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The Administration's Transportation Program

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RECENT ADDRESSES

THE ADMINISTRATION'S TRANSPORTATION PROGRAM

BY ROBERT B. MURRAY, JR.*

Under-Secretary of Commerce for Transportation

... And now I come to our newest form of public transportation, air transport. This is a lusty infant, all right. In 1954 our scheduled airlines will fly in excess of 30 million passengers within the United States and its territories and almost 3 million passengers to and from foreign countries. These same airlines will speed thousands of tons of mail and cargo within the United States and also overseas. More than a billion dollars in wages, salaries and other expenses will be paid out of this essential form of transport, which barely existed only 30 years ago!

It's a phenomenal record. However, despite the impressive record to date, the industry has an even greater potential strength, which it is not now in a position to develop fully. With sound routes and organization, air transportation could be financially stronger and more secure than it is at the present time. It could have the staying power to sustain itself in periods of economic stress as well as in periods of general prosperity. It could increase its attractiveness to the investing public, and thereby assure its ability to finance the purchase of new and more expensive aircraft which advanced technology will soon make available. It could provide better service at lower rates. Last, but certainly not least, it could reduce the amount of Federal subsidy assistance it now requires.

A most significant accomplishment during this past year has been the completion of a comprehensive review of civil air policy. This review was undertaken, at the President's request, by the Air Coordinating Committee, which represents all Federal agencies primarily concerned with aviation. The Committee's report was presented to the President, and accepted by him, in May of this year. The policies which we have formulated set forth, for the first time, a constructive program for the development of a strong and economically healthy air transport system. The keystone of this report is expressed by these three straight from the shoulder sentences:

"Past Federal assistance has accelerated the development of this industry. However, we are now at the point where the industry in large measure is self-sufficient. The goal of Federal policies should at this time be directed to the development of economically healthy carriers, capable of financing with private resources their own continuing growth."

The government must do everything within its power to provide the regulatory and promotional climate in which the industry can achieve this increased strength. The policies of this Administration, as stated in the report of the Air Coordinating Committee, call for a balanced program which will do just that. In developing these policies, the Committee has recognized the important elements in strength inherent in the air transport system, and also the problems which prevent the industry from fully capitalizing on this strength. We have faced up to the difficult alternatives which confront the government in these circumstances. The path of least resistance — and the one which has been generally followed in the past — is to hope vaguely that somehow and at some time existing problems will solve themselves, while in the meantime meeting each new difficulty by dipping further into the Federal

*Portions of address dealing with Air Transport given before the National Association of Motor Bus Operators, Chicago, Illinois, September 15, 1954.

Treasury. This approach is simple, and for the short run it may be popular. Unfortunately, however, it does not provide any basic or long-term solution to underlying problems.

The other alternative — the one which we have adopted in our policy program — involves action by the airlines and the government to overcome existing problems and work toward a healthier, more self-sufficient industry. The Air Coordinating Committee has set forth a two-pronged program. It calls for immediate action to strengthen the industry route structure and organization, and it also calls for an orderly and gradual reduction of subsidy support. This program will benefit the public in its dual role as user of air transport service and as taxpayer. In the final analysis, the public can best be assured of economical low cost, and steadily improving service, if the industry itself attains a position of independent strength with minimum reliance upon assistance from the Federal Government.

As the report says: "Subsidy limited to a temporary developmental period can yield important benefits for the public interest, without long-term distortions of competitive relationships with other forms of transportation. . . . With few exceptions, present air services were authorized initially in the expectation that their subsidy need would, in fact, be of temporary nature."

That's what the report says, "temporary nature" — and that's what the taxpayer has been told, off and on, ever since 1938 when the Civil Aeronautics Act was passed.

Some recent public statements have attempted to read into the ACC report of recommendation against competition and in favor of monopoly. There is absolutely no foundation for these statements, and I want to set the record straight on this point.

The best and the simplest answer to these statements can be found in the language of the policy report itself. The report states:

"As a general policy, it is desirable in the public interest that competition between U. S. — Flag carriers be maintained in areas where traffic is sufficiently dense so that competition can be economically supported. However, where such is not the case, it is difficult to justify subsidy expenditures in terms of the public benefits to be derived." The report further states that: "Route decisions in this area should recognize the necessity of avoiding or eliminating uneconomic duplication of service between United States carriers."

The meaning of this language is clear. The Committee meant exactly what this language says, no more and no less. Any gratuitous interpretations to the contrary stem generally from a self-serving desire by some parties to confuse a basically simple issue by the age-old device of raising a straw-man. As the report clearly states, we favor competition in air transportation where it is economically justified; we oppose it where it represents merely uneconomic duplication of service. This most certainly is not a policy favoring a chosen instrument. It is a policy of good regulatory common sense. It is in fact the very policy which is embodied in the Civil Aeronautics Act itself. I challenge anyone to find a single sentence, or a single word in the Civil Air Policy report which recommends monopoly.

This report is based on a profound belief in competition — but competition that's real and competition that's effective. "Only an industry," the report says and I'm quoting from page 11, "Only an industry composed of reasonably strong systems can provide the benefits of effective competition." The report states a simple truth when it says on page 13 "While it is important to have enough competition to assure the aggressive promotion of services needed by the public, there is a point of diminishing returns beyond which competition can be self-defeating. Healthy, financially independent carriers can provide the public with better service — and more effective competition — than a larger number of marginal carriers."

On that one word "effective" hangs the whole case for the taxpayer and for the healthy future of the airline industry. Competition is not effective — is not healthy — when it is propped up artificially by subsidy that is unduly large or prolonged.

Let's be specific on this matter of competition. It may not be generally recognized how highly competitive this air transport system is at the present time. Of the leading 100 pairs of airline stations, fully three-fourths have directly competitive service, with many having competing service by three or four carriers. On many routes, the competitive choice available to the passenger by air is greater than by rail or by bus.

Now let's look at international aviation. Let's take the North Atlantic, for example. There are now ten — that's right, ten — scheduled airlines flying the North Atlantic, two American and eight foreign-flag. Fantastic as it may seem, there are those in the air carrier industry who claim to see in this a situation which favors the forces of monopoly and opposes the spirit of free enterprise. Unbelievable? Of course it's unbelievable!

Throughout the world, our international airlines are confronted with vigorous and increasing foreign competition. What is true across the Atlantic is true also in Latin America, across the Pacific, and in the Far East.

What the Civil Air Policy Report proposes is that this situation be viewed realistically and that we should not put on blinders either to the existence and force of this foreign competition or to restrictive measures of foreign governments with which our airlines are increasingly confronted. The Civil Air Policy Report proposes that we determine on a business basis how many American-flag carriers can be supported on a particular international route and that when we have determined this, we give our carrier or carriers such backing as is needed to keep them strong.

I think you will agree this is scarcely a monopolistic situation. There is nothing in the report of the Air Coordinating Committee which would make it so. All that we have done is to draw a distinction between healthy, economic competition, and unnecessary, wasteful duplication.

Airport Aid Program

Turning to another phase of aviation we have in this past year carefully reviewed and devised Federal policies toward assistance in local airport construction. We are reactivating the program for Federal grants-in-aid for this purpose, and are doing so in a manner which will assure that each dollar spent will provide the maximum possible benefit from a national aviation standpoint. In previous programs, limited funds were scattered too widely to have any real effectiveness. Under our revised policies, Federal expenditures will be concentrated upon those locations and types of construction which are most essential for the overall efficiency and safety of aviation operations and for national defense.

Administratively, we have greatly improved the efficiency of the navigational and other services provided by the Federal Government for aviation. We have modified regulatory attitudes, to recognize the industry's own interest and responsibility in maintaining high standards of safety, with less constant and detailed supervision by the government. We have carefully screened all operations — eliminating those which were unnecessary for aviation safety and efficiency, and improving the others so as to minimize their cost.

This has not been an easy job, but the results have been worth the effort. In the face of a steady and continuing growth in air traffic, we have been able to reduce the operating budget of the Civil Aeronautics Administration by nearly \$8 million below its level for the last year under the former administration. And most important of all, we have accomplished this without impairing in any respect the quality of those services which are essential for safety. The aviation safety record in 1953 was unsurpassed.