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# Proceedings of the Transportation Research Forum

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**Find Out About Deregulation.** Unlike many other books about transportation deregulation filled with unsupported theory, predictions of gains without losses, and obsolete research data that is now at least five to ten years old, this one is filled with very carefully referenced and documented quotations from congressional hearings, court cases, business and trade publications, which contain current (1987) information and facts.

Professor Dempsey's new book begins with a concise history of transportation regulation. What follows is a carefully documented, blow-by-blow description of what has happened during the first ten years of federal transportation deregulation. Chapter 3, *Deregulation: The Early Results*, begins with quotations of those who enthusiastically predicted success for deregulation as well as those who expressed reservations. By 1983, the advocates of deregulation were still enthusiastic, but some problems were beginning to surface. His 203 notes (often with extensive quotations) in this chapter are a valuable reference source for those seeking information about the early effects of deregulation.

In Chapters 4 through 9, he covers the effect of ten years of a federal regulatory policy on carrier efficiency, pricing, service, safety, industry concentration, and its impact on small towns and rural communities. Chapter 9, *Concentration*, with 384 reference notes is an especially good source of information on this topic. In it is a carefully constructed genealogy of the seven major railroads and eight major airline systems that have survived ten years of deregulation.

Chapter 10, *State Regulation*, and Chapter 11, *Federal Regulation*, cover these two topics in depth and include some of the author's suggestions for policy improvement. Professor Dempsey's arguments for a return to regulation are contained in Chapter 12, *Summary and Conclusions*. He believes that only regulation can promote public interest values which do not find a high priority in a regime of laissez faire.

This book contains a wealth of up-to-date information about the effect of the nation's regulatory policy which is not to be found elsewhere. The author wrote it because he believes that the large volume of research funded by the U.S. Department of Transportation and other government agencies during the early 1980's did not find or report on some of the longer range social and economic consequences of deregulation that have appeared in recent years. His book is published by Quorum Books - Greenwood Press, Inc. Westport, CT.

- *Regulation and Deregulation of The Motor Carrier Industry* by Dale G. Anderson and John R. Felton, published by Iowa State Univ. Press, 1989.

Reviewer: Julene Rodriguez,  
Upper Great Plains  
Transportation Institute

## Concentration In The Airline Industry

*Session Moderator: John E. Rowcroft,  
University of New Brunswick, Canada*

### Summary by Session Moderator

The session drew together summaries of the past and projections of the near future in the airline industry in Australia, Canada and the United States. Discussion focused on the effect of national deregulation on the international market for passenger services. In particular, it was argued that the increased concentration which has been observed in the

industry in the past may have reflected the strong merger activity in many other industries outside transportation, and the financial conditions which favored it. Future globalization seems likely to bring forth larger conglomerates of carriers without necessarily increasing the degree of concentration on individual routes.

However, in North America, it seems probable that the trend toward the relaxation of international restrictions may lead to the

servicing of some domestic routes by trans-border hubbing. Developments in Australia center on the entry of new carriers, such as Compass, to the domestic market and the possible restructuring of the New Zealand-Australia linkages. While not addressed in detail in the papers, the emergence of European mega-carriers was also recognized as an important influence on the shaping of the global market.

- *U.S. Airline Concentration Following Deregulation and Mergers*

by William A. Jordan,  
York University, Canada

Following the enactment of airline deregulation in 1978, the U.S. trunk carriers' share of scheduled revenue passenger-miles (RPM) declined from 90.1 percent in 1978 to a low of 76.4 percent in 1985. During the same years, the RPM shares of the Canadian national airlines operating under continued regulation remained essentially unchanged at between 91 and 92 percent of total. Clearly, despite the large sizes of the original U.S. trunk carriers, deregulation resulted in significant reallocations of RPM shares from these trunk carriers to the previously constrained local service carriers and to the new airlines that entered interstate operations after 1978. This substantially decreased market concentration in the U.S. airline industry.

The series of mergers in 1986-87 partially restored the original trunk carriers' RPM share, bringing it up to 85.0 percent in 1987. But, rather than increasing further, trunk shares declined again to 84.8 percent in 1988 and (due largely to the Eastern strike) to 83.8 percent in 1989. This, combined with the uneven performances of individual trunk carriers following mergers, leads to the further conclusions that large size achieved through mergers is also not a sufficient condition for dominance in an airline industry operating under deregulation.

Overall, it appears that airline size, whether achieved through regulatory protection or through merger, does not bestow sufficient market power to airlines to result in increased concentration in the absence of regulation.

- *The Airline Industry: Back To The Future?*

by L. Milton Glisson,  
North Carolina A & T State  
University

How does the airline industry get back to the future? It is not going to be easy. Macro-industry analysis tells us that the major U.S. players in the game will be reduced in number. However, it also tells us that the airline industry will become more globalized and that competition on this level will increase significantly. Deregulation was once the future of the airlines. But deregulation led to competition at home and abroad. It now appears that nearly the whole world wants a piece of the action. Out of the ten most profitable airline companies in the world, the United States claimed only four positions; the First, Second, Sixth, and Eighth. The other six slots represented six different countries - Italy, Hong Kong, Britain, Singapore, Spain, and France. When ranked by passenger miles, one-half of the top-ten companies changed their positions. The U.S. maintained its four positions but was only able to place a firm in the First, Third, Fourth and Sixth rankings.

Part of the answer to the question is that airline companies are going to have to develop strategies of globalization. With the United States accounting for 330 million or 39.3% of the passengers enplaning world carrier systems in 1988, the world is beating a path to the front door of America (i.e., they are developing marketing alliances with American airline companies). Those who can't get in the front door head for the back door (they buy a piece of an American airline firm) look for a window (share a computer reservations system - CRS) to squeeze through or simply buy out the entire company.

However, once the hype has diminished, the economic analyses have been completed, the mashing and gashing of teeth have subsided; the moaning and groaning have ceased; the knuckle cracking has been silenced, and finger pointing is a thing of the past, we will find that the air under the wings of the future of the airline industry will be provided by three elements: (1) Fares, (2) Service, and (3) Ownership. We will see also that there will be a true worldwide mega-carriers by the year 2000. Lastly, we will discover that air carriers surviving in the year 2000 will fall into one of three categories: (1) Proactive, (2) Active, or (3) Reactive.

- *Free Trade in Airline Services: Assessing the Proposals to Liberalize the Canada-U.S. Air Transport Bilateral Agreement*  
by David W. Gillen,  
Wilfrid Laurier University,  
Canada, and  
Mark Hansen and  
Robson Ramos,  
University of CA at Berkeley

In this paper we examine the consequences of changes to the bilateral agreement which regulates air transport between Canada and the United States. A hubbing competition model based on an n-player non-cooperative game is used to simulate six alternative bilateral scenarios including the current positions of Canada and the U.S. We find that changes to the bilateral does not have a significant effect on the total amount of traffic but it does effect the distribution of traffic between countries and among carriers and airports.

For all scenarios up to cabotage both countries gain from the change in the bilateral. Two key results of the modelling effort are the pronounced asymmetry with respect to market shares attained by U.S. and Canadian airlines in each others country

under cabotage. Canada can generally be expected to hub in smaller U.S. cities and therefore obtain less than 1% of the U.S. domestic market while U.S. carriers would gain 40% of the Canadian domestic market as major airports in Canada are relatively more accessible. Different bilateral policies have considerable and varying effects for different airports. Major capacity investments are planned for both Pearson and Vancouver International and an assessment of these investments should not be divorced from a decision regarding future bilateral policy. Canada may wish to reevaluate their open skies position contained in the "new bilateral" proposal. The current U.S. proposal provides for more benefits for Canada than the current Canadian proposal. Alternatively, Canada may wish to modify their open skies proposal with "fences" established restricting access to major Canadian hubs at Toronto and Vancouver just as Canadian airlines are restricted at major American hubs.

- *Aviation Issues In South Australia*  
by Derek Schrafton,  
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Adelaide, Australia