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RECENT ADDRESSES

GOVERNMENT POLICY FOR AIR TRANSPORTATION*

By C. R. SMITH

President, American Airlines, Inc.

THE members of this association and all other citizens have a primary interest in making sure that transportation is prepared, now and at all times in the future, to shoulder its part of the responsibility for national defense. I would like to talk with you about the civil air fleet and about its integration with the national defense program. I would like to speak briefly about military air transportation. But, the principal purpose of this discussion is to make the point that the maintenance of strong civilian air lines is the best way to provide reserve air transportation capacity for wartime requirements, and to urge that government policy have that objective.

The nation's air transportation system and fleet must be developed with a dual objective; to provide civilian air transportation service in time of peace and to share the necessary defense obligations in time of war. That dual objective must be a positive factor in government policy, for the reason that cumulative experience supports the conclusion that a high proportion of the air transportation capacity needed for national defense can be provided, on the most economical and the most effective basis, by a strong civilian air line system.

Air transportation capacity of real military value is capacity in being — organized and ready for operation before hostilities. Airplanes to be constructed after hostilities start may have little effect on the outcome of another war. We had no long-range air transport reserve at the beginning of the last war; we had to build our fleet during the war. Time for that will not be available again.

The air line fleet is a strong fleet. At the end of 1954 the United States air lines will be operating more than 1,300 transport aircraft, an increase in number of more than 200% from the 415 aircraft in service on July 15, 1945. But more important—when we assess their potential military value—629 of the 1,300 airplanes will be four-engined, long-range aircraft . . . 629 long-range aircraft at December 31, 1954, compared with 14 long-range aircraft in the civilian fleet on July 15, 1945; a remarkable record of progress and increased strength.

The number of nonstop coast-to-coast schedules operated by the domestic air lines in 1954, and the increasing distances flown by the overseas carriers, indicate the ability of this modern air fleet to move men and material over long distances without intermediate landings for fuel. From a military standpoint, the increased efficiency of the new aircraft is as important as the increase in number.

Three hundred of the 629 long-range transports are formally dedicated to the Civil Reserve Air Fleet, organized under the national defense program by the United States Air Force and the air lines. The program has the objective that the entire capacity of this allocated fleet will be available within 48 hours in the event of war. A higher proportion of the total fleet can be devoted to that purpose in event of greater need.

* Address before The National Defense Transportation Association, Pittsburgh, Pennsylvania, October 27, 1954.

MILITARY AIR TRANSPORTATION

According to the record as I know it, the relative progress of military air transportation since the war is less encouraging; the order of priority for air transportation in the military budget has not been high. At the end of the war, with its experiences and lessons fresh in our minds, we hoped we would soon have a military program which would include:

1. An aggressive program for the development of more efficient power plants, especially designed for the needs of long-range transportation. Progress in this field has been disappointing. There are a few aircraft in the service equipped with turbine-propeller engines, but none, so far as I know, in the day-to-day operation. We very much need a high-efficiency turbo-prop power plant of modern design and in production.
2. A similar program for the development of more efficient aircraft types, built around better power plants, to provide maximum range, economy and load-carrying capacity. The military transport types which have been developed are not impressive;
3. The retirement of obsolete types from the military fleet, with modern replacement. Some of this has been done, but too high a proportion of the fleet is still of obsolete types.

The military services are constantly faced with a multitude of urgent requirements, and it is difficult for an outsider to be sure about the priority which an individual requirement should have. But certainly it is fair to say that the rate of progress has been much less than we have expected. Air transportation should have better attention in the military program.

CIVIL AIR POLICY

Strong civilian air lines are essential to the national economy and to the national security. What government policies will reasonably assure that?

For twenty-five years it has been the policy of the United States to encourage and aid the development of civil aviation, for good reasons of national interest. That policy was last stated in the Civil Aeronautics Act of 1938. The growth of civil aviation under the wise provisions of that Act has provided the keystone for the imposing structure of civil aviation of today. The policies of the Civil Aeronautics Act were sound and sufficient for 1938. But fifteen years have since intervened; fifteen years of technical progress and of good economic opportunity. Do these policies and their administration fit adequately the situation of 1954?

As an aid in that evaluation, we have welcomed a statement of policy prepared by the Air Coordinating Committee and approved in principal by the President, May, 1954.¹ The President said then: "The committee has accomplished this task in a fashion which could make its report a milestone in the progress of American aviation." That can be so, if the principal policies of this report can and will become a part of the day-to-day administrative policies of the Federal regulatory agency.

About civil air transportation the report says this: "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."

In my opinion, the principal trunk line carriers demonstrated the ability to be self-sustaining some years ago. With sound policy and regulation, they will continue to do so. For the trunk line industry as a whole, without

¹ See, 21 JRL. AIR LAW & COM. 212 (1954).

individual exception, that goal is a possibility which may lie immediately ahead. For the overseas carriers and the local service carriers, the prospect for self-sustaining status, without government air, is more distant.

Overseas Air Carriers

The history of United States maritime operation provides good reason for the conclusion that United States participation in overseas air operations can be continued only with subsidy support. The basic conditions of overseas transportation, surface and air, are similar. You are familiar with the details of the similarity. We cannot plan that our overseas air transportation will soon be self-sustaining. We should be able to plan that the total of necessary subsidy can be very much reduced, and that this can be done in the near future.

We have made some mistakes in our policy for overseas air transportation. One of them is that we have subsidized United States carriers to compete directly with each other, often on similar or identical routes, while at the same time they have met the competition of foreign flag operators. This policy has proven to be wasteful. Looking back it seems sensible to conclude that it has provided few benefits. We would be better off had we never started on that basis. But that is history; the job ahead is to have a system which will produce a better result.

The policy urged by the committee, involving the elimination of wasteful duplication, has been attacked as being one which will lead to monopoly and to the "Chosen Instrument." Certainly, if it is made effective, it will lead in some cases to the designation of a single United States carrier on an individual route, for that is the sense of the recommendation.

However, I find no support in the language of the report for a conclusion that a world-wide "Chosen Instrument" for United States overseas air commerce has now or will have government support. The effort to sanction a "Chosen Instrument" was laid to rest by the Congress and Federal Government many years ago, and I believe it impossible to revive.

I do believe that one criticism of this section of the report is warranted: The report says that the existing system should not be continued, but it does not spell out clearly the alternative system which it would recommend. That undefined area leaves the report open to the *suspicion* that the "Chosen Instrument" *might* be an alternative. That, I believe, is not the intention of the committee. To allay that fear, the committee should finish its job, saying specifically what it is "for" as well as what is "against" in the organization of overseas air routes for the United States.

Local Service Air Lines

I cannot agree entirely with the recommendation of the report about the disposition of the local service air lines, and I believe that it will find little support among the communities served by the local carriers. The report does not directly recommend that the local service air lines should be taken over and operated by the trunk air lines, but the tenor and language of the discussion seems to justify a conclusion that this is the intention. And I believe it is the interpretation of the average local service carrier that this end result may be in prospect for it, if the recommendation of the Report should be accepted.

Based on cumulative experience these conclusions seem justified:

1. Local air service will continue to operate, for in principal part it is reasonably required by public convenience and necessity;
2. Local air service, even with the utmost of economy, cannot now be self-sustaining;

3. There is no proof that local air service can be provided more economically by the trunk lines than by the local service specialists;
4. There is no proof of benefit in transferring the loss of local service operation from one segment of the industry to another;
5. There will be no local service of consequence unless there continues to be some government aid;
6. For the time being at least the best policy is to continue the local air services on an independent basis.

It is no news, of course, that local air service cannot continue without some government aid. That was well-known and recognized at the time the local service carriers were certificated. How long it would take to get them on a self-sustaining basis was a matter of conjecture then, and it remains so today. But I believe that the progress which that part of the industry has recorded gives reasonable hope that the subsidy can be substantially reduced in the next several years and ultimately at least the stronger segments of the business can achieve self-sustaining status.

The local service carriers are well impressed with their responsibility to operate with economy and to increase their revenues from sources other than the government, and they are working diligently toward that end. Instead of wiping out the local service industry we would be better advised to aid them in discovering other methods which will increase their self-reliance. Several very tangible recommendations in that area have been advanced in this report and they will receive the attention which they deserve, on the part of the carriers and on the part of the regulatory agency. There are many hopeful signs that the local service carriers are going in the right direction. They should be encouraged to continue and their opportunity should not be foreclosed.

The Trunk Air Lines

The report recommends: "Plans should be developed for the consolidation of trunklines into a more limited number of systems, capable of self-sufficient operation—"

The objective of this recommendation is that trunk line operation shall be free of subsidy, now and in the future. This recommendation presupposes that the total of trunk air line service in the United States can be operated with profit, without mail subsidy and without delay, if the total of the trunk line routes and services are merged into logical operating systems.

That can be done, and I am of the opinion that most of those in the industry believe it should be done. You cannot successfully dispute the implied conclusion of the report: that the total of trunk line service in the United States can be self-supporting, if all of the routes and services are merged into logical operating systems.

Then, you are entitled to ask, why is that not being done? It is not being done for the reason that the Civil Aeronautics Board seems inclined to guarantee the continued existence and solvency of individual corporate carriers. It is not being done for the reason that such a policy removes the usual economic justification for merger.

Corporate consolidations come about through agreement by the owners, the stockholders, that there is good reason—usually good economic reason—for merger. However, if the Civil Aeronautics Board administers the subsidy provision of the Act as a government guarantee for the continued existence of individual corporations there is little reason for the owners either to propose or to consider merger of their property.

The report says this: "The government's main interest in subsidizing

air transportation is to assure service adequate for the public and national interests rather than to preserve any individual carrier."

That it was the intention of Congress that this policy should prevail seems quite clear. Section 406 (b) of the Civil Aeronautics Act, popularly known as the "need" section of the Act, says: "and the need of *each such air carrier* for compensation for the transportation of mail sufficient to insure the performance of such service, and, together with all other revenues of *the air carrier* to enable *such air carrier* under honest, economical and efficient management, to maintain and continue the development of air transportation to the extent and of the character and quality required for the commerce of the United States, the Postal Service and the National defense." The emphasis is my own.

The constant reiteration of "the air carrier" and "such air carrier" in this section has been taken by some to mean that Congress intended to guarantee the continued existence and solvency of individual air carriers. But that position falls flat when it is considered that no subsidy is to be paid except where it is *proved* that the service to be subsidized is *required* by the national interest at the time the subsidy is paid. There seems to be a growing tendency in government to apply that provision as though it said that a subsidy should be paid to any needy carrier that holds a certificate of convenience and necessity, regardless of whether the subsidized service is required by the national interest, unless it is shown that the need arises from dishonesty or from uneconomical or inefficient management. Such an application would ignore the most important phrase in the subsidy section of the statute and attribute an absurd intention to Congress.

Certainly Congress never intended that airline management was to have its mistakes underwritten by the taxpayer short of a positive showing of dishonesty or inefficiency, faults which are often difficult to prove. All that the Act said, and all that it meant, was that only so long as, and only to the extent that, a particular service is *required* by a definite showing of public interest will the taxpayer be expected to step in and aid when necessary. Under the law as written by Congress, is there any possible justification for subsidizing individual corporations in the trunk line industry if the total of trunk line routes and services can be operated with profit, without subsidy, if properly arranged into logical systems by merger?

The conclusion of the Committee, that the total of trunk line air service requires no subsidy, cannot be disputed. A re-statement of that premise might be this:

1. The domestic trunk air line system can be self-supporting if the total of the routes and services are merged on a logical basis;
2. The necessary mergers will not come about if the "need" section of the Civil Aeronautics Act is to be interpreted as a guarantee of the continued existence and solvency of individual corporations;
3. Either the "need" section of the Act should be interpreted and administered in keeping with the evident intention of Congress, or else the "need" section of the Act should be amended by Congress so as to be inapplicable to domestic trunk airlines.

That policy would provide a new standard of management efficiency; it would improve the quality of the public service, and it would result in substantial savings to the government.

SUMMARY

In essence, this report of the Air Coordinating Committee seems to me to say: The government of the United States, in the national interest, has