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AIRLINE COMPETITION

Strategies for Addressing Financial and Competitive Problems in the Airline Industry

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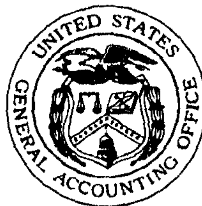

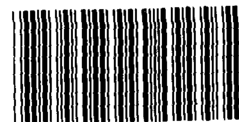

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Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to testify on the state of the airline industry. We have completed an extensive body of work over the past several years on airline competition and the financial condition of the industry, some of which was done at the request of this Subcommittee.[1] Our testimony today will discuss the interrelated competitive and financial problems of the industry, with a view toward protecting the interests of U.S. consumers and ensuring that U.S. airlines are positioned to successfully compete in domestic and international aviation markets.

Our basic points are the following:

-- The losses sustained by the major U.S. airlines over the last 3 years need to be placed in perspective. Although every major scheduled passenger airline except Southwest has experienced substantial losses, the losses have been especially severe for the financially weakest airlines. Also, over $2 billion of the $4.4 billion in losses reported so far for 1992 is due, not to operations, but to a change in the way liabilities for retiree benefits are recorded.[2] The five major airlines that have failed or are operating under bankruptcy court protection have seen their market share fall from about 35 percent in 1987 to less than 18 percent in 1992.[3] At the same time, the three largest airlines have increased their market share from 41 percent to almost 58 percent.

-- No single factor explains the succession of recent losses suffered by U.S. airlines. High debt-service costs resulting from leveraged buy-outs, ill-timed expansions, limited access to capital,[4] and fare wars have all contributed to the financial problems of the industry. The effect of these factors has been exacerbated by other factors, such as the Persian Gulf War and the recession. Also, some analysts have pointed to airline pricing

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[1]A list of our reports and testimonies on airline competition issues released over the last 5 years can be found in app. V.

[2]Our analysis includes only the major scheduled passenger airlines, i.e., those with at least $1 billion per year in revenues.

[3]The five airlines are Eastern and Pan Am (which ceased operations in 1991) and America West, Continental, and TWA (which are reorganizing under bankruptcy court protection). Market shares are based on systemwide revenue passenger miles.

[4]The primary limitation on U.S. airlines' access to capital are the restrictions on foreign investment and control.

practices--especially those of bankrupt airlines whose prices may not cover all of their costs of operations because of bankruptcy court protection--as another factor undermining the financial condition of the industry. Because demand for air travel provided by any particular airline is price sensitive, airlines feel compelled to match low fares in order to be competitive. In addition, as we have reported previously, physical and marketing barriers to competition, such as restricted access to key airports and computerized reservation systems (CRS), have made it difficult for the smaller and financially weaker airlines to compete, especially in markets dominated by the largest airlines. Our 1991 analysis of 1,600 routes showed that these barriers increase fares.[5]

-- Just as no single factor explains the current state of the industry, no single action will address all of its interrelated financial and competitive problems. Thus, the challenge will be for the Congress and the new administration to work with the industry toward a broad and well-designed strategy. One possible vehicle for developing such a strategy would be the National Commission to Promote a Strong and Competitive Airline Industry.[6] In our opinion, such a strategy would be most effective if it contained four key elements: (1) improving U.S. airlines' access to capital markets through relaxing the restrictions on foreign investment and control, under certain conditions; (2) enhancing access to the growing international market for all U.S. airlines; (3) reducing barriers to competition; and (4) examining the claims and counterclaims about airline pricing practices, especially those of bankrupt airlines.

We would now like to discuss in more detail the competitive and financial problems of the airline industry and the way we see these problems affecting competition in both the domestic and international markets.

THE INDUSTRY'S FINANCIAL PROBLEMS REDUCE COMPETITION

The major U.S. airlines have lost over $10 billion in the last 3 years. (See app. I, table I.1.) However, that aggregate figure is skewed by the huge losses suffered by a few airlines. For

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[5]Airline Competition: Effects of Airline Market Concentration and Barriers to Entry on Airfares (GAO/RCED-91-101, Apr. 26, 1991).

[6]This commission was authorized by the Congress in October 1992 to examine current conditions in the airline industry and suggest possible strategies for addressing its problems.

example, about two-thirds of the industry's 1990 and 1991 losses were recorded by Eastern, Pan Am, and Continental. Among the airlines reporting full-year financial results for 1992, about half of the losses reported are due to the new Financial Accounting Standard (FAS 106), which changes the way retiree medical and life insurance benefit costs are recorded. (See app. I, table I.2.) In addition, some of the losses reported by the three largest and strongest airlines (American, Delta, and United) stem from the costs associated with integrating the assets they have purchased from their bankrupt rivals in the last few years. For example, Delta's 1992 operating expenses rose more than 20 percent from calendar year 1991, largely because of the costs associated with the takeover of Pan Am's European operations.

In response to the losses the major airlines have sustained, they have been implementing cost-cutting programs, laying off employees, cancelling or delaying aircraft deliveries, and refocusing service. For example, TWA reduced overall capacity by almost 20 percent between 1990 and 1992 and USAir closed its Dayton, Ohio, hub. While such actions should help the industry improve its financial performance, they can have negative impacts on an airline's long-term competitive position. For example, cancelling or delaying aircraft deliveries can reduce current capital spending but can also limit future service options because of airport noise programs that restrict the use of older, noisier aircraft.

Financial Problems Weaken Competition and Reduce Profitability

Both GAO and the Department of Transportation (DOT) have found that consumers pay higher fares when flying from airports where there is little competition. In our analysis of 1988 fares,[7] we found that fares for flights from concentrated airports were about 20 percent higher for trips of similar lengths.[8] We are updating this study and the results should be available this spring. DOT reported that fares at a group of eight airports dominated by one

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[7]Airline Competition: Higher Fares and Reduced Competition at Concentrated Airports (GAO/RCED-90-102, July 11, 1990). Our study compared fares on the basis of yield, i.e., fare per passenger mile.

[8]We classified an airport as concentrated if one airline handled at least 60 percent of the passengers enplaning at that airport or two airlines handled at least 85 percent of the enplaning passengers. We excluded airports in metropolitan areas served by more than one commercial airport, such as New York City and Chicago, and airports outside the contiguous 48 states.

airline were about 19 percent higher than average fares in 1988.[9] A recently released DOT study of 1991 fares showed no change in this premium. While most routes continue to be served by several competitors, if the industry continues to consolidate, the decrease in competition could lead to higher fares.

Since January 1990, two major airlines have ceased operations and three more are reorganizing under bankruptcy court protection. The financially weaker airlines have also sold more than $2 billion worth of assets, primarily international route rights and slots,[10] to their stronger competitors. (See app. II.) The market shares of the five bankrupt major airlines have fallen from 35 percent in 1987 to less than 18 percent in 1992. During that same period, the market share of the three largest airlines has grown from about 41 percent to almost 58 percent.

Many factors affect the profitability of the airline industry and of individual airlines. Demand for air travel is sensitive to swings in the level of economic activity and to unexpected events, such as the increased concern about air travel safety during the Persian Gulf War.

Over the past decade, several large airlines have developed serious problems that weaken their financial position. Chief among these problems are the high levels of debt some airlines have incurred to finance leveraged buy-outs and expansion plans, and the operating and marketing practices that raise the costs of competing with the dominant airlines in a market. The five major airlines in financial trouble in 1990--America West, Continental, Eastern, Pan Am, and TWA--all experienced substantial increases in their debt ratios (i.e., long-term debt as a percentage of total capitalization) during the 1980s. All of those airlines had average debt ratios over 80 percent. In contrast, the other six major airlines all held their debt ratios under 65 percent and most of them held their average debt ratios under 50 percent in 1985-89. (See app. IV.)

In the future, airlines will have to spend billions of dollars to repair and modify older aircraft to ensure safety and reduce noise. For example, we have estimated the industry's cost of retrofitting or replacing noisier Stage 2 aircraft to be between $2

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[9]In the DOT study, airports were classified as concentrated if one airline enplaned 75 percent or more of the passengers.

[10]A slot is a reservation for take-off or landing at one of four U.S. airports where access is restricted under the High Density Rule (14 C.F.R. Part 93, Subpart K).

billion and $5 billion dollars.[11] In addition, airlines must finance the acquisition of new aircraft if they are to remain competitive.

For more than a decade, profit margins in the U.S. airline industry have been about half those of the average U.S. company in other industries, and airlines have had to borrow or sell stock to raise capital. Debt financing, whether through issuing debt instruments such as bonds or through the sale-leaseback of aircraft, carries fixed charges for interest, principal, and lease payments. In a cyclical industry like the airline industry, revenues available to cover fixed charges may fluctuate widely, making it difficult to cover fixed charges during cyclical downturns in demand or short-term increases in costs. Another way to raise additional capital is to sell stock. However, because of their low returns, the weaker U.S. airlines are not likely to attract much additional equity investment from U.S. sources. Therefore, the most likely investors are foreign airlines, because they can capitalize on operating synergies between the two airlines, something nonairline investors cannot do.

Some industry observers believe that the actions of certain bankrupt airlines may have also affected profitability. Because bankrupt firms can suspend repayment of long-term debt, they may set prices to generate sufficient cash flow to meet short-term needs, rather than setting prices that cover the full costs of operation.[12] To remain competitive, the other airlines respond by matching these low fares and, as a result, suffer losses.

STRATEGIES FOR ADDRESSING AIRLINE FINANCIAL AND COMPETITIVE PROBLEMS

We believe that the most appropriate approach to resolving the competitive and financial problems of the airline industry is to focus on strategies that address the multiple factors that have led to the current problems. Airlines' access to capital needs to be improved, possibly by relaxing restrictions on foreign investment and control. However, improved access to capital is not a panacea for the airlines' financial and competitive problems. Access to international markets also needs to be enhanced, and the relaxation of U.S. restrictions on foreign investment could be linked to gaining better access for U.S. airlines to international markets. In addition, a number of barriers to competition resulting from airline marketing and operating practices continue and must be

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[11]Aviation Noise: Costs of Phasing Out Noisy Aircraft (GAO/RCED-91-128, July 2, 1991), p. 2. Our estimate reflects the present-value cost to the industry in 1990 dollars.

[12]The full costs of operation would include, for example, the costs of financing aircraft.

reduced if competition is to thrive. Finally, claims about unfair pricing practices need to be carefully examined before any action is taken to "protect" the airlines.

Improving Airlines' Access to Capital

U.S. airlines have not generated an attractive rate of return in recent years and, as a result, must either borrow or sell equity to finance capital needs. However, borrowing raises fixed costs for debt repayment and many airlines already have heavy debt loads. Moreover, because of low rates of return, the most likely investors in the financially weaker U.S. airlines are other airlines that can capitalize on operating and marketing synergies. The continuing consolidation within the U.S. airline industry may mean that further mergers between U.S. airlines could have a difficult time clearing the Justice Department's antitrust scrutiny. The most likely investors, therefore, are foreign airlines that could link the domestic and international operations of the U.S. airline with their own route system. For example, DOT recently approved Air Canada's investment in Continental, and USAir and British Airways have announced a modified version of their previous investment agreement, which was withdrawn last December.

We have examined the issue of foreign investment in some detail.[13] Federal law currently limits foreign investment in U.S. airlines to 25 percent of the airline's voting stock. In addition, the president and two-thirds of the airline's board of directors and key management officials must be U.S. citizens. DOT interprets the law to require that effective control must also remain in the hands of U.S. citizens. Some of the reasons that the restrictions were first put in place, such as protection of a heavily subsidized, fledgling industry, are no longer a concern. Allowing greater foreign investment could help some U.S. airlines remain viable competitors, thus enhancing domestic competition. However, other concerns remain.

On the one hand, foreign airlines are not likely to invest substantially in U.S. airlines, particularly the weaker ones, unless they can (1) exercise control over their investment commensurate with the amount of voting stock held and (2) integrate the operations of the two airlines into one system. On the other hand, U.S. airlines that already have significant international operations are concerned that allowing a foreign airline to gain control over a U.S. airline could place them at a competitive disadvantage, especially if the investing foreign airline is from a country that has a particularly restrictive bilateral.

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[13]Airline Competition: Impact of Changing Foreign Investment and Control Limits on U.S. Airlines (GAO/RCED-93-7, Dec. 9, 1992).

There are other issues in the debate on foreign investment and control as well. The Department of Defense is concerned about the continued availability of commercial aircraft and crews to supplement its own airlift capacity in times of military emergency. Airline labor unions are concerned about potential job losses, especially high-paying crew jobs on international flights, if foreign airlines are allowed to gain effective control over U.S. airlines.

Our analysis of the likely impacts of changing foreign investment and control limits showed that these interests and concerns could be addressed. If the Congress chooses to relax the limits on foreign investment and control of U.S. airlines, it could consider requiring DOT to proactively consider potential impacts on international aviation competition in assessing the proposed investment and consider limiting eligibility to make such investments to airlines from nations that are willing to exchange improved access to their markets. The Congress could also expand DOT's review of these transactions to consider their potential impact on national security. We also suggested that our examination of potential job impacts concluded that there are practical limits to the number of jobs that might be lost and that U.S. airline employees are highly cost-competitive with their international counterparts. Finally, the potential for jobs to be lost if an airline ceases operations because it cannot get the capital needed to stay afloat is likely to be much greater than any losses associated with increased foreign investment and control.

Domestic Issues Should Be Considered in the Context of the Changing International Environment

The second element of the strategy is enhancing access to international markets. The international aviation industry, like the domestic industry, has been changing. The international market is expected to grow about twice as fast as the domestic market through the year 2000. Thus, the major U.S. airlines have begun to focus greater attention on expanding their international operations. Between 1987 and 1991, the proportion of major U.S. airlines' systemwide revenue passenger miles represented by international operations grew about 22 percent and international operations now account for about 26 percent of operations. (See app. III.) For the three largest major airlines, the growth in international operations has been dramatic, with international revenue passenger miles more than doubling between 1987 and 1991.

Access to international markets is regulated by bilateral agreements between governments that set the conditions under which U.S. and foreign airlines operate and compete. These agreements, known as bilaterals, can restrict competition by limiting the services and fares that can be offered. The United States has 72 bilaterals with 95 countries around the world, each one separately

negotiated. Although the European Community (EC) has integrated its internal market, the Commission does not yet negotiate for the 12 EC member nations as a whole. While the U.S. can mandate change in the domestic industry, it can influence, but cannot dictate, the pace of international change. Change in the international arena is likely to be slow because of the many bilaterals in place and the necessity of negotiating changes with each country individually under the current system. We believe that an examination of U.S. policy to ensure that it encourages greater international competition, protects the interests of consumers, and allows all U.S. airlines to participate in international markets would be useful.

Also, while some industry analysts believe that the system of bilaterals will be replaced by a more open, competition-oriented system, the results of recent negotiations with our aviation trading partners are mixed. For example, within the past year, the United States had concluded an open-skies bilateral with the Netherlands, but several other countries--France, Germany, and Japan--have requested changes to their bilaterals, such as temporary capacity constraints, that would place additional limits on competition. In addition, many industry officials and analysts believe that the current consolidation in the U.S. airline industry is the precursor of a global trend, leading to the eventual domination of worldwide aviation by a handful of mega-carriers. Thus, many U.S. and foreign airlines have been developing networks of equity and marketing alliances to improve access to each others' international and domestic markets and thereby improve their chances of surviving the expected restructuring.

An airline's financial condition affects whether it can continue to participate in international markets and how it can participate. The financially distressed airlines have sold international routes and some have reduced their participation in the international market, while the stronger U.S. airlines have expanded their international operations. In addition, some of the smaller or financially weaker U.S. airlines have had to rely on marketing agreements with foreign airlines to continue or expand their participation in some international markets. Thus, U.S. airlines must be financially sound if they are to continue to play a significant role in international markets.

Barriers to Competition Limit Market Entry and Raise Fares

The third element of the strategy is addressing the barriers to competition on which we have reported and testified extensively. Airline operating and marketing practices make it more difficult for some airlines to compete by limiting access to airports and by limiting the ability of new airlines on a route to market their services. These practices also affect airline profitability by raising the costs of competing airlines. When entry into markets

is constrained, competition is reduced. In our 1991 report,[14] we found that fares were 5 to 9 percent higher on routes when two or more of these barriers were present. We have previously presented a number of options for addressing these barriers, which we will summarize today.

Certain Practices Limit Access to Airports

Airport access is limited by the practice of leasing airport gates and other facilities to airlines on long-term, exclusive-use leases. These leases give control of key airport facilities to airlines and make it possible for them to exclude other airlines from using the facilities. Federal government action to encourage the use of preferential-use leases on airport facilities could help improve access to the terminal facilities an airline needs to offer service.[15] Since new facilities built with Passenger Facility Charges (PFC) can not be leased on long-term, exclusive-use leases, the 1990 PFC legislation clearly moved in that direction.[16] As of November 1992, this legislation has made more than $75 million available for terminal expansion projects that could increase competition.

Another factor limiting airport access is the Federal Aviation Administration's (FAA) High Density Rule, which restricts access to take-off and landing slots at four key airports--Washington's National, Chicago's O'Hare, and New York's Kennedy and La Guardia Airports. Competition at the slot-controlled airports could be enhanced if slots were made available to airlines with little or no service at those airports. The limits on operations at the slot-controlled airports were designed to tailor demand for air traffic services to the capacity of the airports. However, technical improvements in air traffic control may make it feasible for FAA to increase the number of slots available at those airports. In addition, the buy/sell rule, which was designed to create a market in slots, could be altered to encourage airlines to sell slots they do not use.

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[14]Airline Competition: Effects of Airline Market Concentration and Barriers to Entry on Airfares (GAO/RCED-91-101, Apr. 26, 1991).

[15]A preferential-use lease protects the primary lessee's right to use the facilities whenever the airline has operations scheduled, but allows the airport to make the facilities available to other airlines when the facilities would otherwise be idle.

[16]PFCs were authorized in sec. 9110 of the Aviation Safety and Capacity Expansion Act of 1990, which was signed by the president on November 5, 1990.

Marketing Practices Limit the Ability of Airlines Entering New Markets to Compete

Certain airline marketing practices also limit competition. These practices include CRSs, travel agent incentives, frequent flyer plans, and code-sharing.

CRSs and Travel Agent Incentives--Because each airline must, as a practical matter, have its flights listed on each CRS in order to market its flights successfully, each airline must pay the booking fees charged by the other airlines that own the CRSs. As we reported in 1991,[17] the lack of effective competition in the CRS industry allows the dominant CRSs, which are controlled by American and United, to each receive substantial revenues,[18] in excess of the costs of the service provided (including a reasonable profit), from other airlines in the industry, most of which are financially weaker. Travel agent commission overrides[19] may also restrict competition. Commission overrides and other travel agent incentives encourage agents to divert traffic to the airline offering the best incentives, usually the largest in the market, when the passenger's needs can be met by the services of more than one airline.

DOT issued new CRS rules in September 1992 that addressed the concerns we have raised in the past about the contractual relationships between travel agents and CRS vendors. These concerns included minimum-use clauses, automatic rollovers, and 5-year minimum contract terms. The new regulations should make it easier for travel agents to change systems. However, DOT did not address the problem of booking fees. Eliminating or reducing booking fees would halt or reduce the revenue transfers from participating airlines to CRS vendor airlines. Although such a strategy could raise the cost of the systems for travel agents, travel agents are in a better position to negotiate terms with the vendors than are the airlines that, as a practical matter, must participate in every system. Alternatively, requiring arbitration of increases in booking fees could give participating airlines some leverage and help minimize revenue transfers. In addition,

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[17]Airline Competition: Weak Financial Structure Threatens Competition (GAO/RCED-91-110, Apr. 15, 1991).

[18]Based on data collected by DOT for its 1988 study of the CRS industry, we calculated that the two dominant CRSs annually transferred over $300 million to their airline owners. Although we recommended that DOT update its information on the CRS industry, DOT has not gathered more recent data.

[19]Commission overrides are bonus commissions paid by individual airlines to travel agents to encourage booking on a particular airline.

eliminating commission overrides and other travel agent incentives could reduce agents' tendency to book on the dominant airline in a market. However, policies to eliminate the adverse effects of CRSs on competition should be designed to preserve their positive features. Consumers benefit from CRSs because the systems allow travel agents to quickly search among the fare, route, and schedule offerings of competing airlines to find the flight that best meets the passenger's needs.

Frequent Flyer Plans--Frequent flyer plans may also have a significant effect in reinforcing the market power of dominant airlines. Our survey of travel agents indicated that business flyers often choose an airline on the basis of frequent flyer plans, which generally favor the larger airlines in each market. The aspects of frequent flyer plans that reinforce the market power of dominant airlines could be reduced without eliminating the plans. For example, making mileage transferable between passengers belonging to the same plans would reduce passengers' incentives to fly only with the dominant airline in a market, but airlines and travelers would still benefit from the plans. This is because passengers must still take flights on an airline to earn awards from that airline, but the passengers do not have to concentrate their travel on a single airline if they can trade mileage earned with other travelers who belong to the same frequent flyer programs.

Code-sharing Agreements--Code-sharing agreements[20] appear to strengthen the position of major airlines with such agreements, especially at the airlines' hubs. One option for reducing the anticompetitive impact of code-sharing would be to remove the preference code-shared flights currently have over interline flights in CRS displays,[21] since flights that are displayed sooner are more likely to be booked. However, our survey of travel agents showed that passengers tend to prefer code-shared flights over interline flights because of customer convenience factors, such as

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[20]Code-sharing agreements are cooperative marketing agreements, generally between large airlines and smaller, commuter airlines, in which the commuter airline transports connecting passengers to and from the larger airline's flights. The passenger's ticket shows the two-letter airline code of the larger airline for all segments of the trip even though part of the trip is actually flown on the smaller airline.

[21]Interlining arrangements are the traditional method by which airlines facilitate travel for passengers who must use more than one airline to reach their destinations. Interlining agreements between airlines allow the passenger to book passage on one airline for the first part of a trip, on a second airline for the second part of a trip, and on other airlines for subsequent parts of the trip.

the proximity of gates for changing planes and increased reliability in baggage handling. Thus, passengers should at least have information on whether code-shared flights are available so that they may choose the service that best meets their needs.

Conflicting Claims About Airline Pricing Practices Should Be Carefully Examined

The fourth element of the strategy is a careful examination of the claims and counterclaims about the role of airline pricing practices in the industry's financial difficulties. We urge caution before acting on the claims and counterclaims about the pricing practices of airlines. The extent of the problem and its systemwide effects need to be established and weighed against the longer-term competitive implications of any proposed action. Some industry observers believe that bankrupt airlines may be pricing below the full costs of operations. However, because the bankruptcy code is not structured on an industry-specific basis, any action to change the bankruptcy laws would likely affect firms in other industries as well as airlines. In addition, actions that would force airlines to limit time spent in reorganization could force additional airlines to simply cease operations and adversely affect the interests of airline creditors. If measures were implemented to protect the non-bankrupt airlines from alleged below-cost pricing by bankrupt airlines, theses measures could make it more difficult for bankrupt airlines to successfully reorganize, regain financial health, and offer effective competition. Moreover, not all discounting is initiated by bankrupt airlines. Finally, actions to limit airline pricing activity could harm consumers by reintroducing fare regulation and raising fares.

Thus, there are risks to competition from intervening in the market, even if there is a need to protect airlines from unfair pricing practices, whether the practices emanate from bankrupt airlines or from other airlines. In our opinion it is crucial to first determine whether the pricing practices of the airline industry are unique and would thus warrant different treatment before giving consideration to changing airline pricing behavior or to changing the bankruptcy laws. This task could be assigned to the National Commission to Promote a Strong and Competitive Airline Industry so that a dispassionate evaluation of the issue can be undertaken. Another option would be a joint investigation by DOT and the Department of Justice.

CONCLUSIONS

Overall, deregulation of the domestic airline industry has benefited U.S. consumers and has made U.S. airlines more efficient competitors. Fares are lower and service is more frequent on many routes. U.S. airlines have become more efficient, and U.S. airline employees are among the world's most productive. Nevertheless, some firms in the industry face serious financial problems, and the

long-term competitive health of the industry could be at risk. A well-designed, broad program that covers the elements we have outlined today is the best strategy for improving the long-term financial status of distressed airlines and making them more effective competitors in the airline marketplace. Postponing action will dramatically narrow the range of options open to the Congress. Ensuring a competitive marketplace will be much more difficult with fewer airlines in the market.

In selecting solutions, policymakers will need to consider the total impact of the action chosen. For example, enhancing competition by improving access to slot-controlled airports could have negative consequences for some airlines that have large numbers of slots. More broadly, policies designed to promote domestic competition must take into account the impact on international markets. For example, allowing greater foreign investment in U.S. airlines could strengthen domestic competition by allowing airlines to reduce debt burdens, invest in new aircraft, and compete more effectively with the dominant airlines. But it could also reduce competition in some international markets if investments between U.S. and foreign airlines serving the same routes were allowed, or if other U.S. airlines were shut out of those markets.

The government's interest in the survival of threatened airlines is one of ensuring that there are enough airlines to provide effective competition and that airlines have the access to individual routes necessary for competition. To the extent that the difficulties experienced by a specific firm are the result of anticompetitive forces within the industry, government policies are appropriately directed at opposing those forces. To the extent that a specific firm's problems stem from mismanagement or inefficiency, its distress reflects the natural processes of the marketplace that favor the efficient, well-run business over an inept competitor, and government intervention harms the consumer by keeping inefficient suppliers in the industry.

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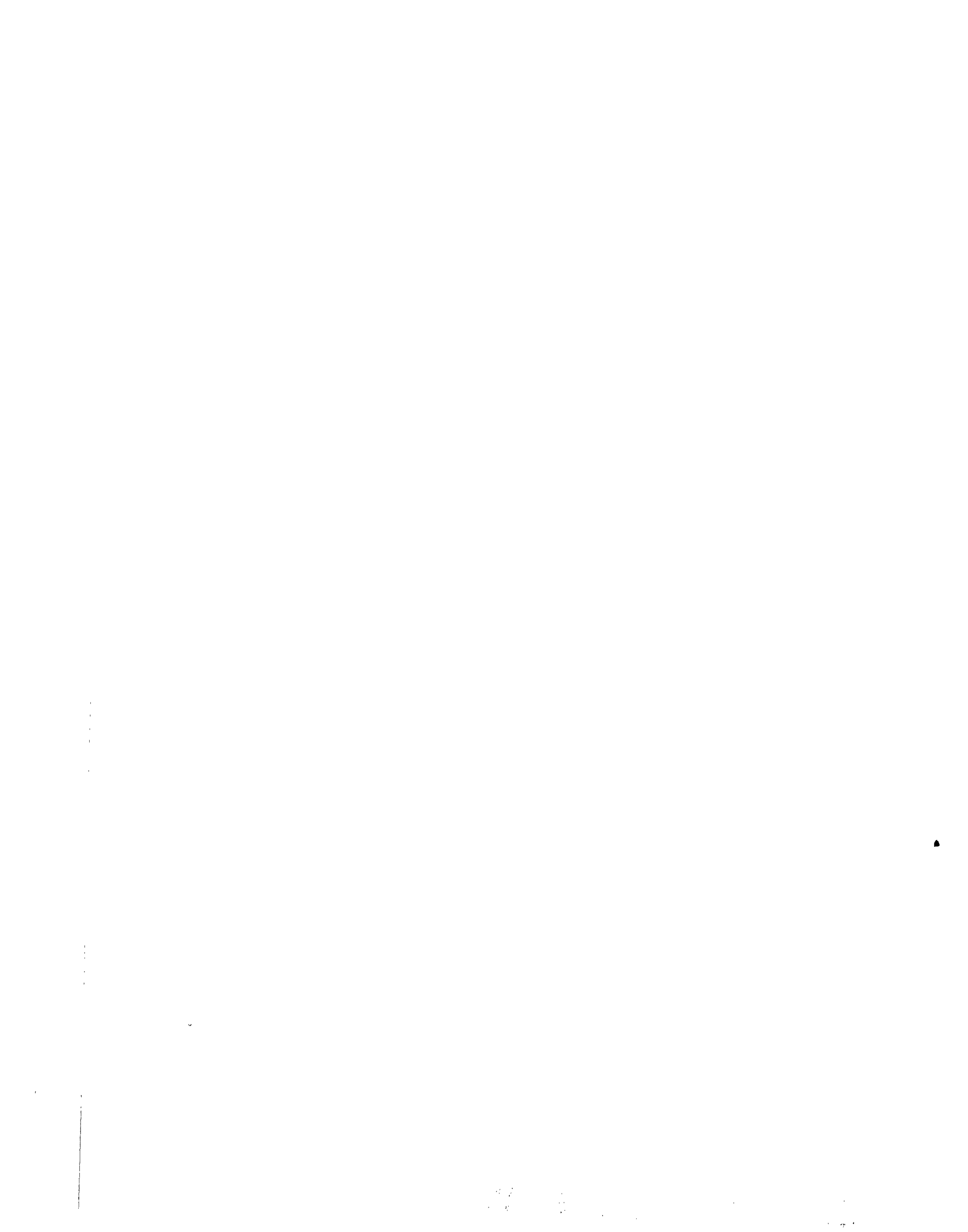
That concludes our testimony. We would be happy to respond to any questions you may have.



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