish various fare discounts and new fares when it was of the opinion such discounts and fares would promote air travel without causing undue competition, discrimination, or profit.

III. ECONOMIC BACKGROUND

**Price Increases.** Since 1957, there has been a general rise in the prices of goods and services within the United States. The consumer price index has risen from 98.0 in 1957 to 106.7 in 1963. Airline prices have not been an exception to this trend. During this period the CAB has been under pressure by the airlines several times to permit higher fare levels. As a result, the CAB has permitted fare levels to be increased five times. The dates and extent of these increases are as follows:

February 10, 1958. Domestic passenger air fares were increased about 6.6 per cent. The actual increase was a flat 4 per cent plus $1.00 per ticket. For several years prior to this increase, the CAB had followed a hold-the-line passenger fare policy for the unsubsidized trunk carriers.

October 20, 1958. This was the second fare increase of 1958. The CAB accepted filings by the domestic trunk carriers to eliminate or reduce certain fare discounts, which resulted in an additional rise of approximately 3.5 per cent in fare levels. Discounts on round, circle, and open jaw trips were eliminated.

July 1, 1960, general passenger fare increase. An increase in passenger fares of 2.5 per cent plus $1.00 per ticket, or about a 5 per cent increase, was approved by the CAB. In approving the increase, the Board expressed
the belief that the resulting increase in revenues would permit the domestic trunk carriers to achieve a reasonable return on investment over a reasonably extended period in the future.

September 29, 1960. Long distance domestic jet fare increase. The CAB approved increases ranging from 7.5 to more than 17 per cent in domestic coach fares on long-distance jet flights. American, United, Trans World, Northwest, and Continental proposed these fare increases in an attempt to check the diversion from first-class to coach that had been a developing trend on mixed-class jet flights. These increases raised jet coach fares to 75 per cent of the first-class jet fare level. These increases were put into effect between Oct. 1 and Oct. 7, 1960.

February 1, 1962. Domestic Fares increased 3 per cent. To improve carrier earnings, the CAB permitted a temporary 3 per cent domestic passenger fare increase, applicable to trunk and local carriers, to be effective from Feb. 1 through July 31, 1962. (On Aug. 1, 1962, this 3 per cent increase in domestic fares was permitted to be continued indefinitely.)

Airline Economic Problems. During this period of generally rising prices, the airlines experienced two economic problems peculiar to their industry. One was a sudden increase in operating costs, caused by the high cost of purchasing and operating jet planes. These planes were developed by the United States government for military purposes, and were adapted by the airlines to domestic passenger service.

The other economic problem peculiar to their industry faced by the airlines was that of excess capacity, or too many seats offered for sale. This was in part a result of an unexpected decrease


in the growth pattern of the airline market. While traffic had increased at the rate of 12 to 15 per cent annually in the early 1950's, it had an average increase of only 4.5 per cent yearly between 1957 and 1961.\(^7\) This was during the same period that the larger and faster jet planes were introduced by the airlines. These two factors combined to cause a disparity between the number of seats provided and the number of passengers using the seats.

During most of this period the trunk airlines as a group experienced a low profit level as compared to other industries. They operated six consecutive years with earnings well below the required level as determined by the CAB, and in 1961 they recorded a loss of $31,780,003.\(^8\) In an effort to improve their profit levels, the airlines experimented with a number of fare discounts and new classes of service. The nature and results of the most important of these fare experiments are examined in this study.


\(^8\)Facts and Figures, loc. cit.
CHAPTER II

FARE DISCOUNTS AND FARE STRUCTURE CHANGES USED BY

THE DOMESTIC TRUNK LINES 1957-1964

Explanations of the major fare discounts and new classes of service used by the trunk airlines during this period are presented in this chapter. The reasons for their introduction by the airlines are also given.

I. FARE DISCOUNTS

Family Plan Fare. The family-plan fare originally provided that on Monday, Tuesday, or Wednesday a full fare passenger could take with him members of his family at half the first class fare. Thus a man could take his wife and three teenage children for an additional two full fares, or a total of three full fares for the trip as against five fares which would normally be required. A mother, acting as head of the family, could take her teenage children for half fare, paying full fare for herself. No further reduction was given to children under twelve, because they could travel at half fare in any case any day of the week. This fare permitted the full fare member to return or continue his trip on any day of the week, but the family members traveling at half fare were limited to a return trip on Monday, Tuesday, or Wednesday. No additional round-trip discount was given for the return trip family plan tickets, although the regular round-
There were two primary reasons for the introduction of the family-plan fare. First, it was thought the substantial price reduction might induce a vacationing family group to fly instead of traveling by bus, train, or car, or perhaps staying home. A business man traveling on an expense account might take his wife, children, or both with him. In either case new passengers would be gained by the airlines.

The second reason for the family fare was to build load factors during the slack days of the week, which were Monday, Tuesday, and Wednesday, and thus smooth the daily fluctuations characteristic of air traffic.

The family-plan fare has been used continuously by the trunk line carriers since its inception. It is the only fare discount that has been in use during the entire period, 1957-1964. However, several significant changes have been made in the rules affecting this fare. In October, 1955, the effective days for use were changed from Monday through Wednesday to Monday noon through Thursday. This was because Monday had developed into a relatively high traffic day. On October 20, 1958, the amount of the discount for family members was decreased from 50 per cent of first class to 33 1/3 per cent of first class.

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2Ibid.
3Ibid.
class fare. This was an attempt at that time by the airlines to bolster lagging revenues. On July 1, 1960, the limitations on days of use were changed from Monday noon to Thursday noon, with Saturday added.

On March 20, 1963, the trunk airlines again changed the discount rate and the effective days of the family-plan fare. The discount was increased from 33 1/3 per cent of first class for family members to the original 50 per cent. Also, the effective days of the week were increased from Monday noon through Thursday and Saturday, to every day of the week except Sunday. The next and final change to date was in July, 1964. At that time the discount was changed to 25 per cent of both first and tourist classes of service, and the days that it could be used were changed to Monday noon through 6 A.M. Friday.

Youth Fare. The youth fare provided a 50 per cent reduction of first-class fares for persons between the ages of twelve and twenty-one inclusive. Restrictions were that reservations could be made no earlier than three hours before flight departure. Otherwise youth fare passengers could board a flight only in case a passenger holding a confirmed reservation did not use it. On planes having both coach and first-class sections, holders of youth fare tickets would be assigned coach seats. If the coach section was filled, they would be

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1 Handbook of Airline Statistics, op. cit., p. 487.
2 Ibid.
3 Ibid.
4 Ibid. p. 488.
accomodated in the first-class section, providing seats were available in that section. No jet or other surcharge was added.  

The airlines viewed the youth fare as a means of introducing young people to air travel, and of filling seats that would otherwise go empty. It was hoped the 50 per cent reduction would induce young people to fly who would ordinarily use other means of transportation. After they had been acquainted with air travel, it was thought young persons would be more inclined to travel by air again.

The restriction limiting youth fare reservations to not more than three hours prior to flight departure time would give full fare paying passengers ample time to make their reservations. Youth fare passengers would then take seats that would otherwise probably be unused. This would result in extra revenue to the carriers at little extra cost.  

Transcontinental Excursion Fare. This fare provided discounts of approximately 30 per cent of regular coach fare. Limitations were: it applied to round-trip travel only, to transcontinental coach travel only, travel was restricted to departure between Monday noon and Friday noon both for going and return, and the return trip had to be made no less than fourteen days and not more than thirty-one days after the original departure.

The carrier originally filing this fare, TWA, hoped to attract

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10Ibid.
new business from the ranks of vacationists who would otherwise drive across the country. The excursion fare would make it cheaper for these people to fly than to drive. It was thought that the limitations imposed would prevent diversion from regular first-class and coach services. American Airlines and United Airlines followed with similar fares, but filed for defensive reasons. These carriers believed diversion from regular services would occur and requested the CAB to block the plan. The only other transcontinental carrier, Northwest Airlines, did not file these fares.

The CAB viewed the excursion fare as a "promising attempt to stimulate air travel at a time when traffic growth had fallen far behind the increase in seating capacity offered." Consequently it approved the fare, which became effective August 16, 1961, for Trans World Airlines, and August 18, 1961, for American and United Airlines, with an expiration date of December 15, 1961. The CAB directed the three carriers to file monthly progress reports on the excursion traffic.

Military Stand-by Fare. Military stand-by fares equaling 50 per cent of jet coach one-way fares were introduced by the domestic trunk lines during March, 1963. The discount applied to all members

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12 Ibid.
13 Ibid.
of the United States military forces when traveling on furlough, leave, or pass. Military personnel had to be in uniform and had to support their request for the discount by furnishing a copy of their orders or passes. Travel would be on a space available basis, and passengers could be "bumped" at intermediate points enroute to accommodate regular fare paying passengers holding reservations. ¹⁴

In approving the American Airlines' Tariff which originated the fare, the CAB stated that by limiting the availability of the fares to stand-by military passengers in uniform, flights on which load factors had been low should realize a more balanced traffic flow, and the restrictions placed upon the type of passengers and the conditions of travel should minimize undue diversion from normal fare services.

II. NEW CLASSES OF SERVICE INTRODUCED

Chicago-Los Angeles Business-Economy Fares. These fares established two new classes of service, one a jet "business" class, and the other a jet "economy" class. They were introduced by Continental Airlines in the Chicago-Los Angeles market area, which included the cities of Chicago, Denver, Kansas City, and Los Angeles. Both classes of service were provided on the same plane by Continental, along with regular first class, making three classes of service on the same plane.

The business class provided three and two seating at a rate $10.00 above the regular jet coach fare between Chicago and Los Angeles. It was designed to appeal to business men who might be persuaded to

upgrade from coach to a better class of service. Also, many business
and government employees, who are required to travel, are restricted
to the use of air travel at less than first class, if it is available.
A business class, at a higher rate than coach, but less than first
class, could still be used under this restriction by these employees.\(^1\)

The jet "economy" class provided three and three seating at a
rate $20.00 below regular coach fare between Chicago and Los Angeles.
This class provided high density seating and very little free cabin
service for the passengers.

Continental Airlines, originator of these fares, contended they
would provide a market test of the traffic stimulating effects of lower
fares, and would also determine the buying desires of the public in
regard to the business fare. Markets selected represented high density,
highly competitive, and lower density as well as less competitive
routes over short, intermediate, and long haul stage lengths.\(^2\)

These fares were filed by Continental Airlines on August 19,
1962, for use between Chicago-Denver-Kansas City-Los Angeles, all
cities on Continental's route. Similar defensive tariffs were filed by
Braniff, American, Trans World, and United, carriers competing in these
markets with Continental. Eight trunklines, American, Braniff, Delta,
Eastern, National, Northwest, Trans World, and United filed complaints
with the CAB requesting these fares be investigated and suspended. The

\(^1\)"Continental Gets CAB Permit to Test Three-Class Travel Plan

\(^2\)Business and Economy Fares Case, CAB Order Dismissing Complaint
and Denying Motion, No. E-19144, Docket 14190. (Washington, D.C., Civil
complaints were denied insofar as the requested suspension was concerned, and the fares became effective August 24, 1962, with an expiration date of January 31, 1963. Subsequently, on November 19, 1962, claiming more time was needed for an evaluation analysis, Continental requested a one month extension which was granted by the CAB. This time, only Trans World Airlines filed a complaint against the extension.

Again, on January 21, 1963, marked to become effective February 28, 1963, Continental filed a tariff revision with the CAB proposing to extend the expiration date of the business and economy fares for a period of eight months, or until October 26, 1963. Similar extensions were filed by American, Trans World, and United.

Complaints requesting suspension and investigation of the proposed extension were filed by American, Braniff, Trans World, and United. Again the Board dismissed the complaints and permitted the extension. An investigation of the business and economy fares was ordered by the CAB to go forward when traffic and other data became available. Subsequent to the hearing, Continental requested authority to eliminate its business-class compartment. The CAB granted this

17 Ibid., pp. 2-3.


20 Ibid.
authority to Continental on January 21, 1964. Therefore, only the economy fares remained in issue.

In its initial decision following its hearing of the business and economy fares, served December 10, 1964, and effective thirty-one days later, the CAB hearing examiner found these fares not unjust or unreasonable, unjustly discriminatory, unduly preferential, unduly prejudicial, or otherwise unlawful. Final approval, or disapproval, by the full Board has not yet been made. Previous to this finding, on November 20, 1964, the CAB approved a tariff filing by Continental increasing economy fares approximately 5.9 per cent in level. This increased filing was followed by Braniff, United, and Trans World Airlines in these markets.

Single Class Fare. A one-class service was introduced in selected markets by United Airlines in March, 1963. The fares used were 8 to 18 per cent below jet first class and slightly above jet coach fares. The seats were larger and more comfortably spaced than regular jet coach seats. A complete meal and beverage service was offered. There was no partition between cabin areas, thus creating one large passenger area rather than the usual first-class and coach


23 Ibid., p. 1.
sections separated by a curtain. 24

The simplification of fare computations, seat reservations, and check-in procedures resulting from one-class would be of benefit to both the passengers and the airline. Many coach passengers, traveling on two class planes, had expressed a "second class" feeling, regarding their method of travel. By traveling single class, they would have no reason for this complaint. Single-class service was a test by United Airlines of the passenger appeal of this type of service.

In addition to the substantial economies expected from this service, United hoped to stem a swing from first class to coach that was occurring at that time. 25

The other trunk carriers did not join United in the single-class experiment. They chose instead to compete vigorously by aggressively advertising their existing coach services. 26

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25 Ibid., p. 73.
26 Ibid.

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In this chapter an evaluation is presented concerning traffic and revenue results of these changes in the domestic airline fare structure. Elements considered in this evaluation are: diversion, traffic increases, long term versus short term effects on traffic, and intra-industry price competition.

I. FAMILY PLAN FARE

Diversion. The discount allowed, and the days the family fare could be used have been changed from time to time. Diversion caused by the fare varied with the amount of the discount, the classes of service to which it applied, and also with the number of days of the week during which it could be used.

Originally the discount amounted to 50 per cent of first-class fare, and could be used on Monday, Tuesday, or Wednesday. A CAB study of the fare, conducted shortly after its introduction, found that it did not cause substantial diversion from higher priced levels.¹

The changes that have been made in rules concerning this fare were made primarily to stem diversion believed caused by the fare. On October 20, 1958, the discount was lowered from 50 per cent of first

class to 33 1/3 per cent of first class. At this time the airlines were experiencing financial difficulties and believed this indirect method of raising first class fares would enhance their revenue receipts.2

Rules affecting this fare were changed again on March 20, 1963. At this time the discount was increased from 33 1/3 per cent of first class back to the original 50 per cent, and the days of use changed from Monday, Tuesday, and Wednesday to every day of the week except Sunday. This increase of discount and in days of use were actions taken in an effort to increase lagging first class load factors.3 At this time first class load factors were dropping, while coach load factors were increasing.

For this purpose these changes were successful, particularly on long haul routes. However, the airlines found they had increased first class load factors at the expense of coach.4 They were losing money from this change because a family group could travel cheaper first class than coach at the 50 per cent discount. Therefore, to curtail this diversion from coach to first class family plan, the discount was again changed in July, 1964, to 25 per cent of first class and also coach, and the days it could be used were changed from every day of the

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week except Sunday to Monday noon through Thursday night.

Since July 1964, the family plan discount has not been changed. No figures are available that would show diversion caused at the present discount rate and the present level of first class and tourist class fares. None of the trunk carriers have attempted recently to change the plan. This would indicate that they do not consider diversion caused by it in its present form to be excessive.

**Traffic Moving Under Family-Fare Discount.** Table I presents statistics of family-plan traffic. It gives the total family-plan revenue passenger miles for each year from 1957 to 1964, the total revenue passenger miles for all trunk traffic, and the per cent of total traffic that was accounted for by the family-plan.

The figures in Table I show that family-plan traffic as a percentage of total traffic decreased from 5.7 per cent in 1957 to 1.2 per cent in 1962, then rose to 7.3 per cent in 1963. This abrupt increase in 1963 was the result of a change in regulations concerning the fare effective March 20, 1963, increasing the amount of the discount from 33 1/3 per cent of first class to 50 per cent, and the days of use from Monday, Tuesday, and Wednesday, to every day of the week except Sunday. The airlines were not required by the CAB to provide statistics of family plan traffic after 1963, so figures for such traffic during 1964 are not available.

**Long Term Versus Short Term Effects.** At the beginning of this period, the family-plan fare did produce a considerable amount of traffic. This fare was introduced in 1948, and the CAB conducted a
TABLE I

COMPARISON OF FAMILY-PLAN TRAFFIC WITH TOTAL TRAFFIC

FOR DOMESTIC TRUNK LINES 1957-1964

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<th>Family-Plan Traffic R.P.M. (000)</th>
<th>Total Airline Traffic R.P.M. (000)</th>
<th>Per Cent Family Plan of Total Traffic</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>1,111,198</td>
<td>24,499,150</td>
<td>5.7</td>
</tr>
<tr>
<td>1958</td>
<td>1,440,660</td>
<td>24,435,675</td>
<td>5.9</td>
</tr>
<tr>
<td>1959</td>
<td>1,015,609</td>
<td>28,127,216</td>
<td>3.6</td>
</tr>
<tr>
<td>1960</td>
<td>775,494</td>
<td>29,233,199</td>
<td>2.3</td>
</tr>
<tr>
<td>1961</td>
<td>629,057</td>
<td>29,534,792</td>
<td>2.1</td>
</tr>
<tr>
<td>1962</td>
<td>698,677</td>
<td>31,827,800</td>
<td>2.1</td>
</tr>
<tr>
<td>1963</td>
<td>2,664,119</td>
<td>36,383,800</td>
<td>7.3</td>
</tr>
<tr>
<td>1964</td>
<td>(Figures not available. Airlines not required by CAB to provide.)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


* R.P.M.—Revenue passenger miles. Computed by multiplying the number of passengers flown by the length of the trip in miles.
study of it in 1950. Summarizing the effect of the fare from their analysis of it at that time, the CAB's staff reported as follows:

The facts and conclusions developed on the basis of our analysis of the family-plan operations almost without exception support the view that the plan has been an effective device for promoting travel without materially affecting the level of operating expenses or causing substantial diversion from the higher priced services. . . . The full contribution of the plan to industry traffic is 440,000,000 revenue passenger miles amounting to 85 per cent of the total increase in domestic non-coach traffic between 1948 and 1949.5

Although the family-plan fare originally developed significant new traffic, its use has gradually declined through the years, except for the sudden increase in 1963. This increase followed a change of the amount of discount from 33 1/3 per cent to 50 per cent. Due to diversion caused from coach to family-plan, the discount was reduced in 1964 from 50 per cent to 25 per cent. This reduction of discount probably reduced family-plan traffic accordingly; however traffic figures are not available.

Aside from traffic generation produced by it, the family-plan has certain other virtues. It has some publicity value, and it does shift some traffic from heavy weekend traffic days to lighter middle-of-the-week days. Also, it has proved a useful device for shifting traffic from one class to another, when such a shift was desired by the airlines for economic reasons.

**Intra-Industry Price Competition.** This fare was originally filed by American Airlines in 1948 as a means of securing new revenues.

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5CAB Staff Memorandum, op. cit., pp. 30-31.
This was at a time when a number of airlines were having financial difficulties and were exploring promotional fare schemes. American believed the plan would build load factors during the normally slack days of the week by attracting a new market, family members. The CAB permitted the fare to become effective, although not without some misgivings.

Throughout the remainder of 1948, 1949, and 1950 the other trunk carriers adopted the plan, many for competitive reasons. These carriers had doubts as to the value of the fare. They believed it would simply transfer traffic from one part of the week to another. While they admitted this shift was desirable, they did not approve of the substantial discount offered to effect the shift.

Therefore, while price competition was not the reason for introduction of this fare, it was responsible for several carriers adopting the fare.

II. YOUTH FARE

The CAB did not require the trunk carriers to provide records of traffic moving under the youth fare. It was necessary to obtain information regarding this fare directly from the airlines. Information received from American Airlines, Trans World Airlines, and United Airlines is presented. It is believed that the traffic, revenue, and diversion results of the youth fare experienced by these three trunk carriers were typical of the industry.

7Ibid.
American Airlines' Experience with Youth Fare. Regarding results of the youth fare, American Airlines advised as follows:

The figures we possess indicate that in May, 1961, 3 per cent of our total passengers and 5 per cent of our coach passengers were in the 12-21 year age group. In October-November, 1961, while the fare was in effect, 6 per cent of our coach passengers were in this age group, 3 per cent traveling under the youth fare and 3 per cent traveling at regular coach fare. Despite the slight increase in traffic by this group we do not feel that the net revenue was increased. Seasonality accounted for a portion of the increase. There was a diversion of approximately one-half from coach fares to youth fares, at approximately a 33 per cent discount. Available information on this fare indicates the demand for air travel in this age bracket is not elastic.°

Trans World Airline's Experience with Youth Fare. To a request for their experience with the youth fare, TWA replied:

As the "youth fare" was filed and later withdrawn by American Airlines, no special studies were conducted by TWA nor were special reports made. A domestic on-board survey of the trans-continental market conducted by TWA in October, 1961, revealed that 2 per cent of all trans-continental passengers were traveling on the "youth fare." This information is, of course, inconclusive as no data is available for the youth fare passengers traveling over shorter segments or routes.°

United Airlines' Experience with Youth Fare. United Airlines reported as follows regarding the youth fare:

Based upon our experience with this fare, it is United's opinion that the fare has not improved the earnings of the carriers. For the entire month of September and the first fifteen days of October, 1961, United


carried on its domestic system a total of some 30,500 passengers at the youth fare, involving a reduction in revenues from regular fares of approximately $580,000 for this period. The number of passengers carried and the affected revenues were based upon a continuous 2 per cent random sample of all flight coupons lifted.

There are no data which reflect the generative effect of youth fares. However, because of the amount of the discount, approximately one new passenger must be generated for each passenger carried at the youth fare. Based on experience with other types of promotional fares, it seems quite improbable that this has occurred.

The 30,500 youth fare passengers carried by United in the September 1 - October 15 period represented only 2.3 per cent of its total passengers. In view of the very limited use of these fares, in part because of the small group to which they apply, it is apparent that this particular promotional fare, whatever new traffic may have been generated, is of virtually no value in filling the carriers' empty seats and improving earnings. This conclusion is strengthened by the fact that the above experience includes the normally heavy movement back to college of young people in the age bracket eligible for the fares.

Furthermore, the youth fares have been subject to substantial abuses by the traveling public. Some of these abuses have resulted in increased costs to the carriers and have also affected the on-time performance of their operations. In fact, the public has been encouraged in these abuses. The following list of abuses was compiled from United's experience with youth fares during the short period of their existence. If youth fares were permitted to remain in effect, the nature and number of abuses would undoubtedly continue to grow.

1. Bookings are made in advance of the three hour limit because the passenger has not disclosed he is traveling on youth fare.

2. Regular fare reservations are cancelled within three hours of departure and reinstatement requested on a youth fare basis.

3. Passengers book space on a full fare basis and purchase both full fare and youth fare tickets. The passenger checks in and is boarded as a full fare but tenders his youth fare ticket to the stewardess; the full fare ticket later being refunded.
4. Passengers who are older than 22 years produce identification cards indicating they are under 22.

5. Fictitious reservations are made in advance to block out seats which then become available for youth fare passengers when the booked space is not used.

6. After having space verified at the ticket counter, youth fare passengers give the ticket to another passenger not eligible for youth fares. Since passengers are checked off on a manifest by name or number without reference to the ticket itself, the switch is not easily discovered.

7. Last minute boardings of youth fare standbys has caused delay and confusion in getting flights out on time.

8. Stations have experienced a considerable amount of congestion at their ticket counters when youths request that their tickets be re-issued from full fare to the youth fare.¹⁰

_Diversion._ American Airlines estimated diversion of approximately 50 per cent from coach to youth fare during the time the youth fare was in effect. United Airlines considered diversion to exceed revenues developed by the fare. Trans World Airlines had no estimate of diversion. The fact that all of the trunk lines discontinued the Youth Fare after approximately two and one-half months of use would indicate that these carriers believed traffic generation resulting from the fare insufficient to compensate for revenue losses from traffic abuses and diversion caused by the fare.

Traffic Moving under the Youth Fare. The CAB did not require the airlines to keep records of traffic moving under this fare, and no

industry wide figures are available. American estimated 3 per cent of its coach passengers traveled under the fare, United estimated 2.3 per cent of its total passengers used the fare, and Trans World advised 2 per cent of its transcontinental passengers were using the youth fare. It is apparent that travelers in the 12-21 age group did not constitute a very large part of the total air travel market.

**Long Term Versus Short Term Effect.** The short term effect of the fare was to cause diversion that exceeded revenue generation. This effect resulted in the fare being dropped after a short period and precluded any long term effect. It is possible, of course, that some young travelers using this fare were induced to travel later by air at a regular fare. However, no estimate of such traffic is available.

**Intra-Industry Price Competition.** American Airlines filed the youth fare with the CAB July 31, 1961, requesting that it become effective August 31, 1961, and continue for a six month trial period. Trans World Airlines and United Airlines filed similar tariffs August 2, 1961, to become effective August 31, 1961. These three carriers believed the fare would attract new business, in that the 12-21 age group made up 15 per cent of the population, but only approximately 3 per cent of the air travelers.

The other trunk carriers filed similar tariffs, but for

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competitive reasons. The smaller trunk carriers believed it necessary in this case to meet the fare discount offered by the three largest carriers. Principal objectors were Eastern and Braniff, who felt that revenues would be diluted too much in relation to traffic attracted.\textsuperscript{13}

When it became apparent that the youth fare was not successful, all of the carriers discontinued it, most of them doing so between November 12, 1961, and December 15, 1961.

III. TRANSCONTINENTAL EXCURSION FARE

Although the CAB required monthly progress reports to be filed by the three carriers using the transcontinental excursion fare, this information was not published by the CAB and was not available for use in this study. Information presented was received directly from the three carriers using the fare, Trans World, United, and American Airlines.

\textit{Diversion.} TWA, originator of this fare and leading advocate during its short existence, reported that a domestic on board survey of the transcontinental market that they conducted in October, 1961, showed that 27 per cent of TWA's transcontinental coach passengers were using the excursion fare, and that approximately one-third of these were generated (new) passengers, and the other two-thirds were diverted. As a result of the additional passengers, TWA did realize a small profit from the use of the fare.\textsuperscript{14}

American Airlines studied results of this fare by comparing

\textsuperscript{13} Ibid.

\textsuperscript{14} Radcliffe, \textit{loc. cit.}
route segments using excursion fares with "control" segments where the excursion fare was not available. They reported as follows: "In the month of September, 1961, American carried 8,810 excursion fare passengers. Analysis showed that approximately 84 per cent of these passengers were diverted from coach. This resulted in a revenue diversion of $300,000 versus new revenue generation of $150,000, yielding a net revenue loss of approximately $150,000 for the month."\(^{15}\)

United Airlines, in studying the results of this fare, also made a comparison of the traffic growth in the markets where these reduced fares were used with the growth in non-excursion markets. However, they did not limit it to their airline alone, but took into consideration the average daily passengers carried by United, American, and TWA between New York and Los Angeles/San Francisco on their non-stop flights from May 17, 1961, to October 7, 1961. United then compared this percentage increase with the increase in domestic revenue passenger miles for the three airlines' total routes for approximately the same period. Table II gives the statistics compiled by United.

In their analysis, United stated:

The tickets sold by United during September, 1961, at excursion fare levels amounted to 3,340 passengers, out of a total of 19,700 transcontinental coach passengers for the month, or 17.5 per cent. The amount of the total fare reduction involved in these ticket sales was $137,000. In order to recoup these reduced revenues, at the average excursion fare of $99.00, an additional 1,384 new passengers would have been required.

\(^{15}\)Lloyd-Jones, loc. cit.
## TABLE II

**COMPARISON OF INCREASE OF TRANSCONTINENTAL PASSENGERS WITH TOTAL REVENUE MILES INCREASE—TWA, UAL, AAA**

<table>
<thead>
<tr>
<th></th>
<th>Average Daily Passengers Between New York and Los Angeles/San Francisco:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>May 31-August 1, 1961</td>
<td>2,715</td>
</tr>
<tr>
<td></td>
<td>September 3-September 30, 1961</td>
<td>2,673</td>
</tr>
<tr>
<td></td>
<td>Per cent September of June and July</td>
<td>96.9%</td>
</tr>
</tbody>
</table>

|                                | Average Daily Domestic Revenue Passenger Miles of American, TWA, and United: |
|                                | June and July, 1961                                                    | 54,736,000 |
|                                | September, 1961                                                      | 52,507,000  |
|                                | Per cent September of June and July                                   | 95.9%       |

**Source:** Statement of United Airlines Regarding Promotional Fares and Discounts, Nov. 3, 1961. (Note: The source information for the New York-Los Angeles/San Francisco traffic is average daily traffic by weeks. Therefore this information could not be shown by calendar months.)
The foregoing table indicates a generation of new traffic attributable to the excursion fare of some one per cent. Applied to the 19,700 coach passengers carried by United in September, 1961, this represents 197 new passengers, producing $19,500 in revenue. This falls short by at least $117,500 of recovering the revenue lost to United in the month of September through the diversion of regular coach passengers.16

In summarizing diversion caused by this fare to these carriers, TWA admitted considerable diversion but claimed a small profit, American experienced a $150,000 loss from diversion during September, 1961, and United a loss of at least $117,500 for the same month.

Traffic Increases. Trans World Airlines estimated that 27 per cent of its transcontinental passengers were using the excursion fare and that about one-third of these were new passengers. This would mean approximately a 9 per cent increase due to the fare. American Airlines claimed 1,511 new passengers resulting from the fare for September, 1961. The percentage this was of their total transcontinental coach traffic was not given. United Airlines estimated generation of new traffic attributable to the excursion fare of one per cent. This represented to them 197 new passengers during September, 1961.

Long Term Versus Short Term Effects. This fare became effective August 16, 1961, for Trans World Airlines, and August 18, 1961, for American and United Airlines, with an expiration date of December 15, 1961. Trans World Airlines proposed an extension of the tariff until March 15, 1962, but the CAB did not permit its extension, and on December 13, 1961, the fare was suspended.17

16Statement of United Airlines, loc. cit.
During its short period of use, diversion caused by the fare exceeded traffic generated. Long term effects were precluded.

**Intra-Industry Price Competition.** Trans World Airlines developed these fares and filed them with the CAB on August 2, 1961. American Airlines and United Airlines followed with similar fares, but filed theirs for defensive reasons. These two carriers believed diversion from regular services would occur, and requested the CAB to block the plan. The only other transcontinental carrier, Northwest Airlines, did not file transcontinental excursion fares. The CAB viewed the excursion fare as a "promising attempt to stimulate air travel at a time when traffic growth had fallen far behind the increase in seating capacity offered." Consequently, it approved the fare.

Thus, while TWA believed the fare would produce new traffic, American Airlines and United Airlines felt obliged to meet the competition presented. Price competition resulted from the fare, but was not the reason for its introduction.

**IV. CHICAGO-LOS ANGELES BUSINESS-ECONOMY FARES**

These two classes of service were introduced together by Continental Airlines, both on the same jet aircraft along with first class service. Coach service was also available, but on separate planes. Although both services were introduced as a package, they were

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19 Ibid.
designed to test different concepts, and therefore it is necessary to examine results of the fares separately.

Continental claimed the business class was to test the buying desires of the public, to see if there was a demand for an intermediate class of service between coach and first class by businessmen. The economy class was claimed by Continental to be a test of the traffic stimulating effects of a fare lower than coach.

**Diversion—Business Class.** Diversion caused by the business fare would be from first class, the only higher class of service. To get an estimate of such diversion, it is necessary to compare the first class passenger and revenue figures for a period preceding the business class with the combined first class and business class passengers and revenues for a similar period after the business fares were introduced. Table III gives a comparison of first class passengers and revenues in the important Chicago-Los Angeles city pair market for the months of September, October, November, December, 1961, with combined first class and business class passenger and revenues for the same four months in 1962.

The statistics available from Table III show that first class passengers carried by Continental, American, and United Airlines decreased from 31,783 for the first period to 19,520 for the second period, a decrease of 33 per cent. However, the combined first class and business class passengers for the second period was 44,841 as compared to 31,783 first class passengers for the first period, an increase of 42 per cent. Revenues increased from $4,200,881 to $5,488,183, an increase of 31 per cent. Thus a 42 per cent increase in traffic was
### TABLE III
COMPARISON OF CHICAGO-ICS ANGELES FIRST CLASS PASSENGERS AND REVENUES, SEPT.-DEC. 1961
WITH FIRST CLASS AND BUSINESS CLASS PASSENGERS AND REVENUES FOR SEPT.-DEC. 1962

<table>
<thead>
<tr>
<th>Airline</th>
<th>1st Cl. Psgrs.</th>
<th>1st Cl. Revenue</th>
<th>1st Cl. Psgrs.</th>
<th>1st Cl. Revenue</th>
<th>Bus. Cl. Psgrs.</th>
<th>Bus. Cl. Revenue</th>
<th>Total Psgrs.</th>
<th>Total Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAL</td>
<td>6,170</td>
<td>833,698</td>
<td>3,361</td>
<td>427,998</td>
<td>5,354</td>
<td>621,064</td>
<td>3,515</td>
<td>1,049,062</td>
</tr>
<tr>
<td>AAL</td>
<td>15,659</td>
<td>2,020,223</td>
<td>10,684</td>
<td>1,446,611</td>
<td>13,326</td>
<td>1,545,816</td>
<td>24,176</td>
<td>2,892,427</td>
</tr>
<tr>
<td>UAL</td>
<td>5,943</td>
<td>1,346,964</td>
<td>7,675</td>
<td>1,095,194</td>
<td>4,375</td>
<td>507,500</td>
<td>12,500</td>
<td>1,546,494</td>
</tr>
<tr>
<td>TOTAL</td>
<td>51,783</td>
<td>4,400,811</td>
<td>21,500</td>
<td>2,913,803</td>
<td>23,055</td>
<td>2,674,380</td>
<td>44,041</td>
<td>5,488,185</td>
</tr>
<tr>
<td>TWA</td>
<td>8,157</td>
<td>1,071,831</td>
<td>8,047</td>
<td>1,089,564</td>
<td>none</td>
<td>none</td>
<td>8,047</td>
<td>1,089,564</td>
</tr>
</tbody>
</table>

accompanied by a 31 per cent increase in revenue. This was a substantial traffic increase, and the dilution would not appear to be excessive.

TWA, the one airline in this market that did not offer the business fare, did experience a slight decline in passengers and revenue, amounting to approximately one per cent.

Traffic Increase—Business Class. As stated above, total first class and business class traffic for the second period was 42 per cent greater than for the first period.

Short Term Versus Long Term Effect—Business Fare. From the comparison given, the short term effect was to increase net passengers by 42 per cent and net revenues by 31 per cent. A long term effect of the business fare in this market was not allowed. Continental requested authority to discontinue its business class service and carry coach passengers in the then existing business class compartment. The CAB granted this authority to Continental on January 21, 1964. American Airlines and United Airlines also discontinued the business fare at this time. Trans World Airlines had not offered the business class service. This "test of the buying desires of the public" ended after being used in this market approximately seventeen months.

Traffic Increases—Economy Fare. To determine traffic increases resulting from the economy fare it is necessary to compare coach traffic

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during a period before the economy fares were introduced, with combined coach and economy traffic during a similar period after the fares were in use. Table IV presents a comparison of coach passengers and revenues in the Chicago-Los Angeles city pair market for the months of September, October, November, and December, 1961, before the economy fares were used, with the same four month period in 1962, a period following the introduction of economy fares.

The figures in Table IV show that the combined coach and economy traffic in this market was 31 per cent greater during the last four months of 1962 than coach traffic for the same period in 1961. Combined coach and economy revenues were 16 per cent greater during the second period than coach revenues during the first period. Continental Airlines, the originator of the fare, had a traffic increase of 5.6 per cent, but a revenue decrease of 16 per cent. American Airlines, Trans World Airlines and United Airlines, the transcontinental carriers, experienced an average traffic increase of 36 per cent and an average revenue increase of 23 per cent. Coach traffic alone, however, decreased by 60 per cent during the second period as compared to the first.

On the basis of inflight surveys conducted by the carriers participating in the economy fare experiment, 11.6 per cent of the economy traffic would not have travelled in the absence of the economy fare.21 These carriers also employed the service of two independent

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### TABLE IV

**COMPARISON OF CHICAGO-LA ANGELES COACH CLASS PASSENGERS AND REVENUES, SEPT.-DEC. 1961**

**WITH COACH AND ECONOMY CLASS PASSENGERS AND REVENUES FOR SEPT.-DEC. 1962**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>CAL</td>
<td>22,416</td>
<td>2,333,223</td>
</tr>
<tr>
<td>AAL</td>
<td>44,063</td>
<td>4,646,441</td>
</tr>
<tr>
<td>TWA</td>
<td>33,745</td>
<td>3,184,957</td>
</tr>
<tr>
<td>UAL</td>
<td>37,026</td>
<td>3,915,965</td>
</tr>
<tr>
<td>Total</td>
<td>147,210</td>
<td>14,130,588</td>
</tr>
</tbody>
</table>

marketing research firms to estimate the extent of traffic stimulation. On the basis of studies conducted by such firms, the economy fares stimulated traffic in the local Chicago-Los Angeles market by 10 per cent according to one estimate and by 6 to 14 per cent according to the other.²²

_Diversion—Economy Class._ As shown in Table IV, there appears to have been considerable diversion from coach to economy class. Coach traffic alone decreased by 60 per cent during the second period as compared to the first. Continental Airlines experienced a 5.6 per cent increase in combined traffic, but had a 16 per cent decrease in revenues.

The CAB, in its study of the fare, estimated that without consideration for normal growth of traffic, or the stimulating effects on traffic of the economy fare, Continental Airlines revenues during the eight months ended April 30, 1964, were $695,000 below the level of revenues it would have experienced if the economy traffic had been carried at coach fares.²³

The other three carriers in this market, American, Trans World, and United, appear to have fared better than Continental. Their combined coach and economy traffic for the second period was 36 per cent greater than their coach traffic alone for the first period, and their combined coach and economy revenue was 23 per cent greater for the second period than coach revenue alone for the first. These carriers contended,

²²_Ibid._
however, that the increases were not due to new traffic generated, but instead resulted primarily from transcontinental coach and first class traffic that was diverted to economy service between Chicago and Los Angeles to take advantage of the lower fare.

There is evidence to support this contention. The CAB in its study of the business-economy fares stated: "During the first three quarters of 1962, traffic transferring at Chicago from first class to coach averaged 20,040 passengers per quarter. During the ensuing six quarters, which were after the inauguration of business and economy fares, such traffic averaged 28,307, or an increase of 40 per cent. This does not include passengers transferring from coach or business class to economy class. Such records are not required by the CAB. Therefore total diverted traffic was much greater."  

The CAB estimated that passengers transferring at Chicago to lower fare service represented between 31.6 and 33.2 per cent of the total Chicago-Los Angeles traffic in each quarter except the third quarter of 1962 and the first quarter of 1964, when the percentage of transfer passengers fell below the normal range.

Short Term Versus Long Term Effects--Economy Fares. The short term effects of the addition of the economy fares to the airline fare structure were a moderate increase in total traffic carried and a considerable diversion from higher classes of traffic, resulting in a loss of revenue to the airlines using the fares.

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24 Ibid.
25 Ibid., p. 16.
The long term effects of the economy fares are not yet evident. The fares were introduced in August, 1961, but have not yet been finally approved by the CAB. An initial hearing concerning the fares, conducted in December, 1964, found them not to be unlawful. Although the economy class now accounts for a large part of the Chicago-Los Angeles traffic, it has not spread to other major markets.

Intra-Industry Price Competition. Price competition was undoubtedly an important reason for Continental's introduction of economy fares. Continental hoped to gain a larger share of the Chicago-Los Angeles market by picking up transcontinental traffic diverted at Chicago.

In this effort they were not successful. Although there was traffic diversion at the Chicago gateway, most of it remained with the through carriers who also filed competitive economy fares. Continental, realizing this lack of success, in May, 1964, proposed an increase of economy fares between Chicago and Los Angeles of $5.00 and proportionate increases between other cities in this market. These fare increases were suspended at that time by the CAB, but became effective November 20, 1964, after the expiration of an 180 day suspension period.

VI. SINGLE CLASS FARE

Diversion—Single Class. No figures are available that reveal diversion from first class caused by single-class. However, such

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26 Ibid., p. 27.
27 Ibid., p. 1.
diversion does not appear to be significant. One of the reasons United gave for curtailing single-class service was reverse diversion, that is, from single-class to first class which was from a lower to a higher class of service. This diversion resulted from reductions in certain long haul first class fares initiated by American Airlines. Because of the relatively small price differential remaining between single class and first class, a considerable number of passengers upgraded from single class to first class.

**Traffic—Single Class.** Revenue passenger miles of traffic carried in one-class service was not available from United Airlines. Approximately 2,300,000 passengers used the service during the period it was offered in major markets.

**Short Term Versus Long Term Effects.** One-class service was withdrawn by United from all large markets in July, 1964, after approximately sixteen months use. It was continued in a few short and medium range markets.

Regarding results of this service, United Airlines advised the primary purpose of the fare had not been to secure a traffic gain, but rather to simplify the fare structure and to secure some cost savings. Failure of the industry to adopt the fare made it impossible to determine whether or not one-class service had this capability. Less than

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29Ibid., p. 45.

30Ibid., p. 44.
industry wide acceptance of one-class prevented fare structure simplification, and limited passenger use restricted any cost saving benefits intrinsic to this class. United felt the service had, during its short period of use, produced direct economic benefits to the customers using it, and also its side effects had benefited the air traveling public in general. The direct economic benefits referred to were some cost savings to the airline occasioned by the use of one-class service and presumably passed on to the passengers using the service. The side effects benefiting the air traveling public were the reductions in certain first class fares and the higher quality services offered in coach sections by United Airlines' competitors.

United changed the configuration of its one class planes to three clas, designated as Red, White, and Blue. These consisted of first class, standard class, equivalent to single class, and coach. United's reason for presenting three class service was to give the air traveler what he wanted in the way of service. This was a considerable modification of the original experiment.

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CHAPTER IV

SUMMARY AND CONCLUSIONS

Diversion and Traffic Generation. All fare reductions cause revenue diversion from higher priced services. The significant consideration is whether or not new revenue generation offsets diversion to the extent necessary for the airlines to realize a profit, either on a short term or long term basis.

Of the fare discounts examined, not many met this qualification. The youth fare discount and the transcontinental excursion fare both caused excessive diversion as compared to revenue generation. Traffic generation resulting from the family-plan discount in recent years has not been significant except for a temporary spurt in 1963. Originally this discount did, according to the CAB, generate considerable new revenue. However, the growth of coach traffic has narrowed the original family plan market. The military stand-by fare is the only discounted fare that may be developing new revenues without causing excessive diversion. Traffic and revenue figures for this fare discount are not presently available.

In regard to new class of service offered, results from a revenue standpoint also have not been salutary. The introduction of the Chicago-Los Angeles business fare was followed by a 31 per cent increase in total first class and business class revenues during the last four months of 1962 compared to the same period in 1961. However, during this period first class traffic decreased by 33 per cent.
Continental considered this diversion from first class to be excessive; therefore it requested and was granted authority to discontinue the business fare.

The Chicago-Los Angeles economy fare, introduced at the same time, was followed by a 31 per cent increase in total coach and economy traffic and a 16 per cent increase in revenues. This was a poorer short term showing than that made by the business fare. Although Continental did not request authority to discontinue the economy fare, it did obtain authorization from the CAB to increase the fare by $5.00 between Chicago and Los Angeles. This was to stem diversion from coach. It would appear that Continental might have profited more by keeping the business fare and dropping the economy fare.

The third new class of service introduced during this period was single-class, used by United Airlines only. This class was designed to simplify the airline fare structure and to effect a cost saving. Because of strong competition provided against it and the failure of other airlines to adopt the fare, United has withdrawn it from most markets in which it was offered.

The family plan is the only fare discount that has been used for this entire period. This fare has been used principally in recent years as a means of adjusting traffic between classes of service and days of the week. A recent change in regulations concerning this fare, which extend applicability of the discount to coach as well as first class, should redirect it towards its original purpose, which was to develop traffic.

_Intra-Industry Price Competition_. Intra-industry competition was
responsible for many carriers adopting a fare discount or new class of service after it was introduced. In most cases, however, the discounts and new classes of service were initiated to test a concept, often at a time of carrier financial difficulty. One exception was the introduction of the economy fare. Although Continental claimed it to be a test of the generative effects of a lower fare, it also had a competitive reason for filing the fare. Continental hoped to increase its share of the Chicago-Los Angeles market by diverting traffic at Chicago. After a discount or lower fare is introduced into a market, intra-industry competition prevents withdrawal unless there is unanimous carrier agreement to such withdrawal, or unless the CAB rules against it in the interest of the industry.

There appear to be two requisites necessary for a fare discount to be successful. One is it must have an easily identifiable market, the other is that it must apply to a group that would not travel without the discount. The military stand-by discount claims both. These passengers can be easily identified because of the uniforms and their orders, and many of them would not travel by air without the substantial discount. The youth fare failed because it lacked the first and because young people in significant numbers did not travel by air even with the discount. The transcontinental excursion fare lacked the second requisite. The people that used this fare were primarily passengers who would have traveled by coach regardless of the discount. By increasing the stop-over time at their destinations, they were able to take advantage of the excursion fare. The economy class, introduced in 1962, still has not been finally approved by the CAB. It is already
accountable for a large part of the traffic between Chicago and Los Angeles, and if approved, may spread to other major markets. The three class concept, however, has spread to other markets with the recent introduction of United Airlines' Red, White, and Blue service, corresponding to first class, standard, and coach.

It would seem that at times the airlines have discontinued certain fare experiments before allowing the experiments sufficient time to achieve their potentialities. The industry has, on occasion, indicated an opinion that if a new fare does not produce satisfactorily during a short period, there is no assurance that it will do better over a longer period, and it is summarily dropped. A better method might be to decide before filing an experimental fare how much time would be required to adequately test it, and then to stay with the fare for at least that length of time. Undoubtedly, a considerable period of time is required to determine whether or not a new lower class of service is economically justifiable. It is also possible that by use of a more flexible approach, regulations concerning fare discounts could be adjusted in such a way as to strengthen the weak points of the discount, and thus obtain the desired results. This approach has been used with the family plan. Finally, the airlines have not spent much effort analyzing results of their fare changes. The larger trunks have conducted some research concerning fare effects, the smaller trunks very little. Some of the research done by the larger carriers appears designed more to bolster a pre-determined position than to obtain objective information.

In any case, from a carrier revenue standpoint, few fare discounts
and new classes of service used during this period have been successful. Some have been short lived and the future of others still uncertain. However, conditions within the industry change continually. Shifts in competitive balance among the carriers, general economic conditions, rate of increase in airline travel, capacity of aircraft, all affect pricing. Whether or not fare discounts or new classes of service will develop significant new revenues can be determined only by actual testing. Therefore, in view of changing conditions, and the need to check results by testing, the airlines must continue to present pricing experiments that offer promise of increasing their revenues. They should, however, analyze more thoroughly than they have previously the results of such experiments.
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