

Would a JetBlue and Spirit merger be all that bad for travelers?

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FULL TEXT

JetBlue is seeking permission to merge with Spirit Airlines. The U.S. Department of Justice is working to block the purchase. Does this make sense for air travelers?

JetBlue sells itself as an upscale low-cost airline, with 34 inches of seat pitch and no-cost amenities for which other airlines charge a fee. Spirit is the ultimate low-cost carrier, offering low fares with a la carte add-ons that permit travelers to choose the amenities and services they want.

On the surface, the two airlines appear to be odd bedfellows for merging. Yet merging airlines is far more than just repainting airplanes and reconfiguring cabin seats.

Airlines rent gates at airports. When two airlines merge, they effectively gain more gate control. This could have a negative impact on airfares, as competition on some routes may be reduced. To counter such effects, the Justice Department has forced airlines to relinquish gates with a merger approval. When American Airlines purchased US Airways, American was forced to give up gates at several airports, including Ronald Reagan Washington National in Washington, many of which were controlled by US Airways.

Studies suggest that airfares increase after airlines merge, though the variability of airfares, as measured by standard deviations, and the window of such analyses make the conclusions far from certain. Indeed, there are numerous factors that contribute to airfares changing. Competition is certainly one of them. Yet airfares generally increase or decrease based on the supply and demand balance on routes. In other words, how all airlines, not just those involved in a merger, reallocate routes and available seats must be considered.

What is often lost in the discussions of airlines merging is the economy of scale gained with size. Airlines operate with significant fixed costs. Whether a 140-seat Boeing 737 departs with 80 passengers, 100 passengers or at full capacity, the fixed equipment, airport fees and labor costs are essentially the same, with the marginal cost of extra fuel to carry a few more passengers effectively noise on their balance sheets. This means that profits are earned on the margins.

Mergers can be beneficial to help airlines remain profitable. The question that then arises is how such profits are to be used.

One area of concern is serving smaller communities. Airlines use regional jets to feed passengers into their hub airports. The air travel meltdown during the COVID-19 pandemic resulted in lost or reduced service to many such communities. Though the profitability of serving such communities is low, the benefits to their economies are tremendous. If the Justice Department wishes to add conditions on airline mergers, this would be a good area to think about.

The merger of airlines like JetBlue and Spirit would not affect the national air travel equilibrium. Given that American, United, Delta and Southwest hold about two-thirds of the domestic market, adding a fifth major airline might put more pressure on these "Big Four" to keep airfares reasonable and, more importantly, expand service to gain competitive advantages.

Moreover, Spirit competes head to head with other airlines on 83% of its routes. JetBlue and Spirit compete on several routes, with Fort Lauderdale and Orlando at the top of the list. These two Florida airports are also widely covered by all the other airlines, including Southwest, which would put a cap on airfares after a merger.

Though preserving competition is often what the Justice Department cites to justify not approving a merger, the real issue may be limiting the power exerted by airlines. In general, large airlines have more clout than small airlines. Restricting mergers indirectly maintains the status quo and makes it easier to control airlines. Indeed, if the Justice Department could impose greater regulation and break the Big Four into smaller entities, it likely would. This would be a return to the pre-1978 period when airlines were highly regulated, which ended with the Airline Deregulation Act.

Discouraging airline mergers is less about competition and more about control. At some point, a minimal number of airlines will exist that serve the needs of flyers. Airlines would be wise to sacrifice some of their profits to maintain acceptable levels of service, so that partnerships, not adversarial relations, can be built with all stakeholders. If the Justice Department wishes to exert conditions on mergers, this would be the issue to focus on.

Sheldon Jacobson is a professor in computer science at the University of Illinois at Urbana-Champaign. A data scientist, he applies his expertise in data-driven risk-based decision-making to evaluate and inform public policy. CAPTION: Photo: A JetBlue airliner takes off past Spirit Airlines planes parked at gates on Feb. 23 at Fort Lauderdale-Hollywood International Airport in Florida. JOE CAVARETTA/SOUTH FLORIDA SUN SENTINEL CREDIT: By Sheldon Jacobson

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