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Economic Regulations of Domestic Air Transport

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Book Review

ECONOMIC REGULATIONS OF DOMESTIC AIR TRANSPORT. By George W. Douglas and James C. Miller, III. Washington, D.C.: The Brookings Institution. 1975. pp. 211. \$8.95.

This book is one of a series of publications by the Brookings Institution dealing with governmental regulation of economic activities. The authors, both eminent economists, examine the past and present policies of the Civil Aeronautics Board in economic regulation of the airline industry.

While it is neither the first nor the last study of CAB regulatory policy to surface in recent years, it is a unique contribution to the current intensive interest in economic "deregulation" of air transportation. The authors undertake an extensive study of both the economic structure of air transportation and the relationship, or impact, of existing regulatory policies on this structure. Among the conclusions the authors draw from their study is that while the airline industry has changed dramatically during the 37 years of economic regulations, policy criteria of the regulator, the Civil Aeronautics Board, have changed very little. They also conclude, based on what appears to be a reasonably in-depth analysis of Board actions, that, historically, the principal policy objective of the regulator appears to have been to maximize industry size. To this end, the authors observe, the Board has succeeded admirably. The problem is: "having fulfilled its initial objective, [the Board] finds itself successful without really knowing where to go next."

The authors provide an answer to this quandary by concluding that with regard to future regulatory policies, maximizing economic efficiency should be the primary public interest objective. The heart of the study is a comprehensive economic model of the industry, which is used both to delineate industry behavior under existing regulatory policies and to project industry behavior under a future policy objective of economic efficiency. The result is probably the most in-depth and well-founded economic analysis of the airline industry published to date. Of most interest to a non-economist, however, are the suggested legislative and regulatory policy reforms proposed to implement the authors' determination that economic efficiency should be the primary regulatory objective for the future.

These proposed reforms are strikingly similar to those championed by "deregulation" advocates whose objectives are undoubtedly more politically and less economically motivated than the authors'.

Herein lies the book's only significant flaw. Despite the excellence of the economic theory brought to bear in the study, in the final analysis the same problem exists in bridging the gap between recommended reforms based on competent economic theory and the complex realities which confront the airline industry that exists in bridging the gap between these realities and the current simplistic, politically motivated pressures for deregulation. The authors do not adequately examine or justify the need for sweeping regulatory reforms to achieve the public interest objective, nor do they look beyond the achievement of this objective in attempting to assess the total consequence of such reforms on the industry and the public. The problem, stated in its simplest terms, is that given the precarious economic climate in which the airline industry exists today, extensive experimentation with the policies and laws of economic regulation would almost surely result in severe financial consequences for a substantial portion of the industry. Whether the government would allow bankruptcies of major air carriers to occur, which seems politically unlikely, or on the other extreme, would ultimately be forced to create a "ConAir" counterpart to the eastern railroad debacle, public interest will surely suffer even more before it will reap any significant benefits from the current popular concept of economic "deregulation."

I am not a defender of the regulatory status quo by any means, but one must recognize and deal with the economically complex and integrated "real world" in which the airline industry functions. The missing element in virtually every industry study which concludes with a need for regulatory reform is a comprehensive, plausible plan which will both preserve the nation's airline industry and improve its service to the public. Such a plan is vital, whether reforms are motivated by sophisticated, complex economic theory or by simple, popular political considerations.

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