# The Texas Airline War

by George Hopkins

Adam Smith would have loved the Texas Airline War. Ever since Southwest Airlines, a sleek, aggressive unregulated carrier, entered the local air transport market, life has been miserable for the regulated fat-cat airlines and delightful for most Texas airline consumers.

In 1971, Southwest began serving the heavily traveled Dallas-Houston-San Antonio triangle with a small fleet of new red and gold Boeing 737s. Unlike its competitors, Braniff and Texas International, Southwest was flying *only* this intrastate route and was thus exempt from the Civil Aeronautics Board fare regulations which apply to interstate carriers like Braniff and TIA. The unregulated new entrant immediately began cutting prices—to as low as half of what the other two airlines were charging.

Southwest could offer such cheap service for a number of reasons, which apply equally to other unregulated intrastate airlines, like Pacific Southwest in California. In the first place, the intrastates usually provide service only between cities where there is high traffic, and therefore high "load factors," such as Dallas and Houston or San Francisco and Los Angeles. Profitable routes like these are awarded to interstate carriers, too, but for every profitable Dallas-to-Houston run which the CAB gives to Braniff, there is another route with lower density and lower profit that Braniff must agree to fly. Losses on the uneconomical routes are made up with high fares (approved by the CAB) on the big-city commuter runs. The whole system works tolerably well for the airlines—until an unregulated intrastate carrier (which doesn't need to make up losses on CAB-mandated, uneconomical routes) enters the market.

Other factors favor the intrastates.

*George Hopkins teaches history at Western Illinois University and writes often about aviation.*

The commuter traffic they fly does not result in the passenger imbalance—more people going one way than there are coming back—which for most airlines requires costly ferrying of aircraft. Moreover, the uniform commuter traffic means that the intrastate carrier's airplanes can be standardized. All airplanes can be of the same type, which results in considerable savings. Finally, because they are small, the intrastates often can offer more attentive and reliable service, in addition to their low fares. Even the high-priced advertising campaigns of the giants—with their talk about "friendly skies" and their airplanes painted by famous artists—cannot entirely assuage the irritation caused by high fares, bad schedules, delays, and lost baggage.

What's been happening in the unfriendly skies of Texas has obvious relevance for the debate on deregulation which has been going on in Washington. Citing the possibility of reducing airline fares by up to 40 per cent, the President has called for deregulation of domestic airlines through drastic curbs on the CAB's "long years of excessive regulation." The regulated airlines can't have been suffering too much under the shackles of government bureaucracy, for they have denounced the Ford deregulation proposal. "Misconceived, disruptive, and confusing," said the Air Transport Association (the industry's lobby), and a number of presidents warned against "tampering" with the system. As is usually the case in such matters, no one seemed to have a very clear idea what costs and benefits economic competition had wrought in Texas.

## Guerrilla of the Airways

You can fly from Dallas to Houston for a mere $15 nowadays. Back in 1970 it cost twice as much—but that was before Southwest began operating. Braniff and TIA charge $30 to haul people from Dallas to Austin, which is half as far as Houston. But then Southwest doesn't fly to Austin. It does fly *over* Austin enroute to San Antonio, for which it charges (at certain times of the day), the same old $15 fare.

Aviation people love to talk about the Texas Airline War—a mixture of advertising blitzes, gimmicky promotional ventures, leggy hostesses, and an endless run of lawsuits. There has been nothing like it since the days when Ford and Fokker trimotors bearing such names as Maddux Airlines, Varney Speedways, and Southwest Air Fast Express (S.A.F.E.—get it?) competed for the loyalty of the few hardy souls willing to fly. While there was an element of improvisation in these early, pioneering airline experiments, there is nothing improvised or haphazard about Southwest Airlines—it is a slick operation, well conceived, lavishly financed, and expertly managed. Despite its image as a kind of merry guerrilla of the airways, playing Snoopy to Braniff's Red Baron, Southwest is hardly your average "little guy" waging hopeless but valiant battle against soulless corporate giants. Unless, that is, you consider "little guys" such folks as George Brown (the Houston construction magnate and former LBJ bankroller), the Murchisons, and Texas governor Dolph Briscoe, all early financial backers of Southwest.

Southwest's president is a genial, fiftyish, chain-smoker named M. Lamar Muse. He is articulate, direct, witty, and he looks like a down-home Cary Grant, self-assuredly sporting the kind of go-to-hell mustache it used to take courage to wear in Texas. Because he lacks a college degree and speaks countrified Texas English, Muse never rose very high during the 20 years he worked for a number of airlines, including American. The major "trunk" airlines are image conscious—they prefer Southern California smoothies like Dwight Chapin, the former Nixon appointments secretary, who went to work for United Air Lines after leaving the White House (and before his Watergate conviction). The Texas establishment has never cared much about surface polish, however (indeed some wealthy oilmen seem to prefer the other extreme), and Muse's rough edges were easily outweighed by his practical experience with airline operations. When he was offered the chance to oversee the creation of a new airline in 1971, Muse jumped at it, partly to show his old employers they had been wrong.

## Political Fuel

Southwest Airlines was actually the brain child of a transplanted Ohioan named Rollin W. King, who came to Texas in the late 1950s to use his B.S. degree in finance. King is in some ways a throwback to the dawn of aviation, for he loves to fly. As a kid he hung around airfields, got his license early, and made flying a full-time hobby after he settled in San Antonio to work as an investment analyst. An opportunity to turn his hobby into an occupation came in the early 1960s, when he bought out a financially troubled "third-level" carrier which served such metropolises as Marfa, Alpine, and Junction on a more or less regular basis with small twin-engine aircraft.

His experience with the small airline convinced King that there was no future in it, so he converted it into a charter service and started studying the possibility of a Pacific Southwest-type operation between Dallas and Houston, using second-hand Lockheed Electra prop-jets. King came to the conclusion that he would need powerful friends, for his potential competitors, Braniff and TIA, had deep roots in the Texas establishment.

Then fate smiled–Rollin King landed a job as Waggoner Carr's campaign pilot during his ill-fated run for John Tower's Senate seat in 1966. Carr lost, but King came up a winner, for his association with Carr helped to open doors which ultimately made possible his dream of starting a real airline. From his foray into Texas politics flowed contacts with such powerful Connally barons as Herbert D. Kelleher, the San Antonio lawyer who has brilliantly guided Southwest through its multifarious legal battles, and Robert Strauss, Connally's appointee to the State Banking Board before he went on to greater things as Democratic National Chairman. These men in turn opened doors to the likes of George Brown of Houston's mammoth Brown and Root Construction firm, and John Murchison of the Dallas-based Murchison Brothers. As one observer put it when plans for Southwest Airlines began firming up: "It's no wonder that Southwest Airlines thinks it can offer cheaper service than anyone else. It won't use aviation fuel–just political power."

Everyone in the Texas air transport business has political influence, but King also had business acumen. A preliminary study he had commissioned indicated that there was enormous profit potential in a commuter airline connecting Texas' three largest metropolitan areas–Dallas, Houston, and San Antonio. These cities contained in excess of five million people, with rapidly growing economies of staggering potential. Yet the growth rate in air travel lagged substantially behind the national average. King argued that this was because Braniff and TIA offered inferior, indifferent service, and that the protected position they enjoyed in these markets had made their managements complacent and unimaginative. His proposed commuter airline would compete with the bus lines, attracting whole new classes of airline passengers, including blacks and Mexican-Americans, who rarely patronized airlines. He would also introduce streamlined "cash register" ticketing, which would appeal to businessmen put off by the ticketing delays involved in dealing with airlines specializing in long-haul flights.

King struck a sympathetic chord, for his listeners knew that Braniff and TIA had a poor public image with many commuters, largely owing to lackadaisical "on time" performance and frequent cancellations. Indeed, during 1967 Braniff cancelled 471 flights altogether, and was late on 2,477 others (thus earning the unhappy nickname "World's Largest Unscheduled Airline" among many travel-wise patrons). In relative terms, TIA's record was even more appalling—189 cancelled and 844 late. Together, the two airlines either cancelled or were late on over 30 per cent of their scheduled flights.

## 'Love Stamps'

Some powerful people bought King's idea, and with their backing he moved to obtain approval for the airline from the Texas Aeronautics Commission (TAC), which has the power to issue state "certificates of public convenience and necessity." He would not get it without a fight however, for when the hearing convened before the TAC in early 1968, Continental Airlines as well as Braniff and TIA showed up with some very high-powered lawyers to argue against Southwest's application. A majority of the six TAC members were Connally appointees; needless to say, the opposition's hired legal gunslingers all had lines of power into the Connally camp. The opening round went to Southwest; the TAC ruled unanimously in its favor, dismissing the opposition's argument that there was simply no need for the service Southwest proposed. Braniff and Texas International appealed TAC's decision to the courts, taking the case all the way to the Supreme Court, where it was finally dismissed.

In the meantime, Lamar Muse took charge, displacing Rollin King. Big money was at stake and it was no game for novices. As consolation, King became executive vice president and chief pilot—which meant he would fly the airline's Boeing 737s regularly.

Southwest made its maiden flight on June 18, 1971, and the War shifted into high gear, this time in full public view. Braniff and TIA promptly cut their fares to match Southwest's. Southwest countered with the kind of lavish personal attention to passengers that had lately fallen out of fashion. It began with curvaceous, mini-skirted reservationists dispensing tickets from cash registers (called "love machines") with a wink and a reminder that it was "A Fare to Remember." Once airborne, Southwest's hostesses shed their micro-mini-skirts in favor of tangerine hot pants and side-laced go-go boots. Passengers occasionally got "love stamps" from the hostesses, good for a free mixed drink on any subsequent flight, and for awhile everyone got a $5 ticket good at swanky Houston and Dallas nightclubs. "Love" became Southwest's recurrent advertising theme, a deliberate play on the name of its airfield in Dallas—Love Field.

## Thrift and Sex Appeal

Fortune, if not profits, smiled on Southwest almost from the beginning, for the severe slump of 1970-71 in the airline industry worked to its advantage, allowing it to draw from a large pool of experienced but laid-off pilots and mechanics. Any thoughts Braniff and TIA might have had about citing the "safety factor" against Southwest were quickly deterred. The director of flight, for instance, was Donald W. Ogden, who had just retired from American Airlines after a distinguished 35-year career. The pilots and mechanics all got the best training available, under contract from United Air Lines, to the tune of $265,000 for a five-week course for the pilots alone. The aircraft were spanking new, designed to domestic airline specifications but unclaimed owing to the general airline slump. So anxious was Boeing to sell its aircraft that it financed them itself on exceptionally favorable terms. Thus was Southwest relieved of the public relations image problem which second-hand airplanes would have caused.

Building its whole pitch around the twin themes of thrift and sex appeal, Southwest did remarkably well in its first 18 months of operation, losing only $5 million. In expectation of early losses, Southwest began operations with a cool $6 million in cash on hand. Chances were its hourly flights would soon attract the 40 passengers which was the "break-even" point on the 112 seat Boeing 737.

## Chivas Regal Campaign

Then the Red Baron struck! With dramatic suddenness, early in 1973, Braniff unleashed the $13 War, offering non-stop service from Dallas to Houston's Hobby airport on Boeing 720s. Even full, these flights could not possibly make a profit at that fare. Braniff insisted that it was merely letting folks "get acquainted" with its Hobby Airport service and was willing to eat its losses for a limited period. Like Love Field in Dallas, Hobby was close to the center of town compared to Houston's Intercontinental Airport, and thus more attractive to commuters. The fare was potentially ruinous to Southwest, which had raised its prices slightly and by the end of 1972 was showing signs of edging into the black. Braniff's $13 fare, if continued long enough, would drive Southwest hopelessly into the red.

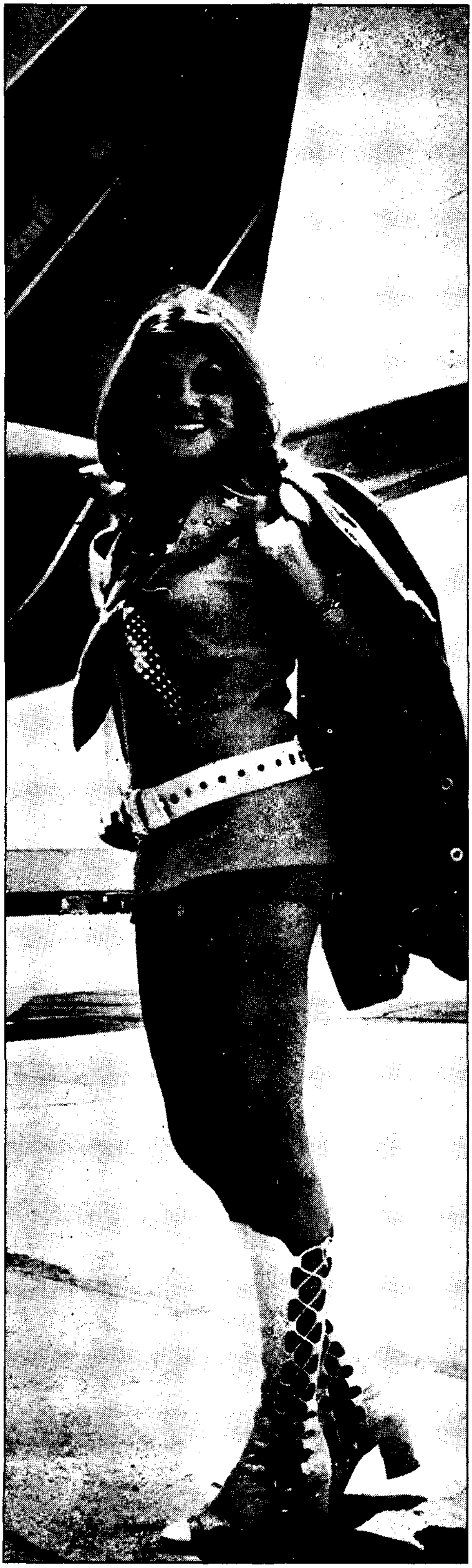
Southwest's management decided it had no choice except to meet Braniff's price—but with a twist. Early in February 1973, splashy full page ads in Dallas newspapers declared: "Nobody's going to shoot Southwest Airlines out of the sky for a lousy $13." The price was "insane," Muse told the press, "but if they fly 'em free, we'll fly 'em free." If customers asked for it, Southwest would fly them for $13. If they paid the full $26 fare, however, Southwest offered them a gift—a bottle of Chivas Regal scotch, or an equivalent present worth about $13.

It was the perfect gimmick. Among Texas' upwardly mobile population, Chivas Regal had just the proper touch of class. Besides, most of them were traveling on expense accounts. They let their company pay the fare and kept the bottle of scotch for themselves. Southwest knew its market—on some flights 95 per cent of the passengers chose the scotch option. "We're not going to start giving away liquor," a Braniff spokesman responded sourly. "We're an airline, not a saloon." Upon sober reflection however, both Braniff and TIA officials admitted that Southwest was doing a good job.

The Chivas Regal campaign was a perfect reflection of Southwest's guerrilla action against the CAB carriers. Whether offering reduced fares on certain flights, or $1.05 in change for a dollar (to counter the new Dallas/Fort Worth Airport's change machines, which return only 95 cents for $1.00), Southwest had proven itself quick, flexible, and innovative. Much of Southwest's share of the market had come from new passengers, and the spur of competition forced Braniff and TIA into more aggressive marketing of their services, thus stimulating overall growth. "We haven't hurt them one bit," Muse contends, "It's D/FW that's killing them."

## The Airport Location

The new Dallas/Fort Worth Airport (D/FW), spreading over the vast north Texas plains like some phantom out of the movie *2001*, is in reality the child of a shotgun wedding imposed by the CAB. In the early 1960s, the CAB decreed that Dallas and Fort Worth, which lie only 31 air miles apart, must combine their scheduled airline operations. After a good deal of controversy they settled on a site near Grapevine, which more or less split the distance between them. Aside from the normal snafus one might expect from opening a giant facility like D/FW, it suffers from the fact that it is a long way from either city center. While this problem is bearable when traveling to Los Angeles or New York, it is a great annoyance for the intrastate commuter, who could save



time and trouble by using the old centrally located airports, Meacham and Love Fields. D/FW planners recognized this problem and secured prior agreement from all the airlines to abandon their Love and Meacham operations in favor of D/FW exclusively. That was in 1970—the year before Southwest's operational debut.

Southwest has steadfastly refused to commit itself to D/FW, preferring to maintain its operations at Love and serve Houston's close-in Hobby Airport to boot. Its success has confirmed the industry's suspicion that short-haul commuters much prefer the older airport—Midway rather than O'Hare in Chicago, National rather than Dulles in Washington. Southwest wasn't about to abandon Love Field without a fight, and it has managed to stay there, despite a round of legal battles against the D/FW authorities and the City of Dallas. Fearing that Southwest's continued operation at Love may jeopardize the success of D/FW, Dallas' city fathers have actually considered closing Love Field altogether. The courts have ruled that for as long as it is open, Southwest may stay.

Southwest is now carrying 70 per cent of all the passengers flown in the Texas Triangle. In addition, it has expanded into the secondary market of the lower Rio Grande valley, offering the only direct service into the area from San Antonio. Southwest also flies people from the valley to Houston for less than Greyhound charges. The familiar pattern has repeated itself, for after Southwest began offering low-cost service, the number of passengers to the valley increased dramatically.

## 'Controlled Competition'

Why can't the CAB carriers compete successfully with the intrastate airlines? Actually they say they can, but not while simultaneously serving unprofitable routes. But Gerald Ford disagrees, as do a good many experts outside the airline industry, including the Brookings Institution. Our federally regulated and subsidized system of air transportation is complex and defies every free enterprise shibboleth. It is a murky species of economic activity called "controlled competition," which means that real competition is pretty much limited to hostess costumes, personal services, and advertising.

Basically the system operates this way. The CAB issues "certificates" to carriers permitting them to fly interstate passengers on the basis of "need"—the public's need, not the airlines'—and it is notoriously stingy with these certificates. The CAB also tells the airlines where they can fly, when, and how much they can charge for doing it. Theoretically, the CAB determines the need of "city pairs" for service, figures out what the traffic should be, and then lets the airlines start flying. If an airline loses money, the CAB has the option of either paying it a subsidy (to bring it up to its 12-percent "return requirement") or giving it additional, more profitable routes so that it can make up losses elsewhere. Naturally, the subsidy bogy being what it is, the CAB prefers to give an airline plenty of profitable routes so that it will earn enough money to overcome any losses it might sustain serving unprofitable "city pairs."

## A Poor Return on His Subsidy

This form of "controlled competition" works reasonably well for large airlines with extensive interstate route structures. Even Braniff, which has a relatively weak route structure, serving only some 30 cities, can absorb losses from unprofitable routes. Southwest's competition has reduced Braniff's overall profitability, since nearly half of Braniff's passengers are either coming from or going to the Texas Triangle, and nearly 20 per cent are carried between two of its cities. But Southwest won't bankrupt Braniff.

Southwest just might destroy TIA, however. The "regionals," which the CAB created shortly after World War II to serve as feeders for the trunk airlines, have been consistent money losers. Since they lack extensive penetration in profitable "city pair" markets, the regionals have always been heavily dependent on federal subsidies. TIA has lost $20 million since 1966, and about the only thing it has going for it is a monopoly of service from the Gladewaters, Harlingens, and McAllens to the Texas Triangle. But Southwest is cutting into that market with its lower Rio Grande valley service, and Muse is considering expanding into TIA's other CAB-protected markets.

If Southwest can serve these feeder routes profitably, why can't the interstate airlines do the same thing? The CAB paid TIA $560,000 to subsidize service to the lower Rio Grande valley as recently as 1973. As a TIA executive (who refuses to be identified) put it: "Southwest is a damn good airline, lean, and hungry. We're not. The best thing they've got going for them is Lamar Muse—the guy comes on like a hick, but he never misses a trick."

Gerald Ford is quite right when he says "for many Americans the cost of air travel has become a luxury too expensive to afford." His solution is to open things up for new interstate carriers modeled on Southwest Airlines. Has the Texas Airline War proven him right? Or will free enterprise lead to the destruction of an integrated passenger system? Carried to its logical extreme, the CAB carriers argue a "purely economic" route structure will make airline service resemble train service—scrambled, irrational, effective only between major markets, and sometimes not even then.

Many experts think not. They argue that the taxpayer is getting a very poor return for his subsidies, particularly where "regional" airlines like TIA are concerned, and that deregulation in certain markets could hardly make things worse. Critics believe that the regionals have invested too heavily in jets (largely for reasons of prestige), and that lighter, propeller-driven aircraft (which the "third level" commuter lines have used effectively), would save everybody money and probably lead to an improvement in service. They also believe that airline managements are top-heavy, inefficient, and complacent, largely because the relationship between the CAB and the airlines is too cozy. The critics argue that the CAB is entirely too willing to bail out airline managers when they make poor decisions, and that the cost of air travel has risen because of it. The CAB's willingness to allow airlines to raise fares has also made managers too cautious, and frequently unwilling to offer the innovative approaches (like single-class, no-food service), which the intrastates pioneered. Also, they believe interstate airlines are too prone to litigate, largely because the nature of the CAB's bureaucracy encourages a legalistic approach and the maintenance of large legal departments.

## Flying Empty Planes

On this point, Southwest's Muse certainly agrees. He has spent over $2 million on legal fees to keep his airline flying, and the total is still growing. The latest round is under way in a Texas court, with TIA challenging the Texas Aeronautics Commission's decision to allow Southwest to serve the lower Rio Grande valley. So on the dingy third floor of Austin's county courthouse, District Judge Jim Meyers is patiently reviewing the whole months-long process of hearings and evidence which the TAC accumulated for the record during 1974. The judge must decide if a pattern of "bias, prejudice, and hostility" influenced the TAC's decision. Southwest has joined the suit on the TAC's side, and its lawyers have staked their defense on the unusual premise that any prejudice TAC exhibited against TIA was justified because of the airline's wretched service and high fares.

Of course this means another whopping legal bill for Southwest. Muse is philosophical about the costs. "I don't begrudge our lawyers a dime," he says. "We've got it and they're worth it. We'll pay our bills, but TIA will just use its legal expenses to pad its losses, and the taxpayer is sure as hell gonna pay for it."

When Southwest began serving the valley in early 1975, TIA simply refused to compete. TIA was free to reduce its fares in this market (the CAB permits airlines to reduce intrastate fares), but it maintained them at the old, high level. Predictably, Southwest got all the passengers with its new low fares, and its aggressive marketing dramatically increased traffic. TIA seemed content, meanwhile, to fly empty DC-9s. Why?

"I know exactly what they're doing," Muse argues. "They want to make things look as bad as possible so's the CAB will bail 'em out. We ain't hurt 'em a bit. There's enough business down there for everybody. We've proved that. Stupid TIA doesn't know what it's doing. Why should they? They've never had to compete with anybody. They're telling the CAB our operations have caused them to lose $2.7 million in the last six months. But what they're not telling the public is that if they don't come up with a loss somewhere, they're gonna have to give back almost that much in federal subsidies!"

TIA argues that the CAB requires it to serve unprofitable routes, and that Southwest is competing unfairly by skimming off the cream while ignoring the "service" aspects of air service. But in the valley case, the CAB has intermittently subsidized TIA's "service." As for other off-the-beaten-track cities, Muse says: "You give me their CAB subsidy and I'll serve their Abilenes and Longviews for 'em and still make money. I'll trade places with 'em." So far, TIA has refused the offer. ■

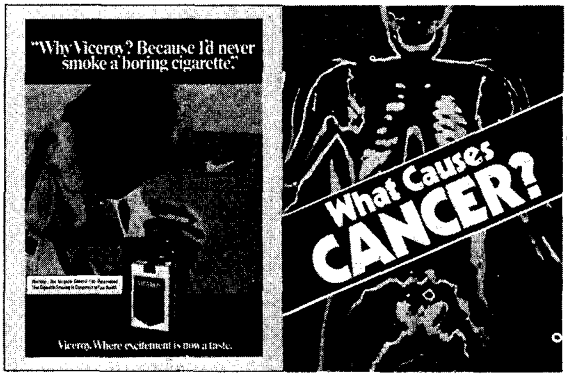
*(For a further discussion of the issues raised by the Texas Airline War, see "Waco, Wilt and the AMA," by James Fallows, in this issue.)*

**Equal Time**

Last month we criticized magazines that claim to have high standards but accept advertising on harmful products like cigarettes. Now *The Washington Post* reports that *Playgirl* has decided to root out a million dollars' worth of its erotic advertising–30 per cent of its total ad revenue–in what vice-president Ira Ritter calls an effort to upgrade the product.

"What we're talking about is the ads for vibrators and lotions, books and films, potency pills that actually are just placebos, ads that have been creeping into a lot of magazines recently. It's almost impossible to monitor some of these advertisers, and our running them is more or less an endorsement in the consumers' eyes."

Mr. Ritter did not comment on *Playgirl*'s cigarette ads. His myopia was more than matched by the people at *Newsweek*, who put together this front and back cover combination for the January 26 issue:




**Baby Talk**

Our picture of the happy American family has been shaken by Ann Landers who recently asked her readers: "If you had it to do over again, would you have children?" Seventy per cent answered No. Some sample letters:

"From Fargo, N.D.: My husband and I were married eight years before we had our first child. Within four years we had three. (The third one was a mistake.) Then I had my tubes tied and my husband had a vasectomy–just to make sure. We both agree our happiest years were before we had the kids. They have brought us a lot of heartache and very little pleasure. If we had it to do over again we'd have remained childless.–Rather Die Than Sign My Name

"From Tampa, Fla: I am 40, my husband is 45. We have two children under the age of eight. I was an attractive, fulfilled career woman before I had these kids. Now I'm an exhausted, nervous wreck who misses her job and sees very little of her husband. He's got a 'friend,' I'm sure, and I don't blame him. Our children took all the romance out of our marriage. I'm too tired for sex, conversation or anything else. Sign me–Too Late For Tears.

"From New York: I've lived 70 years, and I speak from experience, as a mother of five. Was it worth it? No. The early years were difficult. Illness, rebellion, lack of motivation (we called it shiftlessness and laziness in our day). One was seriously disturbed–in and out of mental hospitals. Another went the Gay Lib route. Two are now living in communes (we never hear from them). Another has gone loony with the help of a phony religious leader who should be in jail. Not one of our children has given us any pleasure. God knows we did our best, but we were failures as parents and they are failures as people.–Sad Story."

**Historical Footnote**

The art of identifying the significant or telling detail is one that all young writers should master. But Mary McCarthy hasn't learned it, apparently, as the following example from her recent article about Hannah Arendt in *The New York Review of Books* suggests:

"She liked shoes; in all the years I knew her, I think she only once had a corn."