BOOK REVIEW

AIRLINE REGULATIONS IN AMERICA—EFFECTS AND IMPERFECTIONS. By William A. Jordan. The John Hopkins Press. 1970. Pp. 352. $12. Reviewed by Dean Booth*

Professor Jordan has as his basic premise that the air travel markets within the State of California constitute a microcosm of all the airline markets in the United States. Therefore, measurement of the effects of the regulation of the Civil Aeronautics Board on interstate air transportation may be made by comparing the differences between interstate operations (regulated by the CAB) and service between the various markets within the State of California which are largely unregulated. Professor Jordan then observes that during the study period (1949-1965) sixteen separate carriers operated within the State of California serving at one time as many as 32 markets within the State of California. Without significant regulation, there is at the end of the study period *one* carrier serving *three* markets. From this historical experience Professor Jordan reaches the rather appalling conclusion that no regulation is better than regulation. I fail to see how the traveling public is served by these non-existent carriers operating non-existing aircraft over non-existing routes—albeit at low fares.

The simple fact is that the basic premise is not true and that the comparisons of data in the book are not only between "markets in California" but are in fact between the markets San Diego-Los Angeles, San Diego-San Francisco and Los Angeles-San Francisco. Because of the heavy amount of traffic, the actual comparison is betwen interstate services and the San Francisco-Los Angeles market. Thus the comparison also becomes one between (during the study period) the largest air travel market in the U.S. and the rest of the United States air travel markets. Absolutely no consideration is given at any point throughout the book (regardless of the rather remarkable conclusions drawn) to this fundamental fact—that is, that the city pair happens to be within the State of California but at the same time represents the two cities between which more people travelled than between any other two cities in the world. The book fails utterly to take account of the fact that certificated carriers

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operate route *systems* and that they do not and cannot operate only in the largest market in the United States. The author does make a slight attempt to deal with this problem by attempting to refute the possible argument that the California carriers operating in this market are merely "skimming the cream". However, the total rebuttal consists of a demonstration of the number of *other* markets within the State of California served by the carriers understudy. *None* of these markets was served for longer than six months by a carrier still in business at the end of the study—and *none* were served at the end of the study by any carrier. Even during the time some of these markets were served the major thesis of the book, i.e., unregulated carriers charge lower fares, was not present in that the "unregulated" (i.e., California intrastate) carriers charged more in thinner markets.

All that can be said for the entire study is that it is possible for a carrier operating only in the United States' largest air travel market to make money at a lower fare level then carriers must charge who also serve thinner markets!

Consequently, the great effort made to expand these facts into something more is utterly an exercise in futility.

The book contains many other logical errors but the bulk of them pale into significance compared to the gigantic fallacy underlying the logical structure of the entire book.

Nevertheless, some attention should be made to the rather wide-eyed astonishment evidenced by the author at the discovery (after 255 pages of analysis and an additional 85 pages of nothing but data) that the CAB certificated air carriers constitute a "cartel". Assuming that he is using the word (which actually means an international oligopoly maintaining prices above a certain level) to mean "oligopoly" he could save himself a considerable amount of trouble by reading the statute creating the Civil Aeronautics Board which charges it with a duty to determine the need (e.g. of the public convenience and necessity) for new and additional service before that service is authorized by it. Under those conditions it is difficult to see how there can be anything but a limited number of carriers. It is as if someone spent years studying the trucking industry only to conclude that an interstate trucker had to get a certificate of public convenience and necessity from the ICC before it could do business. Professor Jordan might be surprised to learn that there are many monopolies and oligopolies in our society including most electric, gas and telephone service. Indeed, the very reason de etre for "regulation" is the existence of limited competition.

Obviously the use of the word "cartel" was selected to indicate some type of evil conspiracy. One of the evil goals of a monopolist (by whatever name called) is to utilize their monopoly power to maintain high prices *and make excess* profits. While Professor Jordan notes, with a "Look What I Found" tone in his voice that the CAB has found that 10.5% would be a lawful rate of return for air carriers, he omits entirely to also note that the industry has never achieved such a rate of return. The present state of the earnings of the industry indicates that "cartels" should be made of sterner stuff.

In charity toward the author, Shakespeare's quotation should be changed to read only "It is a tale . . . full of sound and fury, signifying nothing".