CBO Publication
#473

S U M M A R Y

July 1988

CBO STUDY ON AIRLINE DEREGULATION

A study by the Congressional Budget Office finds that the decision 10 years ago to end economic regulation of the airlines has provided travelers with lower fares and more convenient service. But other changes have also occurred. The resulting growth in air travel has strained an already burdened airway and airport system, and the largest carriers have accumulated an unprecedented share of industry traffic. These increases in congestion and concentration have raised questions as to how long the traveling public will continue to benefit from deregulation. The report, *Policies for the Deregulated Airline Industry*, prepared for the Senate Government Affairs Committee, discusses policies that the Congress might consider to help maintain the benefits from deregulation.

So far, the federal government's response to the problem of increased congestion mainly has been to try to expand the aviation system. This is proving to be both costly and time-consuming. Moreover, in a number of cities, concern about the environment and limitations of space make airport expansion impractical. A potentially better approach to the congestion problem would be to use the price system to ration capacity. Under this approach, users of the system would be charged for the cost of air traffic control services, as well as for the cost of the added congestion their use of the system imposes on others. These fees would replace the current system of government financing from general fund revenues and ticket and fuel taxes.

Largely because of the recent merger wave, concentration in the industry has increased. Concentration on individual routes, however, has not. The effective number of carriers providing service between city-pairs has, on average,actually risen somewhat since 1983. And, for the most part, the industry continues to be reasonably competitive. The report analyzes some policies the Congress could consider to stimulate further competition. Frequent flyer programs and computer reservation systems have apparently played important roles in the industry's consolidation; the use of both has increased, and larger carriers are in a position to use them more effectively. Banning frequent flyer programs or changing how carriers compensate travel agents might make it easier for carriers to enter new markets. Ending the current prohibition against foreign carriers serving domestic markets might also increase competition.

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