

## **FlyersRights.org Social Distancing and Stimulus Plan**

March 24, 2021

### **Introduction**

This memorandum proposes an alternative stimulus plan for the airline industry. The plan calls for capping passenger load factors at 50% or 65% with the federal government purchasing 15% to 30% of tickets to keep those seats empty. This plan results in airlines operating at a profitable 80% passenger load factor while increasing the health and safety of flights by keeping middle seats or half of all seats empty. In exchange, the federal government would receive a percentage of this investment back in the form of future tickets or travel credit for government employees when airlines return to their typical profitability.

### **Government Relief Packages**

Government relief to the airlines has come in the form of (1) payroll assistance, (2) loans, and (3) tax relief. This payroll assistance has resulted in airlines paying pilots and flight attendants to stay home because passenger demand for flights has not supported their employment.

If the airlines instead paid these employees to work on new, socially-distanced flights, passengers worried about Covid-19 would be more likely to fly. The lack of confidence of passengers in the health and safety of air travel is a major obstacle to recovery.<sup>1</sup> If airlines capped passenger load factors at 50% or 65%, more passengers would make the decision to fly, and airlines could operate more flights and pay more flight attendants and pilots to work rather than to stay home when flight numbers were depressed. Flights with passenger load factors of 50% or 65% would not be profitable. However, the federal government could purchase a sufficient number of tickets, and keep those seats empty, to get load factors up to a profitable 80%. In return, the federal government would receive a percentage of those seats back post-pandemic for travel by federal government employees.

To date, government relief efforts have acted as a band-aid for the airline industry. The federal government has treated the symptoms of the pandemic's travel lull—out-of-work employees and airlines operating at a loss—rather than truly attacking the cause. The best government plan would be the one that slows the spread of Covid-19 and increases passenger confidence in flying, alleviating the effects of the Covid-19 travel drop.

---

<sup>1</sup> <https://www.iata.org/en/pressroom/pr/2020-07-28-02/>.

In total, the airlines have received over \$79 billion in grants and loans, while contractors received an additional \$5 billion in grants. In April 2020, Congress gave the airlines \$50 billion in addition to tax relief: \$25 billion in the form of payroll grants<sup>2</sup> and \$25 billion in loans.<sup>3</sup> Additionally, unemployed workers received state unemployment payments and matching federal funds. As predicted, this bailout would do nothing to help the airline industry recover, and airlines would come back asking Congress for more money. The first CARES Act required airlines to only guarantee employment through September 2020.

In December 2020, in the Consolidated Appropriations Act of 2021, the airlines received another \$15 billion to pay employees.<sup>4</sup> The Act required airlines to guarantee employment through March 2021 and to restore employment to the over 32,000 workers furloughed in October 2020 as a result of the expiration of CARES Act funding.<sup>5</sup> The airlines received an additional \$14 billion in the American Rescue Plan Act in March 2021.<sup>6</sup>

These three bailout bills also include \$22 billion in loans and grants for other air travel companies affected by reduced passenger demand.<sup>7</sup> Even with government bailout funds, companies in the air travel industry such as Gate Gourmet laid off workers.<sup>8</sup>

---

<sup>2</sup> Sec. 4112, PL 116-136 <https://www.congress.gov/116/plaws/publ136/PLAW-116publ136.pdf>.

<sup>3</sup> Sec. 4003; PL 116-136 <https://www.congress.gov/116/plaws/publ136/PLAW-116publ136.pdf>.

<sup>4</sup> Sec. 402, PL-116-260 <https://rules.house.gov/sites/democrats.rules.house.gov/files/BILLS-116HR133SA-RCP-116-68.pdf>.

<sup>5</sup> <https://www.cnn.com/2020/12/20/airlines-on-track-to-get-15-billion-in-federal-aid.html>.

<sup>6</sup> Sec. 7301, HR 1319 <https://www.congress.gov/117/bills/hr1319/BILLS-117hr1319enr.pdf> ; <https://www.dallasnews.com/business/economy/2021/03/06/heres-what-is-in-the-19-trillion-stimulus-deal-for-airlines-the-unemployed-and-renters/>.

<sup>7</sup> \$17 billion in loans to businesses critical to national security and \$3 billion in grants to contractors in March 2020 law, <https://www.congress.gov/116/plaws/publ136/PLAW-116publ136.pdf> ; \$1 billion grant to contractors in December 2020 law, <https://rules.house.gov/sites/democrats.rules.house.gov/files/BILLS-116HR133SA-RCP-116-68.pdf> ; \$1 billion grant to contractors in March 2020 law, <https://www.congress.gov/117/bills/hr1319/BILLS-117hr1319enr.pdf>.

<sup>8</sup> <https://www.propublica.org/article/the-airline-bailout-loophole-companies-laid-off-workers-then-got-money-meant-to-prevent-layoffs>

## **Airline Revenues and Profits**

Airlines operated at over a 30% loss in 2020, even with bailouts.<sup>9</sup> Forecasts project the airlines will operate at a 5% loss in 2021 with 65% average load factors.<sup>10</sup> Historically, North American airlines have operated a 9-10% profit margin<sup>11</sup> while maintaining a load factor of 80-88%.<sup>12</sup>

In 2019, the 21 U.S. airlines had an operating revenue of \$247.64 billion.<sup>13</sup> U.S. airlines earn over 90% of their revenue from passenger fares, baggage fees, change fees, and other fees.<sup>14</sup> Cargo accounts for 2% of overall revenue<sup>15</sup>, while other revenue streams, such as loyalty programs, airport lounges, advertising, and vacation related services account for 7% of total revenue.<sup>16</sup>

## **Why Flights Must Be Socially Distanced**

The CDC has recommended social distancing of six feet while indoors and outdoors. While social distancing of six feet is not possible on an aircraft of 50 to 65% capacity, more social distancing is better. A study by Dr. Arnold Barnett has shown that a middle-seat-blocking policy will increase passenger health by a factor of 1.8 even though six feet of social distancing is not possible.<sup>17</sup>

---

<sup>9</sup> American Airlines had a 32% loss in 2020, 10-K 2020, <https://americanairlines.gcs-web.com/static-files/8e328305-2df2-4726-910c-a7e44f091913> ;

Delta Air Lines had a 30.43% loss in 2020, 10-K 2020, <http://d18rn0p25nwr6d.cloudfront.net/CIK-0000027904/4062dcf6-2f8c-4727-afc8-55f364c951f3.pdf> ; Southwest Airlines had a 33.08% loss in 2020, 10-K 2020, <https://otp.tools.investis.com/clients/us/southwest/SEC/sec-show.aspx?FilingId=14680249&Cik=0000092380&Type=PDF&hasPdf=1> ;

United Airlines had a 32.56% loss in 2020, 10-K 2020, <https://ir.united.com/static-files/ad8b7f51-44f5-4c8a-afcf-78cef5abfb2d>.

<sup>10</sup> [https://aviationweek.com/aerospace-defense-2021/civil-aviation/airlines-bet-traffic-comeback-second-half-](https://aviationweek.com/aerospace-defense-2021/civil-aviation/airlines-bet-traffic-comeback-second-half-2021#:~:text=In%202021%2C%20the%20industry%20is,than%20that%20after%20the%20Sept.&text=IATA's%20forecast%20for%202021%20is,levels%20expected%20before%20the%20pandemic)

[2021#:~:text=In%202021%2C%20the%20industry%20is,than%20that%20after%20the%20Sept.&text=IATA's%20forecast%20for%202021%20is,levels%20expected%20before%20the%20pandemic](https://aviationweek.com/aerospace-defense-2021/civil-aviation/airlines-bet-traffic-comeback-second-half-2021#:~:text=In%202021%2C%20the%20industry%20is,than%20that%20after%20the%20Sept.&text=IATA's%20forecast%20for%202021%20is,levels%20expected%20before%20the%20pandemic).

<sup>11</sup> <https://www.wsj.com/articles/how-much-of-your-355-ticket-is-profit-for-airlines-1518618600>.

<sup>12</sup> Bureau of Transportation Statistics, [https://www.transtats.bts.gov/Data\\_Elements.aspx?Data=5](https://www.transtats.bts.gov/Data_Elements.aspx?Data=5).

<sup>13</sup> <https://www.statista.com/statistics/197680/total-operating-revenues-in-us-airline-industry-since-2004/>

<sup>14</sup> 91%, <https://www.forbes.com/sites/greatspeculations/2019/11/15/how-much-of-american-airlines-revenues-comes-from-domestic-passenger-travel/?sh=1d7fd794480f>; 85%, [https://www.mcgill.ca/iasl/files/iasl/airline\\_economics\\_psd.pdf](https://www.mcgill.ca/iasl/files/iasl/airline_economics_psd.pdf).

<sup>15</sup> 2%, <https://www.forbes.com/sites/greatspeculations/2019/11/15/how-much-of-american-airlines-revenues-comes-from-domestic-passenger-travel/?sh=1d7fd794480f>; 1.89-2.27%, <https://americanairlines.gcs-web.com/static-files/d46a00e3-db05-4a91-af7a-fbe0fc2a7f08>.

<sup>16</sup> 7%, <https://www.forbes.com/sites/greatspeculations/2019/11/15/how-much-of-american-airlines-revenues-comes-from-domestic-passenger-travel/?sh=1d7fd794480f>; 6.3-6.4%, <https://americanairlines.gcs-web.com/static-files/d46a00e3-db05-4a91-af7a-fbe0fc2a7f08>.

<sup>17</sup> <https://www.medrxiv.org/content/10.1101/2020.07.02.20143826v3>.

Despite full flights and the lack of social distancing, the airlines claim that air travel is safe<sup>18</sup> because of HEPA filtration systems. However, not all aircraft have HEPA filters.<sup>19</sup>

Former CDC Director Dr. Robert Redfield and Dr. Anthony Fauci both criticized airlines for placing passengers in middle seats.<sup>20</sup> The CDC still recommends against air travel, citing Covid-19 spikes following travel spikes.<sup>21</sup>

### **Passenger Preferences**

Leaving the middle seat open is a high priority for both North American passengers and global passengers. An open middle seat policy was North American passengers' declared second most needed Covid-19 policy, behind only a mask rule.<sup>22</sup> Globally, this was third, behind a mask rule and airlines providing disinfectant wipes.

### **Air Travel Stimulus Plan**

The form of government support should come in the form of direct subsidy to the airlines' operations rather than payroll protection. The government should purchase some number of seats on a capacity limited plane in exchange for future tickets for government employees. Instead of paying pilots and flight attendants to stay home alongside concerned passengers, this subsidy goes directly to boosting passenger confidence in air travel, indirectly going toward paying pilots and flight attendants. This payment would be a type of air travel stimulus instead of a band-aid. The airlines get an immediate cash infusion, the incentive to cap passenger loads at 50%, and the ability to operate flights at a profit.

Additionally, airlines need to increase staffing on call centers. Passengers still must wait hours on hold to speak with someone at the airline while many airline employees are furloughed or unemployed.

Airlines could offer 65% capacity flights and 50% capacity flights to meet passenger demand. Currently, only one U.S. airline has a policy of blocking middle seats, a 66% capacity

---

<sup>18</sup> <https://www.iata.org/en/youandiata/travelers/health/>.

<sup>19</sup> <https://www.nationalgeographic.com/travel/article/how-clean-is-the-air-on-your-airplane-coronavirus-cvd#:~:text=HEPA%20filters%20aren't%20on,passengers%20can%20influence%20their%20effectiveness>

<sup>20</sup> <https://www.usatoday.com/story/travel/airline-news/2020/06/30/cdc-chief-redfield-fauci-criticizes-american-airlines-selling-all-seats-during-pandemic/5349380002/>.

<sup>21</sup> <https://www.cdc.gov/coronavirus/2019-ncov/travelers/travel-during-covid19.html>.

<sup>22</sup> <https://www.oag.com/covid-19-recovery-survey>.

maximum.<sup>23</sup> All other airlines will fill middle seats, and there have been many instances where flights are 100% full.

The federal government can purchase 10% to 15% of tickets during the pandemic to keep those seats empty. In exchange, the federal government will get a percentage back as credit for future travel for government employees post-pandemic. “Paid” load factors will then become 80% The break-even point for airlines is an average load factor around 73%.<sup>24</sup>

The airlines already receive money from credit card companies. This “pay now, fly later” concept is similar.

### Supporting Calculations

2019 Airline Total Revenue	<b>\$246.64 Billion</b>
Share of Total Revenue Attributable to Passenger Fares and Fees	<b>90%</b>
2019 Airlines Operating Revenue From Fares, Baggage Fees, Cancellation Fees, and Other Fees	90% of \$246.64 Billion= <b>\$221.976 Billion</b>
2019 Average Load Factor	<b>82.5%</b>
Adding 15% to the 2021 projected 65% load factor	$(15/82.5)*\$221.976 \text{ Billion}=\$40.359 \text{ Billion}$
Adding 30% to the actual 2020 50% load factor	$(30/82.5)*221.976 \text{ Billion}=\$80.718 \text{ Billion}$

For \$80.718B minus the value of future ticket obligation to the federal government, the federal government could have made what turned out to be a loss of over 30%<sup>25</sup> (even after bailouts) to a moderate profit. From June 2020 to November 2020, airlines maintained a 46-52%

<sup>23</sup> <https://www.foxbusiness.com/lifestyle/delta-extends-middle-seat-policy>.

<sup>24</sup> 73%, <https://www.forbes.com/sites/jamesasquith/2020/03/31/analysis-how-much-money-do-empty-flights-really-cost-airlines/?sh=766063545854>; 70%, <https://simpleflying.com/load-factor/>; 66%, <https://www.avjobs.com/history/airline-economics.asp>.

<sup>25</sup> Supra at 9.

passenger load while increasing flights.<sup>26</sup> This data suggests that airlines were able to expand flight capacity to meet consumer demand after the first two months of the pandemic. With a federal mask rule (which did not arrive until January 2021) and a 50% or 65% capacity guarantee, passenger demand would have increased even faster. This \$80B price tag constitutes a best-case scenario for the airline industry: travel returning to 2019 levels.

### **Prohibition on Stock Buybacks**

Any federal bailout of airlines or stimulus of the airline industry must prohibit airline stock repurchases for a minimum of three years. The main purpose of stock buybacks is to “give manipulative boosts to the issuer company’s stock price.”<sup>27</sup> Beneficiaries of stock buybacks are senior executives who derive most of their pay from exercising stock options. Airline CEOs in particular have received a large majority of their compensation from stock options.<sup>28</sup> The prohibition on stock buybacks must extend longer than the 12-18 months provided in the three airline bailouts of 2020-2021,<sup>29</sup> or else the federal government would be subsidizing airline corporate insiders and shareholders after a short delay.

### **Conclusion**

If the federal government merely pays airline employees to stay home or pays a portion of these employees’ unemployment benefits, while accomplishing nothing to (1) make air travel safer and (2) encourage safe passenger travel, then further stimulus payments will be needed throughout the pandemic. The current stimulus solution is just throwing cash to plug a hole in a leaking ship.

Conversely, this proposal pays airline employees to work on safer, socially distanced flights while encouraging more passengers to fly safely during the pandemic, either on a 50% or 65% capped flight. Not only would this proposal solve the airlines’ cash needs in the short term, it would speed up the post-pandemic recovery. After the pandemic, airlines will have the employees, planes, and importantly, the passengers to either operate the same elevated number of flights at even higher passenger loads and operate even more flights at higher passenger loads.

---

<sup>26</sup> Airlines maintained a somewhat stable load factor these months while the number of passengers flying in July-November was 45% to 82% higher than the passenger high point in April-June 2020.

<sup>27</sup> "March 18, 2021 Memorandum to Flyers Rights," Professor William Lazonick, President, The Academic-Industry Research Network.

<sup>28</sup> American Airlines CEO Doug Parker’s stock options accounted for 94.4% of his total pay (2013-2019); Southwest Airlines CEO Gary Kelly, 76.8% (2015-2019); Delta Air Lines CEO Ed Bastian, 78.4% (2016-2019); Former United Airlines CEO Oscar Munoz, 72.1% (2015-2019).

<sup>29</sup> The CARES Act of March 2020 prohibits stock buybacks within one year of loan repayments; The Consolidated Appropriations Act, 2021 of December 2020 prohibits stock buybacks through March 2022; The American Rescue Plan Act of March 2021 prohibits stock buybacks through September 2022.

President Biden's Executive Order instructed federal agencies to review additional policies beyond a mask rule. However, no additional Covid-19 mitigation methods have been implemented. The federal government must look at what makes air travel safer during the coronavirus pandemic. Passengers will return to air travel in greater numbers when safety measures, such as empty middle seats and capped load factors, are implemented.

Policymakers will have to decide in the next several weeks whether to take this alternative approach. Regardless, this proposal serves as a model for future stimulus plans.