

TRANSPORTATION

Fixing the Airlines Post-Pandemic

Commercial air travel's existential crisis may force the government to make long-overdue reforms.

✦ BY MATTHEW BARGER AND IKE BRANNON

The sudden, near-complete shutdown of U.S. commercial air travel as a result of the SARS-CoV-2 pandemic has created an economic disaster both for the airlines and their suppliers. The Transportation Security Administration (TSA) reports that the passenger count at airport checkpoints fell by 96% from February to April. With demand virtually nonexistent, the airline industry is approaching collective bankruptcy and it is unknown when people will be able and willing to resume taking regular flights across the country. It could be years before air passenger traffic reaches the levels attained before the public health emergency.

Perhaps internet billionaire and investor Peter Thiel was right when he quipped that the accumulated profits in the history of the airline industry are approximately zero. Despite the heady profits and robust market expansions of the past decade, the airlines just received a bailout: the CARES Act gave them \$25 billion to continue paying their employees and sent the industry an additional \$25 billion through a combination of low-interest loans and grants for general operations attached to stock warrants for the Treasury.

The CARES Act marks the second time in the last 20 years that the federal government interceded in the airline industry: the September 11, 2001 terrorist attacks resulted in the closure of U.S. airlines for nearly a month and a bailout totaling \$15 billion. What's more, the economic collapse of 2008–2009 pushed several airlines into bankruptcy and led to further industry consolidation. This uneven economic record has prompted some people to suggest that we consider reregulating the industry or even nationalize it altogether.

Calls for nationalization seem to ignore the large and wide-ranging scope to which the federal government is already involved in air travel. Government operators dominate the supply side of the market: they run the airports, operate air traffic control (ATC), and staff security checkpoints in addition to their traditional role of providing regulation. These interventions increase inefficiency and costs, depressing the quantity of travel demanded in the United States and making it more difficult for the airlines to lure passengers and make money.

There is no disputing that before the pandemic the market for air travel was robust: passenger counts within the air travel system were breaking all-time highs month after month. The entry of low-cost airlines worldwide has made it easier and less expensive to travel today than at any other time in history.

In the aftermath of the pandemic it is worth reexamining the market for air travel and asking whether we can take steps to improve the passenger experience, make airline operating costs less onerous, and strengthen the industry's financial situation so that it can endure future economic shocks. We believe, with qualification, that these can all be accomplished. The flight experience could be greatly improved with a modicum of regulatory changes that would serve to reduce flight times, relieve airport congestion, and lessen airline regulatory compliance costs. These changes would boost consumer value, improve the industry's fiscal health, and make it less susceptible to the vicissitudes of the business cycle, while reducing taxpayer costs and possibly obviating the need for future bailouts. In the next few sections, we suggest a few ways to accomplish this.

ACCELERATE THE IMPLEMENTATION OF 'NEXTGEN' AIR TRAFFIC CONTROL

In 2007 the Federal Aviation Administration began to replace its outmoded ATC systems, which rely on equipment decades out

of date and impose needless costs on the airlines. Most planes navigate by following a series of fixed ground stations that emit a beacon to guide the way, a system that can take planes on circuitous routes. The new “NextGen” system uses satellite navigation and allows planes to fly a direct path to their destination, reducing travel time and fuel use. It also allows planes to travel closer together and land and take off closer together, reducing airport congestion.

The government has struggled to implement this transition and the project is years behind schedule and billions of dollars over budget. In 2018 the Federal Aviation Administration reported that it was “about halfway” through implementing the overhaul and that its goal is to finish by 2030, a date five years beyond its initial deadline.

Despite the program’s myriad delays and a very limited rollout so far, an estimated \$4.7 billion in cost savings have already been realized, mainly from the satellite navigation and improved data-flow systems for ATC. FAA chief Michael Huerta has remarked that cost savings could equal \$160 billion by 2030 if the program stays on schedule—savings that would equal more than three bailouts, or more than \$15 billion per year.

However, it remains unclear whether the program’s funding or the FAA’s management skills will allow a 2030 completion date. The National Air Traffic Controllers Association recently complained that the FAA is still lagging in its effort to modernize its technology and upgrade its aging physical infrastructure.

There is no good reason that this project had to be implemented by a government agency. Several firms in the United States have the expertise and talent to execute this transition. With the right incentives and the flexibility to design and construct the system, private contractors could have led to a less expensive project completed earlier.

The FAA should take advantage of the recent near-cessation in passenger and flight traffic to accelerate the construction of surface-level physical infrastructure for NextGen. Unfortunately, it does not appear to be doing this or even contemplating the idea, even though other, less nimble transit nodes are doing this.

ELIMINATE CONGESTION AT MAJOR AIRPORTS

Seasoned travelers who regularly traverse the New York–DC corridor know to never take a plane between 3 and 7 p.m. It is preferable to do a three-hour train ride than suffer through the



TRANSPORTATION

invariably delayed one-hour flight.

Before the pandemic, airport congestion in the United States was a serious problem. Most airports in major metropolitan areas typically schedule more flights than can be safely accommodated even in the best of conditions. That creates gridlock that results in predictable daily delays at these airports during popular morning and evening rush hours. Consequently, these metastasized delays at major metropolitan airports mean airports in other areas remain relatively clear of traffic.

This happens because airports ignore the changing realities of passenger demand. Airlines accumulated their slots long ago and get to keep the ones they have for peak times provided they use them at least 80% of the time, regardless of whether this is an efficient allocation. Besides the obvious inefficiencies, this creates some perverse incentives. For instance, airlines sometimes use smaller planes to maintain possession of their slots when demand falls, and some have even resorted to running empty planes for a time.

Airports do assess a nominal fee on the airlines for each time a plane lands, with the prices varying by the weight of the plane. While that may seem fair at first glance, it is anything but: small private planes add to congestion just as much as large passenger jets; charging them a lower price is pointless if the purpose of the fee is to assess their cost to the system. As a result, private planes landing at major airports add much more to congestion per passenger carried than major airlines, but they pay less.

The congestion created by this lack of a market creates additional unwanted outcomes. For instance, when the FAA mandated that airlines report their on-time statistics to encourage them to take steps to improve their performance, the main outcome was a reported increase in the expected flight time between cities.

Using a private concessionaire to run the airport instead of a municipal government could significantly reduce the bureaucratic gridlock that produces the air traffic gridlock. A private concessionaire would have an incentive to treat landing slots like the scarce resource they are and auction them off to airlines. It would also be able to amend market-making rules regarding takeoff and landing slots to meet changes in demand. Airlines that want to fly at peak times would pay more for that privilege and charge their customers more as well, which they would willingly pay. In one fell swoop, predictable daily congestion could lessen or disappear.

MORE PRIVATIZATION

One incongruity between Europe and the supposedly more market-oriented United States is that European countries allow the market to handle many transportation services while America continues to have the government provide them. A comparison of the flying experience in Europe and the United States makes clear that American travelers pay a price for transport collectivization both in reduced services and a greater cost to taxpayers.

There are three main areas where the services could (and should) be devolved to the private sector:

Privatizing airports / In most of the world, airports are run by private concessionaires operating on a lengthy contract and they pay the government for that right. The operators profit in part by adding restaurants, stores, and other accoutrements to the airports, charging the tenants rent and receiving a cut of their sales. This arrangement provides a powerful incentive for the concessionaires to create a pleasant environment for travelers. The arrangement also takes away any financial risk from the government: it receives revenue from the concessionaire, which thus has incentive to run efficiently.

In the United States, municipal governments typically operate airports, and—predictably—many of the airports do not have a positive cash flow. The problem is invariably that the politicians running municipalities with major airports view them as a part of their political machine first and foremost, and value the employment opportunities above customer satisfaction or saving taxpayer money.

St. Louis's Lambert International Airport recently considered privatizing its airport. Numerous potential bidders showed interest in the concession and the bids were expected to exceed \$1 billion. Unfortunately, the effort was abandoned in late 2019, largely because of a dispute between the city of St. Louis and its neighboring jurisdictions over the distribution of revenue.

Privatize ATC / Transportation economist Robert Poole of the Reason Foundation has studied privatizing ATC since the airline deregulation of the late 1970s. He notes that over 60 countries have divested ATC from the government, with positive effects.

He points out that the model used in those countries—which he endorses for the United States—would be more aptly called corporatization, not privatization: ATC would be spun off into a nonprofit corporation that would be self-supporting from the fees paid by its users. The corporation would be governed by a board of directors selected to give balanced representation to the entire array of aviation stakeholders.

Poole argues that besides achieving greater efficiency, such a system would be safer because it would put the ATC system at arm's length from its regulator, the FAA, which would help to reduce conflicts of interest. Indeed, the International Civil Aviation Organization recommends such distancing; the United States is one of the few developed countries not to do so. Poole is adamant that such a move would greatly enhance safety.

He contends that the United States is decades behind the technology in other countries and that NextGen's completion won't do much to change that. For instance, he notes that replacing air traffic control towers in less-trafficked regions with a system of sophisticated cameras that transmit the data to an off-site office has proven to be increasingly cost effective and practical in the rest of the world. But the FAA has no provision for doing such a thing in the immediate future.

Privatizing airport security / The decline in air traffic from the pandemic did not reduce the security risks that air passengers

face. Recent reports show that the TSA caught 2.7 times *more* contraband in April than it did a year ago. Moreover, dozens of TSA officers contracted the virus in late March, adding a public health risk to the airport security routine.

Reducing interaction between TSA employees and travelers is already possible through increased biometric identification verification in airport security lines. But such policy updates remain on the TSA's long to-do list, now behind the widespread closures of airport security checkpoints, unforeseen teleworking costs, and the administrative costs of furloughed workers because of the pandemic.

Current TSA issues understate the long-term problem: after nearly 20 years of operation, the agency remains woefully incapable of stopping the flow of contraband that is its *raison d'être*. In system tests, the Department of Homeland Security managed to sneak over 70% of fake knives, fake guns, and fake bombs through TSA checkpoints in 2017; the results were so bad that they were kept out of official reports. Worse yet, the 2017 study was a vast improvement over the 95% failure rate from the same exercise in 2015.

The TSA continues to struggle in hiring, training, and retaining screening officers, according to a 2019 DHS report. TSA screening officer training was deemed non-compliant with TSA policy as recently as February 2020. With a 30% success rate at best, low starting salaries, and complaints of underfunding, we should be asking ourselves the following questions:

- If the TSA can't stop the vast majority of security risks at airports, then how necessary is a completely nationalized airport security system?
- Can the TSA improve airport security without creating more waiting times for passengers?
- How can we dramatically improve airport security and reduce passenger wait times without already adding costs to the taxpayer during an incipient economic and financial crisis?

The public health emergency represents an inflection point for the airline industry to encourage Congress to update our outdated national airport security system. Private-sector solutions already exist: San Francisco and Kansas City are among a group of 22 U.S. airports that run contractor-based airport security, which has proven useful during federal government shutdowns. The screening contractors are paid by the TSA, but the relationship allows the agency to focus its attention on improving safety regulations (including necessary biometric policy regulations that would reduce virus transmission in existing security lines). Public-private partnership opportunities could thrive at the over 400 airports currently staffed by an over-stretched, under-budgeted TSA.

LIMIT THE SCOPE OF EMOTIONAL SUPPORT ANIMALS

In January, the Transportation Department proposed new rules that would narrow the definition of "service animal" to dogs

that have been trained to perform tasks for an individual with a disability or psychiatric disorder. The rules aim to restrict a growing trend for passengers to classify untrained pets and other animals such as horses, peacocks, squirrels, and even beer as emotional support. The number of emotional support animals that passengers claimed and brought aboard flights went from 481,000 in 2016 to 751,000 in 2017.

The Association of Flight Attendants complains that the experience has become "Noah's Ark in the air" and has caused numerous health and safety issues where untrained animals have attacked flight attendants or other passengers. U.S. and foreign airlines received 3,065 service animal complaints from passengers in 2018, compared with 719 in 2013. In 2018, Delta Airlines reported an 84% surge in animal incidents since 2016, a category that includes urination, defecation, and biting.

The proposed rules would not prohibit people from flying with emotional support animals; that decision would be left to the airlines. People who want to travel with legitimate service dogs would need to apply through a training organization that is certified by Assistance Dogs International.

BARRIERS TO CHANGE

Implementing these reforms would bring necessary modernization to the U.S. airport system. Adopting market-friendly systems already in place in many developed countries around the world would eliminate most airport congestion, shorten the time it takes to fly between airports, drastically reduce the amount of fuel used by planes, speed up and improve the quality of security screening, and make airports a more inviting place to spend time.

Commercial airlines and their passengers would be the big winners, with air travel becoming cheaper, faster, and more convenient. These reforms would also reduce the cost to the government of running and maintaining the current system, saving billions of taxpayer dollars. In reducing these market inefficiencies, commercial airlines would be able to both cut costs and claim substantially more revenues to withstand the next financial crisis.

Standing in the way of these reforms are those who benefit from the inferior status quo: the owners of private jets, the politicians who get to use airports as power sources for their machines, and government agencies that would see their employment decline under a revamped system. However, government agencies themselves would not lose from expediting necessary modernizations. By contracting out inefficient operations costs and streamlining revenues, government agencies would be able to devote more attention to developing and updating already outdated policies.

While entrenched interests have staved off reforms thus far, the airlines' existential crisis may finally force the government to take a serious look at changes that can improve performance and reduce the cost of flying. R