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The Rural Airline Subsidy Continues Its Ascent

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When Congress deregulated the airline industry back in 1978, it set up a temporary subsidy program to ensure that small airports wouldn't be abandoned -- and rural Americans isolated -- once the nation's carriers were free to chase only the most profitable routes connecting the biggest cities to one another and the rest of the world. The program, known as Essential Air Service, was supposed to last only a decade, to help people in the heartland adjust to the consequences of a market-based aviation economy.

More than three decades later, however, the program not only lives on but also has been growing for years -- impervious to changes in the aviation industry and the nation's demographics and travel habits. Millions more Americans have migrated from rural communities to the big cities and their suburbs, where two hours in the car to run an important errand has become routine. The rise of low-cost airlines has led rural citizens to drive longer distances to the bigger airports in search of the cheapest fares. And airline consolidation has meant fewer carriers bidding for the subsidized routes, driving up the program's costs.

To fiscal hawks and government watchdog groups, the program has become a relic that's been preserved because of politics, not need. But as the Senate last week took up legislation to revamp federal aviation programs, there was essentially not a word about whether to overhaul EAS, let alone eliminate it. President Obama has asked only that new airports not be added to the eligibility roster and that the program's budget be trimmed 9 percent in the next fiscal year, to $182 million -- still an enormous increase over the $102 million dedicated to the program seven years ago, the last year the program was formally authorized.

If history is a guide, even these modest proposals may fail. That's because EAS, which essentially pays commuter airlines a per-passenger subsidy to maintain otherwise unprofitable routes, has a very important constituency: the lawmakers, particularly senators, with rural constituencies. They portray subsidized commercial passenger service as essential to giving small cities a chance at economic survival.

"Special interest programs that do not really have majority support in Congress or the general public survive year after year because of logrolling," counters Chris Edwards, director of tax policy studies at the **Cato Institute,** a libertarian think tank. "The Senate is geographically based, which gives smaller rural states extra power," he said in discussing EAS. "If we had a legislature that was strictly based on population count like the House, it would be less likely that these sort of rural subsidies would survive."

Air Service Evolution

Before deregulation, the government mandated most aspects of airline operations, including where and when carriers could fly and what they could charge. The 1978 law permitted the carriers to base their decisions on the market. Robust competition was designed to produce more choices and lower fares.

At the time, though, lawmakers assumed the competition would bypass smaller cities. EAS was their solution. The law stipulated that all 746 of the nation's commercial airports would be guaranteed a minimal level of service. In places where market forces wouldn't sustain regular flights, the government would provide subsidies for 10 years. But the program proved so popular that it was extended for another decade, during which the 1998 sunset date was repealed.

Since then, the program has been altered several times to refine, and generally increase, the level of service. But Congress has imposed some new eligibility criteria that have made qualifying for subsidies more difficult. Subsidies are generally limited to $200 on each ticket sold, and in the continental United States the money is only paid for flights at least 70 highway miles from the nearest decent-sized airport. (The per-passenger cap doesn't apply for tickets to and from airports more than 210 miles from a hub, and the rules are different for Alaska, where many communities can be reached only by air.)

The most serious challenge to the program came during the administration of George W. Bush, who repeatedly asked Congress to cut funding and make eligibility harder by changing the way distance to hubs was calculated. The proposals never gained traction.

Bush also sought to require communities seeking EAS subsidies to contribute matching funds. Lawmakers bent to this request, but only slightly, and ultimately fruitlessly. The last rewrite of aviation policy, enacted in 2003, required 10 EAS-subsidized communities to assume 10 percent of the subsidy expense for four years -- but a series of policy riders to annual appropriations bills have barred implementation of even that pilot program.

The version of the aviation reauthorization bill the House passed last year calls for some modest changes, including permitting EAS contracts to offer incentives that would reward airlines for achieving certain performance measures, such as improving their on-time records or reducing cancellations.

Jane Calderwood, vice president of governmental and political affairs for a leading airports advocacy group, the Airports Council International of North America, called airports "critically important for generating commerce and economic activity in any community." Especially valuable to smaller economies, she said, are airports with regular, scheduled service, rather than on-demand air taxi service.

"I know personally from having worked for a member from a rural state, that when you're trying to attract a business or get a business to grow in your state, air service is a major factor," said Calderwood, who once worked for GOP Sen. Olympia J. Snowe of Maine -- a state with four airports where service is dependent on the subsidies. "Can they get their people in and out easily and regularly? Can they get their goods shipped out and the supplies they need shipped in?"

Janet Kavinoky, transportation and infrastructure director at the U.S. Chamber of Commerce, agreed that businesses tend to locate in places with regular air service. She pointed to a 2008 study by Colorado's Transportation Department that found proximity to a commercial airport was one of the most important considerations for businesses deciding where to locate. The same study, which surveyed 74 Colorado airports, concluded that those facilities sustained 654,000 jobs either directly or indirectly and contributed $32.2 billion to the economy of the state that year.

Politics or Economics?

But Robert Poole, a transportation expert at the libertarian Reason Foundation, said politics -- not economic value -- explains why EAS has taken on a life of its own. "It has survived, definitely, in my view, in a really unjustified manner, simply because, like a lot of pork, it is nice for members to be able to do something for their district at the expense of general taxpayers," he said.

For example, he said taxpayers will spend $1.4 million from 2008 to 2010 to subsidize air service to Macon, Ga., which is just an hour's shuttle ride away from one of the busiest airports in the world, Hartsfield-Jackson Atlanta International Airport. (Of the 104 subsidized airports in the lower 48 states, eight are within a 90-minute drive of a commercial carrier's hub.)

As early as 1984, the Government Accountability Office suggested that some subsidized flights in and out of cities closer to larger airports may never become profitable on their own -- and that flights to other airports that were not then eligible for the program could lay a more appropriate claim to subsidies. The study recommended more flexibility.

Last year, GAO concluded that statutory mandates for minimum aircraft sizes and frequency of flights have hobbled the program's efficiency. The law requires that planes serving subsidized airports accommodate at least 15 passengers unless a community agrees to smaller planes. Since the smallest aircraft in many fleets has 19 seats, this requirement tends to force carriers to operate bigger planes than are needed.

These mandates drive up costs. The average total subsidy for service to an airport was about $1.4 million in November 2008, or 35 percent more, adjusted for inflation, than in June 2003, GAO reported. At the same time, the number of carriers serving EAS routes has declined, to just 10 last year from 34 in 1987. Four carriers serve about 85 percent of all EAS routes; the dominant player, by far, is Great Lakes Aviation.

With a budget of about $200 million in fiscal 2010 -- a fixed $50 million from a surcharge on foreign airlines plus a $150 million appropriation -- the program is a tiny sliver of federal spending. But even with Obama recommending a cut in the appropriation to $132 million in fiscal 2011,it presents a ripe target for budget cutters and taxpayer watchdogs.

Last year, Republicans sought to end subsidies for service between Johnstown, Pa., and Washington's Dulles Airport. The route qualified for federal aid under the rules, but flights had nonetheless been significantly enhanced by tens of millions of dollars in federal improvements made to the Pennsylvania airport at the behest of Democrat John P. Murtha, a focal point of the GOP campaign against earmarking in the years before his death a month ago.

The GOP move suggested how vulnerable the program can be to criticism. But the incident also illustrated how the EAS program has stayed on the books as long as it has. House Transportation Chairman James L. Oberstar, a Minnesota Democrat, termed the GOP effort an assault on rural America -- and warned that if EAS funding was denied to one airport, there were 150 more on the chopping block. The attempt to strike funding was turned back.

FOR FURTHER READING: *Aviation programs authorization (HR 915, HR 1586), p. 637, CQ Weekly, p. 56; current Essential Air Service authorization (PL 108-176), 2003 CQ Almanac, p. 20-6; program's creation (PL 95-504), 1978 CQ Almanac, p. 496.*

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