

1953

The Case for the Local Service Airlines

Leslie O. Barnes

Follow this and additional works at: <https://scholar.smu.edu/jalc>

Recommended Citation

Leslie O. Barnes, *The Case for the Local Service Airlines*, 20 J. AIR L. & COM. 197 (1953)
<https://scholar.smu.edu/jalc/vol20/iss2/4>

This Comment is brought to you for free and open access by the Law Journals at SMU Scholar. It has been accepted for inclusion in Journal of Air Law and Commerce by an authorized administrator of SMU Scholar. For more information, please visit <http://digitalrepository.smu.edu>.

RECENT ADDRESSES

“THE CASE FOR THE LOCAL SERVICE AIRLINES”*

BY LESLIE O. BARNES

President, Allegheny Airlines, Inc.

WITH your indulgence I want to explore a highly controversial concept known as the “Local Service Airlines.” In this exploration I am going to pose some equally controversial questions—questions which should not be avoided by the aviation industry, our Congress or the Civil Aeronautics Board.

Allegheny Airlines is a Local Service Carrier. We are one of fifteen other Local Service Carriers in the United States. These fifteen Local Service Airlines will receive mail payments during 1954 in the neighborhood of \$23,000,000 to bring scheduled daily air service to more than 200 cities in the United States which otherwise would not receive air transportation. The broad question to consider is this: *Does the service rendered to the nation and the communities served by these fifteen local service airlines in the carriage of mail, goods and persons justify this investment?*

I will attempt to show that it is, without question justified; and, furthermore, I will attempt to show that it is a temporary and farsighted investment by our government in the community and business future of our nation. In exploring this question with you today, I must pose three additional, but nonetheless related and pertinent questions:

—What is happening to the transportation requirements of our nation, and are we keeping pace with these requirements?

—How dependent are major trade and manufacturing areas, such as Cleveland upon rapid, frequent and reliable communications with the so-called intermediate cities and areas of 100,000 and less?

—When we speak of air mail subsidy, what is meant? And, precisely who is being subsidized?

I respectfully pose these questions not as a challenge and not alone to you today—I pose them also for the astute and cautious consideration of our Congress, which in the final analysis must weigh the evidence and judge the virtue of the Local Service Airline Concept. I pose these questions to the Civil Aeronautics Board, which conceived the local carrier concept and whose judgment stands or falls on the record produced by the local carriers. And, I pose these questions to the people of the communities being served by the Local Service Airlines, because it is in these communities that the need and requirements are generated, and it is there that the final judgment perhaps must rest.

The questions may be answered here today, and I will attempt to do this; but acceptance of these answers, and the continuation of the service we render lies within the judgment of those we serve. I believe the prevail-

* Delivered at the Allegheny Airlines' Inauguration Luncheon on extending service to Cleveland, Ohio, June 8, 1953.

ing circumstances of today, and the record of achievement so far will justify this concept. I would rest our case on this record.

CHANGING NATIONAL TRANSPORTATION REQUIREMENTS

The first question asked how our national transportation requirements were changing, and if these changes were being met. Our national transportation system is changing, and in some respects is deteriorating very rapidly. Today's successful business man not only travels more, but he travels by air — where he can. He travels more because he must to keep pace with the increasing tempo and demands of our competitive system. Moreover, he travels by air — not necessarily because he wants to, but rather because he has to, if he is going to keep pace with his competitors and with the demands of his time. Many times, he must go by air, if he goes at all, because there is no other way to go unless he drives. Obviously, he can cover more branches of his business, more cities, more markets, if he travels by air.

Many cities today either have no rail passenger service at all, or it is extremely limited and ineffective. Many communities are isolated from their primary community of interest or trade area except by surface roads — often congested and inadequate. Rail passenger service at intermediate cities has been steadily declining during the last two decades because rail passenger service has proved incapable of competing with the automobile, the bus and in some instances the airplane. The only reason many cities today have even token rail service is because the Interstate Commerce Commission has refused the railroads permission to suspend. In spite of this block, I nevertheless foresee the day when large intermediate cities and all smaller communities will be completely deprived of any rail passenger service. All one needs to do to substantiate this is to try travelling between Huntington and Parkersburg, West Virginia to Pittsburgh; or from Bradford, Pennsylvania to Cleveland or Harrisburg; or Wilkes Barre/Scranton to Cleveland. These are only the fewest few — a long list of "for examples" can be cited.

Our nation's roads are an increasing problem. Our system of roads are not keeping pace with travel demands, and I do not believe they can keep pace. As time goes on, their use as a medium of travel between communities will steadily diminish — and they will become more and more hazardous. In the face of a diminishing rail passenger service to our intermediate cities and communities, and in consideration of the increasing congestion and inadequacy of our highway system, it must be apparent that the only alternative for fast, frequent and efficient transportation is the scheduled air carriers.

It has been suggested¹ — and only recently — that the Trunk Line Carriers should be required to provide service to intermediate cities, thus avoiding the so-called subsidy mail payments to the Local Service Carriers. I respectfully suggest that this makes absolutely no sense for a number of unassailable reasons.

First of all, there would be no saving in mail pay should it be decreed that the Trunk Lines should replace the service now rendered by the Local Service Carriers. When I say replace, I mean to replace that service, *schedule by schedule*, community by community. If this were done, then I submit there would be no unsubsidized air carrier following such an action. Furthermore, I submit also that the additional mail requirements would exceed the amounts paid the Local Service Carriers. The greatly increased cost could be

¹ See letter of Senator Edwin C. Johnson to the Chairman of the Civil Aeronautics Board, *infra*.

avoided only if the trunk carriers again rendered only a token service to these Local Service Communities. If this were done, then the needs of these communities would not be met, and certainly the records, as I will show you later, will substantiate that need.

The bare facts are that, if Local Service Airlines are replaced by Trunk Line Services, then only a token service will be rendered. I know of no way to force or dictate a frequency of service to a community. The Interstate Commerce Commission could not do it in the case of the railroads, unless considerable sums of money were to be added to already considerable sums of money paid the railroads. The Civil Aeronautics Board has never tried to, nor can it force the Trunk Lines to render a specific amount of service to a given community.

Statistics are almost always boring, and I have tried to stay away from them today. I would, however, like to cite a few examples to demonstrate, not only the point of token service, but additionally the question of need. Johnstown, Pennsylvania received Trunk Line Service for a number of years at the rate of one round trip each day. Allegheny replaced this Trunk Line in 1950. Today we operate eleven daily round trips through Johnstown. This year we expect to service approximately 13,000 passengers, 30,000 pounds of mail, and 50,000 pounds of express at Johnstown. We have outgrown the DC-3 here as we have in many other places.

The Wilkes Barre/Scranton area is served by a Trunk Carrier in addition to Allegheny Airlines. In 1937 this Trunk Carrier operated one round trip daily through this area — it still operates one round trip a day through there. We operate ten round trips each day, and demands are such that we should add more. This year we will serve more than 17,000 passengers, and will handle more than 80,000 pounds of mail and 150,000 pounds of express.

Bradford and Williamsport, Pennsylvania are similar examples of locations which have been served for years by Trunk Carriers, yet receive less service than that provided by the Local Service Carriers. There are many more in the nation. These communities can no more afford to return to this volume of service than the Trunk Carriers can afford to render that service.

There is a vast difference between a trunk line operation and a local service operation. Different techniques are employed, different equipment is required — both in the air and on the ground. The two types of operation do not mix in an operational sense, and the concept is growing that an airline must specialize in either one or the other.

It was this premise of an air transportation system comprised of two clearly distinct segments which prompted the certification of the Local Service Airlines; it is developing with increasing rapidity; it is providing communities and population areas with scheduled air transportation which in the light of a declining rail passenger service and increasing highway congestion fulfills an essential, even critical need.

So in answer to the first question, I submit that our nation's requirements are changing, that the need for air transportation of a frequency and character adapted to community requirements does exist, that the Local Service Airline Concept has permitted our nation to keep pace with these changing requirements, and finally, that any thought or plan to replace or reduce the service provided by the Local Carriers is a backward step. Any promise to do so would represent the cruelest kind of faithlessness, because it will not be done.

COMMUNICATION WITH INTERMEDIATE SIZE CITIES

The second question sought to determine the degree to which large trade areas such as Cleveland was dependent upon rapid, frequent and reliable communications with intermediate areas of 100,000 persons and less.

The answer must certainly be obvious. Cleveland, to hold its most favorable position as a great trading center must have ready means of communication with intermediate cities within a radius of 250 to 300 miles. How long could Cleveland or any other metropolitan trading area survive if it could not communicate with these smaller cities and communities?

Your businessmen can answer that question, as can the businessmen in other cities — both large and small. According to your Chamber of Commerce, there are 32,895 business concerns within the city limits. All of these in one way or another are dependent either directly or indirectly upon the transportation facilities available to Cleveland. Certainly, representatives of more than 50% of these business establishments must depend upon the various media of transportation in Cleveland; all of them must receive business representatives from other cities. A community's strength is directly related to its accessibility to other communities. Consider the consequences to your business houses if Cleveland were to lose all its air transportation. The consequences must be obvious.

To a lesser extent, yet in exact ratio the same consequences accrue to a smaller community. Many businesses in the intermediate size cities we serve, located there because these cities had air service. This same situation prevails in many other cities served by the Local Service Carriers. Air transportation has brought businesses to areas critically in need of new enterprises to employ its workers. The Local Service Airlines have brought air transportation to these areas. It is this concept which has substantially contributed to the generation of new business, new prosperity to the community. As a by-product, it has produced the highly desirable and vital objectives of decentralizing our large industrial areas and spreading them to outlying but accessible areas. This trend cannot be arrested. Its continuance is dependent upon a continuation of adequate and sustained air transportation service. Again, I submit that the Local Service Carriers are an inescapable part of this development; that they cannot be replaced by other types of transportation — either air or surface — without real harm being done to the communities now benefiting from the farsighted concept of Local Service Airlines.

So, in answer to my second question, I suggest that the problem of the intermediate cities is your problem as well, because your trade, and your business and your industry is linked to their requirements and their productions.

DEFINING "SUBSIDY"

The third question sought a definition to the term "Air Mail Subsidy," and further to determine precisely who was being subsidized. Air Mail Subsidy has been defined in a variety of ways. Surface carriers defined all air mail payments as subsidy; the airlines, on the other hand, for years refused to recognize that the term even existed and used it only in the most intimate circles. However, in 1951 the Civil Aeronautics Board divided air mail payments into two categories. Henceforth, the unsubsidized portion of the mail payments was classified as "Service Payments" and the remainder as "subsidy." This has come to be generally accepted, especially by those carriers which by the grace of the Board's decision could show they received no subsidy. Some even insist that they never received any subsidy.

I am going to propose a different definition. On the premise that a determination of subsidy is dependent upon a reasoning process whereby it is *first* determined what air service is necessary, and *secondly* it is determined what that service *should* cost, then shouldn't subsidy logically be

defined as the difference between what it should cost and what it actually does cost?

Let me elaborate just a bit on my suggested definition. The first determination in my premise was to decide that the need actually did exist. For example, I doubt anyone will question that there is a proven need for air transportation by at least 90% of the cities served by the Local Service Airlines. I think the records to date will prove that need.

Assuming that need is proven, as it had to be to get air service in the first place, and assuming also that need has been demonstrated — which it has — then, the next logical step is to determine how *much* service is required in terms of daily schedules, daily mileages and other accepted measurements. "How much" is a product of first—estimation, second—experience, and third—circumstances. We have completed this step to the extent that we can rely on the records of the past five years, and upon reliable projections into the future.

Having completed this step, the next question then, is how much should this service cost? We know with a reasonable degree of accuracy how much it costs for the Local Service Airlines to render this service. There is the very real question, however, as to whether this same service can be provided more cheaply — without lowering the quality or frequency of the required service. If it can be fairly determined that equal service can be provided at a lower operating cost, then the difference between what that cost is determined to be, and what it actually costs to provide it, is the subsidy element.

It would, therefore, follow that a continuation of the Local Service Airlines would be justified only by the future promise of development to the extent that subsidy within this definition would eventually be eliminated and the full potential realized of community growth and use of the service.

Pause for just a moment, and consider the extent to which the potential has been developed because this will determine the future. In 1949, the Local Service Carriers transported 680,528 passengers. In 1952 we carried 1,703,730 passengers. This year we will carry well over 2,000,000 passengers. The business houses, and industries in our cities generated 310,605 ton miles of express and 436,000 ton miles of Air Freight in 1949; in 1952 we generated 866,526 ton miles of Air Express and 1,081,319 ton miles of Air Freight. 1953 will produce an increase over 1952 of nearly 50%. Air Mail, the backbone of the subsidy question increased from 412,094 ton miles in 1949 to 890,000 ton miles in 1952. It will go over 1,000,000 ton miles this year. The Local Service Airlines generated approximately 5,000,000 dollars in non-mail revenues in 1949; in 1952 non-mail revenues of more than 20,000,000 dollars were generated. 1953 will exceed 1952 by approximately 30 to 50%.

Certainly these figures are not insignificant — not by any possible definition. They represent progress toward the objective of low-cost, short-haul, mass air transportation; they represent a demonstrated *need* on the part of our nation's intermediate cities and population areas for air service; and they represent the wisdom of the Local Service Concept.

Problems of Progress

Progress over the next decade is inevitable, unless the policies of the past seven years are reversed. Progress will continue, year by year, in spite of the fact that there is not today a suitable replacement for the aircraft we all use — the time-honored and proven Douglas DC-3. This reliable work-horse of the airlines is our vehicle for providing this service.

But, we have outgrown it at many cities and on many routes. A replacement must be found.

The need here is for a rotary-wing type of aircraft of the Helicopter or Converti-plane type. I believe that within the next eight to twelve years we will be using a 35 to 40 passenger version of this principle in our daily operations.

With the introduction of new equipment, the full potential of the Local Service concept will be realized; with it will come the mass movement by air of large volumes of persons, goods and mails over short distances. There may be an intermediate step, and there will probably be one because larger more productive equipment is required today. That need will be felt more keenly by the end of this year, and within the next three years. It must be clear, therefore, that we cannot wait for ten years.

The point I make here is that the DC-3 is the only aircraft today which can serve all the cities receiving service from the Local Service Airlines. I relate this point again to both the question of *cost* to provide the service, and to the question of any replacement of Local Service at the communities we serve.

If it is true that the DC-3 is the only aircraft, then to substitute something else for the Local Service Concept would dictate that whatever agency provided the substituted service must by necessity procure or re-equip its fleet with the DC-3's. Where, then, can there be any saving to the Federal Government except through further development and generation of non-mail revenues? There are only two possible courses of action — One, is the continuation of the Local Service Concept; the other, is the suspension of service at communities now receiving that service.

This is a harsh conclusion; but, when all the window dressing and flim-flam is stripped from the issue, this is what remains. Judgment in this matter of air service to intermediate sized cities must necessarily rest on the issues of costs and requirements. It costs more to deliver a letter to a rural community than it does to deliver one here in Cleveland. By the same token, it costs more to deliver a letter by air to a city of 25,000 persons than it does to Cleveland. Under present definitions can it be said that a Local Service Carrier is subsidized any more than it is said that the RFD carrier is subsidized? Can it be logically stated that the farms and rural homes are subsidized any more than it can be said that the communities receiving Local Service are subsidized? I think not.

How much is it really costing the Government to provide air service to local communities and regions in the United States? In the Fiscal Year 1951, total payments by the Federal Government for the domestic air mail service amounted to \$109,434,000. This includes (1) Service mail pay of \$27,369,000; (2) Subsidy of \$34,565,000, and (3) Post Office Department handling and delivery service costs of \$47,500,000.

Now the total revenue received by the Federal Government during the Fiscal Year 1951 from sales of domestic air mail postage amounted to \$93,000,000. Therefore, in the Fiscal Year 1951 the net cost to the Government, including Service mail pay, was only \$16,434,000. This amount covers 33 scheduled air carriers, 15 of which are Local Service Airlines.

During 1950, the first full year of Allegheny Airlines scheduled passenger, mail and property services in the Middle Atlantic Area, the communities on our routes developed 694,930 pounds of air mail. In 1951 these cities developed 933,193 pounds of air mail. While records are not complete for 1952, the Post Office reports a steadily increasing air mail usage. The fact that these revenues are derived from users rather than general tax funds certainly distinguishes these monies from outright subsidy. And this is not all — another revenue accruing to the Government from the

operation of scheduled air services is the 15% transportation excise tax. While many airlines feel that the removal of this tax would lead to greater use of passenger air services and a resultant decrease in the requirement for Government support, this tax, nevertheless, totaled over \$85,000,000 in the Calendar Year 1951.

In addition to this, the scheduled airlines paid the Federal Government more than \$8,000,000 in gasoline and oil taxes during 1951. Thus, the Government received non-mail revenue in 1951 of an additional \$93,000,000. Where then is the deficit?

The route systems of the fifteen Local Service Airlines provide direct air service to approximately 340 communities with a combined population of nearly 50,000,000 persons. These Local Service Airlines serve the smaller communities of our nation, and more than 50% of the communities served do not receive air service from any trunk airlines.

I come then to the basic question of whether the expenditure of Government funds is justified in the Local Service Airline program. Certainly the record must substantiate the judgment of the Civil Aeronautics Board in establishing this program, and it must substantiate the judgment of our Congress in providing the funds necessary to develop it. The record of the past, the record of the need, and the record of the service rendered the communities served by the Local Service Airlines does not substantiate any thought or any proposal that this service be abandoned or reduced. The Local Service Airlines are the agent in the concept; judgment must rest with the people receiving this service, with our Congress and with the Civil Aeronautics Board, as to whether it should be expended.

UTILIZING TRUNK-LINE PROFITS TO SUPPORT LOCAL AIR SERVICE

April 9, 1953

Honorable Oswald Ryan, Chairman
Civil Aeronautics Board

My dear Mr. Chairman:

DOCKET No. 5509, "*A general investigation of all passenger fares between points within the continental limits of the United States of various Certificated Air Carriers,*" concerns and worries me greatly. May I bring to your attention, therefore, and to the Board, my views for urging very serious consideration of certain vital phases of this proceeding?

It is my understanding that this investigation was initiated early in 1952 to determine primarily whether the dollar-per-ticket increase then authorized by the Board should be permitted to remain in effect. During the year, I understand the issues were broadened to include a comprehensive inquiry into both the level and the construction of all airline passenger fares. This, I suggest is an enormous and far-reaching undertaking and challenge to all forms of transportation of persons.

If the Board should order a passenger rate reduction for the larger airlines which it might be contended are making too much money, it would result undoubtedly in necessary rate reductions on the part of all carriers in the United States. The struggling carriers would have to reduce their

passenger fares in order to meet the competition of the opulent carriers. This would result in reducing the profits of the smaller trunk lines below a reasonable level and thus impose the necessity of increasing their subsidy. Fares by their very nature must be applied across the board. A hit-and-miss application of passenger rates is not realistic.

I do not know whether any of the airlines are presently making profits which, under all the circumstances, could be considered exorbitant. But even if they are, a passenger rate reduction would not be in order at this time. While the Board's report indicates that most trunk airlines are no longer receiving direct airmail subsidies, your most recent subsidy figures show that you expect to authorize \$26,179,000 of subsidy for the domestic airline industry in the fiscal year 1954. All of the local-service airlines and several of the smaller trunk lines will be receiving subsidy in varying amounts. That figure must not be increased and the Board's strongest efforts should be made to reduce it. I expect the Administration and the Congress to insist upon an immediate substantial subsidy reduction.

As I see it, the Board should be using its best efforts to reduce subsidy payments, particularly for the domestic industry, and it seems to me that the very fortunate current profits of the larger airlines suggest a method for doing this. Instead of looking toward a reduction in the rates of these large carriers, it would be far more sensible for the Board to compel such carriers to utilize these profits by assuming the operation obligations of the local-service lines and smaller trunk lines that now require a subsidy.

The big railroads are compelled by the regulatory bodies to operate branch line passenger service at a terrific loss. Instead of reducing the rates of the strong air carriers, the strong air carriers should be required to take the bitter with the sweet, as have the railroads and thereby relieve the Treasury of domestic airline subsidy. This point I consider to be vital, and one which the Board should give the serious attention it deserves.

Airline rate reduction would have a disastrous effect upon railroad rate structures, too. The railroads are already losing hundreds of millions of dollars a year on their passenger service, part of which they attribute to airline competition. An airline rate reduction will accentuate this problem, and the railroads will be in a position — very properly — to complain that their competitive position has been damaged, not in the normal operation of free enterprise, but by government paying a subsidy to a large group of air carriers.

The railroads argue with justice and force that the airlines should be paying increased user charges for the federal airways, and that the railroad competitive position is damaged by the failure of the airlines to do so. While I have not yet actively urged that the airlines be required to pay additional user charges, it must be recognized by anyone who has knowledge of the trends and the temper of the times, that the hour is not far off when such payments will have to be made. The Appropriations Committee of both Houses of Congress have been urging this step for years. This approaching challenge to airline operation should be given consideration by the Board in this proceeding, since it would be folly to reduce the air carriers' rate levels at a time when they should be anticipating increased expenses for the use of airports and airways.

The airlines have earned and should be commended for keeping their passenger fare level constant during these recent years of rising labor and material costs — costs which have forced the railroads and other forms of transportation to raise their fares substantially. Truly, the economies achieved by airline management in the last four years have been amazing.

Too, I approve wholeheartedly scheduled aircoach service and its wide-

spread adoption. It should be further extended, consistent with the cost of providing the service. Air transportation should not be a luxury reserved for the movie actor or folks travelling on an expense account. It should be made available to all our people, but not at the price of increasing the subsidy to a large group of carriers, or impairing airline service to the smaller cities now being served.

Yours is a difficult job and I want to help you and not add to your woes. As I see it, the problem is to so regulate the certificated airlines that they make enough money to keep equipment in top condition through vigilant and rigorous maintenance, and through constant purchases of improved aircraft. Also, to maintain the airline enterprise, trunk, regional and service, in a sound economic status so as to continue the maximum development of air transportation through the ups and downs of business cycles. But at the same time, the airlines must be prevented from charging the public exorbitant fares which realize unwarranted profits.

Before it is too late, I urge you and your colleagues on the Board to give heed to these pressing considerations which in the public interest I feel compelled to call to your most serious attention.

Sincerely,

EDWIN C. JOHNSON
U. S. SENATOR