

# LIBERALISING EUROPE'S SKIES: THE BENEFITS FOR AIRLINE PASSENGERS FROM PRIVATISATION AND COMPETITION

Does privatisation cut costs for Europe's national airlines? Is it greater competition that does the trick? Or are Europe's flag carriers beyond the reach of either so that only lean and hungry new entrants can bring real gains to Europe's airline passengers?

In the latest issue of the *Economic Journal*, **Paul Seabright** and **Charles Ng** report the results of their study of Europe's flag carriers, which shows how changing conditions are gradually cutting the fat accumulated over years of state ownership and sleepy monopoly power. They find that:

- For years, Europe's airlines have operated at costs far higher than comparable airlines in the United States, even allowing for the very different conditions of operating on the two continents. Airline staff did well out of it: in the mid-1990s, European pilots were paid 37% more than their counterparts in the United States, and cabin staff 58% more, even though American labour productivity was 45% higher. Seabright and Ng estimate that each 1% increase in airline profits led to a more than 3% rise in wages and salaries (adjusted for productivity). But the passengers suffered - from higher fares and more restrictions on travel.
- Now the good news is that costs are coming down in response to privatisation and greater competition. These researchers find that a reduction of 10 percentage points in the share of public ownership has been associated with a 6.5% reduction in airline costs. When airlines face competition from new entrants, their costs decline - although simply losing market share to existing competitors makes their costs rise.
- But the bad news is how long it has been taking. Simply liberalising the markets has had no effect on costs in itself: it has taken privatisation - and actual market entry - to bring costs down. Seabright and Ng estimate that European Union carriers' costs in the 1990s were on average 26% above what they could have been if the carriers had been privately owned and they had faced as much competition as there is in the United States. The discrepancy has been falling, but there are likely to be significant gains still to come from the process of European liberalisation.

**Notes for Editors:** 'Competition, Privatisation and Productive Efficiency: Evidence from the Airline Industry' by Paul Seabright and Charles Ng is published in the July 2001 issue of the *Economic Journal*. Seabright is at the University of Toulouse; Ng at the Civil Aviation Authority. Their research has been financially supported by the Economic and Social Research Council and the Leverhulme Trust.

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