

Airline regulation

[Environment](#), [Air](#)



Regulation of Airline Industry The deregulation of the US airline industry in 1978 has brought about myriad economic benefits for both airline companies and their customers. However, current problems in the industry have raised the question of whether government regulation may be indeed crucial in addressing prevailing conditions. This paper discusses the need as well as the extent by which government should exercise control over the airline industry.

Need for Government Regulation

To some degree, government regulation may be deemed as vital in keeping the efficiency level within the airline industry. Since the deregulation of the industry, it is reported that many airline companies have opted to merge or engage in airline alliance, which are characterized as virtual mergers to circumvent government restrictions (Doganis, “ Flying Off Course”). An implication of these mergers is that the few surviving consolidated airline companies may exhibit oligopolistic behavior. This may include monopolizing of routes and charging excessive rates for some fares. In this regard, the industry competition is somehow diminished. Other airline companies may experience substantial profit reduction as their service offerings become relatively less competitive as compared to big industry players.

In view of the above, the government must intervene by implementing policies that would promote competition within the airline industry. By enforcing policies such as the prohibition of oligopolistic/monopolistic business practice, the government is able to promote greater efficiency in the market (Samuelson & Nordhaus).

Limit of Government Control in the Airline Industry

As the government deregulated the airline industry, airlines have become better equipped in negotiating their operating arrangements with different airports as well as their entry and exit routes. Furthermore, these airline companies have become better in levying airfares and supply flight based on market demand (Doganis, “ The Airline Business”). The deregulation boded well for both airline companies and their customers. However, with the anti-competitive practices discussed above, the objective of the deregulation is being violated. Given this, the government should somehow tighten its control over the industry such that competition and consumer welfare are promoted.

911 Terrorist Attacks

With the September 11 attacks, the airline industry experienced economic shock as people became traumatized of flying. Furthermore, security restrictions rendered traveling more difficult. Considering this, thousands of employees were laid off as major airlines filed for bankruptcy. To address this, airline regulation became a vital component for rehabilitating the industry. During such tragic times, regulation by the government was crucial. The Congress passed \$15-billion assistance to bail the industry out of trouble (Doganis, “ The Airline Business”).

In the same way, the security measures undertaken by the government was important in bringing back consumer confidence in flying. When the government tightened security particularly in airports, many people started traveling by air again. This helped revived the ailing industry.

Perception of Government Regulation

In line with the above discussion, government regulation is considered

significant especially during wars or economic downturns. In times of war, the government is able to restore confidence of public regarding flying and avoid another disaster by tightening security measures. This would drive up demand to fuel growth in the sector.

Similarly, when economic slump occurs, the government is able to provide financial assistance to companies that are burdened with substantial operating losses to the point of bankruptcy. In addition, the government may be an effective mediator in airline labor actions. With government intervention, the continued flow of people, communication and goods is protected (Doganis, “ The Airline Business”).

Works Cited

Doganis, R. *Flying Off Course: The Economics of International Airlines* 3rd ed. Routledge, 2002.

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Samuelson, P. and W. Nordhaus. *Economics*. McGraw-Hill Inc, 2000.