Airline Deregulation Essay, Research Paper

Give credit where credit is due. Twenty years ago, the Carter Administration and Congress, behind the ceaseless efforts of Alfred E. Kahn, former chairman of the now defunct CAB (Civil Aeronautics Board), deregulated the airlines, a move that has saved consumers billions of dollars. Drinking large dipper fulls from the Conservative/Libertarian intellectual well, the Carter Administration acted on the assumption that a freer market would be better able to meet consumer demands, than a government bureaucracy. The federal role is now limited to safety regulation carried out by the Federal Aviation Administration. (FAA)

Before deregulation, innovation and change by the airline industry was smothered. It took years for airlines to petition and the CAB to approve new routes. Rates were strictly controlled. It was virtually impossible for new airlines to enter the market.

Since deregulation airlines are cheaper to fly, safer, while at the same time the number of passenger miles has dramatically increased. A few facts are illuminating.

Price Reductions

The average fare per passenger mile is about 9% lower since deregulation. Crandall and Ellig [1] report savings of $19.4 billion per year for consumers. Contrary to conventional wisdom, the Government Accounting Office (GAO) [2] reports that, “The average fare per passenger mile, adjusted for inflation, has fallen since deregulation about as much at airports serving small and medium-sized communities as it has at airports serving large communities.” The theoretical possibility that deregulation would be a boon to major markets at the expense of smaller communities has proven ill founded.

Improved Service Quantity

Reductions in fares spurred middle class families, previously priced out of the air flight market, to fly. In 1997 airlines flew 5.7 billion miles compared to 2.5 billion in 1978. This improved service was not limited to large markets. The GAO reports that, “The quantity of air service, as measured by the number of both departures and available seats, has increased since deregulation for all three airport groups [small, medium, and large].”

Improved Safety

Assessing safety is inherently difficult because airline accidents are low-probability episodic events. Nonetheless the number of fatal accidents per million aircraft miles were significantly smaller in the 1980s and 1990s after regulation, than in the 1970s. Only one year in the last two decades experienced a higher rate of fatal accidents per passenger mile than 1978, the year preceding deregulation. The GAO confirms that this improved safety record is limited to large markets serviced by jets. The GAO report concludes that it “did not find any statistically significant differences between the trends in air safety for airports serving small, medium-sized, and large communities.”

Recently there has been significant consolidation in the airline industry as less efficient firms are absorbed or go out of business. Nonetheless, the positive benefits of deregulation are likely to continue as the Internet allows consumers to search for minimum fares.

The Heritage Foundation [3] offers some additional proposals to further deregulate and improve the airline industry. These steps include the privatization of airports, market-based pricing for takeoff time slots, and encouragement of foreign competition. This last measure can alleviate the possibility of anti-competitive monopolies