U.S. Senate Committee on the Judiciary
Subcommittee on Antitrust, Competition Policy, and Consumer Rights
"Examining Competition in America's Skies"
Questions for the Record for Ganesh Sitaraman
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<u>QUESTIONS FROM SENATOR CORY A. BOOKER</u>

1. Since passage of the *Airline Deregulation Act of 1978* and the elimination of the Civil Aeronautics Board's route oversight, Americans living outside of major cities often have to travel hours to the closest major airport or must make one or two connections to reach their final destination.

    a. Can you explain how limited airline access not only harms passengers, but also constrains business opportunities and economic growth in these communities without such access?

    Air service is critically important for communities. As an important part of modern transportation infrastructure, air service connects communities to the country and to the world. Losing all, or even substantial, air service, can therefore have serious consequences. Cities that lose some or all air service might be less attractive for businesses, conferences and conventions, or tourists – all of which drive not only direct economic growth, but also indirect growth via secondary and tertiary commercial activity and jobs.

    b. How can we ensure that the millions of Americans who do not live in or around major cities have access to reliable, efficient flights, and that airlines stay afloat?

    There are many possibilities for how to expand access to air service. The closest to the status quo would be to significantly expand the Essential Air Service (EAS) to go beyond covering very small towns to including a much wider set of larger communities. Two other approaches, which I have proposed, include what I call the "regional conference" and "draft pick" systems. The regional conference system would see a single, regulated airline with a mandate to serve in each region of the country, connecting smaller places to hubs. The draft pick system would impose a duty to serve on the biggest airlines, such that they could pick cities from a list of those with need, and then they would have to serve those cities. Other policies, such as deconcentrating fortress hubs and expanding access to airport facilities, could indirectly help address this issue as these policies would likely push airlines to expand service in markets smaller than their current hubs. Each of these policies have different benefits and tradeoffs, of course.

2. After the *Airline Deregulation Act of 1978* was passed, the Department of Transportation established the Essential Air Service (EAS) to subsidize flights to rural communities.

   Unfortunately, EAS has largely been unsuccessful because these flights do not operate at capacity to be profitable for airlines. As you and Mr. McGee pointed out in your report *How to Fix Flying: A New Approach to Regulating the Airline Industry*, EAS and deregulation have failed to fulfill their mission of lowering consumer prices and have instead resulted in price gouging and heavy industry consolidation.[1] You have proposed a "public option for air travel" as one of the long-term solutions.

   a. How would this public option work in practice? Would this exist through government-operated flights or a subsidy model like the EAS program?

      There are different ways a public option could work, and much would depend on the design and execution. One possibility is that a public airline could exist to serve rural communities and smaller cities. This public airline would likely need to be heavily subsidized to ensure flights are affordable and operate regularly. Another approach would be for a public airline to operate nationally, including between major airports. This approach might be harder to implement. When this approach was tried in Australia, it involved aligning a variety of policies (prices, routes etc.) with private airlines, so that neither public nor private had an unfair advantage.

   b. How would a public option coexist with private airlines? Would it resemble models like Amtrack or the USPS?

      A public option could be designed in multiple ways. One possibility is for it to be truly an option – it would fly either only to smaller communities or nationally, but co-exist with private airlines with no restrictions on entry along the routes it flies. However, this approach will be fiscally difficult for a public option airline. Private airlines will likely fly on profitable routes and not serve unprofitable ones. That would leave the public option airline with the highest cost routes, which would likely mean requiring significant subsidies in order to achieve affordable access. Another possibility is for the public option to be the only, exclusive option; that is, for there to be entry restriction. This would address the "cream skimming" problem just mentioned, in which private airlines only serve the profitable routes.

[1] William McGee and Ganesh Sitaraman, *How to Fix Flying: A New Approach to Regulating the Airline Industry*, American Economic Liberties Project (Jan. 2024), https://www.economicliberties.us/wp-content/uploads/2024/01/20240124-AELP-airlines-v5.pdf.

In the markets where it operated, the public option would not really be an option, but the only airline; but other airlines would exist and operate on other routes.

3. In your book *Why Flying is Miserable and How to Fix It*, you also write that the major airlines have become "too important to fail" because of their systemic significance and the fact that their workforce cannot be replaced overnight.[2]
    a. What reforms could eliminate or reduce the "too big to fail" risk without undermining the goals of connectivity and employment?

    One thing Congress could do is require airlines to produce resilience plans – written documents in which they describe how they would address a variety of crises, from a cyberattack to another war or pandemic. Putting together these plans would, hopefully, help the airlines figure out how to navigate such challenges in advance. Second, Congress could require airlines to create or fund individual or a collective rainy day funds. In some years, airlines do very well, but then when times get tough, they need bailouts or they go bankrupt. Having rainy day funds could help airlines withstand such crises. Finally, deconcentrating hubs would be another approach to improving resilience: this would address the too-big-to-fail concerns at a specific airport, by deconcentrating the network and making individual nodes less critical.

4. In your book *Why Flying is Miserable: And How to Fix It,* you propose a "draft pick" system to address the issue of smaller and mid-sized cities losing service from airlines. This proposal details a draft order of the airlines in which they take turns "drafting" cities from the list, which would continue until all eligible cities have been selected.
    a. Price gouging has become a prominent issue in the airline industry, especially on routes that airlines deem as less profitable. How would this proposed "draft pick" system prevent this price gouging?

    The draft pick system would avoid price gouging by requiring the airlines to serve eligible cities according to regulated rates. This is necessary because the airline might be the only one on such a route, and monopoly power would give it the ability to charge excessive prices.

    b. How would this system maintain competition in the airline industry?

[2] Ganesh Sitaraman, WHY FLYING IS MISERABLE: AND HOW TO FIX IT (2023).

Smaller airlines would still be free to fly to the draft pick cities if they wanted to. The duty to serve would ensure a minimum reasonable amount of service at an affordable price.