Securing Security: A Free Market Approach to the Airline Industry

“Would you feel safer if the security personnel at Disney World were federal government employees?” Richard W. Rahn of the Cato Institute asks this question in his article “The Case Against Federalizing Airport Security.” He answers, “Probably not, because the private companies that service Disney World and most other attractions have been doing a fine job.” Is it possible that private companies can secure their own property? According to Austrian economists, private companies provide more efficient marketable services than the government. That argument is applicable to security, particularly in the airline industry. The government has monopolized airline security, a service that private companies can manage with greater economic efficiency.

Security is a service. It is marketable and subject to the laws of economics. Businesses desiring security can hire their own patrols, keep watchdogs, use technology (e.g. video cameras and laser beams), or hire others who specialize in providing security. When demand for security increases, based on an increased risk or perceived risk in an industry, companies in that industry are willing to pay more for security, driving up the price. The increased price attracts more suppliers to the market. When the threat weakens, demand decreases, bringing down the price and the incentive for the marginal suppliers to remain in that market. When supply is too great, competing security providers drive down the price for their services, causing suppliers to leave the market until supply and demand reach equilibrium. If there are too few security providers in
the market, buyers will drive the prices up, creating incentive for new security firms to join the market.

The government holds a near monopoly over the security market in the airline industry. Because the government has the power of force on its side, it has legislated itself into the position of sole supplier. By requiring federal screeners and federal air marshals, the government blocks competition from the private sector. The government achieves exclusive control of the market through regulation such as the Air Transportation Safety and System Stabilization Act and the Aviation and Transportation Security Act. The Aviation and Transportation Security Act is a prime example of government legislation with good intentions but misguided application. The Act specifies, among other things in its 51 pages, that “the Under Secretary shall make periodic assessments to determine if there are dual use items and inform security screening personnel of the existence of such items.” To be helpful, the act clarifies that “For the purposes of this subsection, the term ‘dual use’ item means an item that may seem harmless but that may be used as a weapon.” Such a broad definition could include anything from a toothpick or a necklace to a five-year-old child. Such regulations are impractical. By mandating government enforcement and regulating the details of security in airports, the government monopolizes the market. Because of this monopoly, supply is dictated by politicians rather than demand.

Government monopolization results in less efficient production. The quality of security decreases and the price increases because the government has less incentive than the industry to provide efficient security. Unlike the private companies, the government is not working for a profit. With government control, the profit incentive does not exist.

The job security of federal employees mitigates their incentive for high job performance. As Richard W. Rahn notes, because civil service protection makes it difficult to fire federal
employees, the feds in charge of airport security functions, “the incentive to do a consistently outstanding job and always be courteous to harried passengers [is] lacking. The fact is their work [is] easier when fewer people fly, hence they … have an incentive to discourage people from flying rather than making it a pleasant experience.” Because of the unique position of the government to legislate supply, government workers have little incentive to provide security service in a way that fuels demand. No companies can compete for the job of federal screener, no airport can fire its federal security personnel, and no profit incentive exists for government security to provide passenger-friendly service.

Because the government is not working for profit, it has little incentive to weigh the costs against the benefits. While there are some monetary constraints on the government, government security, like any government monopoly, wastes money. According to a government website, “the industry argues that the impact of federal security mandates and foregone revenue totals $3.8 billion per year.” The government does not weigh these costs against profits to see whether demand exists for these measures, but instead legislates whatever x-ray lines and nail clipper confiscation routines seem appropriate to assure the public it is taking action. This disregard for the cost efficiency of security measures costs the airline industry and the passengers, as the costs are passed along in the ticket price.

The government monopoly minimizes the benefits of competition in airline security. As Richard W. Rahn says in his article, “monopolies are bad, because they resist innovation, result in higher costs and poorer service, and tend to engage in cover-ups for their own mistakes and deficiencies.” This behavior is visible in the government monopoly of airline security. Federal security regulations seem thorough on paper, but in practice, they fall short of their goals. Journalists protesting the stringent security measures fill their articles with stories of how the
screeners took away nail clippers but allowed knives to pass by undetected. The lack of competition removes the incentive to provide better security because the government’s survival in the security market does not depend on its service. In the free market, competing companies create pressure for innovation in security methods and technology and for low prices. Government control of security negates this positive pressure.

Considering the negative effects of government monopoly, it makes sense to privatize airline security. Such privatization does not demand complete government absence in any form from airports. The government would still regulate and enforce immigration laws in international airports. For the purpose of simplicity in this paper, current gun control regulations would still exist. The government would retain authority to arrest criminals and terrorist and to enforce federal law. The airports would not be small tracts of land outside government jurisdiction; they would simply provide their own security measures and enforcement.

If airports decide what security measures to implement, security can be individualized for each airport. An individual airport can decide what is necessary for its security based on factors like its size and location. Smaller airports do not need the strenuous regulations and enforcement that may be necessary at larger airports. Tailoring security to individual airports is more cost-efficient. As private companies consider security, they weigh the risks against the costs.

The benefit of privatization is better efficiency in airport security. In a privatized market, airports compete against each other to attract passengers. The better security and check-in they can provide, the more likely they are to survive in the competitive market. This motivation incites airports to increase quality and decrease costs. The profit incentive motivates airports to provide good security. Because passengers have other transportation options, airports must provide convenient security service at a low cost to keep their customers. Better security attracts
more customers, which brings in higher profits. The incentive to make a profit also discourages airports from wasting money on ineffective security measures. Profits encourage airports to provide service that is convenient, cost-efficient and safe.

Private companies also have a liability incentive to provide good security. Aside from lost business in the event of a security failure, injured parties might sue for compensation. The airline industry feels the pressure of terrorist threats. They do not want to risk an attack because of lax security. Larry Wortzel, Ph. D. comments on this incentive in an article for the Heritage Foundation: “Permitted enough flexibility, the private sector can respond much more quickly and effectively to many homeland security threats than government agencies can. … Because most of America’s critical infrastructure is owned or operated by the private sector, these businesses and companies face a greater degree of threat than the government and should therefore feel a greater incentive to engage in increased protection and security. The private sector is driven by bottom lines, consumer and shareholder confidence, and market forces, which are strong incentives for increased security.” In the private market, companies have the option of insurance to allay the risk. They also have the option of hiring private security firms to secure airports. The consequences of a security failure provide incentive for the airline industry to make flying safe.

Privatization opens the doors for innovation. AirSafe.com lists ideas, some already implemented and some far from being so, to increase security. These measures include training the crew in survival tactics or the martial arts, providing a way for video images from the cockpit to be recorded and broadcasted to the ground, arming the crew, allowing trained off-duty law enforcement to travel armed, and equipping the aircraft with knockout gas. President Bush also had practical ideas in a speech on September 27, 2001. His proposals included strengthening the cockpit doors, providing a way for the crew to see activity in the cabin, and allowing the aircraft
to be controlled remotely from the ground. These ideas can all be evaluated and implemented by private corporations.

Many arguments exist to privatization of any kind, but privatization involving security generates further objections. One argument in favor of government enforcement of security in airports is the supposed boost to “public confidence.” Proponents argue that the public needs to know that there is a guaranteed level of security, and the government is the most reliable provider of that standard. Even if a show of force does boost public confidence, however, the airlines are better equipped to evaluate the costs of visible security than the government is. While the government is politically motivated to make everyone happy, the airlines are more realistic because they evaluate the costs and benefits based on customer response. If the number of people willing to fly on an airplane because of visible security personnel is enough to significantly raise their profits, airlines will hire a visible security force. Private companies have a stronger incentive than the government to ensure consumer confidence.

Another argument supporting government involvement is that the airline industry represents an important national interest. Airlines are an important part of American infrastructure, but national importance does not necessitate government regulation. Airlines are no more vital to America than electricity, waste disposal, water plants, or food. National interests are the same as government interests only in the view of those who believe the government is the economy’s keeper. But even they must recognize that government security of all important American industries is impossible. Even the subway system, known to be a terrorist target, does not merit federal screeners.

An extension of this argument claims the airline industry is particularly vulnerable as a terrorist target and represents a risk so large that the government must intervene. Planes are big.
They carry large amounts of fuel, and because of their speed and size, they are capable of producing tremendous damage. September 11, 2001 cemented this fact in our minds. The risk is undeniable, but remember the weeks after 9/11. Speculations about the next terrorist target ranged from reservoirs to football stadiums. Other industries are also vulnerable, and a car bomb attack or a biochemical attack are as real a threat as another hijacking.

One hundred percent security is impossible. Risk is always present because it is impossible to take every available measure to prevent attack. Private companies have an incentive to gamble wisely, because their own livelihood depends on their passengers. Security failures never lack attention, but success is largely ignored. There was a failure on 9/11—whether the government failed in its intelligence or immigration agencies or whether the airports failed in their security measures is still a matter of debate. It would be naïve to attribute the lack of subsequent attacks to government security measures in airports. The passengers on 9/11 did not expect a suicidal hijacking. Most hijackings end a landing on the runway. Now passenger awareness acts as a deterrent because terrorists know that passengers themselves will fight back.

Federal screeners may wave wands in airports, but they aren’t magic. Despite stepped-up government regulations and enforcement of security measures, curious journalists and investigators have proved smuggling weapons is possible in America’s airports. The show of government force against security is anything but consistent across the country, yet the American public clamors for more government intervention, and policymakers continue to oblige. Despite the need for security, there is no guarantee that the government is the best one to provide it.

On the contrary, the risk merits the best security, which is provided in the free market. As Larry Wortzel writes, “terrorists are flexible, creative, and resourceful, and have learned to target areas of particular vulnerability while avoiding those that are more protected and predictable.”
The government cannot stop all terrorists from smuggling weapons onto a plane, but because they have a monopoly on security, there is no competition to force them to innovate. As a result, airlines pay more and passengers are less safe than ever.

Another argument against privatization is that without a uniform standard of security, airports cannot trust the security of incoming flights. Howard Kunreuther and Geoffrey Heal phrase the argument this way: “If an airline believes that others will not invest in security systems it has much less economic incentive to do so on its own.” Securing airports in the free market will depend on cooperation, but there are economic incentives to cooperate with other airports. If an airline questions the security of flights coming from a certain airport, it has the option of restricting those flights. In some cases it may be more economically feasible to screen incoming passengers and luggage rather than ban the flight. In either case, each airport’s desire for security pressures other airports to raise their standards to achieve higher levels of security.

One final argument against privatization of security says terrorists are not domestic concerns and since the government has the responsibility to provide international security, it is the government’s role to regulate and enforce security. Although terrorists are an international threat, the government does not have jurisdiction to assume security control over whole industries that are potential targets. The government has other means available in the war on terror. Because terrorists target all large industries in the U.S., the government is most efficient relying on other means of fighting terrorists than providing federal security regulations for all U.S. industries. As Wortzel says, “Much of the expertise and many of the resources required for planning and taking better protective measures lie outside the federal government. The new front line of defense for America’s critical infrastructure has become communities and individual institutions that make up our critical infrastructure sector.”
Despite these arguments against privatization, government control of airline security is still less efficient than the free market. The government should allow private interests in the airline industry to make security choices. Because security is a marketable service, private companies have an economic incentive to provide high security. If private corporations can secure places like Disney World, why not airports? Privatization results in airline security that is more convenient, more cost-efficient, and ultimately more secure.
Works Cited:


<http://www.heritage.org/Research/HomelandDefense/hl787.cfm>