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## Book Reviews

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## BOOK REVIEWS

ECONOMICS OF TRANSPORTATION, by D. Philip Locklin. Richard D. Irwin, Inc., 1966, pp. xii, 882. \$9.50

This latest edition of Dr. Locklin's well-known text deserves, and will undoubtedly receive, a wide welcome among teachers of transportation economics. The work affords a thorough, up-to-date coverage of the material usually included in the introductory course: the significance of transportation in the general economy, a historical sketch of the development of transportation facilities in the United States, an extended treatment of railroad rates and regulation, a shorter discussion of the development and regulation of other transportation agencies, and a consideration of the problems involved in interagency competition and cooperation. The book is a model of clear and straightforward exposition, and the inclusion at the end of each chapter of selected references for further reading, whose subject matter is briefly indicated, should be extremely helpful to teacher and student alike.

Some three-fifths of the volume is devoted exclusively to rail transportation. This reviewer agrees with the author that this apparent disproportion "should not lead to the inference that railroad transportation is over-emphasized and that the other modes of transport are slighted."<sup>1</sup> As he points out, the detailed discussion of railway rates and regulation provides essential background information which enables other agencies to be more briefly and yet adequately treated.

It is not difficult to suggest additional material which might have been included in the book to benefit the beginning student. For example, a study of some of the major problems confronting the managements of the various types of transportation enterprise would be most valuable not only to those intending to specialize in the field but also to those concerned with the general subject of decision-making within the producing unit. Such a study could be an enlightening antidote to the all too prevalent conception of the firm as an entity whose sole function is the choice of an output level by reference to certain simple, stable, and given demand and cost functions. However, it is virtually impossible to find any material which could have been just as well left out. In view of the already considerable length of the book, Dr. Locklin's consistent emphasis on matters more directly relevant to public policy, both regulatory and promotional, represents the wisest possible choice. Indeed, the author's thorough treatment of various aspects of rate-making should provide a good introduction to the complexities of economic decisions at the firm level.

There are certain passages which one would hope to see changed in the

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<sup>1</sup> LOCKLIN, *ECONOMICS OF TRANSPORTATION* ix-x (6th ed. Richard D. Irwin 1966).

next edition. It can only be confusing to the student to read, on the one hand, that "discriminating rates cannot stand in the face of real competition"<sup>2</sup> and, on the other hand, that rate competition "leads to discrimination."<sup>3</sup> It should be made clear that the competition that is incompatible with discrimination is *pure* competition, rather than *real* competition in any other sense. The fact that motor carrier competition has tended to break down the system of discrimination embodied in the rail classification, here adduced as evidence of a general anti-discriminatory tendency of competition,<sup>4</sup> results from the fortuity that the impact of motor competition happens to be stronger at the upper end of the rail class rate scale. The orthodox rationalizations for protective control over entry in air and motor transportation are accorded more weight than they would appear to deserve. With respect to air transportation, for example, the reader is told, without supporting argument, that in the absence of protective certification overcapacity would be "quite likely" to develop, with earnings "depressed below a remunerative level," and, ultimately, the replacement of competition by "some form of monopolistic control."<sup>5</sup> Insufficient emphasis is given to the extraordinary economic circumstances of the 'thirties, which go so far to explain the adoption of anticompetitive governmental policies in these as well as in other industries. It is unlikely that this generation of college students will be able to appreciate the importance of this historical background without a good deal of help.

In general, a more critical treatment is in order for arguments commonly used to justify governmental restraint of competition, *e.g.*, the allegations that railroad rates normally tend to the level of out-of-pocket costs, owing to the large proportion of fixed costs in this field,<sup>6</sup> and that a similar tendency exists among motor carriers, in spite of their typically high proportion of variable costs, because of chronic overcapacity arising from ease of entry.<sup>7</sup> At the very least it should be pointed out that there are a large number of other fields with cost characteristics similar to those of rail or motor carriers in which no restrictive regulation has been imposed and neither universal bankruptcy nor wholesale monopolization has ensued; and that arguments similar to the above are customarily used by many unregulated trades in attempts to justify restrictions on competition, for example, in recent proceedings before the British Restrictive Practices Court, where they have met with small success. Again, the unwary student may easily be misled by the author's offhand rejection of the normally accepted process of market determination of which of two substitute services shall survive when demand is inadequate to support both,<sup>8</sup> and of the normal correction of overcapacity by the elimination of superfluous firms.<sup>9</sup>

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<sup>2</sup> *Id.* at 140.

<sup>3</sup> *Id.* at 293.

<sup>4</sup> *Id.* at 141.

<sup>5</sup> *Id.* at 827.

<sup>6</sup> *Id.* at 292.

<sup>7</sup> *Id.* at 648.

<sup>8</sup> *Id.* at 855.

<sup>9</sup> *Id.* at 707.

But it would be unrealistic to expect a text in transportation economics to include a fully adequate treatment of the general principles of normative microeconomics. What this text does provide is a very satisfactory basis for a course which should contribute greatly to the student's understanding of the economic world and its governmental environment.

*Lucile S. Keyes*

MEASURING BENEFITS OF GOVERNMENT INVESTMENTS, edited by Robert Dorfman. The Brookings Institution, Washington, D. C., 1965, pp. viii, 429. \$6.00

Benefit-cost analysis is a technique devised in the 1930's to evaluate water resource projects. It attempts to express all values or benefits (including navigation, flood control, power, recreation), as well as all costs, in monetary units. Difficulties arise as market prices do not exist to reflect real values and costs. In addition to the absence of monetary prices for nonmarketable values, oligopolistic or monopolistic pricing or direct or indirect government subsidization of the services also conceal the real values and costs. However, anticipated benefits and costs are estimated and a ratio of costs to benefits is derived. Thus, if average annual benefits of \$151,500 are anticipated and average annual costs are estimated at \$122,000, the benefit-cost ratio is  $151,500/122,000$  or 1.24. Whether the calculation is made on the basis of gross costs (including capital costs) to gross benefits or on the basis of capital costs to discounted net value, the purpose is the same—an economic analysis of the justification for the public investment where market prices are inoperative.

Resources available to the government are limited, and an attempt is made at present to apply the benefit-cost analysis to determine the economic justification for public investment of many types. *Measuring Benefits of Government Investments* records the proceedings of a conference sponsored by the Brookings Institution in 1963 on benefit-cost analysis in seven different areas of government expenditures. These include: research and development, outdoor recreation, prevention of high school dropouts, urban highways, urban renewals, syphilis control, and civil aviation.

Gary Fromm's article on public investment in civil aviation and the discussion it evoked are of particular interest here. Fromm states that government expenditures, less user charges, must have a marginal social value at least equal to that which would be realized if the funds remained in the private sector of the economy. In a mature industry government expenditures should be no greater than user charges unless there are social values which follow either because they result in external economies or because of the transfer effects among segments of society.

Accepting the existence of these social values, Fromm applies the benefit-cost analysis by estimating them and comparing them against invest-

ments. Air operations would be less effective, hence of less value, if the expenditures were eliminated. Thus, his approach is to compare the total value existing in the economy prior to and subsequent to the elimination. If expenditures are eliminated air service will be less effective and values will be less as manifest by delays, diversions, cancellations, and accidents which will create costs for several groups. Regulatory authorities will be faced with increased costs of accident investigation, of a greater staff, and of more equipment to cope with the disruption of air operations. Aircraft operators will be faced with greater costs because of delays, diversions, and cancellations of service. Finally, users of air service will suffer delays (opportunity costs of slower travel—the pleasure or the output which might have been realized if no delay had occurred) and loss of life (“derivation of a specific value for human life is difficult, but not intractable, and arbitrary, but not capricious”).

Fromm indicates that notwithstanding the attitudes which prevail in a democratic society in which moral principles appear antithetical to placing a monetary value on human life, society in fact does just that. It does that by evaluating a man's economic contributions to society and by its unwillingness to pay a higher cost to provide more protection for human life. Thus, greater safety is technically feasible in highway and air operations. But society's purchase of present automobiles and highways indicates society is not willing to purchase greater safety for human life. Based on their present and future salary and assets to indicate their contributions to society, values of \$373,000 and \$422,000 were placed on the average air carrier and general aviation fatalities in 1960.

This reasoning reveals the basic weakness of the benefit-cost analysis, in the opinion of the reviewer. Whether it is applied to expenditures for civil aviation, government research and development, recreation, prevention of high school dropouts, urban renewal and street programs, or syphilis control, economic calculus is inappropriate where non-economic values are involved. Man makes no rational calculation of the value of life (or health or other intangibles) when he chooses certain courses of action in normal circumstances. Man is overwhelmed with the pleasurable, or the attention demanding present and is reluctant to see the future. At certain times (when death is imminent or when health is failing) man weighs these intangibles differently.

Notwithstanding the above (what the critics referred to as the “spurious process of quantifying benefits that are indirect and diffuse”), the reviewer must point out the great advantage of the benefit-cost analysis. The analysis, which is well done in this book by academic and government economists, does serve to define and to point up the problem. An objective enumeration of the sectors of society affected by investment is desirable. Furthermore, some of the benefits are economic and can be quantified and compared to the expenditures incurred to realize them. Even where the benefits cannot be stated in monetary units (as pointed out above), it is well to have these benefits identified. The danger of the

analysis lies in the possibility of presuming too much, of equating economic welfare with total welfare. As one participant in the conference said, it may be possible to measure the economic contribution of public investment (*e.g.*, slum clearance with a resulting reduction of fire hazards or air traffic control resulting in a minimization of air traffic delays) but can we ever hope to appraise the contribution of these expenditures to the quality of life?

*Paul D. Zook\**

POLITICS AND THE AIRLINES, by David Corbett. George Allen and Unwin, Ltd., London, 1965, pp. 305. 35s

This is a case study of the policies and politics governing airlines in five countries: Australia, Britain, Canada, India, and the United States. It depicts the importance of political parties, ministers, government departments, regulatory bodies, and of the boards of management of the airlines themselves. In four of the countries major airlines are now publicly owned, but this study traces, step-by-step, the development of civil aviation before nationalization.

Because a country is concerned with prestige and defense, it seeks to use its airlines as instruments of national policy. The tendency has been to choose one airline to be the national flag carrier abroad, and then subsidize it to help compete with the airlines of other nations: Australia's *Quantas Empire Airways Limited*; Britain's *Imperial Airways Limited* (1924), *British Airways* (1937), amalgamated to form a new publicly-owned airline corporation, *BOAC* (1939), followed by the nationalization of airlines (1946). Because of distance, climate, and terrain civil aviation was slow to develop in Canada; a sustained, scheduled service connecting major cities across Canada did not begin until 1937, when Parliament decided to resort to public enterprise and passed the act establishing *Trans-Canada Airlines*.

In his effort to explain the political circumstances surrounding the nationalization of airlines in Australia, Britain, and Canada, the author examines at some length the political feelings within each country on the issue of public ownership versus private enterprise.

In Canada, the publicly-owned airline had a major share of the air transport business from the beginning of regular inter-city airline service. In Britain, the Government took over existing, privately-owned airlines. First, it established a publicly-owned monopoly of British overseas air services. Second, it brought under public ownership all scheduled domestic airline service as well. In Australia, privately-owned airlines had become well established, and the publicly-owned domestic airline never had more than a competitor's share of the market. The Government took over

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Australia's international air service in 1947. In each of these countries the prevailing airline system is a mixture of public and private enterprise, regulated by a governmental authority.

Each country has made use of the autonomous public corporation and has honored the orthodox theory—"It will keep politics out of public enterprises and public enterprises out of politics." But the publicly-owned airlines also come under certain additional and special forms of control. Quasi-judicial and regulatory authorities supervise the relationship between public and private airline enterprises.

Professor Corbett's treatment of airlines in the United States is definitively titled "Competition and Regulation." After discussing the Civil Aeronautics Act and the function of the Civil Aeronautics Board, Corbett poignantly observes: "There has been no public sentiment in the United States in favor of nationalizing any of the airlines. The idea that both domestic and international airlines should be privately owned has never been seriously questioned. Political controversy has instead concerned the extent of governmental regulation, and its effects on the different classes of airline companies."

Corbett's account of India's international air transport attempts to show it in its cultural, social, and political context. One accustomed to thinking of India's industrial backwardness may be surprised to discover that in 1962 Air-India's aircraft utilization rate (hours in the air per plane per year) was higher than that of any other airline using Boeing 707s. Corbett attributes this accomplishment to their careful scheduling, reliability of arrivals and departures on time, prompt handling on the ground, and swift maintenance service in Air-India's workshops. In a broader context, Corbett's account of employer-employee relations in Air-India presents a picture of enlightened paternalism of a sort that is more "advanced" than the prevailing practices in the Indian industrial environment.

This is an excellent comparative study of politics and administration and the problem of the mixed economy. While the focus is on airlines, many instructive illustrations are from the experiences of other industries.

*John M. Claunch\**

## BOOK NOTES

AERONAUTICAL STATUTES AND RELATED MATERIAL, compiled by the Office of the General Counsel of the Civil Aeronautics Board, Superintendent of Documents, U.S. Government Printing Office, Washington, D.C., 1963, pp. 436. \$1.25 (paper cover)

In this book the Office of the General Counsel of the Civil Aeronautics

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Board has compiled the Federal Aviation Act of 1958 and sixty-seven other provisions relating to civil aeronautics. Other items included are the Sherman and Clayton Acts, the Federal Airport Act, fourteen executive orders, five multilateral conventions, the Administrative Procedure Act, and numerous others. This handy reference source provides a comprehensive collection of relevant material pertaining to civil aeronautics which should be quite useful to anyone interested in the field.

*E.S.K.*