

Aviation Markets: Studies in Competition and Re- gulatory Reform

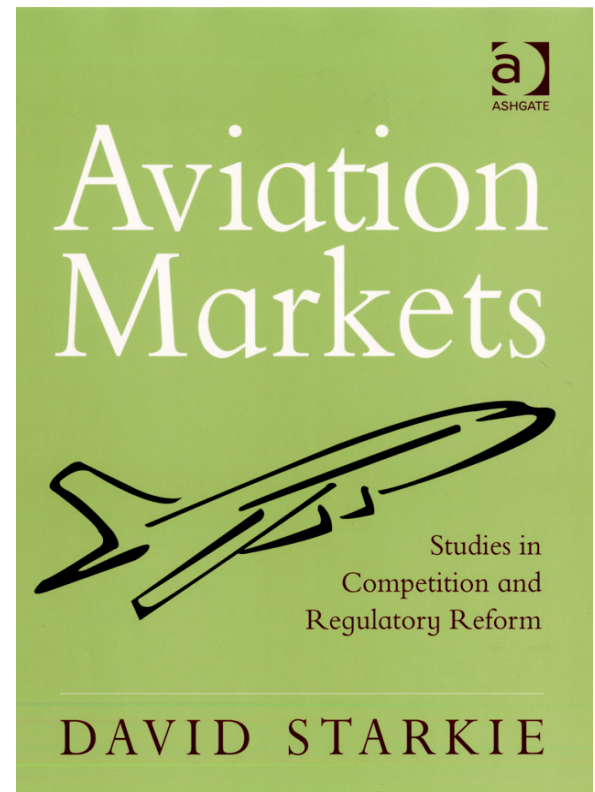
By David Starkie

The book is a compendium of 17 papers, lectures, and submissions written or co-written over the last quarter of a century by a well-known and widely respected transport economist. Its purpose is to shed light on a single theme: the potential for market mechanisms to contribute to the resolution of economic policy issues confronting aviation industry regulators.

Review by Steve Holloway

The book has five parts. Part I looks at airline competition. The three chapters incorporate respectively: an empirical defense of contestability theory; an argument that the bilaterally regulated duopolistic structure of many pre-deregulation European markets provided a firmer foundation for future competition on thin routes than the pre-deregulation structure of US markets; and a proposal that control over an incumbent's capacity decisions in response to the entry and subsequent exit of new competition might provide a better medium for disciplining predatory conduct than the more usual recourse to analysis of the incumbent's pricing behavior relative to its costs. The core of the book, encompassing 11 chapters in Parts II, III, and IV, is concerned primarily with airports. Part II considers issues surrounding airport privatization; it draws extensively on UK experience in discussing the potential disadvantages of combining physically proximate airports into a single commercial enterprise, and critiques the post-privatization regulatory mechanism – including notably its reliance on ex ante price determination and the single-till approach. Part III extends the discussion by looking at the efficiency of airport investment decisions. It considers the effect of BAA's freedom to cross-subsidies questionable expansion at London Stansted from the high earnings generated by its Heathrow and Gatwick properties, and examines arguments surrounding the impact of a price-capping regime on investment decisions generally.

Part IV discusses competition between airports. It bears particularly closely on the stated theme of the book, arguing



that an imperfectly competitive airport industry is likely to be more economically efficient than a heavily regulated one and, accordingly, ex post reliance on general competition law should be preferred to ex ante economic regulation. A separate chapter draws on the structure-conduct-performance paradigm from Industrial Organization economics to make the case that small airports can be viable without public ownership or subsidy. Part V brings airlines back into the frame alongside airports by looking at infrastructural access. Specifically, it analyses the evolution of a secondary market for slots in the United States and makes a general case in favor of market mechanisms. The final chapter argues that slot concentration at major hubs might be more benign than widely believed, and may even have a favorable economic outcome relative to administratively regulated access.

As with any collection drawn from a single author's work over several decades, the key question is whether the book is to some degree a selection of 'greatest hits' or whether it manages to present a coherent narrative woven around a central theme. There can be no doubt that Parts II-V offer a series of historically situated analyses which do indeed shed light on the book's stated theme: the potential for market mechanisms to contribute to economic policy objectives. Whether Part I makes as valuable a contribution to the debate is open to doubt. Whilst the discussions of contestability

theory and how best to police predatory conduct are both interesting, the 32 pages in this part of the book can hardly do justice to a topic as broad as 'Airline Competition' and the three chapters seem somewhat orphaned alongside 14 chapters focused primarily on the airport industry.

The papers are as well-written and closely argued as one would expect from an author with Starkie's background and reputation. Although many date back quite a long way, most address issues that remain relevant and – because of their clarity of exposition and the updated commentary which links them – they offer insights relevant to today's debates. The depth of insight is in fact quite surprising given the breadth of the subject matter and the brevity of the book. The work can be recommended to anybody involved in the management or regulation of airports. Students and practitioners of airline management will also find it a valuable point of reference.

About the Author

David Starkie is an economist, whose broad range of experience encompasses senior posts in academia and consultancy. He is editor of the Journal of Transport Economics and Policy.

About the Reviewer

Steve Holloway is a former investment banker and consultant, whose books include the recently published third edition of *Straight and Level: Practical Airline Economics*.

About the Book

Author: David Starkie

Title: *Aviation Markets: Studies in Competition and Regulatory Reform*

Publisher: Ashgate (in cooperation with the Institute of Economic Affairs)

Date of publication: April 2008

ISBN: 978-0-7546-7360-6 (hbk); 978-0-7546-7388-0 (pbk)



Get Your Thesis Published in Aerlines Magazine!

Have you written a great academic thesis on Air Transport? Get your results published in Aerlines Magazine and reach over 10.000 Industry professionals, fellow students and researchers world-wide!

Three simple steps to getting published:

1. **Send a** copy of your finished thesis, including an executive summary and a **request** to get published to info@aerlines.nl.
2. **Write** an article on your research findings (for size and format requirements visit our website and search for 'Author Guidelines').
3. **Adjust** your article according to feedback of our editors and editorial review board.

Now you are all set! Your article will get published in Aerlines Magazine and potentially read by over 10.000+ Aviation professionals! Still want to know a little bit more? Contact our chief editor; Willem-Jan Zondag at willem-jan.zondag@aerlines.nl

No thesis, but a PHD research? Follow the same steps and get published as well!