the discounters. Labor costs both as a percentage of total expenses and per available seat mile was trending down in general, but could vary considerably both among and between the major and discount airlines. According to a *USA Today* article entitled, "Low Fare Airlines are Losing Their Edge," the spread between these operators was closing, but in some cases there was still about a two percentage point or more difference in labor costs as a percentage of total expenses and the labor cost per available seat mile could amount to $2.00 or more in most cases. United and Continental reported the lowest costs for the majors while ATA and Jet Blue reported the lowest costs for the discount carriers. It was also interesting to note that Southwest Airlines was an outlier as it had one of the highest labor expense percentages and one of the highest labor cost per available seat mile expenses for all airlines. Some of the variation in labor costs among the airlines may be attributable to union contracts varied based on hours worked. For example, some of the discount airlines had reached agreements with their pilots which required the pilots to fly 80 hours per month; whereas, the majors worked their pilots 50 hours per month per contract. Despite these disparities, the airlines benchmarked their expenses on a cost per seat mile.

Because of fuel and labor costs, the majors had been saddled with billions in debt and a negative $3.2 billion or more in equity. For the airlines, there had been only two methods for reducing labor costs: negotiate reductions in pay and retirement benefits with the unions and downsize. The other option was to increase revenues, but revenue growth had been difficult to achieve in an industry saddled with overcapacity, consumer price sensitivity, and intense rivalry.

In the past to reduce or eliminate competition, the majors controlled most of the landing slots at the newer international airports through leases. Therefore, the discounters increased service to the smaller national airports such as Chicago's Midway and Houston's Hobby. To equalize the competition in the last 10 years, the government encouraged airports to lease more gates to the discounters in the industry at the newer airports. As more gates became available, competition at major airports increased, which placed greater pressure on the majors to reduce costs.

At the same time, the labor unions rejected reductions in labor costs and, in some instances, asked for greater increases in pay. Southwest Airlines workers, for example, moved into the upper tier in pay and the flight attendants asked for a 40% increase in pay. America West settled with their pilots for an 11% increase in pay.

Because of the many governmental restrictions and the airlines' limited ability to respond to competitive developments, adverse economic conditions and/or global instability resulted. This has caused most majors to file for bankruptcy protection: United, U.S. Airways, Delta, Northwest, ATA, and Air Tran. Bankruptcy enabled these airlines to reorganize, renegotiate more favorable union contracts and more favorable airplane leases, while attempting to eliminate unfunded pension plans and overall debt obligations. In fact, to help the airlines return to profitability, some experts have suggested the Federal Government eliminate the $15 billion in transportation taxes and costs for the airline industry.

Travel Industry Trends

Despite billions in airline losses due to industry overcapacity and soft demand in the travel industry, the economic projection for the U.S. economy and overall travel industry continued to be favorable. The Federal Reserve had a low-interest rate policy from 2001 until 2004 with some projected increases for 2005 and 2006. In 2000, the fiscal stimulus from the federal government helped restore economic growth, and the low rate of inflation promised a healthy economic outlook for the future. As a result, the U.S. Travel Revenue is projected to grow between 3% and 7% from $193.1 billion (as related in Table III) in total U.S. travel revenue for years 2002 through 2006. These