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# Airlines, Airports and Public Policy in the Current Economic Environment



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# Overview

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- Airlines' adjustments to economic shocks
- Current economic considerations
- Public policy issues

# The Ongoing Challenge to Airlines

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- Match aircraft capacity to passenger demand
- Must commit to capacity in advance
- Must make accurate forecasts of passenger demand
- Poor match leads to excess capacity: fare wars
- Insufficient capacity: lose market share

# Airport Operations

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- Almost all U.S. airports are publicly owned and managed
- Airports are more insulated than airlines are from shocks because they have diverse public and private revenue sources
- Airports have made efforts to help airlines when shocks arise

# Economic Shocks Since Deregulation

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- Early 1980s and 1990s recessions
- September 11, 2001 terrorist attacks
- Fuel price spikes of 2008
- Current recession

# Changes in Airlines' Operations

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- Shocks have cost the U.S. Airline Industry billions of dollars
- Carriers are making very careful adjustments of capacity
- Carriers “hedge” on fuel prices when appropriate
- Carriers face continuing pressure to reduce their costs

# Current Economic Issues: Airlines

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- Continued growth of low-cost carriers
- Behavior of fuel prices
- Fluctuations in aggregate demand and industry capacity
- Bankruptcies and labor negotiations

# Current Economic Issues: Airports

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- Reductions in airline operations and potential revenue shortfalls
- Changing patterns of airline service that may particularly affect airports in low-density areas of the country
- Negotiations with airlines

# Public Policy Issues

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Re-regulation of airlines

Aviation infrastructure investments as part of the economic stimulus package

Efficiency of airports and air traffic control (ATC)

Privatization of airports and ATC

# Re-regulation

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The airline industry's adjustments to economic shocks have made it more efficient

Re-regulation would limit the industry's flexibility and make it less efficient

What form of re-regulation would work?

Expand deregulation of international airline service

# Stimulus Spending and Airport and ATC Efficiency

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- Airports and ATC are likely recipients of stimulus spending
- Such spending should maximize social returns
- Large returns are compromised by inefficiencies in airports and ATC

# Inefficiencies in Airports and ATC

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- Mis-pricing
- Suboptimal investment
- Adoption of technology
- Inefficient allocation of funds

# Privatization of Airports and ATC

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- Encourage explicit competition among airports to reduce inefficiencies
- Address monopoly problems through contracting
- ATC privatization
- Role of foreign and domestic experiments

# Conclusions

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- Competition and cooperation are important during difficult economic times
- Competition should not be stifled to promote “stability”
- At the same time, airlines and airports should engage to achieve mutual gains
- Less rather than more reliance on government is appropriate in the aviation area