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Book Review

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BOOK REVIEW

FEDERAL CONTROL OF ENTRY INTO AIR TRANSPORTATION,
by Lucile Sheppard Keyes, Harvard University Press, Cambridge 38,
Mass., 1951; 392 pp.; \$6.

THE author of this book is familiar to the readers of the JOURNAL for her recent article in the Spring 1951 Issue, "Passenger Fare Policies of the Civil Aeronautics Board" and an earlier article in the Summer 1949 Issue entitled "National Policy Toward Commercial Aviation, Some Basic Problems."

The book was originally prepared as the author's doctoral dissertation at Radcliffe College but its publication should rightfully contribute to serious economic thinking about the financial position of U.S. airlines. It is an economic analysis of Federal control of entry into the air transportation business under the Civil Aeronautics Act of 1938 in terms of its effect on the economic functioning of the affected markets.

Part I of the book lays the theoretical groundwork for this analysis in terms of economic performance. In order to explain why the analysis is not undertaken in terms of traditional market categories (*e.g.*, monopoly, pure competition, etc.), and of the criteria for policy that have been developed on the basis of these categories, and also to clarify the nature and origins of the concepts and criteria that are developed by the author, relevant progress in economic theory beginning with Chamberlin's *Theory of Monopolistic Competition* is briefly reviewed. The inadequacy of traditional market categories based on the *industry concept* for the analysis of markets as they exist in fact is brought out, and an "*optimum concept*" not based on these categories is developed by the author. Triffin's *Monopolistic Competition and General Equilibrium Theory* is drawn upon for definitions of such concepts as entry, competitive relations, and aggressiveness independent of the idea of the *a priori* group. In addition, the multi-dimensional character of profit-maximization, as developed by Chamberlin and Triffin, is shown to be significant for public policy.

Part II describes the regulation of entry under the Civil Aeronautics Act. The main features of the Act itself, subsidization policy, the rejection of competitive bidding in favor of choice of carrier by a quasi-judicial process, the subjection of air transportation to a regulatory regime similar to that already provided by the Interstate Commerce Act for other types of carrier, and the extension of the certification requirement to cover all interstate air-transport routes, including nonmail as well as mail-carrying services, are all discussed in their historical context as a basis for the evaluation of regulatory policy in terms of Congressional intent.

The discussion includes not only the treatment of "newcomers" to the field, but the certification of parallel services and the definition of the sphere of entry control as it has been developed in the history of general operating exemptions under the Act. Because the control of entry is merely one aspect of the general problem of control of competitive relations, the alteration of existing competitive relations—including exit of competitors—by such means as mergers, alterations of physical characteristics of the service, and agreements is also discussed. The specific content of the "*optimum concept*" developed in Part I in a subsidized market is described. In connection with the regulation of inter-carrier agreements, it is shown that one significant aspect of regulation has been the control of the extent of profit by allowing certain avenues of individual competitive effort to be ruled out by agreement

and requiring that others be left open. The impact of regulation on the aggressiveness of price-output is also considered.

Part III summarizes the regulatory policy considered in Part II and evaluates it in terms of its implications for economic performance and of its conformity with the intent of Congress. This policy is found by the author to be entirely in accord with that intent as revealed in the record. However, she concludes that regulation of this type represents an obstacle to the attainment of optimum economic performance, mainly through its basic tendency to protect the revenues of existing air carriers and its promotion of non-aggressiveness as a result of its inevitable bias against "new-comers." Mrs. Keyes points out that the Government as subsidizer has been adversely affected by this regulatory policy, even though the policy of protection may result in the extinction of the Government's obligation to support the air carriers (under the "need-rate" policy of subsidization).

On the all-important policy of subsidization, Mrs. Keyes is well qualified to write the chapter included in the book. During the recent Senate hearings on S.436 she testified before the Senate Committee on Interstate and Foreign Commerce. Not only does she criticize the existing situation but she makes positive proposals for improving it. She concludes that a mail rate based on financial "need" conflicts with the achievement of a rational subsidy policy and recommends its abandonment. She points out that the "need rate" program, although in fact it has not dictated the precise economic policy followed by the Board, itself would have represented an obstacle to the achievement of the best economic results at the approved rate of subsidy. Mrs. Keyes recommends that, assuming the "need rate" program can be abandoned, the protective aspects of regulation should also be abolished. Possible regulatory programs for the future are considered.

This volume is a much-needed commentary which should be studied by all those seeking to understand the intent and administration of the Civil Aeronautics Act in terms of its economic effect.

In conclusion, specific attention is called to Chapter VII, "Summary and Evaluation of Regulatory Policy." This chapter might well be read by the lawyer who would like an insight into the economic consequences of the legal controls of the Civil Aeronautics Act.

E. C. S.