

August 22, 2006 Tuesday
London Edition 1

SECTION: COMMENT; Pg. 13

HEADLINE: An airports debacle worsened by greed and neglect

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Britain's current airport debacle is the predictable and predicted outcome of ill-conceived airport privatisation. Some things - steel mills for example - can be easily privatised; others cannot, as America's problems in contracting security arrangements made clear. The problems Britain has encountered in privatising its railroads show that, at the very least, extreme care must be taken in the privatisation of vital public services.

During the Clinton administration, privatisation of the US 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 may be 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 (and air traffic control systems) are almost inevitably virtual or actual monopolies. It is just too risky to privatise an entity that will not face competition. The UK airports crisis, triggered by the recent discovery of a terrorist plot to blow up aircraft, showed the mismatch between the interests of a private operator and those of users - both the airlines and, more importantly, their customers.

Passenger safety and security are of course paramount. The problem has been disappointing management by BAA, the UK airport operator, in normal times, and its disastrous handling of the recent crisis. Flights were cancelled and delayed largely because BAA lacked sufficient trained staff for security checks. If it takes three minutes to X-ray a suitcase, then it takes three minutes whether it is done an hour before a flight is supposed to leave or three hours later. The only reason for delays would be the decision by airport authorities to keep passengers waiting rather than spend money on extra personnel to process them quickly. There is an incompatibility of incentives, and because airports are a monopoly there is no competition to force it to change.

The magnitude of the debacle can be seen by recognising the value of lost time: if the average passenger makes just Pounds 10 an hour, and wastes one hour queuing, and if some 68m passengers pass through Heathrow a year, then the value of the lost time is Pounds 680m - quite a dent in profits if BAA had to compensate passengers for lost time. And it would quickly realise that it could greatly shorten queues by hiring more security personnel and buying more screening devices - at a fraction of that cost.

In an ideal world, a well-designed contract would, of course, have BAA bear these costs, so it would face appropriate incentives. But in the rush to privatise, too little attention has been paid to these finer points. Without appropriate incentives, a private operator bears the cost of additional personnel and equipment, but gets none of the benefit. The inexorable drive for profit maximisation leads to excessive economisation; BAA's profits rise at the expense of airline profits and consumer welfare; and society is worse off. The seeming disdain BAA shows for customers and users is what one might expect from a monopolist.

Too often, the debate has centred around two polar institutional arrangements, government ownership versus privatisation. There are alternatives, such as corporatisation with significant ownership by airlines but continuing safety oversight by government. The airlines, as owners, would be sensitive not only to the direct impact on their profits, but the indirect impact as a result of unhappy customers who chose alternative modes of transportation. And the airlines, themselves, would be sensitive to safety - all know what an accident does to air travel.

This blind and simplistic faith in markets was, perhaps, understandable in the Thatcher years;

it is less so now. The current crisis should make incontrovertible what has been evident to any user of UK's airports: something is wrong and must be fixed. Co-operative corporatisation is one way; there are others. The complaint against governments running airports is that they are insufficiently accountable to users - in balancing the interests of taxpayers and users, they put too much weight on the savings to taxpayers and too little weight on the convenience of users. With privatisation, there is accountability - but only to shareholders. What is clear is that unless incentives are better aligned, privatisation will continue to be a disappointment.

The writer received the 2001 Nobel Prize in economics and chaired the US Council of Economic Advisers under President Clinton; his latest book, *Making Globalisation Work*, is published this month by WW Norton and Penguin