

Martin Kunz Memorial Lecture

Many of you, especially those of you here for the first time will ask why we have established this lecture and secondly why we asked David Starkie to deliver this first lecture. Let me answer these questions in turn.

Martin Kunz was one of the founders of the Hamburg Aviation Conference. He died unexpectedly two years ago on Christmas Eve 2001. We were still deeply shocked when we met at our scientific advisory board meeting six weeks later. David Gillen came forward with the idea of a Martin Kunz Memorial Lecture and all board members agreed spontaneously. Of course, as a close friend of Martin, I was very happy about this proposal. Later I asked myself why did those transport economists want such a lecture. After all, Martin was very young and had not published a lot. I believe that all board members had the feeling that with Martin we lost someone very special and important. We lost a person who perfectly symbolised the key idea of this conference.

We are here to analyse the aviation industry and to improve its performance. The Hamburg Aviation Conference is as much about conceptual thinking as it is about practice. We need a theory to understand the problems of the industry and we need the practice to change the institutions and market rules of aviation in order to improve economic welfare. Martin was good at both. Let me point out that this is one of the biggest compliments for a economist, given the fact that economics is often accused of being a rather abstract theory of no practical use. Friedman and Lerner had this wonderful exchange about the three professors on a desert island who found a can of food, but unfortunately had no can opener. As you all know the chemist came up with the idea to make a fire that would cause the can to burst. The physicist had also a good idea. The best idea came of course from the economics professor. The economist said ‘Let us assume that we have a can opener’.

Martin studied economics and was writing his doctoral thesis on airport regulation at the University of Freiburg. Professor Knieps was his supervisor and he told me that Martin was one of his best research students. Martin was especially good in analysing the economics of airports. His research focused on the topic

of how the governance structure should be reformed to enhance airport performance and economic welfare.

Privatisation was part of the answer, but he was critical of the German practice of privatising public utilities for financial reasons. For him nothing was gained in changing a public to a private monopoly. Economic performance and welfare can only be gained by effective competition or effective regulation. This is quite easy to achieve in economic theory. Let us, as good economists assume, that competition is effective or let us assume that we have an effective regulatory system, then it is quite easy to deduce that the performance of airports will improve. Martin was not the type of economist who would assume away the complexities of reality. He tried to experience, analyse and improve within the reality of the German airport and aviation system. Later he advised the German Department of Transport on the privatisation of Hamburg airport while writing the first chapters of his thesis. While completing his thesis he went to London and worked as a regulator at the Civil Aviation Authority. So Martin indeed learned how slow and hard it is to implement economic reasoning and he lived it. Martin was energetic, objective and critical to all vested interests. Most of all he was committed to reform aviation for the better. I urge everybody to read his paper ‘Airports and air traffic: regulation, privatisation and competition’ that he gave at the first Hamburg Aviation Conference, 25th/26th February 1998.¹ It is a *tour de force* which ends with a sentence policy makers in Germany should keep in mind: ‘one might be sceptical about the current possibilities provided by German competition law and institutions. Therefore, a small UK-style sector-specific specialized and transparent body might be suitable to do the job of airport regulation in future.’ (Kunz, 1999a)

Why David Starkie? In 1997 Martin Kunz and I went to London to investigate how English airports were

¹Furthermore, Kunz (1997, 1999b, 2000) are worthwhile to read for those interested in regulation, deregulation and competition in aviation. Berndt and Kunz (2000) cover the parallel problem of the scope of regulation in a liberalised German railway industry. Unfortunately, there is a high entry barrier as all papers are in German.

privatised and regulated. Martin provided me with a list of experts he wanted us to contact. David Starkie was on top of the list. I asked him why David Starkie and he simply sent me a copy of this little blue book: *Privatising London's Airports* by David Starkie and David Thompson with the remark 'read it and you will know'. Indeed this little blue book could have been a blueprint for an efficient airport industry at least for London and the United Kingdom. It argues that privatising British Airport Authority as a whole would lead to a monopoly which needed to be regulated. David prefers the other road. He writes: 'A more promising option is to establish competition between BAA's London airports by dividing ownership and, where feasible, to increase competition in the provision of commercial services at each airport' (Starkie and Thompson, 1985). We all know this was not the way it happened. BAA was privatised as a whole and regulated by price cap regulation—a job Martin did from 1999 onwards. Since that meeting in the spring of 1997 until Martin's death, David and Martin had been debating the pro and cons of the two economists' can openers—namely effective competition and effective regulation. David, we are very much honoured that you accepted our invitation to give the first Martin Kunz Memorial Lecture and we are eager to hear how you will strike the balance between the market and the state to increase economic welfare.

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