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Book Reviews

BOOK REVIEWS

COMMERCIAL AIR TRANSPORTATION by John H. Frederick (Third Edition), Richard D. Irwin, Inc., Chicago; 466 pp. ill. Trade Price $6.65.

Although this is the third edition bearing this title, Dr. Frederick presents it as a new book. A comparison of it with the second edition (1946) sustains his claim to a great extent. The most fundamental change is that the author now gives Federal regulatory policies much greater emphasis. The earlier volumes contained such material as how to fly a transport plane, an obviously necessary bit of knowledge for someone in the industry but not immediately needed by the student of air transportation. While the law school student may not have difficulty with the various chapters on the Civil Aeronautics Board, the college undergraduate (for whom Professor Frederick originally produced the book) may find the material complex and not too stimulating. However, it is material that is undoubtedly more significant than such chapters as "Station Management" in the earlier work. In addition to this book's value to students, industry personnel engaging in any serious reading looking toward their own advancement will profit by Dr. Frederick's discussion of the regulatory policies of the Board.

The publisher claims that this book "is the only work in print that applies economic analysis to the entire industry." To contest the validity of this statement would only consume time that might better be used in recommending the material on airline expenses contained in Chapter 5 or in pointing out for the student of economics who wants an insight into one of the nation's new "billion dollar" businesses, two chapters, 6 and 7, which offer discussions of the CAB's handling of competition, irregular carriers, interchange of equipment, mergers, acquisitions, etc. The succeeding chapter on rates covers the principles of freight, passenger and mail charges, and chapter 12 explains the intricacies of financing airlines.

For the fourth edition the author might consider the possibility of combining the chapter on International Air Transportation Policy with the present chapter on Regulatory Agencies. In any event, the material on ICAO and IATA presently relegated to Appendix C is an integral part of United States international air policy. One final query on the organization of the book — would the story of the development of commercial air transportation in the United States be more useful if it preceded the chapter on Regulatory Agencies?

Generally it seems that Dr. Frederick's third edition offers a better, more mature text on air transportation since more attention is paid to policies, and earlier material of an operational type such as how to takeoff or land a plane, manage a station or perform maintenance, has been omitted.

C. T. L.

AIR TRANSPORT IN AUSTRALIA by D. M. Hocking and C. P. Haddon-Cave, Angus & Robertson 1951, 183 pp.

THE development of air transport in Australia is of special interest to Americans, not only because of the many similarities between the two countries, but also because of the dramatic competitive struggle between the pioneer private airlines and the more recently established government air carrier. The history of this development from its beginnings following the First World War through the early post World War II days, is set forth in a thoughtful and well documented book by two lecturers in economics at the University of Melbourne, D. M. Hocking and C. P. Haddon-Cave, published last year under the auspices of the Australian Institute of International Affairs and the Institute of Pacific Relations.

While the population of Australia is only roughly one-twentieth that of the United States (8,200,000 vs. 152,000,000 in 1950), in several respects the countries are not unlike as to area, geography and climate. In many parts of the continent flying conditions are ideal most of the year. The terrain is flat, routes are unobstructed by mountain ranges except in parts of eastern Australia, and main population centers are in general conveniently spaced for air transport operations. Furthermore, because of the change of gauge on the State-owned railroad system in a number of states, as well as for other reasons, competition from surface transportation is limited.

As a result, Australians are among the most air-minded people in the world. The Kingsford Smith International Airport, Mascot, near Sidney, is one of the world's great airports, busier than any on the continent of Europe, and outranked only by a handful in America. Fares are among the lowest. Air route mileage and plane miles flown in Australia in the years immediately prior to World War II exceeded, on a per capita basis, that of any other country including the United States. American built aircraft are predominant on Australian routes, and only dollar exchange difficulties have prevented even greater use of American equipment.

With the encouragement of a progressive Department of Civil Aviation, a substantial network of air services was developed throughout Australia by private enterprise, assisted by mail contracts and subsidies. In the six years 1934-39, largely coincident with the introduction of American transport planes, passengers and freight increased ten times and mail four times. By 1939 there were 14 airline operators, although only 9 survived the War.

The central government, however, under the Australian Federal Constitution of 1900 does not have control of interstate air transportation similar to that granted the Federal Government in the United States. Thus, when the Labor Government came into power and attempted to create a public corporation which would have a monopoly of air transport between the States and within the territories, it ran into constitutional difficulties. The validity of the "Australia National Airlines Act of 1945" was challenged by a number of the private airlines, and their objections were sustained by the High Court. The practical results of this decision are that the government cannot refuse an interstate license to any company complying with regulations as to safety, air worthiness, and so forth, nor can it grant an exclusive Certificate of Public Convenience and Necessity between two points in different states. Such control as it has must be largely exercised through air mail contracts.

Debarred by legislative methods from establishing a monopoly of air transport in the domestic field, the former Socialist Government undertook to achieve the same objective by economic pressure. The methods it employed, from an American point of view, violated all rules of fair play and were ruthless and discriminatory in the extreme. Trans-Australia Airlines (TAA) the government-created company, which started operations in September, 1946, did not undertake to pioneer new routes, but confined itself almost exclusively to duplicating existing services.

The following year the government withdrew air-mail support from private airlines and gave TAA an exclusive contract to carry all inter-capitol air mail. The mail rate paid the government airline for this service was over two and one-half times that which the principal private operator, Australian National Airways (ANA), had offered to carry the mail for on a five-year contract. The effect of this was to cut down mail revenues to ANA from $2,500,000 in the calendar year 1943 to $111,000 in 1947, or less than 1% of their gross revenue for the latter year (converted at $3.22 per Australian pound, the rate of exchange in 1947).

Government control over dollar exchange enabled the government airline (TAA) to purchase new American aircraft (Convairs) to compete with the less modern equipment of the private carriers. Airport and airway charges were raised to levels considerably higher than similar charges in most other countries. (In Australia the Federal Department of Civil Aviation owns and operates all important civil airports.) Licenses to private carriers serving Territorial points, such as on the Adelaid-Darwin service, were ruthlessly cancelled, or refused. Government officials were restricted to travel by the government airline. A vicious price war was initiated in November, 1946, when the government carrier reduced fares by 15% below the prevailing rate, and exploited the advertising slogan, "One Fare for All — the Lowest." In one month, traffic increased fourfold.

In spite of these and other cutthroat competitive devices employed by the government, the two major private domestic operators, ANA and Ansett Airways, have managed to survive and, from the public's point of view, the competition has resulted in excellent and inexpensive air service. One reason for the private carriers' ability to withstand these socialistic tactics is undoubtedly their strong financial affiliations. ANA is owned by five of the biggest shipping companies, while Ansett Airways is a subsidiary of a highly successful highway bus and travel service. The latter, by the way, has specialized in air coach service with slower equipment at cheaper fares, with considerable success.

It is difficult to evaluate the economic results of the government-owned airline. By 1950, TAA carried more passengers than any other domestic airline, but ANA, the major private company, hauled several times the amount of air freight. TAA, after showing a substantial loss for the first few years, reported a small profit for the year ending June 30, 1950. The Commission attributed this success to increased business, the operational efficiency of the American-built Convairs, and a substantial reduction of staff. Government accounting, however, leaves much to be desired. No details are given of the respective contributions by passenger, freight and air mail subsidy, nor are reimbursements which the Commonwealth is obliged under the Act to make for losses on developmental services, shown separately. On the other hand, the principal private airline, ANA, is a proprietary company, and is also under no legal obligation to disclose its accounts.

Passenger fares per mile in 1948 averaged approximately 3.2d on Australian domestic services and 6.5d on international routes, which is equivalent to about 3c and 6c respectively in U. S. currency at the current rate of exchange ($2.24 per Australian pound). At the 1948 rate of exchange it corresponds to 4.3c and 8.7c.

Since the defeat of the Labor government in 1949, there have been some recent signs of increased cooperation between the privately owned ANA and the government-run TAA. In February, 1952, it was reported that the government offered ANA "a fair share" of government business, to replace the virtual ban by the former government on the private company's services. ANA, however, is said to have flatly refused to entertain anything less than a merger, pointing out that an offer of traffic now would not protect it against Socialist tactics if that party were returned to power. TAA continues to enjoy the public servant custom and the almost exclusive air mail contract.

In the international field, the government has taken over complete ownership. Qantas-Empire Airways (QEA), in which the British company, BOAC, formerly held 50% interest, is now 100% government-owned and operates the international routes to Asia and Europe. British Commonwealth Pacific Airlines (BCPA), owned 50% by Australia, 30% by New Zealand, and 20% by the UK, operates the trans-Pacific routes.

There has been a recent suggestion that Britain and New Zealand may eventually pull out of BCPA to run their own Pacific services, leaving Australian Pacific operations in the hands of a QEA Eastern Division.

Australian aviation presents many interesting contrasts. There is, for example, the 35-mile route in New Guinea where one of the first non-subsidized airlines in the world made handsome dividends hauling machinery, cargo, and company personnel over an intervening 12,000-foot mountain range to the goldmining operations at Bulolo. There was the longest nonstop regularly flown route in the world, operated during the war — 3,160 miles overseas from Perth to Ceylon. There were the arguments between flying boat and land plane adherents, both on the Trans-Tasman route to New Zealand and the Qantas route to Asia and Europe. There was the competitive pressure from KLM whose American type planes cut several days off QEA's Sydney-London schedules.

Then there are interesting administrative quirks: the Department of Civil Aviation, for instance, makes a handsome profit out of its handling of air-mail contracts, since the Postmaster General credits air mail revenues to the Department at rates considerably higher than those paid the carriers. Toward the end of the War the airlines were getting only about half of the air mail revenue the Department of Civil Aviation received.

Before 1940 most air mail contracts were made on a basis of scheduled mileage flown. Since then they have been made largely on a rate per pound-mile. Curiously enough, however, the Department of Civil Aviation describes as "subsidy" only those services for which payments are made on the basis of miles flown. This is not an accurate use of the term "subsidy." The authors fall into a somewhat similar error in assuming that no subsidy element is involved if government payments for the transportation of mail do not exceed government revenues from the postal charges on the mail. On occasion, as in their reference to Pan-American Airways, (p. 151) they also refer to "subsidies in the form of mail contracts," as if a carrier's entire revenue from the government for the carriage of mail is subsidy. Neither assumption, of course, is correct.

Subsidy, in brief, is the amount paid in excess of the usual charges for a given service. Government payments for mail service include a subsidy only to the extent that the sum paid is in excess of a normal compensation for actual mail services rendered.[1] The U. S. Civil Aeronautics Board has recently computed that during the 13-year period since the passage of the Civil Aeronautics Act, less than 60% on the average of the total air mail payments to U. S. carriers represents subsidy; and for the Fiscal Year 1953, the Board estimates the subsidy element in mail pay will be less than 44%.

Another curious error of the authors is to state that "all external American services were (and still are) operated by one company," which they refer to as "chosen instrument." Actually there are currently 11 American flag companies certificated on external routes.[2] One misses a good bibliography, although the book is thoroughly footnoted. These criticisms, however, are minor indeed. There is no question that Messrs. Hocking and Haddon-Cave have produced the most authoritative and complete source of information available today on the development of air transport in Australia.

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1 In "Air Mail Payment and the Government" by Francis A. Spencer, The Brookings Institution, 1941, p. 309, subsidy is defined as: "Payments in excess of the actual costs of carrying the mail or expenditures to aid in establishing or maintaining a service or equipment larger or more powerful than existing traffic would warrant on a purely private, commercial, competitive basis."'

2 American Airlines, Braniff Airways, Chicago & Southern, Colonial, Eastern, National, Northwest, Pan American, Panagra, Trans World Airlines, and United.

* Deputy for Civil Aviation, Department of the Air Force. The views expressed are the personal views of the reviewer, and not in his official capacity.