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THE MYTH OF "DEREGULATION" IN AIR TRANSPORTATION

The Airline Deregulation Act of 1978 often is considered the law that, as its name suggests, "deregulated" the aviation industry. In fact, it ended the Civil Aeronautics Board and, with this, freed interstate passenger airlines from restrictive price controls and monopolistic regulations. But the law was far from comprehensive deregulation: pockets of powerful government interventions remain, and continue to hinder the potential of the air transportation sector.

A new Mercatus Center study looks at the evolution and outcomes of government regulations in air transportation since the 1978 law was enacted. Below is a brief summary of the research findings. To read "Ongoing Government Failures in Air Transportation" in its entirety and learn more about the author, please click here.

ONE STEP FORWARD …

The deregulation in the late seventies resulted in newfound competition among airlines. This proved a boon for consumers: airlines offered lower and more diverse fares, and pursued more innovate ways to interact with and serve their customers.

Pricing. Prior to 1978, the government limited airfare pricing to a single coach fare and a single business class fare, which kept air travel out of reach for many. After deregulation forced airlines to compete for business, consumers benefited from the availability of multiple fare options and discounts, and an overall drop in fares. Between 1976 and 1993, 58 percent of the decline in airfares is attributed to deregulation.

Services. Deregulation also spurred new service features, such as frequent flyer programs, computer reservation systems, and alliance arrangements offering seamless services.

TWO STEPS BACK

But even after the deregulation of the late seventies, residual regulations remained, and new regulations have since been added. Air transportation infrastructure remains heavily regulated, and domestic airlines remain largely protected from foreign competition. These barriers elevate costs for consumers, waste resources, and stymie innovation.

Flight Delays. In an apparent effort to provide consumers with time-saving information, the government began requiring airlines to report all flight delays. But the regulation missed the mark on several counts; notably, consumers often are less concerned about whether a flight *takes off* on time than whether it *arrives at its destination* on time. The reporting regulation has also resulted in several unintended consequences. The data provided may ultimately be expensive for passengers because of airlines' attempts to avoid reporting delays. For example, airlines may pad their schedules or even cancel flights.

Tarmac Delays. Extended tarmac delays—or takeoff delays of three or more hours after passengers board and the plane leaves the gate—have always been rare. Between 2004 and 2010, for example, less than 0.1 percent of all flights experienced tarmac delays. But an unusual peak in extended tarmac delays in 2007 sparked federal legislation and regulations regarding such delays—even though incidents had already fallen significantly by the time the regulations were imposed. In response to the regulations, airlines held back or canceled flights more often to avoid penalties. Thus, government efforts to "fix" extended tarmac delays resulted in more gate delays, longer take-off delays, and more canceled flights.

Subsidies. The Essential Air Services (EAS) program provides subsidies to air carriers for the purpose of ensuring air travel services are available to rural communities. But a 2007 report by the Government Accounting Office (GAO) finds that EAS has a minimal impact on air travel access and its funds are poorly used. Concerns outlined in the report suggest EAS mandates—such as those dictating how many flights small airports must have and the size of the planes they must use—have little relationship to actual consumer needs. As a result, airlines receiving EAS funds often fly practically empty planes. In fiscal year 2008, 63 percent of available seats on EAS flights were empty.

Barriers to Competition. U.S. law restricts foreign investment in U.S. domestic carriers, and prohibits foreign carriers from competing with U.S. carriers to provide domestic flight service. These barriers prevent U.S. air carriers from fully accessing international capital markets, and prevent foreign price and service competition beneficial to U.S. consumers.

Public Ownership. Maintenance and modernization of airports and air traffic control services in the United States has lagged due to strict reliance on public ownership and public funding. By comparison, many other countries are moving to various forms of public-private models, which allow for private finance and user fees as funding sources.

A 2005 GAO study examined the air traffic control systems in Germany, Australia, New Zealand, Canada, and the United Kingdom. It found that commercialization had led to the consolidation of facilities, investment in new technologies, and increased productivity. But while the U.S. has spent significant resources attempting to update and upgrade its air traffic control system, a 2007 study found that there have been few significant gains in performance.

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