

August 27, 1987

## **A PROPOSAL TO UNTANGLE AMERICA'S AIR TRAVEL**

### **INTRODUCTION**

The adventure of air travel in the United States has become this summer's hottest topic. Tales abound of congested airports, flight delays and cancellations, near misses in the air--and just last week, the first U.S. commercial air crash in two years. The public and policymakers justifiably are asking whether the air travel system can be improved.

While there is much disagreement about the nature and solution of the problem in America's skies, two facts seem clear:

1) **Flight delays, cancellations, airport congestion, and passenger complaints have been increasing.**

2) **This has been caused largely by the huge surge in the number of Americans traveling by air. Volume has soared from under 275 million airline passengers in 1978 to an expected 450 million this year.**

An air travel system geared to handle 275 million passengers annually naturally will choke when that number jumps by almost two-thirds. The solution to today's clogged airports and skies, therefore, lies in helping the air travel system adjust to the greater volume that it is carrying, not in returning to the pre-1978 system of regulation, in which fares and routes are determined by Washington. Such reregulation would raise ticket prices and restrict consumer choices. Just as bad, proposals to untangle air travel problems by mandating certain minimum levels of service would hurt, rather than help, air travelers.

The key to reducing passenger frustration is to recognize that delays in the system stem not from the free market in the industry created by deregulation, but because these market principles are not applied to crucial portions of the industry. Deregulation has affected only the airlines but has left the airports and traffic control untouched.

The general solution to airport congestion and delays is market pricing and market incentives, not more regulation and more bureaucracy. This could be achieved by policies that:

- 1) **Balance airport supply and demand** by imposing peak-hour landing fees at major airports.
- 2) **Expand the sale or lease of landing slots.**
- 3) **Establish a pricing system** for the air traffic system itself.
- 4) **Speed up the expansion of airport capacity.** Major airports should be removed from federal grant programs and allowed to assess passenger user fees.
- 5) **Free the air traffic control system** from the federal bureaucracy.

## **THE INCREASE IN AIR TRAFFIC DELAYS**

As measured by the Federal Aviation Administration (FAA), the number of airline delays in the U.S. has risen dramatically in recent years. According to the FAA's National Airspace Performance Reporting System, which measures delays in the air traffic control system (such as those caused by weather, flight, and airport congestion), there were approximately 418,000 delays in 42 major U.S. airports in 1986, up from about 243,000 in 1983--a 72 percent increase in three years.<sup>1</sup> Even when adjusted for the overall increase in the number of flights, delays have increased by about a third,<sup>2</sup> and they have continued at the same high rate in the first six months of 1987.

The FAA reporting system, moreover, substantially underestimates delays. A flight is considered "delayed," for FAA record-keeping purposes, only if it is held up by air traffic controllers for 15 minutes or more at any point after the plane is boarded. Thus, if an airplane is delayed 10 minutes before taking off, 10 minutes en route, and 10 minutes while taxiing into the gate, it is not officially considered a delay. Delays before an airplane reports ready for boarding, moreover, are not included in the FAA statistics. Thus, the actual number of delays is likely to be several times that recorded in the FAA statistics.

**\$2.9 Billion Delay.** The cost of these delays is enormous in economic losses as well as passenger frustration. According to FAA figures, the total cost to the economy of delays in 1985 was \$2.9 billion. Of this, \$1.8 billion represented the

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1. Federal Aviation Administration, *Airport Capacity Enhancement Plan*, p. 2-6. Because of the air traffic controllers strike in 1981 and a change in the definition of "delay" in 1982, comparison with prior years is difficult.

2. Based on statistics on total departures in Air Transport Association, *Air Transport 1987: The Annual Report of the U.S. Scheduled Airline Industry*, p. 4.

cost to airlines of airplanes kept on the ground, and \$1.1 billion, the cost in lost time for passengers.<sup>3</sup> There were about 25 percent more delays in 1986 than in 1985.

There are many reasons for flight delays. Weather is the primary cause of delays, accounting for approximately two-thirds of last year's delays.<sup>4</sup> Congestion at airports is the next leading cause, accounting for 16 percent, followed by delays imposed by in-flight air traffic centers, 10 percent.

Most passengers tend to blame individual airlines for flight delays. In fact, there are significant differences among the delay records of particular airlines.<sup>5</sup> Yet while the airlines must bear much of the responsibility, increased congestion in the skies is attributable to a broader problem. The air traffic control system simply is handling much more traffic than ever before. Between 1982 and 1986 total traffic at airports with control towers increased 16 percent. At the same time, air carrier and commuter airline traffic increased 37 and 35 percent, respectively.<sup>6</sup> This trend is expected to continue. The FAA expects traffic in 1988 to be 34 percent higher than in 1986.<sup>7</sup>

To complicate matters further, the routing systems for the major airlines have changed significantly. Since deregulation, most airlines have built "hub and spoke" systems, in which most flights are routed through a central "hub" airport, where passengers can connect with flights to their final destinations. Although this system provides significant advantages to both travelers and airlines, it complicates traffic control, for it means that a large number of flights must land at a single airport within a short period of time if passengers are not to have long waits for their connecting flights.

## **BENEFITS OF AIR DEREGULATION**

In response to air travel's recent problems, some lawmakers and analysts argue that the 1978 Airline Deregulation Act should be repealed and the airlines brought back under federal regulation. In this way, they say, air traffic growth can be controlled and service quality improved. To reregulate the airlines, however, would be a giant step backward for U.S. air travelers, depriving them of the tremendous benefits they have been enjoying over the past nine years. According to a study by economists Clifford Winston and Steven Morrison published last year by the Brookings Institution, the gain to travelers from deregulation totals almost \$11

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3. *Airport Capacity Enhancement Plan*, *op. cit.*, p. 2-11.

4. *Airport Capacity Enhancement Plan*, *op. cit.*, p. 2-7.

5. Jonathan Dahl and Francis Brown III, "Late Arrivals: New Figures Reveal Airlines' Dismal On-Time Record," *The Wall Street Journal*, May 18, 1987. Of course, much of this difference can be attributed to more severe weather in certain parts of the country. Northwest, for example, has its major hub in Minneapolis.

6. *Airport Capacity Enhancement Plan*, *op. cit.*, p. 2-1.

7. *Ibid.*

billion each year.<sup>8</sup> Including gains by the airline industry itself, the Brookings study calculates that the U.S. economy is about \$15 billion better off each year because of deregulation.<sup>9</sup>

**Lower Fares.** A major benefit of deregulation has been lower fares. According to Morrison and Winston, fares are about 29 percent lower than they would have been without deregulation. Morrison and Winston found even more consumer benefits coming from the increased frequency and shorter travel times associated with the hub and spoke route systems.

One major result of these consumer benefits was a significant increase in the number of people who fly. In 1986, major U.S. airlines carried 418.4 million passengers and are expected to carry 450 million this year--an increase of over 63 percent since 1978.<sup>10</sup> Of course, passenger totals have been increasing for airlines ever since they began operations--yet traffic is heavier today than it would have been had regulation continued. According to economists Richard McKenzie and William Shughart, for instance, total passenger miles in 1984 were 16 percent higher than they would have been under regulation.<sup>11</sup>

**Travel for the Masses.** Deregulation also has had important social benefits. Air travel is no longer reserved for affluent Americans. The airports are filled with students, housewives, and blue-collar workers on vacation. As the troubles in the intercity bus industry indicate, Americans who in the past would have taken a bus are now able to fly to their destination. One result of this, of course, is that planes and airports are more crowded than they once were, and airlines may not offer the same level of amenities as ten years ago. In short, air travel is now geared for the great mass of ordinary Americans, not for an elite. Thus, a frequent-flying businessman, for whom amenities are more important than price, may see deregulation as a failure.<sup>12</sup> But in light of the benefits to people who would otherwise not be flying, and who are less likely to make themselves known to policymakers, deregulation has been a success.<sup>13</sup>

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8. In 1987 dollars. Steven Morrison and Clifford Winston, *The Economic Effects of Airline Deregulation* (Washington, D.C.: The Brookings Institution, 1986), p. 1.

9. *Ibid.*

10. "Free the Gridlocked Skies," *The Wall Street Journal*, August 17, 1987.

11. Richard McKenzie and William Shughart II, *Has Deregulation of Air Travel Affected Air Safety?* Center for the Study of American Business Working Paper 107, June 1986, p. 9. In an as yet unpublished paper, McKenzie found similar results for 1986 passenger miles. A 16.8 percent increase in passenger miles was found through 1982 by economist Clinton V. Oster, Jr., *The Effect of Deregulation on Airline Industry Employment: Final Report to the U.S. Department of Transportation*, December 1983.

12. Morrison and Winston have pointed out nonetheless that, because of the effect of the hub and spoke system, business travelers have benefited substantially from deregulation.

13. It should also be noted that, in the period since deregulation, air travel safety had continued to improve. Prior to the Northwest Airlines tragedy, there had not been a fatality aboard a major U.S. scheduled airline for over two years. See James L. Gattuso, "What Deregulation Has Meant for Airline Safety," Heritage Foundation *Backgrounder* No. 545, November 12, 1986.

## THE DANGERS OF THE CURRENT REREGULATION PROPOSALS

Despite much rhetoric, very few policymakers are now seriously advocating a return to pre-1978 style regulation. The benefits have simply been too great. Moreover, a return to the old days would be nearly impossible: the egg cannot be unscrambled.

Pressure is mounting, however, for reregulation in another guise: mandating particular levels of service by airlines. The Department of Transportation, for instance, has recently asked for public comments on a new rule that would require airlines to meet specified on-time performance standards for their flights. The Department has suggested the possibility of similar "performance" standards for other aspects of airline service, including baggage handling, response time for telephone reservationists, and cabin amenities.<sup>14</sup> In the same vein, a bill recently approved by the House Public Works and Transportation Committee, H.R. 3051, would penalize airlines for flight cancellations and for lost and delayed baggage.

Such regulation is, of course, meant to help consumers. In practice, it will not. First, in a competitive industry such as aviation, there is no reason for the federal government to decide what services will be provided to consumers. If a passenger is unhappy with the service on a particular flight, he or she chooses another airline the next time. This is how the American consumer responds to bad performance from any service provider, from hotels to dentists. Many airlines, such as the now-defunct People Express, have learned that there can be a strong customer reaction to poor service. Airlines are aware of this, and have become increasingly sensitive to complaints about delays. For example, American Airlines recently revised its flight schedules and began a nationwide campaign claiming that its passengers will experience fewer delays.

**Freedom to Choose.** Moreover, mandatory service standards could potentially be as harmful to consumers as pre-1978 style regulation. Air travelers benefit from the freedom to make their own decisions regarding combinations of price, inflight service, and punctuality. Many travelers are quite willing to accept delays and limited service in exchange for low fares. A vacation traveler may prefer a discount fare on an airline with frequent delays to paying more and arriving sooner. Thus, many passengers still choose to fly low-cost Continental Airlines, even though they know it has received more service complaints than any other airline.<sup>15</sup> The government should not deny travelers that choice.

Regulations that establish minimum service standards take this choice away from travelers. Passengers would be forced to buy a minimum amount of service, even if they preferred fewer frills and lower prices. And by establishing on-time performance standards for airlines, the federal government would be requiring travelers to buy a guarantee of punctuality, whether they wanted it or not. The ultimate effect would be higher prices for airline travel and an erosion of the benefits gained by deregulation.

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14. 52 Fed. Reg. 22,046 (June 10, 1987).

15. Actual fraud and illegal deception in scheduling, of course is, and should be, prohibited.

Worse still, a mandatory performance standard on delays actually could erode the safety of airline passengers. Airlines routinely review each plane carefully for potential safety problems before allowing it to take off. If the airlines were compelled to maintain a certain record for on-time departures and risked federal penalties for delays, it would amount to an incentive for them to get aircraft off the ground too hurriedly and to rush or curtail safety inspections. The results of such pressure could be disastrous.

**Costly Requirements.** In an effort to avoid the dangers of mandatory performance standards, some lawmakers have proposed that airlines be required to submit information about their delays to the Department of Transportation (DOT). The Department would make the information available to consumers or require it to be made available. The Senate Commerce Committee, for example, recently approved a bill (S. 1485) that, among other things, would require airlines to submit information to DOT regarding on-time performance, canceled flights, and other measures of service. House bill H.R. 3051 would require similar disclosures.

While preferable to mandatory standards, this approach is unnecessary, given the competitive pressures within the airline business. Carriers with the best records on delays will make this information available to potential customers if it is clear that such information is important to them. Moreover, disclosure can involve costs that will be passed on to consumers. While small, the costs of such requirements add up.

Conversely, while the government need not require disclosure of such information, it should not hinder its dissemination. Through its regulation of airline computer reservation systems, the federal government may be doing just that. Under DOT regulations, operators of these systems must use objective factors in determining the order in which flights are listed, so that the system is not "biased" in favor of one airline or another. Ironically, this regulation could prohibit system operators from giving preferential listings or providing information regarding on-time performance.<sup>16</sup> DOT should make it clear that such actions are permissible.

## HOW TO REDUCE FLIGHT DELAYS

While regulatory solutions will harm rather than help airline passengers, this does not mean that nothing can be done to ease the problem of delays. To the extent that there is a problem, it is not because the market is unfettered, but because the market is not allowed to function in so many key areas in the air transport system. To remedy this, five reforms could be adopted. They are:

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16. See Competitive Enterprise Institute, *Comments on the Airline Service Quality Performance Rulemaking*, July 10, 1987. For a more general critique of the problems of computer reservation system regulation, see "Airline Reservation Systems: Curse of the Mummy's Tomb," *Regulation*, January/February 1985, p. 8.

**1) Set landing fees according to supply and demand to cut down peak hour congestion.**

Much of the air delay problem is caused by congestion at particular times of the day. As automobile traffic on a freeway, air traffic experiences very definite "rush hours." In response to consumer demand, airlines have an incentive to schedule many flights for certain times of day. Thus, air traffic controllers may not be busy at noon, but severely overworked four hours later. The result: congestion and delays.

With increases in traffic, the opportunity to land an airplane at an airport during peak hours is an increasingly scarce resource. Thus, some method must be found to allocate the resource equitably and efficiently among potential users. In the past, when landing rights have been restricted, they usually have been allocated by a simple administrative decision by the FAA or the airports or through "scheduling conferences" among the major airlines called by the FAA and held under antitrust immunity. But these methods fail to use pricing to allow passengers to decide whether it is economically important to land at a peak time.

A better way to allocate take off and landing rights would be to price them according to supply and demand. Planes currently are usually charged the same fee for landing regardless of the time of day. These fee schedules should be revised. They should be adjusted upward at peak hours to ration landing rights according to the value they represent to passengers--and thus to the airlines. Such "peak pricing" systems are nothing new. Telephone companies routinely vary their long distance charges based on time of day to avoid congestion and thus poor service. Hotels charge peak prices during the week and offer discounts on weekends. Restaurants offer bargains for "early bird special" meals and for late "after the theater" suppers. Airlines themselves are no stranger to peak pricing--charging top fares for holiday travel and offering discounts for off-season trips.

**Peak Price for Peak Times.** A peak charge for aircraft landings would work as do other peak prices and would have several effects. First, aircraft that do not need to land at peak hours would be encouraged to land earlier or later. Second, those who could use less congested airports would be encouraged to do so. Small, private planes, for instance, could use the smaller feeder airports. Third, the revenues gained could be used by the airports to fund needed infrastructure improvements at heavily used airports.

Although landing fees are usually set by individual airports, rather than the FAA, federal law currently discourages airports from imposing peak hour fees. Under the Airport and Airways Improvement Act of 1982, which provides for federal funding of airport capital improvements, airports receiving federal funds are not allowed to charge more than a "reasonable" amount for landing fees. This has been interpreted by many to mean that airports cannot charge more than their actual costs. This act will expire at the end of this year. Congress should take the opportunity to incorporate a provision in the new authorization that expressly permits raising fees during peak hours.

## **2) Lease or sell airport takeoff and landing slots to reduce airport congestion.**

Another way of allocating scarce landing slots<sup>17</sup> at congested periods would be to lease or sell to airlines the right to land aircraft at particular times of day. Airlines then should be allowed to buy and sell these rights among themselves. In effect, each user would have a property right in its landing slot. Since the slots could be bought and sold, those airlines valuing slots most highly would be able to obtain them. Thus, an airline whose flights scheduled for a peak time were below capacity would have the incentive to sell that slot to an airline with a busier flight that could make better use of it. This would allow more passengers to use the airport at the peak time.

Since 1985, the FAA has allowed landing slots to be bought and sold in such a manner at four major airports: La Guardia and Kennedy in New York, O'Hare in Chicago, and National Airport in Washington. For several reasons, however, the system has not been fully effective. First, it only applies to four airports: many more are becoming congested enough to require similar rules.<sup>18</sup> Further, the slots are allocated in one-half hour increments. This has encouraged individual airlines to schedule their flights at the beginning of the time zone, even though all cannot take off at once. Thus, if 30 slots are allocated between 4:30 and 5:00, each airline may schedule its flights for 4:30. The result: numerous flights that are one-half hour late. The size of landing slots should be decreased to resolve this problem. Moreover, the system should be thoroughly reviewed so as to identify any other potential problems.

One major roadblock to expansion of the slot sale system has been the fear that one airline will refuse to sell to competitors in order to effect a monopoly. Many economists, however, point out that, by refusing to sell, an airline would be wasting a valuable asset and hurting itself. Still, there is a way to allocate landing slots that would sidestep this ostensible problem. Instead of selling the slots to airlines, the slots could be leased, with the leases auctioned to the highest bidder every two or three years. In this way, the beneficial aspects of a property rights system would be preserved, but no slot holder would be able to keep a competitor out of its market. Moreover, the revenue from these auctions could be used to help finance airport expansions. A proposal to auction landing slots in such a manner soon will be introduced in the Senate by Gordon Humphrey, the New Hampshire Republican and a former airline pilot.

## **3) Impose airway fees on airlines using busy airspace to reduce in-flight congestion between airports.**

When congestion in airways, in contrast to individual airports, is a problem, the FAA should introduce direct charges on aircraft for use of the air traffic system.

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17. The term "landing slot" will be used in this paper to refer to slots for both takeoffs and landings.

18. The FAA estimates that by the end of the century, 58 airports could require limitations on access. See Apogee Research, Inc., *The Nation's Public Works: Report on Airports and Airways* (a report by the National Council on Public Works Improvements, May 1987), p. 32.



Currently, most of the costs of the air traffic system are funded by an 8 percent federal tax on airline tickets and federal aviation fuel taxes. Thus, while the system is funded by users, it is not directly related to the level of use. Thus, there is no financial incentive on airlines or private aircraft to avoid using the system at congested times.

Direct charges for use of airways would provide incentives for more efficient use of scarce airways in much the same way as peak hour landing fees. These charges could be assessed on airplanes when they land at their destination and billed to the airline or private flyer. Of course, aircraft not in controlled airspace and not under air traffic control guidance would not need to pay a fee.

**4) Allow airports to finance expansion of capacity through passenger user fees.**

In addition to a better distribution of existing airport and airway capacity, more airport landing spaces are needed to handle the tremendous increase in demand in the years since deregulation. No major airport has been built in the U.S. in thirteen years, and only one (in Denver) currently is being planned. In many cases, existing airports desperately need new runways or taxiways to relieve congestion.

A first step toward addressing this problem would be the removal of the federal ban on airport passenger user fees. Airports then would be able to charge passengers directly for use, through surcharges on tickets, for instance. This would enhance airport flexibility in raising revenue for improvements. It also could reduce passenger pressure on busy airports, as passengers would have a financial incentive to avoid the costliest airports. Earlier this year, the Administration proposed allowing major airports to impose such charges.<sup>19</sup>

**5) Remove the air traffic control system from federal control.**

As an arm of the federal bureaucracy--owned and operated by the FAA--the air traffic control system (ATC) lacks the flexibility or the incentive to respond quickly and efficiently to increases and variations in consumer demands. This has prevented the ATC system from increasing its capacity sufficiently to handle the ever growing numbers of flights.

Under the current system, air traffic control is hindered in several ways. The federal civil service system imposes rigid personnel rules on the controllers. These work to the detriment of employees, managers, and travelers. It is very difficult to reassign controllers, for instance, or to alter employee duties as required by changing needs. Similarly, technological improvement of the system is burdened by complex and arcane federal procurement rules. The FAA's ten-year plan to modernize the airspace system, for instance, is far behind schedule. Started in 1983, some projects already have slipped behind four years; projected costs are now double the

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19. This issue is discussed in Apogee Research, *op. cit.*, pp. 99, 177.

original estimate.<sup>20</sup> Even rule making is tied up in its own red tape, as new traffic rules can take over a year to be put into effect.

Although the ATC system is supported primarily by its users, through passenger ticket taxes and fuel taxes, its funds cannot be spent unless specifically appropriated by Congress. This hinders needed improvements. Perhaps most important, the current system has no incentive to respond to consumer demands. Unlike a private business, which must meet the needs of consumers or go out of business, the FAA is responsible only to politicians. There is no penalty for not meeting the increasing needs of air travelers.

**User Control.** The best way to remove these political and bureaucratic impediments, and thereby ensure high quality, safer air traffic control service, would be to reorganize the system as a private corporation. Under a plan detailed by Robert W. Poole of the Santa Monica-based Reason Foundation, the ATC system would be turned over to a not-for-profit corporation owned by its users, including airlines, private pilots, and perhaps even airline pilots and air traffic controllers.<sup>21</sup>

Short of privatization, many of the system's problems could be alleviated by operating the system through an independent corporation owned by the federal government. Under a plan recently introduced by Senators Daniel Inouye, the Hawaii Democrat, and Ted Stevens, the Alaska Republican, the ATC system would be operated by a government corporation, to be known as the "National Aviation Authority," headed by a Director appointed by the President to a ten-year term. The Director would be advised by two committees: one representing Congress and the Administration and the other representing the airlines, private aviation, airports, the military, and the public.

Unlike a private corporation, the NAA would not be directly accountable to its users. However, it would be a considerable improvement over the current situation, as it would be free from most bureaucratic restraints and free also from the congressional appropriations process. Either of these plans would help alleviate delays and make possible a more efficient air traffic control system.

## CONCLUSION

Air travel delays pose a serious and growing problem, deriving primarily from a combination of factors--the surge in demand made possible by deregulation coupled with the absence of market incentives in key parts of the system. Since bureaucratic control is part of the air travel problem, more control is no answer. Consumers have gained tremendously from deregulation over the last nine years, and these gains should not be sacrificed. Similarly, laws mandating particular standards

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20. *Ibid.*, pp. 44, 187.

21. Robert W. Poole, *Privatizing the Air Traffic Control System*, Reason Foundation Issue Paper, November 14, 1986. See also, James Gattuso, "Creating a Private Air Traffic Control System", in Stephen Moore and Stuart Butler, eds., *Privatization: A Strategy for Taming the Federal Budget* (Washington, D.C.: The Heritage Foundation, 1987).

of service threaten to hurt, rather than help, consumers by raising the cost of air travel.

There are better ways to reduce air delays. Scarce airport capacity must be allocated more efficiently through use of demand-based pricing and slot sales or auctions. Expansion of airport capacity must be encouraged--as a start, federal limits on how airports can raise revenue should be lifted. And perhaps most important, the efficiency of the nation's airways must be increased by removing the air traffic control system from the federal bureaucracy and making it an independent federal corporation or a private company. With actions such as this, air delays can be decreased and the quality of air travel improved.

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