

UPDATE

2/21/90

Number 125

SKINNER'S MANDATE: TO COMPLETE AIRLINE DEREGULATION

(Updating *Backgrounder* No. 717, "Status Report: Airline Competition and Concentration Since Deregulation," June 30, 1989.)

Airline deregulation received a shot in the arm with the release earlier this month of the report by the Secretary of Transportation's Task Force on Competition in the U.S. Domestic Airline Industry. This 1,440-page report confirms that consumers now enjoy lower airline fares and a greater choice of flights than before deregulation began in 1978. The report also finds that deregulation has not brought the concentration of major airlines at the expense of smaller ones. Competition is alive and well in the airline industry.

Secretary of Transportation Samuel Skinner has praised the contents of this report as solid evidence that re-regulating the American airline industry would be a serious mistake. Said Skinner: "Our study shows that air travelers have benefited under deregulation...Air service networks have expanded, increasing the frequency of departures at more airports in more travel markets. And the wide use of discount fares has made it possible for greater numbers of people to afford travel."

Now Skinner should point out that American travelers and American economic efficiency (hence global competitiveness) would gain from further deregulation of the industry that would: 1) permit non-U.S. airlines to compete with U.S. carriers in the American market; 2) use market mechanisms to improve the allocation of scarce take-off and landing slots at airports; and 3) give the private sector greater freedom to provide such ground-level infrastructure as airport management and ownership.

Lower Fares, More Choices. The airline deregulation legislation passed in 1978 lifted federal control of airline routing and pricing. Once freed from this control, airlines quickly lowered fares and made flight schedules more flexible. Skinner's Task Force largely confirmed what most regular airline travelers have known for a decade: fares are generally cheaper as a result of deregulation and there are many more choices for flying from one place to another. Since 1981, air fares have declined by 26 percent after accounting for inflation. In fact, the real price of a ticket declined by 15 percent between 1984 and 1988 alone.

Travelers also have benefited from the innovative airline "hub and spoke" system, in which airlines route flights through a few central hub airports. Some critics complain that this reduces travelers' ability to fly directly from one location to the next. The Task Force study refutes this, explaining that the hub system allows passengers access to a greater number of flights going to a greater number of cities. Because travelers have multiple options in flying from one location to another, they can plan their travel to suit their particular needs. The Task Force report cites the Al-

bany to Minneapolis market as an example of hub system benefits. Before deregulation only two airlines competed for passengers in this market; today, four airlines do.

Boosting Smaller Cities. The hub system also has made smaller communities and airports more important, an outcome that surprises some experts. Example: Before deregulation only 32 cities were serviced directly out of Charlotte, North Carolina, and of these cities, less than half were small or rural communities. Today, 73 cities are serviced directly out of Charlotte, of which 39 are small or rural. Example: There were only five connecting hubs in 1979: Atlanta, Chicago, Dallas, Denver, and Pittsburgh. Today, 25 cities, including such medium-size cities as Nashville, Tennessee, and Orlando, Florida, enjoy the benefits of the hub system.

While more cities than ever have three or more airlines competing for passengers, 55 percent in 1988 compared to only 28 percent in 1979, some cities are still considered concentrated markets. The Task Force report found slightly higher average fares in these concentrated markets than the domestic average. Fares at the eight most concentrated hubs were found to be 18.7 percent higher than the national average. While these markets represent just 4 percent of the domestic revenue passenger miles, some members of Congress may interpret the data as showing a need for a renewal of regulations to force more competition into these markets.

Yet these higher fares for this tiny share of the American travel market result from two basic factors: 1) these are largely emerging hubs where the consumer is paying part of the new infrastructure and will not have to do so as airports pay off the costs of improvements; 2) a disproportionate share of short flights originate at these hubs and short flights have higher per-passenger mile costs.

The key to increasing competition in the airline industry and lower prices to travelers is further deregulation. To help deliver even greater benefits to the consumer, Secretary Skinner should seek additional reforms. Among them:

1) Repeal the "cabotage" laws, which prohibit non-U.S. carriers from competing with U.S. carriers on domestic routes. Many international flights originate in, say, Chicago or Detroit, then stop in New York or Los Angeles before beginning the overseas leg of the flight. While foreign carriers like British Airways or Lufthansa can pick up passengers in these cities for the international portion of the flight, the carriers cannot transport passengers solely from one American city to another. Prohibiting them are the cabotage laws. These laws are derived from British mercantilist nautical law and were enacted into U.S. aviation law in 1934. Repeal of the cabotage laws would allow foreign carriers to service domestic travelers and thus increase competition.

2) Increase the use of market mechanisms, such as auctioning landing slots or setting landing fees to reflect market demand for premium arrival and departure times. These would allocate scarce airport resources more efficiently. This reform is especially important for airports with little room for physical expansion.

3) Encourage private sector participation in expanding airport capacity and improving airport efficiency. Currently every major U.S. airport is government owned and thus insulated from market forces. Permitting the private management or ownership of airports would benefit the consumer in the same way that deregulating has the airlines. London's two major airports, Heathrow and Gatwick, have been under private ownership since 1987 and are very successful.

The results of the Department of Transportation Task Force report confirm that deregulation benefits the American traveler. Skinner should use this report as his clearance to throttle-up with the next steps in deregulating the air travel industry.

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