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HEADLINE: The real reason you're held up at the airport; As Bank Holiday air travellers face more queues and delays, a leading economist says privatisation has created the wrong incentives

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WITH the Bank Holiday weekend upon us, those travelling by air are getting increasingly anxious: the normal long queues, always bigger at such peak times, will be even worse because of heightened security. One doesn't have to be an economist to figure out that something is wrong. And, indeed, there is: as things stand, it is simply not in BAA's interests to give its customers better service.

If it employs more security guards and installs more scanners to speed up the queues, it alone will bear the costs; if it does nothing, it will not bear the true cost experienced by users from the unnecessary delays - either passengers' wasted time or the reduced profits of the airlines.

The magnitude of the debacle can be seen by recognising the value of lost time. If the average passenger earns only Pounds 10 an hour, and wastes one extra hour queuing, and if 68 million passengers pass through Heathrow each year, then the value of the lost time is Pounds 680 million - quite a dent in profits, if BAA had to compensate passengers. It would quickly realise that it could greatly shorten queues by hiring more security personnel, asking staff to do more overtime during peak times and buying more screening devices - at a fraction of that cost.

In fact, it's not just that BAA is lacking the right incentives; those that it does have may even be perverse. Much of its revenues are based on retail sales - Britain's airports have become mega shopping malls with a captive audience.

The longer passengers are stuck inside the airport, the more they buy, and the greater BAA's revenues.

Uncertainty about the length of the queues actually benefits BAA: passengers must come early to be sure to make their flight, and those lucky enough to arrive at a time when there is no queue become an easy target.

But the problem isn't just disappointing management by BAA. The woes now being suffered by travellers at Heathrow and elsewhere are the predictable outcome of the ill-

conceived privatisation of Britain's airports in 1987.

There are some things that can easily be privatised - government-run steel mills, for example. There is strong global competition for steel. But there are some things that can not. The problems Britain has encountered in rail privatisation show that, at the very least, extreme care ought to be exercised in selling off vital public services.

During the Clinton administration, privatisation of the air traffic control system was hotly debated, and while aspects of privatising air traffic control systems and airports are not identical, they are sufficiently similar that the analysis is relevant here. The US Council of Economic Advisers, of which I was a member and then chairman, after careful analysis, expressed strong reservations - partly because airports are almost inevitably monopolies, and it's just too risky to privatise an entity that won't face competition. In an ideal world, a well-designed contract with appropriate incentives would, of course, make BAA bear the costs to airlines and customers that result from the lack of staff and scanners so desperately needed this weekend. But in the rush for privatisation, too little attention was paid to these finer points.

Without those incentives, a private operator like BAA gets no financial benefit from doing what it should. So, instead, in the inexorable drive to maximise profit, it cuts costs. The result: BAA's profits rise at the expense of the wellbeing of passengers and the profits of airlines, and society is worse off.

But even with better designed contracts, there is little reason to believe that privatisation would provide a good solution. Competition is what makes markets work. And even if Gatwick, Heathrow, and Stansted were run by competing operators, the three are hardly perfect substitutes for each other.

As it is, there is little effective competition. The seeming disdain BAA shows for its customers is what one comes to expect from a monopolist who knows the customer has no choice.

That is as true for the airlines that use its airports as for their passengers. If British Airways is discontented with the services provided by BAA, it has little choice: it might envy Lufthansa's Frankfurt airport, or KLM's Schiphol, but it cannot switch.

But while switching is not an option for BA, or for those whose trips begin or end in UK, it is an option for the hundreds of thousands of customers who can choose to go from, say, New York to Johannesburg via Heathrow, Frankfurt or Schiphol.

When these passengers avoid Heathrow, BAA will suffer a bit - but most of the cost will be borne by BA and other British airlines, through lost profits. Once again, blind faith in the market economy has led to the wrong answer.

How did Britain's airports end up with this lopsided arrangement? Too often, the debate on privatisation has focused on two polar arrangements - government ownership versus

privatisation - and full privatisation, with accountability only to shareholders, has been the option usually taken in Britain.

But there are alternatives. Consider, for instance, co-operative corporatisation, where you have significant ownership of airports by airlines, with continuing safety oversight by government. The airlines, as owners, would be sensitive not only to the direct impact on their profits, but the indirect effect as a result of unhappy customers.

The blind and simplistic faith in markets that saw the creation of BAA was perhaps understandable coming from Mrs Thatcher; it is less soon the part of Labour, even New Labour. What has happened in the past two weeks should make incontrovertible what has been evident to any user of the UK's airports for a long time: something is wrong, and needs to be fixed. Co-operative corporatisation is one way; there are others. But until ministers are prepared to revisit the existing settlement, looking for some way to put the right incentives in place, privatisation will continue to be a disappointment - and the queues will not get any shorter.

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