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Airline Deregulation: The International Experience

Edited by Kenneth Button

New York: New York University Press, 1991

This book consists of an introduction and four commissioned papers covering deregulation in the United States, Australia, Europe and Canada. Most of the papers were written in early 1989, prior to the period of unprecedented financial losses in the airline industry.

In the introduction Ken Button poses four central themes: (1) how transport markets function, (2) how management responds to liberalization, (3) the need for protection for transport users and labor, and (4) the transition from regulation to liberalization.

The first paper, covering the United States, is by Don Pickrell from the U.S. Department of Transportation. The chapter takes us through a familiar tour of the U.S. landscape, although Pickrell does skillfully analyze data and draws inferences that are both sensible and interesting to read. The chapter does a fine job of analyzing the productivity effects of the new aircraft fleet that came on-line in the 1980's. The new plans improved productivity and lowered operating costs. These effects were largely independent of deregulation, and so their influence on fares should not be attributed to the change in the regulatory environment. As a result, Pickrell finds effects on fares due to deregulation that are substantially below the estimates of others. Pickrell concludes that deregulation lowered fares by about 15 percent, well below the 20-30 percent reductions found in other studies. Pickrell then reviews service and safety kinds of issues and concludes with what have become a fairly standard set of criticisms of the U.S. experience, particularly the entry barrier issues presented by computer reservation systems, frequent flyer programs, code sharing, and infrastructure access.

The second paper is a tour of Australia by Peter Forsyth of the Australian National University. The chapter is more of a prelude to

deregulation because it was written prior to Australia's experience that began formally in October 1990. Forsyth clearly describes the history of the Australian experience, particularly the domestic/ international dichotomy in which Qantas flies internationally, and domestic operations are provided by two airlines, one private and the other publicly owned.

Forsyth describes how rigid this structure was: this may be the only country where the airline industry looked largely the same in 1969 as it did in 1989 when it comes to routes, fares, and operations. He then reviews the whole set of constraints on entry, capacity, routes, and price. There is a wonderful section on parallel scheduling where he shows Ansett and Australian schedules, all ten minutes apart. The classic example: each airline has one flight a day from Sydney to Perth and they leave within ten minutes of each other.

Forsyth is fairly pessimistic about the effects of liberalization and prospective deregulation. He expects to see effects on fares, but very little on service, which I find remarkable given the situation of parallel scheduling. He expected very few changes in the network. One matter that is only slightly addressed is what effect privatization of Qantas and Australian have on the deregulation experience; additional discussion would have made a useful comparison with the Canadian experience later in the book.

The third chapter covers aviation policy in Europe, by Ken Button and Dennis Swann of Loughborough University. The chapter reviews the industry structure with 22 flag carriers. The authors describe a series of submarkets governed by fairly rigid bilateral agreements replete with capacity sharing and revenue pooling. There is a good compilation of anecdotes about alternate markets, ways to get around all these restrictions. The authors' view is that despite the regulations, it has become a fairly leaky system. Another view, and one I share, is that Europe was a leaky system because the participants allowed it to be so, operating as a loose cartel.

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Button and Swann then discuss liberal bilaterals. The chapter presents Britain and the Netherlands as the heroes of commercial policy in Europe. The chapter suggests that this occurred not because the British and Dutch are inherently more commercial, but because they were forced into it by transatlantic competition. One interesting section shows that in 1976, 75 percent of passengers in the North Atlantic traveled on scheduled service, with 25 percent on charter flights. By 1986, it was 95 percent scheduled service. As a result, there are more scheduled commercial flights putting pressure into London and Amsterdam.

The fourth essay in the book is a review of Canada by Tae Oum, Bill Stanbury, and Mike Tretheway of the University of British Columbia. The Canadian discussion is very complete and very detailed. It analyzes the transition to deregulation done over three stages in 1979, in 1984, and completed in 1988.

Oum, Stanbury, and Tretheway do very well in analyzing the interaction between privatization and liberalization. Of the six carriers in Canada—the two national carriers, Canadian and Air Canada, and the four regional carriers—four were government owned. Between 1979 and 1988 period, all were privatized. The authors convincingly sort out the effects of privatization from the effects of liberalization. They conclude that deregulation provided about \$600 million in social benefits to Canada, and privatization provided about \$900 million in social benefits.

A number of important questions remain which might have been addressed. For example, if Europe had a two airline policy like Australia did or like Canada did, would the third EC package have very different competitive effects? Were private carriers better positioned to take advantage of opportunities of liberalization than public carriers?

The interaction of privatization and deregulation is hinted at by every author, and is done carefully by the Canadian authors, but isn't tied together in the book. What has emerged are very different airline strategies. The geographic differences are quite remarkable. It is unfortunate that there was no chapter on Asian experiences. Asia, perhaps more than anyplace else, has moved toward multiple carriers and multiple gateways, but within a flag carrier and regulated system. This interesting model is left out of this book.

Overall, this is a good book to review country experiences. However, there is a need to draw conclusions about common themes and why some experiences differed. What you would really like to see in this book is a concluding chapter based on a conference call among all the authors. Even so, the book remains a fine collection of national experiences with airline liberalization.

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