

My name is Brian Callaci. I am an economist and a Postdoctoral Scholar at the Data & Society Research Institute. The views I express in this testimony are my own, and should not be construed as representing any official position of my employer.

I want to thank Chairman Larsen, Ranking Member Graves, and other members of the subcommittee for the opportunity to discuss the report, "Fissuring in Flight" that I authored for the Communications Workers of America. Please include a copy of the full report in the official record.

The domestic airline industry provides an excellent laboratory to study several of the trends affecting American workers that have become of intense interest to economists and social scientists in recent years. These trends include: first, outsourcing or "fissuring," the use of subcontractors to replace work previously done by direct employees; second, growing industrial concentration and its two faces, monopoly power over consumer prices and monopsony power over wages and other input prices; and third, financialization, the prioritization of shareholder interests over other stakeholders within the firm.

I'll begin with an anecdote. Several years ago American Airlines outsourced 500 wheelchair attendants at Miami International Airport to a contractor, Eulen America. Perhaps Eulen, through specialization, was more efficient at that activity than American Airlines. Another advantage, however, was that Eulen paid lower wages than American Airlines. When the airport enacted a living wage ordinance that raised the wages of employees of service contractors, American reversed itself and *insourced* the work. It's unlikely that the contractor became less efficient in that time. Avoidance of the living wage law and reducing labor costs looks to be a more likely explanation.

Workers in the airline industry have been affected by two distinct types of outsourcing. On one hand, airlines have been increasingly outsourcing ground and passenger service work to third-party contractors. On the other hand, legacy carriers have been turning to outsourced regional airlines to fly an increasing share of routes. Legacy carriers minutely control the operations of regional airlines to an extent virtually equivalent to full integration, yet customers and workers of regional airlines are treated as customers and workers of separate firms under many important applicable laws.

My report documents trends in employment and wages in the airline and outsourced airline service industries. Findings include:

- Airlines are increasingly turning to third party contractors, as the outsourced share of employment, conservatively estimated, has grown from 19 percent in 2001 to 30 percent in 2018. While, direct employee wages are above the national average for all workers and have been rising since 2009, outsourced employee wages are below the average and have been stagnant.
- Heavily outsourced occupations in the airline industry have lower wages. An increase in outsourcing of ten percent from 2008 to 2018 across a selected group of ground service

occupations, such as baggage porters, customer service reps, and cargo agents, is correlated with a decline in wages of five percent.

- Employment of regional airline workers has been growing as a share of total airline industry employment, and regional pay scales are far below legacy wage scales. American Airlines has 3 wholly-owned and 4 contracted regionals, Delta has one wholly-owned and 4 contracted, and United has 8 contracted carriers. American leads the pack in regional outsourcing, operating 54% of its domestic flights through regional carriers.
- As one example of the large wage gap between regional and mainline operations according to DOT data, while mainline flight attendants average around \$50,000 per year, regional flight attendants average less than \$30,000. A similar gap exists for ground service workers. The increasing substitutability of regional for mainline jets threatens to increase the pace of this type of outsourcing.

Pressure from shareholders and financial markets has been a major driver of outsourcing. Major institutional shareholders have pushed managements to outsource more activity while demanding a greater share of corporate profits, leaving less money on hand to invest in innovations or employees. United paid \$7.75B in buybacks since 2013, Delta \$10.99B, and American \$12.52B.

The decline of the US collective bargaining regime has removed the major force that could counter these trends. First, the falling share of workers in unions has removed the primary source of countervailing power against large corporations. Second, the rising use of contracting arrangements excludes outsourced workers—like the wheelchair attendants at Eulen America—reduces the effectiveness of traditional firm-level collective bargaining.

Policies to restore worker voice within this fissured industry would seem to be an appropriate response to these problems.