Airline deregulation 1587

Business, Marketing

On October 24, 1978, President Carter signed into law the Airline Deregulation Act. The purpose of the law was to effectively get the federal government out of the airline business. By allowing the airlines to compete for their customers' travel dollars, was the thinking, that fares would drop and an increased number of routes would spring up.

Expected Results

The results of airline deregulation speak for themselves. Since the government got out of the airline business, not only has there been a drop in prices and an increase in routes, there has also been a remarkable increase in airline service and safety. Airline deregulation should be seen as the crowning jewel of a federal de-regulatory emphasis. Prices are down: Airline ticket prices have fallen 40% since 1978. Flights are up: The number of annual departures is up from 5 million in 1978 to 8. 2 million in 1997. Flights are safer: Before deregulation, there was one fatal accident per 830, 000 flights, now the rate is one per 1. 4 million flights. So what's the problem?

Misplaced Priorities

It appears that the Clinton administration and some in Congress will cut off their nose to spite their face. By almost all measurable ways, airline deregulation has been a success. But in response to a few small start-up airlines complaining to the Department of Transportation about " predatory pricing," Washington legislators and regulators are poised to act. " Predatory Pricing" is code for: " fares are too cheap for some airlines to compete in that market 'cause they will lose money". In response, the Department of Transportation recently proposed guidelines to limit the maximum number of seats an airline can offer on particular routes and which forbid them from dropping prices below certain levels, all in the name of " fair" competition. In other words, " we can't have prices get too cheap because then the Value-Jets of the world won't be able to jump into the market place." Of course then you would be paying $400 to fly from New York to Boston just for the chance to have a thrill-a-minute ride across New England. But as long as a guy with a pair of Ray-Bans and a crop duster can " compete" with Delta and American, then the D. of T. is happy.

Flying High, What Are They Smoking?

Where is the common sense in the Clinton Administration's airline policy? The administration claims to desire full competition, but shudders at the one result of competition that truly benefits the consumer - low fares. A drop in fares has been the best result of the Airline Deregulation Act of 1978. It has been the impetus for the increase in the number of flights, which in turn has spurred a drive for greater safety in airlines. But with the current airline market, this development has given us one negative. Since ticket prices have dropped to new lows, the realities of an industry which operates on such economies of scale dictates that only a few competitors have the capacity to operate within the market. This is not the desired effect of either political side on this issue, but it is an economic necessity with the environment that has been created, very similar to that of public utilities and phone companies.

The Best of Both Worlds

The U. S. airline market admittedly operates in an oligarchal fashion. But is this not the best policy for air travel? The success of the large carriers has enabled a drop in fares, and while entry into the market is difficult, it is not impossible. Upstarts such as Southwest Airlines are able to find a market niche and exploit it into profitability. Maybe benevolent oligarchy should be the term...

Turn the Market Loose!

Those in the de-regulation camp see an opportunity to expand on the Deregulation Act. When the act was written, the government was taken out of the business of setting fares and routes. But various municipalities still retain ownership over airports. Given the massive improvements in the airlines since dergulation, why not apply this same thinking to airport ownership? The results should only be more of the same: better service, cheaper prices, and more market freedom.

But the legislation winding its way through the legislative maze that is Congress does anything but move towards increased privatization. S. 1331, sponsored by Senator John McCain (R-AZ), would make it more difficult for large carriers to offer low fares. The justification for this action it to make entry into the market easier, and therefore increase competitiveness within the industry. But while this may enable small airlines to enter markets, it essentially creates an affirmative-action program for corporations that are inefficient by reserving runway space for these airlines.

The only good language in the Senate bill is that which would eliminate perimeter restrictions on Washington's Ronald Reagan Airport. This would kill the rule that prevents flights to and from National from more than 1250 miles away. While this may just be a measure so that Congressmen won't have to drive to the out-of-town Dulles Airport in Virginia, it is a good precedent to set for other airports and the elimination of market restrictions.

The House has a companion bill, H. R. 2748, which does not go as far as the Senate bill in its regulatory language. But Speaker Newt Gingrich (R-GA) has predicted that Congress will pass some airline bill this term. A senior aide for a Republican on the House Transportation and Infrastructure Committee said, " I don't know if the two sides will come together this year."

So the legislative status of the re-regulatory fever is still in doubt. But with a Republican Congress which seems to advocate that position, an airline bill could still pass which takes the aviation industry in the wrong direction.

" Problems" in the airline industry have not risen due to too much competition within the industry. To the contrary, Washington regulators should turn the industry loose in any more ways that it can. Lowering restrictions to enter the market place, emphasizing private ownership of aviation matters, and encouraging open and free competition within the scope of anti-trust law should be the goals of the Clinton Administration. Instead of heading towards re-regulation, Washington should get out of the airline business for good.