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Airline Fees And Common Sense: Prohibiting Ancillary Charges Would Not Benefit Passengers

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While few people like paying the various ancillary fees that most airlines assess in some way these days, virtually no one will like the ultimate outcome if the government were to prohibit or control them, which would be higher overall ticket prices and fewer flights.

Fees added onto the actual cost of the ticket are not new, of course; airlines have charged a change fee for people who buy low-price “economy tickets” for some time, and this fee has climbed. In the last few years the airlines have implemented a la carte pricing and begun charging people for different optional services such as checking in luggage, seat selection, and a few now offer basic economy fares that preclude travelers who purchase such tickets from putting a bag into the overhead bin as well.

To some people, such fees amount to a fleecing of consumers, and a few politicians have banded together in an attempt to assuage that feeling. There is bipartisan legislation afoot in the Senate that would limit change fees, baggage fees, and other ancillary fees to the “actual cost” of providing those services, which is nominal, as strictly defined.

While to those who’ve changed their *nonrefundable* ticket and pay a change fee, such a shift might be welcome; however, this is not a step forward for consumers. The main problem is that the nominal cost of these services is completely different from the impact of not charging such fees.

People who buy nonrefundable tickets that have a change fee generally go to some lengths to avoid having to *change their flight*. This is the overt intent of such a charge.

Thanks to sophisticated pricing software, most airlines have greatly reduced the number of empty seats on an airplane. Discouraging people from changing their flights with a change fee helps ensure the airline makes a profit by keeping planes full to cover the tremendous cost of operating a flight. The better airlines are at accomplishing it, the lower their per-person costs are. In a competitive market this will, in turn, lead them to reduce prices to capture as many travelers as possible.

The Senate proposal to limit the price an airline may charge for changing a ticket to some measure of cost is nonsensical: while actually a changing a ticket costs an agent a few seconds of

time and a click on an icon, the opportunity cost--which is what matters, from the perspective of an economist--is much higher, which is a reduction in the number of seats sold.

It's easy to see how the market might devolve if we look at what happens in situations where there is no change fee. For instance, members of Congress book their airline tickets through its own travel agency with the benefit of government fares that do not incur change fees, and the deal it has cut with the major airlines precludes paying change fees--which Members prefer since their schedules can be unpredictable.

What most member offices do each week is simply reserve a seat for every single direct flight going to their home district on the day they anticipate leaving town, and then cancel the trip when it becomes infeasible for the Member to make the flight. In essence, these members are tying up five or ten seats that could otherwise be sold. If everyone could do such a thing flights would be much less full and ticket prices would be much higher because airlines couldn't cover their costs. These problems are at their worst for flights into smaller markets, such as Burlington, Jackson, and Topeka.

A similar logic applies to the practice of charging for luggage as well, which is simply a form of what economists call price discrimination. While some may perceive people paying different prices for a ticket to the same place as unfair, doing so tends to discriminate against the well off, and in turn allows the airlines to come up with a way to offer lower prices in a bid to enable those who might otherwise not fly to buy a ticket.

Since the government ended its practice of dictating prices and routes for airlines some forty years ago, the cost of flying has fallen immensely, which has allowed millions of people who previously could not afford to travel via airplane to do so. No small part of these gains have come from the optional services and price competition between carriers that resulted. For the federal government to return to the market and intervene in how carriers set prices would amount to a complete repudiation of those four decades of gains. This is the return of airline price controls, plain and simple.

While consumers were the clear winners from deregulation, they would undoubtedly lose from new price controls.

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