



National Airspace System Resource Allocation: Market Design Issues

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Is there a problem?

- Absolutely
- Enormous cost savings and passenger benefits from effective use of market-based resource allocation in aviation

Why hasn't it been solved?

- Enormous inertia of status quo in aviation
 - FAA radios still have vacuum tubes
 - It took 67 years for FCC to introduce auctions

Can market-based methods work?

- Absolutely
- String of success in aviation and elsewhere
 - Auction for bumping passengers
- Major advances in ability to conduct high stake dynamic auctions
 - Spectrum, energy, e-commerce, ...

Critical elements for success

- Find the biggest problems
- Focus on efficiency
- Recognize incentives
- Do good market design
 - Prices must be seen and felt
 - Price discovery
 - Secure and rapid response
 - Appropriate use of information
 - Proxy agents

Evan's keys for success

- Need cooperative effort with government, industry, and experts
- Begin with a small scale
- Refine mechanism as you gain experience

Information and incentives matter

- Almost all long-term slot transactions are barter, even in case of bankruptcy
- Why barter?
 - No money changes hands
 - Hides value of asset

Addressing market power

- Essential to allow entry
- Auction 10-year slots on rolling basis, so 10% of slots are auctioned each year
 - 5-year slots w/ 20% each year?

Distribution trumps efficiency

- Focus should be on efficiency, but care should be taken to protect “rights” implicit in status quo
- If not win-win, nothing will happen

Getting it done: What's in it for me?

- Nothing happens in Washington if important constituency is not screaming for it
 - FCC auctions began as revenue to reduce deficit
 - FAA auctions could be used to fund critical equipment, service, and security upgrades



FAA mantra

Make markets work better!