

## Boston College Law Review

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Volume 4 | Issue 1

Article 33

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10-1-1962

# Richmond: Regulation and Competition in Air Transportation

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### Recommended Citation

Stuart M. Speiser, *Richmond: Regulation and Competition in Air Transportation* Stuart M. Speiser, 4 B.C.L. Rev. 238 (1962), <http://lawdigitalcommons.bc.edu/bclr/vol4/iss1/33>

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## BOOK REVIEW

**"Regulation and Competition in Air Transportation."** By Samuel B. Richmond:<sup>1</sup> Columbia University Press, New York, 1961, pp. 309.

Professor Richmond's effort must certainly be considered a scholarly history of the economic regulation of domestic trunklines by the Federal Government. Nor did the author underestimate the scope of this undertaking, for he advises us in the Preface that this work "should be regarded as Volume I of a continuing study." The next projected volume is to be an analysis of the decision problem of the Civil Aeronautics Board.

At the outset, the reader should understand that in the classic sense, there is no real "competition" in the airline industry. Evidence of this is the fact that there have been no new long range passenger airlines certificated by the CAB since 1940. Of the 19 airlines certificated as of 1938, there remain but 11 domestic trunklines (a decrease due largely to mergers, with only one small line, Wilmington-Catalina Airlines, Ltd., actually ceasing service). In addition, the recent experience of Capital Airlines makes it apparent that the CAB will not even permit a certificated airline to suffer the ultimate result of defeat in competition—bankruptcy.<sup>2</sup> Even where more than one airline serves the same pair of cities, the product offered by "competing" airlines is virtually identical. The price is always the same, since the lowest fare approved by the Board perforce becomes the standard. The equipment, schedules, meals and passenger service extras are but subjects of competitive advertising claims, and there exists no real difference between the major airlines in these respects.

Professor Richmond makes this clear, and supplies us with a definition of competition: "Vying for economic advantage." He also covers the early history of laissez-faire in air transportation and points out that even in the pre-regulatory days before 1938, competition was limited by airmail contract subsidies.

Professor Richmond's work is admirably organized and well documented throughout. His analysis of airline competition, which he terms "oligopolistic," is quite penetrating. However, this reviewer was disappointed at the lack of discussion of the proceedings against the North American Airlines group, which broke the back of the only serious free competition which the certificated airlines have ever faced. Although the North American case reached the United States Supreme Court there is no reference to the protracted struggle of this independent combine to gain a foothold in air transportation.<sup>3</sup>

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<sup>1</sup> Professor of Economics & Statistics, Graduate School of Business, Columbia University.

<sup>2</sup> "Last year when Capital Airlines faced bankruptcy, the requisite CAB approval permitted its absorption by United Airlines, thereby making UAL the largest carrier serving a quarter of the domestic traffic carried by major airlines . . . . At the time of Capital's crisis the CAB found no practicable alternative to the merger." Harding, *The Atlantic*, Sept. 1962, pp. 46, 49.

<sup>3</sup> *Twentieth Century Airlines v. Ryan*, 21 C.A.B. 133, 74 Sup. Ct. 8 (1953). The CAB, in a rather harsh opinion, revoked the letters of registration held by Twentieth Century Airlines, and the other irregular carriers. The Court considered the above mentioned carriers to be under the direct or indirect control and management of the North American Combine—a partnership of two individuals. The board found that the

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The author's analysis of regulation is likewise quite illuminating. The policies and actions of the Civil Aeronautics Board are analyzed in terms of their effect on competition in the airline industry. To reach its decisions on airline route authorizations, the CAB attempts to consider all aspects of the public interest. It tries to utilize competition among carriers as an important device for furthering the public interest by improving the various aspects of service to the traveling public and by strengthening the airline system of the nation. Methods for creating and controlling competition, including the certification requirement, the limitations on new carriers, and the control over the total number of carriers in operation, are discussed in relation to the development of the Board's policy between 1938 and 1947, its conservatism in the 1950's, and its competitive policy of 1955-56. The mechanism of regulation is analyzed, and the author includes extensive data and tables on such aspects of the industry as the growth of trunkline carriers, cases involving competition decided by the Civil Aeronautics Board, and passenger and passenger-mile analysis of the competitive air routes awarded in these cases.

Thus, the title of this book was aptly chosen, for the author does an excellent overall job of explaining the interplay of regulation and competition in this field. It is a timely work, in view of the pending American-Eastern merger proposal and the current economic turmoil in air transportation. It also appears that the author is satisfied with the job accomplished by the CAB in juggling regulation and competition. There are many who will disagree with this conclusion, but few who can document their positions as ably as Professor Richmond.

A word of criticism on the footnotes. They are appended at the end of the book, and serialized by chapters. This makes for difficulty in locating the notes, and causes unnecessary interruption of the reading process. Finally, the statistics, while not overwhelming, add little to the presentation; they could have readily been summarized. Apart from these minor imperfections, this is an excellent job on a complex subject. We eagerly await Volume II.

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Combine constituted a single integrated air carrier, operating without a certificate of public convenience and necessity in willfull violation of § 401(a) of the act and parts 242 and 291 of the Economic Regulations. In effect it was a merger without CAB approval.