THE ECONOMIC IMPACT OF AIR CABOTAGE RESTRICTIONS IN THE UNITED STATES

by Adam Simons
Abstract
Air cabotage, or the ability of foreign airline carriers to fly domestic routes, is exceptionally rare. Widespread adoption would yield significant economic benefits. Despite this, government restrictions on air cabotage prevail around the world, creating government-granted oligopoly in the airline industry. By comparing the US model with that of the EU, I assess the economic impact of cabotage restriction in the United States, using recent mergers as a proxy for reduced competition. My findings are consistent with theories of oligopolistic competition and reveal that Europe’s model has allowed for more competitive pricing, while the lack of competition in the US has led to a steady increase in prices. I find that one feasible method of achieving air cabotage is for the US to engage in bilateral air cabotage agreements.

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Introduction

Nearly two billion passengers traveled by air worldwide in 2016. Air transportation’s total economic impact is estimated at USD 2.7 trillion, globally (ATAG 2016). In recent decades, liberalization and competition in the airline industry resulted in significant gains for passengers globally. Yet a majority of national governments maintain air transport restrictions that prevent competition, increase fares, and lower service quality. Air cabotage, or the ability of foreign airline carriers to fly domestic routes, would yield substantial economic benefits. Despite this, government restrictions on this freedom prevail around the world, creating government-sanctioned oligopolies. This paper seeks to measure how restrictions on air cabotage in the US harm consumers.

Having experienced firsthand the advantages of a competitive airline industry—namely, affordable, comfortable commercial flights to a variety of cities—I was motivated to research the differences between countries that allow airlines more “freedoms of the air” versus those that allow fewer of them. These “freedoms of the air” describe certain rights of air transportation, ranging from the most basic: the first freedom of the air grants a foreign airline the right to use their airspace; to the most comprehensive: the ninth freedom, air cabotage, affords a foreign airline the rights to both begin and end a flight in domestic territory (Szakal 2013).

This paper is unique in that it compares the price changes over time between a market that allows no form of air cabotage (US), and a market under a cabotage agreement between dozens of countries (the EU). For the purposes of this research paper, I focus on passenger air travel.
The History of Airline Liberalization Policy and Competition

Over the past several decades airline liberalization has promoted competition and led to an increase in consumer surplus in the United States. Prior to the introduction of airline liberalization policy, the US airline industry faced a severe lack of competition. The Civil Aeronautics Board (CAB), established in 1938, determined which US cities and routes would be served, the ticket prices for each flight, and which airlines had the right to operate on each route. This ensured there could be no competition in a market run by regulatory powers. The CAB was the law of the land until 1978 when President Jimmy Carter signed the Airline Deregulation Act. Gradually, the Act allowed more airlines to serve new and existing routes and allowed more freedom for airlines to set their own ticket prices. Successful intra-state airlines like Southwest were able to take their low-cost model to the rest of the country, providing more frequent and less expensive options for passengers. By lifting strict government control of prices as well as market entry and exit, the Act had the impact of increasing competition and reducing prices for passengers (Sheth et al. 2007: 21–32).

American airline liberalization advanced another major step in 2007 with the EU-US Open Skies Agreement. This bilateral agreement allows for transatlantic flights by any airline, European or American. Winston et al. calculated that the 2007 EU Open Skies Agreement, allowing all EU airlines to fly international routes with the US and vice versa, resulted in a gain of $4 billion USD to travelers per year (2015)—a huge boon to passengers. This complements the pro-consumer argument for opening up air routes.

In direct opposition to airline deregulation, and liberalization more broadly, is the protectionist argument. Prominent airline lobbying groups regularly make the protectionist case. For example, Airlines for America’s policy priorities state that “the government needs to play its
role in ensuring US commercial aviation is operating on a level playing field with foreign competitors” (2018). One common protectionist argument from the airline industry is that the US should not allow foreign competitors access to US markets when they receive benefits from their nation’s government via tax breaks, subsidies, or other public support. The Partnership for Open & Fair Skies (2018) points to three airlines in particular—Emirates, Etihad Airways and Qatar Airways—for receiving too many subsidies from their respective governments. The Partnership has had success in getting the Trump administration to the table with the United Arab Emirates and Qatar in order to end airline subsidies and halt the establishment of new routes into the US (Garcia 2018).

Nineteenth century economist Frédéric Bastiat famously lampooned this concern in his *candlemaker’s petition*, in which he points out that consumers buy from foreign producers when these producers are able to “flood” the market by selling their goods at high quantities and low prices (Bastiat 1845). This, in turn, can harm the domestic industry which cannot compete with these prices. He satirically suggests that candlemakers should lobby for a ban on natural light—by blocking out the Sun—as it quite literally floods the domestic market by providing its “product” at anticompetitive prices (that is to say, *free*). Behind the satire, Bastiat’s point is that cheap goods and services are a boon to consumers—protecting one industry at the cost to all consumers would be suboptimal (Ibid.).

Airline liberalization and competition have been studied extensively, and most of these studies show that it leads to significant gains for consumer welfare (Sheth et al. 2007). Consumer welfare for our purposes means any advantage the consumer gains. For example, this could include lower prices on tickets and ancillary fees, higher quality service, safer flights, or more options to choose from. The importance of competition was laid out by Friedrich Hayek, who
described competition as a dynamic process of discovery which reveals the most efficient uses of available resources through price signaling (Hayek 1968). When government places restrictions on competition, the market, including consumers, suffers.

A major factor in the rise of US prices has been the consolidation of routes accompanying major mergers. As routes move from two or three competing carriers to just one, fundamental economic theory suggests carriers on those routes become price makers and gain producer surplus. With more competitors vying for revenue on smaller routes, consumers are better off. Werden et al. (1991) examined the economic effects of mergers by comparing routes in the US that had recently been impacted by a merger against routes that had not. They found that the routes affected by mergers saw slight to significant increases in fares as well as significant reductions in overall service or flight frequency (Ibid. 1991). Similarly, Schipper et al. (2002) found that EU routes impacted by airline liberalization had significantly lower fares and more frequent departures compared to routes without liberalization. On the other hand, Bailey and Liu found that consumers are willing to pay higher prices for fewer firms in exchange for improved flight frequency (1995).

It is not only prices that are impacted by consolidation—service suffers as well. A 2014 report by the Federal Aviation Administration found that delays and cancellations are more common when routes lose competition, reporting that “a market that went from being served by three airlines to two experienced nearly a 7 percent increase in the flight cancellation rate due to the loss of competition” (FAA 2014). They also found that routes that were less competitive to begin with saw even greater increases in cancellation rates (Ibid. 2014).

An example of how foreign ownership restrictions harm consumer choice can be found in the sale of Virgin America to Alaska Airlines in 2016. Entering the market in 2007, Richard
Branson—a non-US citizen—was required by law to sell a large portion of his company in order to stay below the US’s 25 percent foreign-ownership rule for airlines. The company accumulated various accolades, rating among the highest in US consumer satisfaction in 2013 and 2014. When Alaska Airlines bid $4 billion to acquire the company in 2016, Branson was helpless to stop the sale of his brainchild. Alaska Airlines announced that they would discontinue the Virgin America brand in 2019 (Hackett 2016). This episode shows how antiquated rules on foreign ownership stifle innovative business practices and give American companies an edge in driving out competition.

Fu et al. (2010) found that airline liberalization has led to substantial economic and traffic growth, mainly due to increased competition and gains in efficiency. They also found that “liberalization allows airlines to optimize their networks within and across continental markets” (Ibid. 2010, p. 24). These findings run counter to the protectionist argument against air cabotage, since airline traffic growth typically results in more jobs, not less. Airline policy expert Kenneth Button found that the US airline industry has been sorely lacking competition for some time:

Over the past decade, the forces of competition have stagnated as domestic airlines have merged, carriers have become more homogeneous, and international strategic alliances have formed. Fare levels have, at best, flattened out over the past decade, simply bubbling along with trends in fuel prices. (2014, p. 8)

This observation and the bulk of the existing literature strongly suggests a positive role for airline industry liberalization in increasing competition and consumer welfare.

**Methodology**

Within the oligopoly market structure new entrants will shift the industry demand curve to the left, putting downward pressure on price and increasing consumer surplus. New entrants
recognize the economic profit to be gained, and to do so compete on price and quality of service. Therefore, for this paper, I have examined the impact of airline mergers in the United States on price and consumer surplus as a proxy for the efficiency gains lost to decreased competition due to air cabotage restrictions. I then compare time series data from the airlines industry in the EU before and after it allowed for semi-cabotage in 1997. Semi-cabotage—what this paper means by air cabotage—is defined as the ability of any EU member airline carrier to fly any route within the EU. Because full cabotage is nearly non-existent in the real world, an analysis of semi-cabotage is more relevant to US policy. This definition should suffice for the purpose of measuring consumer surplus and competition. By analyzing the effects of air cabotage, this paper presents a model of what could be possible within the United States if more established airlines were suddenly allowed to compete for a share of the market.

The data for passenger flight pricing is difficult to capture in a way that is easy to compare across airlines and countries. This is a result of taxes and fees that vary from country to country, as well as variation in flight distances that would make one-to-one price comparisons unhelpful. Instead, Revenue Per Available Seat Mile (RASM) is the primary measurement used. RASM is a commonly reported metric for assessing airline efficiency. This shows operating income (revenue) divided by available seat miles (ASM), which is simply the number of miles a plane flies multiplied by the number of passenger seats available per flight. We can think of ASM as an airline’s ‘quantity supplied.’ Through fundamental economic theory it becomes clear why RASM is a viable indicator of price: total revenue is equal to price times quantity. RASM is the same as total revenue over quantity. We can use basic algebra to show that this is equal to price (see figure 1 below).
\[ TR = PQ \]
\[ RASM = \frac{TR}{Q} = \frac{PQ}{Q} = P \]

Figure 1. The definition of price as a function of total revenue and quantity

The US data I collected comes from the US Department of Transportation and the Securities and Exchange Commission. The US has rules about reporting RASM (and a great deal of other financial information) to these two federal agencies. This information is neatly compiled by MIT’s Global Airline Industry Program, from which I drew the data directly (Airline Data Project 2018). For EU data, I delved into the annual financial reports from each major airline group, which typically lists revenue, ASK, fuel costs, as well as other useful data. For International Airline Group (IAG), this required combining individual datasets (IAG Annual Reports 2011-2016) from pre-merger airlines, as IAG was formed in 2011 with the merging of British Airways and Iberia. In some cases I had to collect raw data from annual financial reports such as Iberia Annual Reports (1996-2010) and Lufthansa Group Annual Reports (1997-2016) including revenue and available seat kilometers (which I then converted into miles to compare US RASM and EU RASM). Lufthansa Group’s data was also gleaned from their annual reporting.

Findings

Looking at the data for the US airline industry, the most noticeable trend is the steadily upwards sloping RASM beginning in 2005. This is understandable because 2005 is the year of the US Airways-America West merger, which brought together the 7th and 8th largest US airlines. Major mergers have continued more recently, with the Delta-Northwest merger (2008), United-
Continental merger (2010), Southwest-AirTran merger (2011), and finally the American-US Airways merger (2014). Following a decline in price in 2001 (a year in which the US faced a recession from March to November), RASM increased significantly during the merger period, as seen in figure 2. The average RASM of the post-merger period (2005-2016) is 26 percent higher than that of the pre-merger period. These findings are entirely consistent with our theory; as competition diminished, prices increased, leaving pre-merger revenues in the dust.

**US RASM Data**

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<tbody>
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<td>0.096</td>
<td>0.098</td>
<td>0.097</td>
<td>0.096</td>
<td>0.102</td>
<td>0.092</td>
<td>0.088</td>
<td>0.093</td>
<td>0.092</td>
<td>0.096</td>
<td>0.105</td>
<td>0.109</td>
<td>0.117</td>
<td>0.106</td>
<td>0.120</td>
<td>0.130</td>
<td>0.134</td>
<td>0.137</td>
<td>0.136</td>
<td>0.129</td>
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<tr>
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<td>-4.7%</td>
<td>2.4%</td>
<td>-0.9%</td>
<td>-1.4%</td>
<td>6.9%</td>
<td>-10.6%</td>
<td>-4.4%</td>
<td>6.1%</td>
<td>-0.4%</td>
<td>4.3%</td>
<td>9.2%</td>
<td>3.7%</td>
<td>6.9%</td>
<td>-9.5%</td>
<td>13.4%</td>
<td>8.5%</td>
<td>2.9%</td>
<td>2.3%</td>
<td>3.0%</td>
<td>-3.8%</td>
<td>-5.2%</td>
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*Table 1. US RASM Data. Source: Airline Data Project*

![US RASM ($)](image)

*Figure 2. American airline industry RASM from 1995-2016*

By comparison, the data collected for European airlines runs relatively flat. The Lufthansa Group, which includes Lufthansa Passenger Airlines, SWISS, Austrian Airlines,
British Midlands, SunExpress, and Eurowings, was in 2016 the highest grossing airline group in Europe. Figure 3 shows that RASM increased beginning in 1997 (the same year the EU began the airline liberalization process) but has since flattened out as other European competitors entered the market to take advantage of the new profit opportunities. RASM isn’t significantly higher than it was in the pre-liberalization period despite the various mergers that have taken place in the EU, and it has remained stable since 2009. The EU’s liberalization in this industry has enabled an environment of strong competition, with many airlines competing to attract customers.

**Lufthansa Group RASM Data**

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<tr>
<td>RASM (€)</td>
<td>0.091</td>
<td>0.092</td>
<td>0.112</td>
<td>0.115</td>
<td>0.110</td>
<td>0.123</td>
<td>0.132</td>
<td>0.142</td>
<td>0.129</td>
<td>0.121</td>
<td>0.125</td>
<td>0.135</td>
<td>0.133</td>
<td>0.127</td>
<td>0.108</td>
<td>0.113</td>
<td>0.111</td>
<td>0.116</td>
<td>0.114</td>
<td>0.112</td>
<td>0.117</td>
<td>0.110</td>
</tr>
<tr>
<td>Δ% RASM</td>
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<td>21.9%</td>
<td>2.5%</td>
<td>-4.1%</td>
<td>11.7%</td>
<td>7.5%</td>
<td>7.2%</td>
<td>-9.1%</td>
<td>-6.2%</td>
<td>3.9%</td>
<td>8.0%</td>
<td>-2.0%</td>
<td>-4.1%</td>
<td>-15.0%</td>
<td>4.5%</td>
<td>-1.4%</td>
<td>4.1%</td>
<td>-1.3%</td>
<td>-2.1%</td>
<td>4.5%</td>
<td>-5.6%</td>
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*Table 2. Lufthansa Group RASM Data. Source: Lufthansa Group Annual Reports, 1997-2016*

![Lufthansa Group RASM Data](image)

*Figure 3. Lufthansa Group RASM from 1995-2016.*
Similarly, the data gathered for the International Airlines Group (IAG)—which as Europe’s third highest grossing airline group now includes British Airways, Iberia, Air Lingus, and Vueling—reveals prices no higher than they were 20 years ago (in 2016 prices, seen in figure 4 below). There was a noticeable dip in prices as demand dropped during the global financial crisis. This group’s 2011 merger may have increased efficiency and thus revenue, although their RASM is still no higher than it was in the late 1990s.

### IAG RASM Data

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<td>RASM (€)</td>
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<td>0.058</td>
<td>0.059</td>
<td>0.055</td>
<td>0.051</td>
<td>0.049</td>
<td>0.048</td>
<td>0.051</td>
<td>0.050</td>
<td>0.051</td>
<td>0.052</td>
<td>0.047</td>
<td>0.043</td>
<td>0.039</td>
<td>0.035</td>
<td>0.047</td>
<td>0.051</td>
<td>0.050</td>
<td>0.050</td>
<td>0.052</td>
<td>0.047</td>
<td></td>
</tr>
<tr>
<td>∆% RASM</td>
<td>-21.5%</td>
<td>1.0%</td>
<td>-5.9%</td>
<td>-7.7%</td>
<td>0.0%</td>
<td>-2.9%</td>
<td>-3.6%</td>
<td>6.4%</td>
<td>-2.3%</td>
<td>3.4%</td>
<td>1.9%</td>
<td>-9.9%</td>
<td>-8.8%</td>
<td>-9.1%</td>
<td>-10.0%</td>
<td>33.8%</td>
<td>9.4%</td>
<td>-2.6%</td>
<td>-6.6%</td>
<td>4.7%</td>
<td>-9.8%</td>
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*Table 3. IAG RASM Data. Source: IAG Annual Reports 2011-2016, British Airways Annual Reports 1996-2010, Iberia Annual Reports 1996-2010*

*Figure 4. International Airlines Group RASM from 1995-2016.*
Discussion

What accounts for this difference in European and American airline prices over time? Both markets have seen a considerable number of horizontal mergers during the time frame analyzed. One major difference is that the EU airline industry is subject to greater competition from existing airlines in EU member countries. For instance, Lufthansa and IAG must contend with many ultra-low-cost carriers (ULCCs) including Ryanair, EasyJet, Norwegian Air Shuttle, WOW Air, and Wizz Air, who have access to foreign and domestic routes in any EU member state. The increased competition in the EU has led to innovative business models that consistently put downward pressure on prices. Many travelers in Europe now prefer flying over other methods of travel such as trains, which are now relatively more expensive. In terms of passenger capacity these ULCC carriers surpass giant holding groups such as Lufthansa, Air France-KLM, and IAG (see Figure 5, below).

![Figure 5. European Airlines by total capacity (available seats). Source: David Casey, Routes Online.](image-url)
By comparison, the four largest US airlines combine for over 80 percent of all tickets sold, which would indicate the US industry is an oligopoly. The “Big Four” do not worry about competitors cutting into their revenue, and face no serious competition from ULCCs, as in Europe. When Europe began limited cabotage in 1997 it ensured that their airline industry would foster more competition for decades to come. That competition has managed to keep prices from rising steadily for the past 20 years as they have in the US. Liberalizing the US airlines industry by allowing cabotage would create more competition from established carriers and drive prices down. A return to pre-merger prices would represent a 21 percent drop—a huge potential gain for US passengers. Policymakers should also allow for disruption of other potential sources of upward pressure on price in the US market, including restrictions on airports, and lack of viable substitutes (such as passenger trains).

What then prevents the US from passing legislation allowing cabotage? One explanation comes from Gordon Tullock’s Transitional Gains Trap. Tullock’s 1975 theory suggests that when industries first successfully lobby the government for barriers to entry, they see a short-term economic advantage from the new policy, sometimes called rent, which refers to any profit beyond what existing firms would receive without these barriers to entry. Over time, however, this rent diminishes to the point where firms are no longer benefitting from the short-term boost they received through this act of regulatory capture. By this point it has become almost impossible to remove the policy and allow more competitors, as the beneficiary firms would stand to lose out on considerable producer surplus in the short-term—this would leave them even worse off than before the entry barriers were established. These firms which stand to lose a great deal are now willing to direct more revenue to continue lobbying to prevent the entry of new competitors, and thus they have fallen into the Transitional Gains Trap. This phenomenon could
explain the prevalence of cabotage restrictions in the US, and indeed most of the world. US airlines benefit from holding powerful incentives over American lawmakers that foreign firms lack, such as existing jobs in politicians’ states or districts. US carriers claim that an influx of foreign airline competitors would threaten existing jobs and businesses, even though most research suggests more competition would increase the number of routes and available flights (Schipper et al. 2002). All of this would mean more jobs in addition to increased consumer welfare.

This reluctance on the part of firms in the US airline industry to consent to liberalization is further compounded by a collective action problem on an international scale. That is to say, the interests of individual countries’ airline industries are in opposition to the interest of the global industry as a whole. It is very rare for a country to open up air cabotage unilaterally; usually open skies agreements like the 2007 EU-US Open Skies Agreement are negotiated bilaterally. No country wants to be the first to liberalize if they think it will harm their airline industry and benefit those of other nations. This dilemma is reflected in a simplified decision game, shown in figure 5 below. Each player is given two choices which reflect their perceived possible outcomes. Country A may choose to either keep status quo restrictions on air cabotage and maintain only domestic airlines for domestic routes, or they can choose to liberalize, which in this case means allowing foreign airlines from Country B to operate domestic routes in Country A. Country A views liberalization without reciprocity as a loss, which for Country B means a new market for their airline industry. Country B has identical options. When both countries choose to keep out competition their respective airline industries stay the same. If one country chooses to liberalize their air routes, their opponent is, of course, going to choose to keep out competition, so whichever player chooses first will not choose that option. The best outcome for
both players (though not a Nash Equilibrium) is for both to liberalize. This is identical to the classic stag hunt decision game.

**Country B**

<table>
<thead>
<tr>
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<th>Keep out</th>
<th>Liberalize</th>
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<tbody>
<tr>
<td><strong>A</strong></td>
<td>(0, 0)</td>
<td>(2, -1)</td>
</tr>
<tr>
<td>Keep out competition</td>
<td>(-1, 2)</td>
<td>(1, 1)</td>
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*Figure 6. The stag hunt game for air route liberalization.*

Because there is a dominant Nash Equilibrium strategy in this game (both players *keep out competition*), what is required for liberalization is some bilateral agreement that binds each country to the decision to liberalize. This is essentially what the US did with transatlantic flights, as the 2007 EU-US Open Skies Agreement allows for EU airlines to fly any transatlantic route to and from the US and EU, and vice versa. The difficulty in unilaterally liberalizing is evident by the stag hunt game. This tells us that countries must figure out a way to negotiate binding international agreement on the terms of airspace liberalization if the gains of air cabotage are to be realized.

One argument against lifting foreign ownership restrictions revolves around a protectionist view of jobs and salaries. If airlines from other countries enter the US market, what
is to prevent a “race to the bottom” for the lowest wages and least regulations? From the Air
Line Pilots Association website:

Some foreign airlines are unfairly attempting to get ahead in the global marketplace by
using the flag-of-convenience business model to avoid their home countries’
employment, tax, labor, and safety requirements. These companies seek to do business in
the United States with unfair competitive advantages that hurt American airlines and their
workers […] Under a flag-of-convenience business model, a foreign airline picks
“convenient” countries that have favorable and usually less-stringent laws and regulations
in which to base different pieces of its operations. This opportunity to “shop” for an
advantageous regulatory and legal environment allows the airline to avoid its home
country’s safety, tax, and labor structure. This practice allows the airline to undermine
workers’ pay, benefits, and work rules. (ALPA 2019)

I contend that liberalization that results in increased price competition would have the opposite
impact. With downward pressure on flight prices comes increased demand. On the margin, this
can be a stronger preference for flying as opposed to other methods of transportation. This
demand would be met with a response by carriers to offer more flights and routes, which would
result in more jobs in the industry. There is no evidence that foreign carriers would refrain from
hiring American pilots, flight attendants, or other crew members. An increase in flights would
also necessitate more planes to be built and maintained, which would also mean an increase in
airline industry jobs.

A second argument against cabotage focuses on national security. These advocates
reference the Civil Reserve Air Fleet (CRAF), a voluntary program that enables the US military
to call on airlines and use their planes during wartime. The argument goes that if foreign airlines
take over many domestic routes in the US, the military will not be able to rely on those
companies to move military personnel. From the Air Line Pilots Association website:

By regulation, U.S. airlines must be at least 75 percent owned (as a percentage of shares)
and effectively controlled (as a percentage of voting-stock) by U.S. citizens.
Additionally, two-thirds of an airline’s governing board and its lead executive officer
must be U.S. citizens. A key objective of these requirements is the maintenance of our
national defense, and the Department of Defense has long been a strong supporter of the foreign ownership and control rules. U.S. airlines, especially those involved with the Civil Reserve Air Fleet, have obligations to our military in times of crisis. Our carriers provide essential airlift for military personnel and cargo. Should ownership or actual control of an airline drift outside of U.S. control, so would these resources. (ALPA 2018)

This argument relies on many assumptions that are likely false. It assumes that foreign airlines would all refrain from signing up for the CRAF, and also that the foreign airlines would make such inroads into the US market that American carriers would not be able to handle the bulk of CRAF duties. One possible area of further study is the economic consequences of mingling public sector powers with private sector resources.

The final argument made against lifting foreign ownership restrictions is that the industry would find itself with firms that do not follow US air law or regulations. This argument rests on the assumption that the US could not require foreign-based carriers to follow American laws in US airspace, which on the contrary would likely be a part of any agreement to allow such firms to operate in the US. Legal compliance of foreign companies would likely not be an issue if the US does decide to allow cabotage, as it is hard to imagine this problem would not come up in the negotiations and contracting process that would inevitably take place.

**Conclusion**

By restricting competition, government stunts the process of competitive discovery, while harming consumers whose standards of living would be improved by lower prices, more routes, and more airlines to choose from. This paper has argued that the gains from air cabotage are significant. Nevertheless, it is politically difficult to get airline industries and governments to budge on this policy issue. Data shows that the US airline industry is characterized by monopolistic competition. Based on the comparison of RASM across countries, it is reasonable
to conclude that adoption of air cabotage, and the resulting increase in competition, could reduce prices in the US by as much as one-fifth. We have also seen that international agreements are one feasible way for air cabotage to take hold. It is the details of negotiating solutions to this collective action problem which are complex. Furthermore, if the US and the EU (or another large airline market) were to agree on air cabotage, it stands to reason that other countries would become more likely to engage with the US to reach similar agreements. After all, why should EU airlines have the privilege of exclusive rights to domestic US routes? It is highly likely that such agreements would encourage more airlines to want in on the air cabotage game once the US initiates air cabotage negotiations. To benefit consumers and expand the airline industry, the US should engage in bilateral and multilateral air cabotage treaty negotiations with countries that have fully developed airline industries.
References


