

ValuJet

Dr. Gerry Rossy, Professor of Management

What Price ValuJet?

Michael Kinsley

Editor, *Slate*, an interactive magazine published by Microsoft¹

The Federal Aviation Administration disclosed last week that ValuJet has applied to resume flying. You can be pretty sure the FAA is not going to approve this application casually. Regulators shut down the discount airline after the May 11 crash in Florida that killed 110 people. The past two months have seen a festival of recriminations about sloppy practices at both ValuJet and the FAA. A *Washington Post* editorial declared, "The public needs evidence that the government is insisting on the highest safety standards possible."

A seemingly unobjectionable sentiment-but there are two problems with it. The first is that the highest safety standards possible are too high. You can always make flying-or any other economic activity-safer by making it more expensive (increasing the minimum distance between aircraft, or the time between takeoffs, requiring wider aisles and so on). The inevitable trade-off between safety and cost, plus the law of diminishing returns, dictates that you stop well short of the highest possible standards.

Second, there is no reason every airline should meet the same level of safety. In fact, it makes perfect sense for discount airlines to be less safe than traditional full-price carriers. This is no excuse for negligence and rule breaking. But if the rules don't recognize that some people, quite rationally, will wish to buy less safety for less money, they are doing the flying public a disservice.

Try some rough math on the back of an envelope. According to Transportation Secretary Federico Peña, discount airlines have lowered ticket prices, on routes where they compete, by an average of \$54 (or \$70 to or from an airline "hub"). The standard statistic on airline safety is that you could fly once a day, every day, for 21,000 years before dying in an airplane crash. So suppose that flying discount made it 10 times more likely that you would die in a crash. Now the odds on a fatal crash are 1 in 2,100 years. Is it worth it-just to save \$54? Well, by my calculation (checked with folks whose grounding in mathematics is sturdier and more recent), you're increasing your chance of a fatal crash by about 1-in-855,000. Looked at the other way, paying the extra \$54 to avoid the added risk (and leaving aside other advantages of grownup airlines, such as the delicious meals, roomy seats, punctual departures, onboard golf courses, etc.) puts an implicit value on your life of about \$46 million.

Now, you may think your life is worth \$46 million, but unless you've got \$46 million to spend on it, that's a hollow boast. Every day you make decisions-probably including the decision to step outside your house and risk being torn apart by hounds as you pick up the morning paper (you could, after all, hire someone to bring the paper inside for you every day, just to be safe)—that implicitly value your own life at less than \$46 million. Of course Freedom of Neuroses is one of the basic American liberties we celebrated last week on Independence Day, and people should be free to spend \$54 to avoid a 1-in-855,000 risk if they so desire. But society should not force them to do so. And society, in setting its rules, cannot possibly value each person's life at \$46 million without grinding to a halt.

¹ Copyright 1996 *Slate*, <http://slate.msn.com/id/2167/>

In recent years the FAA has been struggling with the question of whether to require small children to fly in safety seats. The rule has long been that kids less than two years old may sit in a parent's lap-and therefore, usually, fly for free. Flight attendants and other supporters of safety seats make a good argument that it's a bit odd for the government to require that coffee pots, and adults, be strapped down, but not little children. An FAA-commissioned study, however, determined that requiring safety seats would actually cost lives. How? By leading families to drive instead of fly. The study figured that ending the small-children-fly-free policy would raise the average fare for affected families by \$185, causing one-fifth of them to use a car instead. Whereas the safety seats would save an average of one child's life per decade, the extra driving (far more dangerous than flying) would cost nine lives. Or so the study figured. Critics objected to the calculations, but the principle of thinking about safety in this way survives any quibbling about the numbers.

Using the ethical frameworks discussed in class, how should the FAA decide whether to require infants to fly in safety seats? Make sure to identify the relevant stakeholders in the decision making process.