Published on *Adam Smith Institute* (http://www.adamsmith.org)

What Air India tells us about state run and monopoly companies [1]

Written by **Tim Worstall** [2] | Saturday 19 May 2012

A nice little story here about Air India. It illustrates the dangers of having either state run or monopolistic companies [3].

> Some of the airline?s staggering losses are rooted in exceptionally generous staff benefits. Investigators discovered pilots insisted in staying in five star hotels in New York, Chicago and Mumbai during stop-overs instead of spending the night at cheaper airport hotels.
>
> Significant losses in revenues are due to serving and retired pilots and crew taking business class seats ahead of paying customers. The practice was restricted in 2009 when its chief executive appealed to staff to co-operate and stressed there was no shame in traveling economy.
>
> Despite the restrictions on staff using business class tickets, paying passengers were rejected to make way for Air India staff who were upgraded from economy seats. At one point, Air India?s business class ticket holders were shunted onto rival airlines ? at Air India?s cost ? because their own staff had occupied the seats.

The temptation for any group of insiders is to make use of that insiderdom to gain privileges. This is as true of CEOs as it is of airline pilots, as true of politicians as it is of scribblers for think tanks. It's simply human nature: when we talk about bureaucrats we call it public choice economics and when we talk about everyone else we call it the blindingly obvious.

The only cure we've got for this is competition: everyone needs to be put in fear of their livelihood about the success of the organisation. To consider that a business class airfare not paid by a customer makes that job more insecure: that the claim of a gargantuan pay deal for inhabiting the corner office makes losing that job more likely. And this really only can be done when the players in the marketplace are indeed playing in a market. One where such behaviour really does bring down a company and thus impose discipline on all others.

Which does pose problems with the politicians. For we've tried having competing governments in the Wars of the Roses and didn't like the result much. Perhaps we'll just have to revert to terminal violence in this difficult case?

blog comments powered by Disqus [5]

Source URL: http://www.adamsmith.org/blog/economics/what-air-india-tells-us-about-state-run-and-monopoly-companies

Links:
[1] http://www.adamsmith.org/blog/economics/what-air-india-tells-us-about-state-run-and-monopoly-companies
[2] http://www.adamsmith.org/taxonomy/term/5778
[3] http://www.telegraph.co.uk/news/worldnews/asia/india/9272229/Pilots-predeliction-for-high-life-could-bring-down-Air-India.html

[4] http://disqus.com/?ref_noscript
[5] http://disqus.com