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"Don't Panic"[1]: A Primer on Airline Deregulation

by Paul W. Bauer

The old dictum says that if the Devil did not exist, the Church would have had to invent him. Similarly, if the regulator didn't exist, the airline industry would have had to invent him—and did in 1938. A current question is what would happen to the industry were it totally deregulated. One thesis is that there would be a rush by existing and new entrants to those routes thought to be profitable. Other routes would be abandoned. Price competition would be destructive. With the essential link between economics and safety there would be an inevitable major air disaster, possibly involving a prominent Member of Congress. Public outcry and congressional responses would lead to the re-establishment of regulation. Since this was the sequence of events in the mid-30's, why re-learn that lesson? This thesis has been challenged, but the lesson of history ... cannot be totally ignored.

Secor D. Browne, Chairman
Civil Aeronautics Board
(January 1972)[2]

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Introduction

Former Civil Aeronautics Board (CAB) Chairman Browne's statement 15 years ago can scarcely be interpreted as an unqualified endorsement of the government's current policy of airline deregulation. It does remind us, however, that the issue of airline regulation has been controversial for quite some time.

The Civil Aeronautics Act (CAA) of 1938, enacted to counteract the alleged conditions of competitive instability of an industry then in its infancy, began 40 years of pervasive government regulation by the now-defunct CAB. With passage of the Airline Deregulation Act (ADA) of 1978, the federal government completed an about-face in policy and reintroduced competitive forces into the market.

For eight years now, the airline industry has been experiencing a great deal of turmoil, as evidenced by the large number of entries, mergers, and bankruptcies. Much of this turmoil, however, is not the result of deregulation, but rather of the fuel price increase in 1979, of the recession in the early 1980s, and of the air traffic controllers' strike in August 1981. Even so, the regulation debate is heating up again as the events predicted by Mr. Browne seem to be unfolding—with such examples as the recent bankruptcy of Frontier Airlines, the financial problems of People Express and Eastern Airlines, and the crash of the Aeromexico airliner in southern California in August 1986.

This paper analyzes the conditions that prevailed under CAB regulation and that led to the Airline Deregulation Act of 1978. These conditions are contrasted with the effects of deregulation observed so far. Finally, an attempt is made to predict the future evolution and performance of the U.S. airline industry under deregulation.

I. The U.S. Airline Industry Under CAB Regulation

Between 1938 and 1978, the CAB maintained strict control over the two most important decisions airlines had to make: where to fly and how much to charge. This meant that airlines could only compete with one another by offering a higher quality of service (primarily more frequent flights

1 Sound general advice from *The* Hitchhiker's Guide to the *Galaxy* by Douglas Adams.

2 Foreword to R.E.G. Davies' *Airlines* of the United States Since 1914, Putnam & Company Limited, London (1972).

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and other amenities). Studies have shown that CAB regulation led to more frequent flights and to lower load factors (the proportion of seats on a flight that are filled by paying passengers) than would be normal in a competitive airline industry.[3]

Since these actions resulted in higher costs for the airlines, and since the CAB was charged with maintaining the financial health of the industry (that is, preventing losses), it follows that fares were higher. In fact, the interstate carriers subject to CAB regulation marked up fares 20 to 95 percent more than the intrastate carriers not subject to CAB regulation for similar routes.[4] The General Accounting Office (GAO) estimated that passengers could save up to $2 billion dollars or more per year with competitive fares.[5]

II. The Theory Behind Deregulation

Given fare markups of these magnitudes, why were the airlines' earnings so mediocre? The answer appears to be that regulated industries do not have sufficient incentives to control costs. Given the CAB's mandate to maintain the health of the industry by raising fares whenever the airlines experienced hard times and the lack of a threat of competitive entry (the CAB had not allowed the formation of a single new trunk airline from 1938 to 1978), a strong prima facie case exists for inadequate cost control. Using data from 1972 to 1978, Bauer (1985) found that, on average, airline costs during that period were 48 percent over the minimum cost of providing the same service.

Another example of the poor incentive structure can be found by analyzing labor costs. Providing a service product—transportation between two points—airlines could not stockpile their output in anticipation of a strike. Any output diverted by one carrier (either to other carriers, or to other transportation modes) as a result of the strike is a permanent loss to that carrier. Further, even when the strike is settled, the airline may lose some of its customers to other carriers. Regulated airlines could not offer large discounts and free flights to lure their customers back, as United Airlines did after a strike in 1979. Under CAB regulation, strikes were very costly to the airlines, but higher labor costs could be absorbed by CAB fare increases or CAB approval to enter some profitable new route. Thus, there was little incentive for airlines to endure strikes.

Given the evidence on fare markups and the suspicions about airline inefficiency, proponents of deregulation became convinced that elimination of CAB regulation, and a move towards more competition in the industry, would be beneficial to travelers and, ultimately, to the industry itself. Two basic tenets drive the model of the industry that proponents of deregulation had in mind: one, that the minimum efficient scale size is reached at a relatively low level of output and, two, that new entry and the threat of new entry into the industry would ensure sufficient competition to hold fares close to marginal cost and only allow firms to earn a normal profit.[6]

Numerous studies performed prior to deregulation, using various data sets from the late 1950s forward, found that larger airlines had no significant unit-cost advantage (measured in passenger miles) over smaller airlines. This research implied that there was plenty of room in the U.S. airline industry for anywhere from 20 to 100 efficiently sized airlines (see White [1979]), and that there was little chance of concentration increasing in the industry if it were deregulated.

The second tenet, that freedom of entry would severely limit any market power that an airline may have, was being strongly supported by the new theory of contestable markets (see Baumol, Panzar, and Willig [1982]). Simply stated, this theory predicts that if market entry and exit involves no irrecoverable costs and can occur quite rapidly, the threat of entry is sufficient to ensure that firms in this market earn no more than a normal profit.

The following illustrates how this result occurs. Suppose the firms in a contestable market decided to collude and to raise their prices. Although the strategy might work in the very short run, soon new firms not party to this agreement would recognize the opportunity for above-normal profits and would enter the industry, driving prices back down. In a contestable market, even a monopolist would thus earn a normal profit, because if it tried to take full advantage of its monopoly power to earn more than a normal profit, another firm would enter and charge the lower price, capturing the entire market for itself.

Clearly, not all industries in the economy can be considered contestable (the auto industry, for example, is definitely not). However, deregulation proponents considered

3 Douglas, George W. and James C. Miller, (1974) *Economic Regulation* of *Domestic Air Transport: Theory and Policy*, Brookings Institution, Washington, D.C.

4 T. E. Keeler, "Airlines Regulation and Market Performance," *Bell Journal* of *Economics 3* (Autumn 1972), pp. 334434.

5 General Accounting Office, Report to Congress, *Lower Airline Costs per Passenger Are Possible in the United States and Could Result in Lower Fares*, February 1977. p. 11.

6 A normal profit is the minimum return required to keep the firm from shifting resources out of the industry.

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the airline industry a good candidate for contestability—once the artificial barriers to entry created by the CAB were eliminated.

The following market characteristics were considered to promote contestability:

- Inputs used by the airline industry are all relatively mobile when compared to most other industries. Iabor, energy, and materials can either be employed or let go on fairly short notice, as in most industries, but capital is much more mobile than in almost any other major industry.
- Airlines can quickly shift planes from one route to another as the need arises. Further, since there is a ready secondary market for used aircraft—in fact, many carriers rent a significant portion of their fleets—planes are fairly mobile from one carrier to another.
- Ground facilities are usually rented, making them fairly disposable (acquisition is another matter, and will be discussed later).

These properties are thought to make it relatively easy for incumbent airlines to begin service on new routes, so that if fares are too high on a given route, other airlines will enter those markets at lower passenger fares. These properties are also thought to facilitate the start-up of new airlines if existing lines are making more than a normal profit.

Thus, according to the contestable market view, there was little to fear on the part of consumers from airline deregulation. Even if the industry did evolve into a handful of firms, the contestable market theory predicted that they could only earn a normal profit and fares would be as low as possible.

In summary, the proponents of deregulation predicted sharply lower coach fares, as fare markups would be bid down and airlines would strive to reduce their costs in the face of observed and potential competition. There would be some deterioration in service quality as flight frequencies would be reduced. However, this would in turn lower airline costs (by increasing load factors), thus further lowering fares, and passengers would receive the fare-service mix that they prefer. It was felt that there was no need to worry about increased concentration in the airline industry, because the minimum efficient scale would be small enough to make room for many carriers. Besides, the threat of entry would be sufficient to hold fares down and service quality up, even on routes with few carriers.

III. The Effects of Airline Deregulation

The actual effects of airline deregulation, while being generally beneficial to date, have not materialized precisely as the proponents predicted. This divergence of prediction and reality can be traced to changes in the airlines' operating strategies that were induced by the increased freedom given to them by the elimination of CAB regulation. These changes in strategy occurred in the two areas mentioned earlier: where to fly and how much to charge. Market competition seems to have induced even more innovation than industry experts foresaw, leading to predominately beneficial changes in airline behavior.

Fares

As the CAB's authority over fares was diminished, the airlines gradually developed a more complex fare structure to replace the relatively simple first-class and coach-fare structure that existed under regulation. While an element of price discrimination certainly exists, most of the variation in fares is based on differences in the cost of serving the various classes of passengers? Fares are lower for travel outside the periods of peak demand. Examples include flying on weekends, flying in the middle of the day or late evening, and flying to locations that are out of season. A prime example of fare differences based primarily on cost is found between those who can book and pay for tickets in advance and those who cannot. It is costly for airlines to fly planes with empty seats, yet they intentionally have some slack in their systems so that they can accommodate last-minute travelers—for a higher price.

These pricing strategies have enabled the airlines to increase both traffic and revenue far more than if a uniform pricing policy had been followed. The increase in the industry's revenue passenger miles (RPM) and average load factor are plotted over time in figure 1. Both have increased since deregulation, although the effect of the recession in the early 1980s is clearly evident. Traffic increased 33 percent just from 1977 to 1979.

As a result of this shift in pricing strategy, the average fare that passengers actually paid (adjusted for inflation) has fallen about 20 percent in the last 10 years, even though the standard coach fare has fallen very little. Though this is a far cry from the drop that had been expected given the fare markups and inefficiency that existed under regulation, it does represent a

7 For example, whether one stays over a Saturday night on a round trip has no effect on the airline's cost of providing the service, yet it provides a very useful screening device enabling the airlines to charge higher fares to business travelers (who generally cannot meet this restriction) and lower fares to pleasure travelers (who usually can). Thus Ihe airlines can price discriminate between the two classes of consumers, taking advantage of the business travelers' higher price elasticity of demand (and the leisure travelers' lower elasticity of demand) to increase their revenue and profits.

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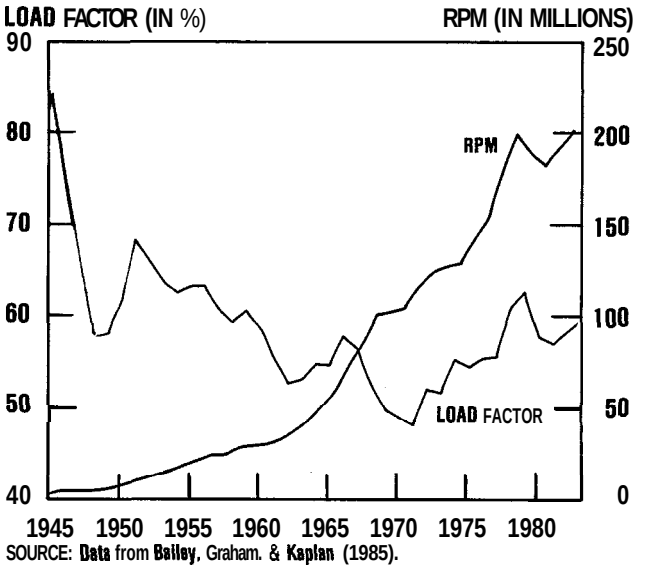

FIGURE 1

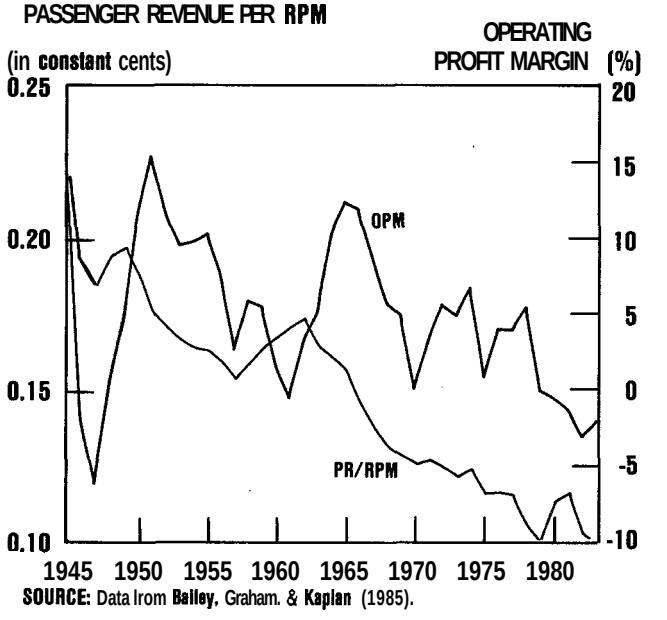

FIGURE 2

considerable savings to travelers. A measure of the average fares paid by travelers, the average passenger revenue per RPM, is plotted along with the average operating profit in figure 2.

All parties benefited to some extent by this new fare structure. The super-low fares enabled many leisure travelers to take trips they would not have considered before; business travelers gained by the increase in flight frequency on most routes (as a result of the increase in traffic) and by the lower fares (for those who could qualify for the discount fares); and the airline industry was able to increase its profits over what they would have been under regulation as the increase in load factors lowered costs.

Routes

The other fundamental change in the airlines' strategies concerns the decision of where to fly. Few people inside or outside the industry foresaw the shift of the airlines to what is now known as a hub-and-spoke system. Since deregulation, instead of serving a hodgepodge of routes as dictated by the CAB, airlines organized their routes so that most of their flights now converge on one or two hubs. These hubs collect traffic from the "rim" cities, then the passengers change planes at the hub to go out on other flights to their final destinations. The potential benefits of this system were demonstrated to a small extent by Delta Airlines, which had a hub in Atlanta even under regulation.[8]

The hub-and-spoke system has enabled airlines to increase their load factors on flights both into and out of the hub, thus lowering their costs and enabling them to lower their fares. An important side benefit is that flights can be scheduled more frequently because of the higher traffic density. Thus, instead of flight frequencies decreasing under deregulation, as was generally predicted, they actually increased. Passengers are also more likely to be able to complete their entire trip on one airline (which is advantageous to the airlines) and to avoid the inconvenience of changing planes at busy airports (which the passengers like). Another benefit is that passengers can fly from almost any city to almost any other city without having to endure multi-stop flights. Usually a one-stop flight can be found, and routes with sufficient traffic density still receive nonstop service.

How much are these innovations worth to consumers? Morrison and Winston (1986) estimated the total benefit of deregulation to consumers to be $5.7 billion a year. For the average passenger, the benefits per trip were $11.08 and came from the following sources: a gain of $4.04 from lower fares, a loss of $0.96 from slightly increased travel time, and a gain of $8.00 from increased flight frequency. Morrison and Winston further estimate that airline profits would have been $2.5 billion higher than they were under regulation. Thus, airline earnings would have

8 The joke then was, "It does not matter whether you are going to heaven or hell; you have to go through Atlanta first."

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been even worse than they actually were (as reported in figure 1) had CAB regulation continued. These are substantial aggregate benefits.

Passenger Concerns

Even so, the gains of deregulation have not been shared equally by all travelers and, in fact, some may be worse off. Travelers who do not qualify for the discount fares and who must pay the full coach fare are probably worse off, unless the benefit from the increase in flight frequency is sufficient to offset this effect. Also, due to the oversupply of wide-body jets, which are ideally suited to carrying passengers coast to coast, fares for flights between 2,000 and 2,999 miles have fallen much more than other fares, so that travelers on these routes have benefited proportionately more than travelers on shorter routes. This is a temporary benefit, however, and will last only until the airlines adjust their fleets. Finally, travel time for most flights involving large hubs has increased due to the increase in traffic.

One of the early concerns of opponents and even of some supporters of deregulation centered on the availability of air service to small communities. Provision was made in the ADA for subsidies to help support air service to small communities for a period of up to 10 years, but many communities were not covered by these provisions. However, most small communities, far from losing service, have gained service. In general, hedgehopping, multi-stop flights have been eliminated (lowering travel time), and flight frequencies have been increased. Travel time for trips involving nonhubs has fallen from one to six percent on average.[9] While service by trunk airlines has been replaced with service by commuter airlines in many cases (which is seen as less desirable), most of these commuter lines have their schedules coordinated with a major carrier at the connecting hub. When there is provision for online ticketing, travelers can save approximately 25 percent over the interline fare. The few communities that have lost all service have not had enough traffic to support scheduled carrier service by any class of carrier. In these cases, service could be restored by government subsidies if the affected taxpayers deemed it desirable to do so.

Beyond the basic issues of where to fly and how much to charge, there is the issue of whether the skies have become less safe under deregulation. Generally, the argument is that competition gives airlines an incentive to cut corners on maintenance and to force pilots to fly more hours than is prudent. Under regulation, it was claimed that this was not a problem because the CAB ensured that the airlines were financially healthy so that they would not be as tempted to cut corners.

So far, the safety record of the airlines is as good as ever, but there is the charge by some that the country has simply been lucky. There are two responses to this charge. First, it is bad for an airline's business for its aircraft to be involved in an accident that is shown to be a result of its own negligence. Not only is the public likely to avoid the airline, but the airline would also have lost a plane worth millions of dollars and exposed itself to even greater claims of liability.[10] Second, and more important, one sure way of forcing the airlines to perform proper maintenance is to step up inspections by the Federal Aviation Administration (FAA). There may be a problem in doing this, however. The number of airlines and aircraft in service has risen dramatically since 1978, but the number of FAA inspectors has remained the same due to federal budget constraints.

A related problem is that the number and the level of experience of the nation's air traffic controllers has declined since deregulation as a result of the Professional Air Traffic Controllers' Organization (PATCO) strike in the summer of 1981. Thus, if there is a potential safety problem, it is likely to arise from inadequate attention to inspection and flight control, not from deregulation.

Industry Concerns

As one might have surmised from the earlier discussion of strikes, labor leaders were also concerned about the effects of deregulation. In fact, however, overall employment in the industry is up and compensation has kept pace with inflation. According to data presented by Morrison and Winston (1986), from 1975 to 1984, pilots' average real income fell a modest $500, dropping to $47,720 in 1977 dollars, while that of flight attendants increased $1800 to $14,428, and that of mechanics increased about $500 to $19,775.

Industry employment has increased since the early 1970s. Employment declined from a 1980 peak until 1983 when it rebounded and continued the upward trend it followed from 1971 to 1978 (see Morrison and Winston [1986]). Though the average worker has not suffered

9 An airport is classified as a "nonhub if its total enplaned revenue passenger miles represents less than 0.05 percent of the total U.S market.

10 It is assumed, of course, that the idea of preserving life also enters into the issue.

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under deregulation, many union workers have been forced to take wage- and work-rule concessions, and some have had their careers interrupted as they have been either laid off or let go by airlines performing poorly in the new competitive environment. Two-tiered labor contracts have also been introduced. All this and the growth of the nonunion sector of the industry among the entering airlines have induced wide, and sometimes surprising, wage differentials between workers for different airlines, so that aggregate data on the welfare of workers is somewhat misleading.[11]

Finally, some firms may not have benefited from deregulation. There have been a number of bankruptcies in the airline industry since deregulation, most notably Braniff Airlines and Continental Airlines, which are both still flying after Chapter 11 reorganizations. Another airline (Frontier) is not flying, but is being acquired by Texas Air. In addition, there have been numerous mergers, particularly in the last year. Currently pending are two large mergers involving Continental-Eastern-People Express-Frontier (by Texas Air) and Delta-Western, that would create the first- and fourth-largest airlines in the U.S., respectively. While business failures impose some costs, such as uncertainty and inconvenience on the part of consumers, the loss of jobs on the part of workers, and the financial loss to creditors and stockholders, failures are a necessary force to ensure that firms operate efficiently in providing the services that consumers desire at a cost they are willing to pay.

IV. Future Evolution of the Industry

The current merger wave could be regarded as a natural process leading toward a competitive airline industry. Travelers prefer to have nonstop or one-stop flights with one carrier, rather than take a flight that would require them to endure two or more stops, or to change airlines at a busy airport. Providing such service requires a national route network with several regional hubs. In addition to the benefits for travelers, there also might be cost advantages to operating such a large hub network. Though the cost studies performed during the regulatory period indicated that there were no scale economies in the airline industry, the cost inefficiencies present in the regulatory era may have distorted these estimates. Bauer (1985) used an econometric procedure that allowed for these inefficiencies and found evidence of substantial returns to scale (contrary to the cost studies that did not allow for inefficiency). This issue aside, there are definitely cost advantages to the extent that large hub-and-spoke systems lead to higher load factors. Currently, only United Airlines and American Airlines operate such networks. However, once the current wave of mergers subsides, there will be anywhere from six to eight such super-airlines, perhaps another four to six medium-sized carriers, and perhaps 10 to 30 regional carriers.

Should the public be concerned about the potential anti-competitive effects of these airline mergers? If the industry were perfectly contestable as discussed earlier, then the answer would be no. Many researchers have tested whether or not the implications of the theory of contestable markets hold exactly; unfortunately, no one has found that they have. Bailey, Graham, and Kaplan (1985), for example, found that on concentrated routes (routes served by only one or two carriers) airlines can raise fares five to 10 percent over what they could charge on nonconcentrated routes.

There are two reasons why actual and potential competition have not lived up to their promise in the airline industry. First, capital—both physical and human capital—may not have fully adjusted to the new deregulated environment. The number of merger proposals recently is evidence that the airline industry is not in a long-run equilibrium with respect to the number and size distribution of carriers. Given that it has been eight years since the formal deregulation process started, it appears that the transition from a regulated to a competitive market equilibrium will take longer than expected.

A second reason for the apparent lack of competition on some routes is that entry into some concentrated markets is not as easy as was first expected. Many airports across the country have severe problems with traffic congestion (for example, airports in Denver and Washington, D.C.); obtaining gates and takeoff and landing slots at these airports is difficult. Since gates and landing rights are "grandfathered to the airline holding them as long as they are used, the airlines that have these scarce resources can earn monopoly returns from them. This creates a severe barrier to entry for airlines wishing to begin service on these routes. The importance of this problem was highlighted in the recent merger of Continental Airlines with Eastern Airlines. To get approval for the merger, slots at LaGuardia airport had to be sold to Pan-Am so that it could set up a competing shuttle service. Even at relatively uncongested airports, such as Cleveland Hopkins, airlines are reluctant to release unused gate space. Much of the impetus for the current merger wave is that airlines find it is easier to buy other airlines to expand (in an

11 For example, unionized Western Airline workers earn less than Delta's nonunion workers. Also United's unionized pilots earned 40 percent more than their ill-fated Frontier brethren.

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effort to reach the most efficient size) than it is to grow internally (and be forced to try to obtain takeoff and landing slots on their own).[12]

Given that the contestable market theory does not seem to apply on all routes, should consumers worry about the increasing concentration of the industry? Currently, the national four-firm concentration ratio (CR), the sum of the market shares of the largest four firms in an industry, has remained unchanged at 47 from 1975 to 1986. Depending on how the current merger proposals are approved, it is likely that the resulting concentration ratio for the industry will be anywhere from 57 to 61. While this is high enough to cause concern, particularly in light of the fact that some individual city pairs now have even higher concentration ratios, there are reasons not to become alarmed just yet.

First, even though the industry has a fairly small number of firms, and concentration is relatively high, fare and route competition has been intense since deregulation. There have been no accusations that the industry as a whole is earning more than a normal profit. Furthermore, to the extent that only large airlines can provide the national route structure and the potential for nonstop and one-stop service that consumers prefer at the lowest cost, the level of concentration is only a reflection of the fact that there is only room for a limited number of efficiently sized airlines in the market.

If the ultimate effect of deregulation is a national market with six to eight huge airlines, there still would be a great deal of competition in the industry, even if many of the major cities are dominated by as few as two carriers. If one wants to fly from Cleveland to Los Angeles, for example, there may only be one or two airlines to choose from that provide nonstop service. However, one-stop service is a close substitute for nonstop service and, in that case, one would conceivably have six to eight choices depending upon which hub city he or she preferred to change planes. On shorter routes, such as Cleveland to Chicago, the smaller regional carriers would provide additional competition to the major carriers and thereby put a check on fares.[13] On still shorter flights, Cleveland to Columbus for example, surface transportation provides some additional competition even if the market for air travel between those points is concentrated. Given the shortcomings of the contestable market theory as applied to the airline industry, however, the disciplining effect of potential competition may not be enough to ensure competitive behavior. It may still be necessary for the Departments of Transportation and Justice to enforce current antitrust laws.

In summary, at this point, the market for air travel in the U.S. is not perfectly contestable and, on some concentrated routes, airlines are able to charge modest fare markups on the order of between 5 and 10 percent. This situation is likely to continue for the foreseeable future, until steps are taken to alleviate the congestion problems at certain airports. The next few years will probably witness an increase in the concentration in the industry to the point where six to eight large airlines dominate the national market with a host of smaller regional and commuter lines filling a variety of special niches. There will be sufficient competition to ensure that travelers are better off than they were under regulation, but it remains to be seen how closely the industry will conform to the perfectly contestable ideal that was envisaged by proponents of deregulation.

V. Conclusion

Deregulation of the airline industry has been a painful experience for some travelers, workers, and firms. Large fuel price increases, the air traffic controllers' strike, and recessions have made the process even more difficult. On the whole, however, deregulation has been favorable. Far more individuals have benefited than have been hurt. Consumers are receiving better service for lower average fares; employment and compensation in the industry are up; and the airlines are generally earning higher profits than they would have under regulation. Yet, even eight years later, the industry is still adjusting to its new environment, and the final results of deregulation have yet to be determined.

There are several steps that can be taken to ensure that the gains to date are not lost and that the costs of adjustment to deregulation are minimized. First, airport expansion is needed to help reduce one of the few barriers to entry that remain in the industry. Deregulation, by greatly increasing air travel through lower fares, made the congestion worse. The solution, however, is not to reduce air travel, but to expand the system.

The federal government has a $3.5 billion fund that can be spent only on promoting air travel. This fund is financed by an 8 percent tax on air fares, but has become embroiled in the current federal budget problems. The money

12 A further cause of the increased merger activity now is that the Department of Transportation (DOT) has authority over airline mergers for the next two years, at which time the Department of Justice (DOJ) will have that responsibility. The DOT has been much more lenient than the DOJ.

13 If they cannot obtain space at the major airports on the route in question, they have the aircraft that can effectively utilize the smaller regional airports which, in some cases, may be more convenient for passengers.

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could be spent to expand airport facilities, to modernize the air traffic control system, and to hire more FAA inspectors. These expenditures would enhance the competitiveness of the system by lessening the incentives for airlines to merge, as well as by improving their safety and reliability.

Second, the U.S. Departments of Transportation and Justice should continue to enforce existing antitrust laws. While the competitive discipline that free-entry into the industry offers should not be ignored, it is important that these agencies not place too much faith in free-entry to the exclusion of other factors, particularly in the short run.

Finally, allowing foreign air carriers into the U.S. market (with reciprocal agreements for entry into their markets) should be considered as a way of further increasing industry competition. These policies would help the U.S. to maintain its position as having the world's foremost airline network.

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