

1953

Aviation Responsibilities of the Department of Commerce

Robert B. Murray Jr.

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

Recommended Citation

Robert B. Murray Jr., *Aviation Responsibilities of the Department of Commerce*, 20 J. AIR L. & COM. 299 (1953)
<https://scholar.smu.edu/jalc/vol20/iss3/5>

This International Review 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

“AVIATION RESPONSIBILITIES OF THE DEPARTMENT OF COMMERCE”

BY ROBERT B. MURRAY, JR., UNDER SECRETARY OF COMMERCE
FOR TRANSPORTATION

REVIEW OF AVIATION BY THE AIR COORDINATING COMMITTEE*

THE average American citizen, I am sure, believes that the world is now well advanced into the “air age,” and that his country is the leader in this latest of man’s achievements in transportation. He is, for the most part, correct in his assumption. Yet I doubt if he is as well informed on the nature and status of his Government’s participation in civil air transport and of the many problems in this field with which we must come to grips if we are to carry out the present Administration’s desire to encourage private initiative, to minimize Government interference in business, and to reduce Federal expenditures.

It has long been the economic policy of this country to give selected industries some Government assistance during the early stages of their development. In general, that theory has been applied to each of the great transportation industries in our history. American aviation, as the newest of them, with its tremendous implications of national security and economic development, has continued to be of great concern to the Federal government.

The office of the Under Secretary of Commerce for Transportation, acting for the Secretary of Commerce on transportation matters, is charged with coordinating the various transportation programs of the Department. We are expected, within the limits of our authority, to exercise leadership in the overall coordination of transportation activities in the Executive Branch of the Government, and to work toward a sound national transportation policy. It thus becomes our responsibility to evaluate the amount and nature of all Government aid to the transportation industries, including aviation.

Specifically, major questions have been raised concerning the continuance of the air mail subsidy. These questions relate to such matters as the need, amount, coverage, and duration of subsidy payments to air carriers. We feel that the answer to the questions now raised rests in large part on the extent to which air carriers receiving subsidy have progressed toward economic maturity.

The question of whether the air transportation industry, or certain segments of it, have reached maturity, is vital in any assessment of the need for Federal subsidies. For, it is clear that if maturity has been reached, there should no longer be need for direct financial assistance. Certain indicators of maturity are pertinent—such as physical growth, competitive ability, industry profits, and financial development, and the trend in costs to the Government in the form of subsidies.

With respect to the first of these indicators, it is evident that the domestic trunk airlines have experienced a remarkable physical growth since the passage of the Civil Aeronautics Act in 1938. In that year certificated

*Delivered at the Wings Club, New York City, September 16, 1953.

trunk-line routes amounted to only 39,000 miles compared with 131,000 for 1952. The frequency of service demanded by the public has increased at an even faster rate. In 1938 the domestic trunk airlines in the United States performed 480 million passenger-miles. In 1952 this figure was 25 times as great — over 12 billion passenger-miles. Express and freight ton-miles, excluding mails carried, increased from only two million to nearly 160 million in the interval from 1938 to 1952.

The adoption of the term ton-mile in aviation terminology, in itself, is a symbolic measure of maturity. As late as 1945 air freight was measured in pound-miles. A substantial part of this growth has occurred very recently. For example, revenue passenger-miles have doubled since 1947. Express and freight ton-miles have increased nearly two and one-half times and the available revenue ton-mile capacity for freight, mail and passengers has doubled, increasing from about 1.2 billion in 1947 to 2.4 billion in 1952.

The number of planes in service affords another measure of airline capacity. Planes in trunk-line service increased over 300 percent in the period 1938 to 1952. In the former year the trunk lines had 236 planes, almost all two-engined craft. At the close of 1952 there were more than 900 planes in this service, 426 of them four-engined planes. Needless to say the technical efficiency, capacity, comfort, and safety of the 1952 planes were far in excess of their prewar counterparts. The physical growth of the domestic trunk airlines has also been paralleled by a rapidly improving competitive ability. In fact they have obtained a significant part of the total for-hire passenger market. At present the airline passenger-miles performed slightly exceeds first-class rail passenger-miles; whereas in 1947 only 33 percent of the combined first-class passenger business was by air. Domestic scheduled airlines in 1952 performed 19 percent of all intercity for-hire passengers, compared to 8 percent in 1947 and 1.2 percent in 1938.

The financial development of the domestic trunk airlines as a group since 1938, further demonstrates their progress toward economic self-sufficiency. Total assets of the trunk airlines increased from \$37 million in 1938 to over \$775 million in 1952, a twenty-fold increase. Net worth has increased from \$27 million in 1938 to \$368 million in 1952. Unappropriated earned surplus has since 1938 increased from a negative six million dollars to a black figure of \$130 million. Moreover, in an industry where equipment is subject to rapid technological obsolescence, most trunk airlines have been able to finance their postwar expansion in the open money market. In addition to their ability to secure needed loan capital to replenish their fleets and other facilities, a trend of profits has developed in line with the profits in other industries throughout the economy.

In 1952 trunk airline profits amounted to \$53 million. More liberal dividends likewise have been paid by the airlines in recent years. In 1952, for example, they paid over \$17 million in dividends, or 11.9 percent of the book value of the capital stock. Profits after taxes in the trunk airline industry approached 15 percent of net worth and nearly 7 percent of total assets in the industry. Of course it is generally known that all domestic trunk airlines are not in as favorable an individual position as indicated by the averaged figures.

However, as a result of the generally improved position of domestic trunk airlines, subsidies paid them have been reduced substantially. Although \$18.9 millions were received by them in fiscal 1951, it is estimated by the Civil Aeronautics Board that only \$3.6 million will be paid in 1955. This experience of the domestic trunk airlines indicates that the age of an industry alone is not a reliable measure of its maturity. In the case of aviation, the various

aids extended by the Federal Government have greatly accelerated progress toward economic self-sufficiency. To this extent the objectives of the 1938 Act have been largely realized.

However, making all domestic aviation self-sufficient has been complicated by the development of an unbalanced route structure. Such was not the intention of the framers of the Civil Aeronautics Act, whose expressed objective was to avoid the defects experienced in the growth of earlier forms of transportation. The presence of weak and strong air carriers 15 years after the passage of the Act is a matter of considerable concern to all those interested in the future of aviation. The CAB has attempted to follow its mandates regarding administration of mail payments, as laid down in the Act. However, this task has been made more difficult by the inheritance of an initial imbalance at the time of the passage of the Act.

The results thus far recorded with the feeder experiment, for example, are in sharp contrast to the relative success achieved in bringing the domestic trunk-lines to a point of freedom from air mail subsidy. In the case of this group of carriers the trend is in the opposite direction. Total subsidy payments for these experimental carriers had already reached a total of 19 million in 1952, rose to \$22 million in 1953 and CAB estimates that these costs will climb to \$24 million in 1954-55. The CAB has further estimated that subsidy requirements for the three certificated helicopter lines will aggregate \$2.6 million in fiscal 1954 and \$2.9 million in fiscal 1955.

Up to this point we have concentrated on the question of subsidy requirements for the domestic civil air transport industry. The problem of government support is somewhat different in the international field. In this area, Government aid must take account of growing foreign competition and the need for developing an international route position consistent with the requirements of national interest and security. The CAB has estimated that total subsidy payments for fiscal 1953 will approximate \$75 million, of which about 60 percent, or \$40 million will be paid to the international airlines. For 1954 and 1955 the CAB estimates indicate that the subsidy needs of these carriers will continue to rise — to approximately \$43 million.

From this brief examination of the self-sufficiency of the airlines and the need for continuing aids in the interest of commerce, national defense and the postal service several general conclusions seem warranted. First, by application of relevant tests of an industry's position it appears that most of the domestic trunk-lines are now eligible for membership in the fraternity of self-supporting transportation agencies. Consequently, the federal aids which speeded their growth from infancy to maturity should be withdrawn in an orderly manner and in accordance with a prearranged schedule. In this process full recognition must be given to the fact that the airmail subsidies granted by the Civil Aeronautics Board are only a part of the overall Federal assistance to aviation. This has included as you well know grants-in-aid for airport construction as well as the construction, maintenance, and operation of the Federal airways system. Various elements of Federal assistance are inter-related, since, for example, certification of additional routes would augment total requirements for air terminals and air navigation and traffic control facilities as well as the possible increase of airmail subsidy payments.

The second major conclusion indicated from our review of the aviation problem is that the mounting Federal subsidy cost associated with the feeder line experiment and the international airlines must be subjected to critical reappraisal. These payments have been mounting steadily in recent years with every indication that under present policies the outlays will continue to rise. A major responsibility for finding some acceptable solution for this

problem rests squarely on the Department of Commerce. Under the terms of Reorganization Plan No. 21 and other basic statutes we are charged not only with specific duties in the promotion of aviation but with an overall responsibility for developing a sound and coordinated national transportation policy. It is not possible to develop such a policy without being concerned with broad fundamental issues having to do with each individual form of transportation. We must determine the Federal Government's role and relative interest in and responsibility for each transportation activity, have some idea of the cost involved and strive for a proper division of the expense. Moreover we are obligated in line with general administration policy to seek out every possible budgetary economy in the government's performance of its transportation activities.

To this end my office has initiated a series of intensive studies covering the major transportation responsibilities and policies of the Federal Government. In the field of air transportation these inquiries will seek to determine solution to such problems as:

1. General question of route certification both domestic and international;
2. User charges for airways;
3. Federal role in airport development;
4. The emerging competition between the scheduled and non-scheduled carriers.

In the exploration of these complex issues we shall collaborate closely with the Civil Aeronautics Board.

“MOBILIZATION AND DEFENSE ACTIVITIES OF THE DEPARTMENT OF COMMERCE”*

BY THE HONORABLE ROBERT B. MURRAY, JR., UNDER SECRETARY
OF COMMERCE FOR TRANSPORTATION

Today I should like to report on the transport mobilization and defense activities of the Federal Government with particular reference to the Department of Commerce, and to discuss the need for an alert and vigorous transportation program to deal with any possible emergency.

We are living in a time of danger. Over us hangs the spectre of atomic conflict. It is futile to speculate about the precise amount or location of the damage that might be done to our transportation plant and services by enemy bombing. But we must never lose sight of two facts.

First, transportation is the essential link between war production and the armed forces. It knits together our war potential just as it does our peacetime economy.

Second, this time, if war strikes, a transportation control organization must be “in being,” capable of immediate expansion. We will not have the same opportunity for mobilization as was allowed us in World War II. The question has therefore arisen as to whether the present form of organization

* Address before the annual meeting of National Defense Transportation Association, October 12, 1953, Louisville, Kentucky.

lends itself to immediate expansion—whether there would be too much delay in establishing an effective wartime transportation program. Such delay could be fatal. This entire problem as to the best type of wartime organization is now under active study by affected Government agencies.

In direct recognition of the importance of defense transportation in mobilization readiness, the Director of the Office of Defense Mobilization, acting pursuant to Executive Orders, recently reestablished the ODM Committee on Defense Transportation and Storage. This inter-departmental group is responsible for reviewing and advising the Director of ODM concerning Federal policies, plans and programs relating to defense transportation and storage. An important specific duty of this committee is to determine the measures necessary for improving the coordination of the various transportation services and facilities in order to assure their most effective utilization. It is in my capacity as Chairman of this Committee that I requested special study of the best form of wartime transport organization.

The scope of the Government's defense transportation interest is indicated in the large number of Government agencies represented on the ODM Transportation and Storage Committee, namely, the Departments of State, Treasury, Defense, Interior, Agriculture, and Commerce, and the Foreign Operations Administration, Federal Civil Defense Administration, and Defense Transport Administration. The latter agency is concerned with the adequacy of our inland domestic surface transportation system to meet the needs of the defense production effort and the essential civilian economy. It may utilize its allocation and priority powers to bring about, in the interest of national defense, more efficient use of domestic transportation facilities in periods when demands for such facilities exceed the supply.

As I have indicated, the Department of Commerce is another member of the ODM Committee. The Department is particularly concerned with the entire problem as to the best type of wartime transport organization because of its overall responsibilities in the field of transportation and the fact that a number of the Government's transport mobilization functions are lodged in the Department.

In this connection you may be interested in a brief discussion of some of the Department's defense activities. First, a few words on the general pattern of our transportation functions, after which I would like to dwell in some greater detail on the Department's defense and mobilization activities.

The Under Secretary of Commerce for Transportation is directed to provide central leadership in the Executive Branch of the Government in transportation matters. As you know, most of the Government's transportation promotional programs are centralized within the Department of Commerce, under the supervision of my office. These programs are administered by the Bureau of Public Roads, the Maritime Administration, including the National Shipping Authority, Civil Aeronautics Administration, Defense Air Transportation Administration, the Weather Bureau, and the Coast and Geodetic Survey. These agencies engage in long-range planning not only for the development of peacetime needs for transport facilities, but their adequacy in meeting wartime requirements. In addition the Department is empowered to place emergency controls upon civil air and sea transport; in fact, certain very firm measures have already been taken to control the movement of American ships and planes to communist-held areas, and effective organizations have been developed to program the use of civilian aircraft in a time of emergency and to operate Government-owned merchant ships in the national interest.

Now to give you a few more facts on the scope of the Department's emergency and continuing defense activities.

Civil Air Defense Programs

The Defense Air Transportation Administration was established in my office to plan and direct the mobilization of civil aviation resources. Its mission is to prepare in time of peace for the assurance in time of war that the air transportation facilities of the nation are adequate and effectively used for national defense and the war supporting economy.

DATA has earmarked some 300 four-engine long-range aircraft, about 40 percent of the total air carrier capacity, for direct military support as the Civil Reserve Air Fleet. These planes are among those currently in service on international and domestic routes. The remainder of the planes would be allocated to the war-supporting economy. To keep these plans current DATA periodically reviews the changing requirements of the military and the air transport industry.

The Civil Reserve Air Fleet will serve in direct support of the Military Air Transport Service on 48 hours notice. To accomplish this, the planes in the Fleet are being specially equipped to accommodate military equipment. Under the guidance of DATA, experts from the aviation industry, CAA, and the military, are working on complete operational plans to determine what spare parts, equipment, and supplies will be needed and where they are to be stock-piled on a worldwide basis, and on the complex details of manpower, maintenance and overhaul required to keep the Fleet in the air.

Should there be war there would come need for reallocation of aircraft between carriers to handle the flow of essential traffic. Termed the War Air Service Pattern, this plan of reallocation is designed to provide air transport services for the major industrial centers and military installations.

The Civil Aeronautics Administration within the Department is also intimately concerned with air transport mobilization and defense activities. During the current emergency period, CAA has played a key role in the allocation of controlled materials to the civil aviation industry. In the operating field, the agency has set up a system of Air Defense Identification Zones reporting to military radar the presence of friendly aircraft penetrating these zones. This has minimized the number of "scrambles" required by our interceptor planes. As a continuing defense measure, CAA safety agents are monitoring the modification of air carrier aircraft so that they will be available for rapid conversion to military service as a part of the CRAF.

The 70,000 mile network of air highways operated by CAA are a tremendous defense asset. Large numbers of military aircraft move over these "roads" at all times, and in an emergency CAA stands ready to clear the air of all non-essential civil traffic and to expedite military movements. CAA and representatives of the armed forces carry on through the Air Navigation Development Board a unified program of research for a common civil-military system of air navigation and traffic control. A plan has been developed whereby the CAA communications network would mobilize civil aviation resources of each state for emergency service.

Maritime Defense Programs

The National Shipping Authority was established some two and a half years ago within the framework of the Maritime Administration as an integral part of the nation's mobilization effort. It will be the Maritime Ad-

ministration's job in another war to provide ocean shipping necessary to meet the needs of the Department of Defense and other government programs, including essential civilian requirements.

Although we hold the statutory authority to requisition private shipping in an emergency, it was not exercised during the recent period of the Korean conflict. The NSA met the heavy shipping requirements of this government and foreign allies with government-owned vessels beyond the capacity of our own privately owned and foreign-flag merchant fleets—but more than that, it developed the basic shipping organization structure of speedy expansion in the event of full mobilization.

Some 700 government-owned ships from reserve were reactivated, used for the transport of 14,000,000 tons of non-military shipping, and provided well over a thousand voyages for military account. As requirements decreased, these ships were returned to the Reserve Fleet and are there being preserved by the most modern techniques to keep them ready to serve again on short notice.

To provide tanker services needed during the past period, a Voluntary Defense Tanker Pool was established. This is an arrangement whereby the owners of virtually every American registered tanker made available the use of their ships on a pro rata basis to meet the recent tremendous military demands for transportation of bulk petroleum products.

In accomplishing its task, the NSA has drawn upon the resources and facilities of the entire shipping industry. The structure of our future war-time ocean shipping organization has thus been tested and is in readiness.

A continuing responsibility of the Department, through its Maritime Administration, is the encouragement of an efficient merchant marine. Important progress has been made in the past few months toward defining just what sort of fleet—how many and what kind of ships—must be maintained to meet the needs of commerce and national defense. In this connection, Maritime Administration is working toward the integration of the new class of fast freighters, the Mariners, into the privately owned fleet, and for the construction of new fast tankers and the provision of a serviceable tanker reserve.

We have stressed the objective of encouraging greater private development of new shipbuilding. We are announcing today the lifting of all restrictions applying to vessels constructed for foreign account in American yards, including that of requiring surety bonds under certain conditions, except that such vessels may not subsequently be transferred without our approval and may not trade behind the Iron Curtain under penalty of seizure by us.

The responsibility for gearing our ocean shipping activities into any allied shipping authority in the event of global war also rests primarily within the Department. The head of the Maritime Administration has just concluded a session in London of which he was the Chairman on that phase of NATO planning.

Highway Transport in an Emergency

The importance to national defense in time of war of our strategic highways is self-evident. Perhaps it took World War II, with its long lines of military convoys on the highways moving men and material, to dramatize this point to our average motorist—if he were fortunate enough to have sufficient rationed gasoline to use his car cross-country.

In the Bureau of Public Roads we have another concrete example of how the agencies of the Department of Commerce can orient their work toward the dual purposes of war and peace. The Bureau, through its field contacts with State highway agencies is in an excellent position to help coordinate the knowledge of those agencies for effective wartime administration of highway transport. The personnel of the state organizations are working with motor vehicle problems daily, including those of private carriers and private automobiles. Properly coordinated, the facilities of these state units could provide emergency service immediately in connection with wartime measures for conservation and limitation of motor utilization and necessary rationing of tires, parts, and fuel.

Vital Weather Service and Navigation Aids

Closely related to the defense pattern for transportation is the work of other agencies under my supervision, the Weather Bureau, and the Coast and Geodetic Survey. These agencies provide vital services and aids to our transport network. Their activities are essential for wartime land, sea, and air operations.

Effective mobilization of our civil aviation resources in the event of war depends upon a healthy peacetime industry, developing in an environment of sound governmental policies. As you know, the President on September 23, addressed a letter to me in my capacity as Chairman of the Air Coordinating Committee, requesting a comprehensive review of this country's aviation policy. The primary emphasis of this review will be upon civil aviation, including the many important areas of inter-relationship between civil and military aviation. However, the review will not cover aviation issues of a strictly military nature, since such questions are now receiving active attention at other levels of government.

Within the next few days, the committee will decide upon the specific "agenda" of individual policy issues to be covered by this review. Each member agency will then develop its comments and proposals on any issues affecting its particular area of responsibility, consulting with other agencies to the extent necessary and using the Committee's secretariat as a focal point for the exchange of information.

Industry groups will be invited to submit pertinent information and recommendations on any matters of concern to them. However, limitations of time and personnel will preclude the holding of formal, public hearings. Instead, industry representatives will be asked to present their views in the form of written statements.

It is planned to complete this overall review within about six months. Naturally, many of the issues that will be covered have already been receiving the attention of one or more agencies as part of their normal responsibilities. Within the Department of Commerce, for example, we have studies under way reviewing major Federal promotional programs in the field of aviation. These studies include a review of policies for airline development, policies regarding the Federal role in airport development, and the question of charging for the use of Federal airways.

Within their scope, the aviation studies of the Department involve basically the type of policy re-examination requested by the President. We are proceeding actively with these studies, and plan to complete major portions of them late this year. As they are completed, the Department will take such steps as appear appropriate in terms of both administrative actions and legislative proposals.

Incidentally, there seems to be considerable speculation regarding the type of actions the Department may take in connection with its aviation studies. Such speculations is unnecessary; the basis on which we are engaging in these studies was clearly indicated in my speech before the Wings Clubs in New York on September 16. That is our program; nothing more, and nothing less.

As I stated at that time, these studies are being conducted to assist the Secretary of Commerce in discharging his responsibilities as the chief advisor to the President on transportation policy within the Executive Branch. In carrying out these responsibilities, the Secretary must necessarily concern himself with the soundness of aviation promotional policies, and their relationship to a national transportation system. Authority over airline subsidy payments and related matters is vested in the Civil Aeronautics Board, an agency of Congress. However, should it appear as a result of our basic economic studies that a sound total transportation policy requires adjustments in the field of aviation, it is the Department's clear responsibility to recommend such changes. If these changes can be effected by the Civil Aeronautics Board under existing legislation, our recommendations would be submitted to that agency for its consideration. If revisions in basic legislation seem needed, our recommendations to that effect would be presented to the President for submission to the Congress. In this connection I am happy to say that I have the formal assurance of the Civil Aeronautics Board that we will receive its full cooperation in the conduct of our studies of air transportation.