

*FIN*ON THE DRY SIDE

AIRLINE DEREGULATION

John Hyde

Public attitudes do change. Between the 1980 and 1983 elections a nominally liberal Government was afraid to repeal the Two Airline Agreement but in the run up to the most recent election a nominally socialist government felt that electoral prudence demanded that it announce the intention to kill it off. The Liberals were already committed to its removal. The policy change is a victory for patient argument within a democratic framework.

It is seven years since Dr Peter Forsyth advised Peter Shack and me on draft terms of reference for the Holcroft domestic airline inquiry. With carefully chosen words we managed to turn what cabinet thought was an inquiry into fare differentials into an inquiry that had to look into the two airline system itself. In spite of the interpretation placed on the terms of reference by the committee members and by people who made submissions to them, cabinet members continued to insist that the Holcroft Committee exceeded its own terms. It availed them nothing once the report was public. The government and the bureaucrats did not want the facts of airline regulation made public. But they were careless: they appointed an able committee with too wide a brief.

The Holcroft report was just one important step on the long road to laying the facts of airline regulation before the public. Peter Forsyth's more theoretical work, some of it done in collaboration with the late R.D. Hocking, had previously alerted Shack and me to the probability that Australian air travel was grossly inefficient.

Change took a long time, hard work and political organisation. The Fair Air Fares Committee---a group of WA businessmen---devoted several years of effort and their own money to exposing the Airline monopoly to public scrutiny. Now, so long as the Government does not break its word, the public interest is at last to prevail over those narrow interests with a lot at stake---unions, companies and bureaucracies. That this outcome is possible is important. If, as the public choice theory of political behaviour seems to imply, dispersed interests (in this case those of the travelling public) could never prevail over concentrated

vested interests democracy would yield poor outcomes for ordinary people.

The most important lesson from the whole, at times sordid, saga is that public opinion, and through it, government behaviour, can be changed peaceably by argument. Argument is as important to effective democracy as elections.

Peter Forsyth has turned his attention from the need for deregulation to the way deregulation can work out. Writing for The Australian Institute for Public Policy (AIPP), Policy Paper No. 10, he looks at what its consequences might be, and what problems could emerge. Neither markets nor political regulation are ever perfect. When economists and political dries advocate deregulation they are often wrongly accused of claiming that markets are perfect, when in fact they are merely saying that, in the circumstances under consideration, market processes will yield better results than political processes. Having concentrated, in this case, on the more serious regulatory imperfections, and won; Forsyth is now looking at potential market imperfections.

The highly successful United States deregulation, described in the same AIPP publication by Professor Clinton V. Oster, Jr of Indiana University, USA, has important lessons for us.

Dr Forsyth says Australians have less to gain than US travellers because the nature of Australian regulation had allowed Ansett and Australian Airlines, but not East-West, to organise their routes in a more convenient fashion than was possible in the US prior to deregulation. On the other hand he points to the ridiculous waste involved in forcing QANTAS to fly across Australia with half empty aeroplanes so as to protect the domestic carriers.

He agrees with Oster that deregulation has had no effect on safety.

In spite of substantial net benefits, some small US towns have lost services (although more small towns now have them) and skilled labour has less bargaining power. 'There was an unexpected redistribution of income from airline employees to travellers.'

On some low density routes, fares have risen, and the incumbent airlines still seem to have some monopoly power. He writes, 'This power can be quite strong if, as happens in several cases, the incumbent has preferred access to a key airport'. It is a particularly relevant warning. Potential new players---East-West, Budget Airlines, IPEC etc---must press now to ensure fair and open access to airports and terminals which are about to be to privatised.

In the United States, airlines with good networks retained advantages---people prefer to book with one firm. Small new entrants found it hard to get started. The incumbent retained some monopoly power but it was 'not strong'. In Australia, Ansett and Australian Airlines will certainly enjoy competitive advantages for many years.

Dr Forsyth identifies the winners from Australian deregulation as leisure travellers on inter-capital and tourist routes and the tourist industry. He sees substantial net gains, but the interstate coach industry and airline employees will lose here, as they did in the US.

We should have expected our domestic airline industry, like any protected industry, to have been able to pay super-normal rates of pay and indulge their employees with super-normal manning and other advantageous work practices. Because they are protected from competition these additional costs can be passed to customers. We should have expected those employees with skills which are specific to the industry, such as pilots, but not computer operators, to benefit from their employers' monopoly. And we should have expected a queue of aspiring airline pilots. All this has happened; the practice supports the theory.

The Australian labour market is also regulated and highly unionised. Remember that the pilots are credited with being so powerful that they forced the government to change the taxation of superannuation. The more tightly regulated the labour market, the more difficult it will be for new firms to enter the airline market with cut-price crews.

The less the airlines are protected from customer choice, the less fat they will have to distribute to employees and the less it will pay the employees to strike or go slow to increase their incomes and leisure time. Nevertheless, impressed by the past political success of airlines and their employees, Forsyth warns against the belief that deregulation will be easy. He suggests ways to buy them off. Whether they deserve to be bought off is quite another question.