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FUTURE OF THE LOCAL SERVICE CARRIERS PUBLIC SERVICE VS. FEDERAL SUBSIDY

By JOSEPH P. ADAMS

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The contribution by our local service airlines to the over-all public welfare of the United States has in recent years been so conclusive as to be no longer debatable. The volume and quality of service afforded the 3,000,000 passengers they are transporting in the current year, primarily to and from the medium and small size communities of the United States, leaves no doubt that the local service air carrier industry is in the truest sense of the term a public service industry. Along with its mounting public service contribution, however, there has also been a mounting dependence by these air carriers upon Federal subsidy support. While for each passenger carried, or for each plane mile or seat mile flown, the amount of subsidy has steadily declined, the fact remains that the total dollars of subsidy mail pay for the local air carrier industry has increased each year over the preceding year ever since 1947, the first year in which a representative number of local air carriers was operating.

This brings us to the principal question posed in this article—whether or not, as the public service contribution of the local air carrier industry continues to increase, the total dollars of Federal subsidy mail pay can ever be reduced. The purpose of this article is to demonstrate that substantial reductions can be effected in the dependence of this important segment of our air transport industry upon subsidy mail pay, and to offer concrete suggestions as to how this can be brought about. The suggested solution is predicated upon the threefold proposition that first, the air service offered by these carriers to the public must not be compromised; second, that the basic short-haul characteristics of the local carriers must be preserved; and
third, that the objectives must be accomplished within the framework of the Civil Aeronautics Act as it now stands.

It is of course a truism to state that a more efficient local service airplane would bring about a subsidy reduction, but that airplane as of the present time is two or three years away for most of the thirteen local service air carriers. Furthermore, such an airplane will not of itself result in enough of a reduction in the subsidy bill to accomplish self-sufficiency.

There have been various suggestions advanced recently for changes in the Civil Aeronautics Act which in effect would accord the local service carriers more favorable treatment in mail rate determinations than that accorded in the past to trunkline carriers which, like the local service carriers of today, were struggling just a few years ago with this same problem—how to further expand service to the public while ridding themselves of Government subsidy support. The writer has opposed these suggestions primarily because the present Act has demonstrably worked so well for all our other air carriers, and with imaginative and vigorous administration of its broad provisions by the Board, there appears to be no good reason why substantial reduction in subsidy cannot be accomplished in the local service industry while at the same time increasing its usefulness to the public.

With these points in mind, the balance of this article will first highlight the origin and growth of the local air service industry in the United States and will describe just how the present problem came about. A proposed solution to the problem will then be presented which should bring about the desired result of substantially reducing the subsidy to these carriers within the next few years.

I. The Problem—Subsidy vs. Public Service

Approximately 12 years ago the Civil Aeronautics Board began its experiment of developing a secondary or local air service group of carriers. As the original Board opinion makes clear, the problem of how to balance the public service, on the one hand, against Federal subsidy support, on the other, was anticipated even then.

"In view of these considerations, it becomes apparent that the provision of a short-haul and local service with aircraft will be, in a very great measure, an experimental operation, and constitutes a problem with respect to which we have little or no information of a factual nature. But since the challenge exists, and the investigation has disclosed an eagerness on the part of the proponents of such a service to take up the challenge and since the experiment may well result in public benefit beyond present expectations, the responsibility imposed upon us to encourage the development of an air transportation system properly adapted to the present and future needs of the commerce of the United States, the Postal Service, and the national defense, and to encourage the development of civil aeronautics generally, justifies us, within reasonable bounds, in translating into results of experience what are now plans and estimates."
"In the absence of any definite maximum limit on mail pay incorporated in the certificates that are granted, the issuance of temporary certificates for a limited number of years, as previously suggested, will serve as a safeguard against a static or progressively increasing dependence on the Government; and will permit of the subsequent giving of permanent status only to such services as have shown during the life of a temporary certificate that they are capable of operation without undue cost to the Government and of a progressive reduction of such costs."  

The decade that followed this Board decision saw the creation of local air carrier systems in practically all areas of the United States. In some cases, the operating authority of the newly created local air carriers was not renewed when the term of their certificates expired.

Nevertheless, by 1953 thirteen local carriers had survived and although their subsidy needs had steadily increased, as has already been indicated, the survivors requested permanent certificates in recognition of their public service contribution. They were instrumental in having a bill introduced to accomplish this result, and it was the privilege of the writer to testify before the Interstate and Foreign Commerce Committees of both Houses of Congress in February of 1955, in support of such legislation.

"I would therefore urge you to pass permanent certification legislation as incorporated in S. 651 and thereby give tangible recognition to the broad public interests already served by our local carriers and as evidence of your faith in the value of their continued operation for an indefinite period of time. The passage of this legislation at this time will be a recognition on your part of the 20 percent increase in business which these carriers have brought about this past year over the preceding year. It will be tangible evidence of your interest in the 2½ million people transported by these small carriers in 1954. On the other hand, I can assure you that for my part, the passage of this legislation will alter not to the slightest degree my interest in reducing, or my ability to reduce, our Federal subsidy bill—both in the processing of mail rate cases and in further improving the route systems of each and every one of these local air carriers as the opportunity arises."  

It will be noted that this testimony was quite candid in recognizing that considerable effort would still be required in the subsidy mail pay field even if permanent certificates were granted the local air carriers. The passage of this legislation in May of 1955 and the subsequent awards of permanent certificates to these local carriers by the Board have not in any sense removed this problem.

Congress, itself, is vitally concerned with the continued improvement and development of our local air service industry, both in terms of increased service to the traveling public and reduced dependence upon the Government for subsidy support. As is apparent from the

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1 Local, Feeder, and Pick-up Air Service, 6 CAB 1 (1944).
2 Hearings before a Senate Subcommittee of the Committee on Interstate and Foreign Commerce on S.651, 84th Cong., 1st Sess. (1955) p. 199.
reports of the Interstate and Foreign Commerce Committees of both Houses of Congress, the permanent certification legislation was passed in recognition of the tremendous public service which the local carriers have rendered successfully to almost 400 medium size and smaller communities in the United States over a period of many years. Nevertheless, the committee reports indicate that the permanent certificates would in no sense be the "cure-all" for the many problems facing the local service carriers in their future development. Special recognition was given by both Houses of Congress to the fact that even with permanent certificates, the degree of dependence of these carriers upon subsidy support would be great, and that it was up to the Civil Aeronautics Board under section 401(h) of the Act to so strengthen the local carrier routes that they would eventually achieve a self-sufficient status—free of subsidy mail pay. In its March 22, 1955, report, at page 9, the House Committee alluded clearly to this problem in the following language:

“One of the arguments advanced a year ago in opposition to this legislation was that permanent certification would interfere with the orderly development and improvement of the local-service routes. It cannot be doubted that the local carriers are anxious to improve and develop their routes and the committee cannot go along with the theory that permanent certification will destroy or weaken the incentive of management to increase revenues and provide better service.

"This legislation does not substantially change the power of the Board to alter and modify the route structures of the local-service carriers. It is believed that section 401(h) of the Civil Aeronautics Act, which gives the Board power to 'alter, amend, modify or suspend such certificate, in whole or in part' provides all the authority necessary for route development. The committee could find no indication that the granting of permanent certificates to the trunk carriers in 1938 had any adverse effect on the development of their route structures."3 (Emphasis added.)

Even more directly in point was the House Committee report of July 13, 1954, which gave what appear to be unmistakable instructions to the Civil Aeronautics Board in the following terms:

“This committee hopes that the Civil Aeronautics Board will devote the time previously spent on periodic renewal proceedings for the local airlines in a continuing effort to strengthen these carriers. The committee feels that the transportation market for the local airlines is sufficiently promising to enable them within a relatively few years, to achieve financial independence.

* * *

"Full development of local air service is not a problem that will be solved finally by this bill. It is a continuing problem that will require the continuing efforts of the Civil Aeronautics Board and continuing interest and attention of Congress. The committee believes that the enactment of this legislation is the essential first step necessary right now if the ultimate goal of subsidy-free, ade-

quate air service to the smaller communities in the country is to be achieved." (Emphasis added.)

In a similar vein, the Senate Committee had the following to say in its March 28, 1955, report on the permanent certification bill:

"... In some areas the experiment has undoubtedly been in effect long enough to have local service routes well established and the failure of the Board to grant the carriers permanent certification for those routes is not understood. Your committee on the other hand readily recognizes the fact that in other areas considerable evolution is still essential to secure the most economical and most subsidy-free local service operation for some of the carriers.

"Your committee is satisfied, however, that section 401(h) of the Civil Aeronautics Act, by vesting the Board with the power 'to alter, amend, modify, or suspend,' in whole or in part, any certificate, gives the Board the power to add new points and to eliminate uneconomical points, be they terminals or intermediate points, and to revise entire route segments as the public interest requires. The history of the development of the trunk airline routes gives your committee confidence that section 401(h) provides the Board with all the authority necessary for proper route development. Action by Congress at this time in requiring the Civil Aeronautics Board to grant permanent 'grandfather' certificates to the present local service carriers will not interfere in the slightest with the continued orderly evaluation of the route systems of these carriers." (Emphasis added.)

The Comptroller General of the United States in his October 1955, audit report on the Civil Aeronautics Board to the Congress has put his finger almost exactly upon the principal point of this article. At page 21 of his report, he said:

"The financial well-being of any carrier is almost wholly dependent upon the existence of a generally strong route system, a system which will provide access to major population centers and permit reasonably long-haul operations. Under their present route structures the local service carriers cannot be expected to achieve financially self-sufficient routes in the foreseeable future."

II. RECENT OPERATING RESULTS OF THE LOCAL AIR CARRIERS
UNDERLINING THE PROBLEM OF SUBSIDY VS. PUBLIC SERVICE

Since any intelligent effort to solve a knotty problem is inevitably predicated upon a clear statement and understanding of that problem it is pertinent here to set forth the operating results of the local air carrier industry in recent years. A knowledge of these operating results will aid in an understanding of just what the problem is and will also suggest its solution.

As is clearly shown in the following trend chart, the local air carrier industry has, ever since 1947, steadily increased the volume of service offered to the public (available seat miles), and at an even

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greater rate has increased the volume of traffic actually carried by it (revenue ton miles).

A somewhat different trend is shown for the total dollars of mail pay received by the local air carriers. Total mail payments increased at an almost constant rate from 1948 to 1953. Since 1953, these payments, while still increasing, have increased at a considerably lesser rate than in earlier years.

Similarly, as shown in trend chart No. II, non-mail revenues and operating expenses for the local air carrier industry have increased steadily ever since 1947.

Since the rate of increase of operating expenses has fallen off somewhat since 1953, while at the same time the rate of increase of non-mail
revenues has in comparison remained steady, the local air carriers and the traveling public can with good reason feel encouraged.

It is particularly gratifying to call attention to the favorable trend of the last three years in non-mail revenues as compared to operating expenses. Just three years ago, the writer expressed considerable concern over the much less optimistic operating record attained by the local air carriers from 1951 through June 30, 1953. Since 1953, fortunately, our local air carriers have succeeded to some degree in control-

CHART II

TRENDS IN LOCAL AIR CARRIER EXPENSE, NON-MAIL REVENUE AND MAIL PAY VOLUMES (1947-1955)

DOLLARS (MILLIONS)

100
90
80
70
60
50
40
30
20
10
9
8
7
6
5
4
3
2


CALENDAR YEARS

Operating Expenses
Mail Payments
Non-Mail Revenues

SOURCE: Appendix I

ling expenses and to a much greater degree in increasing commercial revenues.

It should be noted that the dependence of these carriers upon mail pay as a source of revenue has for some time now remained almost static at the 24 to 25 million dollar annual level. Recent increases in services rendered and services actually sold to our travelers have fortunately not carried with them comparably substantial increases in Federal mail pay support. This has been so, as shown by Chart III, because of the ability of our local air carriers to bring

CHART III

LOCAL AIR CARRIER PASSENGER LOAD FACTORS, AND NON-MAIL REVENUES AND OPERATING EXPENSES PER AVAILABLE SEAT MILE (1947 - 1955)

SOURCE: Appendix I
about a steady increase in revenue passenger load factor (the number of seats on each airplane actually occupied, in terms of percent). For the year 1955, the entire local air carrier industry had attained a passenger load factor in excess of 45 percent, a new, all-time high.

Accompanying this steadily increasing load factor, and due almost entirely to it, was a similar increase in commercial or nonmail revenues for each available seat mile flown. And finally, it should be noted from Chart III that our local carrier industry was able in 1955 to reduce its operating expense for each seat mile by some four percent—the first such reduction which had taken place in unit operating expenses since 1950.

As a result of these favorable recent improvements in load factors and unit revenues and expenses, the total mail payments to the local

**Chart IV**

**MAIL PAY OF LOCAL AIR CARRIERS RELATED TO TRAFFIC, SERVICE AND TOTAL REVENUES (1947 - 1955)**

*Source: Appendix I*
air carrier industry, when related to the total service performed, have declined. As is shown in Chart IV, the trend in mail pay when measured in any one of these three ways has been more or less steadily declining ever since 1947.

Although in 1952 and 1953 unit mail pay was almost at the same level it had been in 1951, the downward trend is self-evident during the last two years, 1954 and 1955. As a result, for example, whereas mail pay approximated 50 percent of the local carrier industry's total revenues from 1951 to 1953, this percentage had dropped to just over 40 percent for the calendar year 1955. The local air carrier industry can be justifiably proud of all of the foregoing favorable trends, particularly those indicating its declining dependence upon mail pay on a unit basis in the last two years.

An even more impressive picture of the accomplishments of the local air carrier industry is obtained by comparing its record with that achieved by our trunkline industry during the pre-war period. Few people realize how far the local service carrier industry of today is ahead of the entire trunkline industry as it existed in 1939. Since in 1955 our local air carriers served almost 100 more airports than did the trunklines in 1939, carried about 1,200,000 more passengers than did the trunklines 16 years ago, and earned in commercial or nonmail revenues approximately as much as did all 16 trunklines in 1939, one is justified in concluding that the present local air service industry is in many significant respects well ahead of the pre-war trunkline industry.

The following table summarizes these and other significant operating facts of the local service industry of 1955 and compares it with the trunkline industry of 1939 in terms of the totals achieved by all 16 trunklines at that time as well as the totals for 12 trunklines, excluding the Big Four.

<table>
<thead>
<tr>
<th>1939 Trunkline Data</th>
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<tbody>
<tr>
<td>16 Trunk Total</td>
</tr>
<tr>
<td>Number Stations Served</td>
</tr>
<tr>
<td>Rev. Passengers (000)</td>
</tr>
<tr>
<td>Rev. Passengers Miles (000)</td>
</tr>
<tr>
<td>Total Nonmail Revenue (000)</td>
</tr>
</tbody>
</table>

It is interesting to note that revenues exclusive of mail pay accounted in 1955 for about 62 percent of the total revenues earned by our local service carriers. This figure is within five percentage points of the same ratio for the 16 trunklines and 13 percentage points ahead of the same ratio for the 12 smaller trunklines of 1939. Furthermore, as shown in the table, our present-day local service carriers serve almost three times the number of cities served by the 12 smaller trunklines in 1939, carry almost seven times as many passengers each year, generate four times as many revenue passenger miles and earn almost six times
as much nonmail revenue each year as did this group of 12 small
trunklines 16 years ago.

The foregoing summary amply demonstrates how substantial has
been the progress of our local air carriers over their present systems,
whether that progress is measured simply by itself over a period of
time, or in terms of how its 1955 record of service to the public com-
pares with the public service record of our trunklines in the pre-war
period. On the other hand, there is a limit beyond which our local
carriers on their present systems cannot achieve further substantial
increases in load factors and unit revenues. Similarly, there is also a
limit below which no one familiar with airline operating economics
can expect unit expenses to decline. This will be particularly true
during the next two or three-year period when our local air carriers
must be largely dependent for their operation upon a DC-3 airplane
fleet.

The unit cost to the local air carriers of operating each available
seat-mile (See Chart III) merits close examination. The lowest unit
cost ever achieved by the local air carriers was lightly above 41/2 cents
per available seat-mile. It is true that from 1954 to 1955 the available
seat-mile cost for the local carriers dropped slightly, but the 1955 level
was still substantially above that of 1950 and the slight decline in unit
cost in the last year can be largely accounted for by the substantial
increase in the volume of available seat-miles flown by the local air
carriers.

That continued and substantial progress in the next few years will
probably not be made by the local carriers in further reducing their
dependence on mail pay support is also indicated by the very nature
of the route systems which they operate. In the first place, it is common
knowledge, of course, that the size of the average community served
by the local carrier industry is considerably smaller than is the average
city served by the trunkline carriers. The local air carriers are there-
fore considerably more limited, relatively, in the traffic potential avail-
able to them no matter how vigorous are their sales efforts.

Even aside from this more limited traffic potential, the traffic gen-
erating programs of the local carriers can only meet with relatively
modest success in the next few years because the transportation service
they will be endeavoring to sell on their DC-3 equipment simply does
not have the passenger appeal of more modern pressurized and faster
post-war aircraft. It is also generally admitted today that on a seat-mile
basis the DC-3 aircraft has inherent cost disadvantages so that we can-
not fairly expect continued progress to be made indefinitely in the
area of further substantial unit cost reductions.

In light of this somewhat pessimistic future outlook as to unit costs
and unit revenues, it is pertinent here to stress also that the total
Federal mail pay bill incurred by the local service carriers has not de-
clined since 1953 and is, in fact, increasing slightly. (See Charts I and
II.) The total bill has exceeded 24 million dollars each year for the last
three years, and in fact, has increased from 24.4 million dollars in 1953 to an estimated 24.8 million dollars for the calendar year 1955. Of this total, furthermore, about 95 percent is subsidy mail pay. For these reasons it appears most pertinent to explore any and all means by which this large subsidy bill can be reduced, without in any way compromising the laudable public service record of the local air carrier industry.

III. Proposed Solution of the Problem

The fact that the total mail pay bill for our local carriers is increasing and that in addition, even on a unit basis the favorable mail pay trends of the last two years for reasons aforementioned cannot be expected to go on indefinitely, establishes the need for some affirmative course of action which will increase the opportunity for our local air carrier industry to improve its operating results and to reduce its dependence upon Federal mail pay support. The purpose here is to indicate that there are at least two courses of action which can and should be taken to bring about these results. Both suggestions are designed to increase the commercial revenues available in the next few years to the local air carriers. Both suggestions will require some type of affirmative action on the part of the Civil Aeronautics Board and are to a lesser degree dependent on the joint efforts of the local and trunkline industries.

Briefly stated, the first proposal is for a more liberal attitude by the Board in the matter of route improvements through the lifting of operating restrictions from our local air carriers. The second proposal calls for a more favorable distribution of interline ticket revenues to our local air carrier industry than has obtained in the past.

A. Operating characteristics of local carrier routes must be improved. As to the first, or route improvement proposals, the Civil Aeronautics Board must, of course, proceed with caution lest it do serious harm to the trunkline industry. No useful purpose would be served if the Board succeeded in reducing the subsidy bill of the local air carriers only to have several of the trunklines revert to a subsidy basis of mail pay after their many years of effort to achieve their present subsidy free status.

It is also of cardinal importance that the local, relatively short-haul characteristics of the industry, be preserved. By this is meant that the smaller and medium-size cities served by the local air carriers must continue to receive the type of frequent arrivals and departures which has always characterized the service of the local airline industry. The writer does not espouse the reduction of the industry's dependence upon mail pay subsidy if the price of such a reduction is the virtual abandonment of adequate airline service to the many smaller communities within the United States.

If the problem of strengthening the route structures of our local air carriers is approached in an intelligent and judicious fashion, how-
ever, no disastrous results need follow. The recent new route grants awarded to our small and medium size trunklines are in and of themselves ample proof of the fact that the Board wishes these smaller trunklines to fulfill a much larger role than ever before in some of the most lucrative revenue-producing markets in the United States. In the case of at least six of the medium size trunklines—Braniff, Capital, Continental, Delta, Northwest and Western—the route systems have been sufficiently strengthened so that they should now be less resistant to the efforts of the local carrier industry also to gain access to somewhat richer revenue-producing markets—markets already traversed by local air carrier routes, but not served effectively by the locals because of operating restrictions. It would seem entirely reasonable, in other words, that these medium trunks could now allow the local air carriers in their areas to participate more effectively in at least some of the secondary trunkline markets.

The impressive operating record of the entire local air carrier industry during the past decade is, of course, one of the strongest arguments for its continued expansion. The charts already presented and discussed would seem to justify the conclusion that our local air carriers have done a good job in the best interests of the public, particularly considering the revenue sources they have had to work with and the restrictions under which they have labored. It would seem to follow logically that if their systems were strengthened by the removal of some of the uneconomic operating restrictions presently in effect on their systems, these carriers could and would achieve higher load factors and revenues and at the same time reduce their dependence upon Federal subsidy without in any way compromising their contribution to the service needs of the traveling public in the smaller communities.

Aside from the record of the industry as a whole, that of individual carriers in particular markets is well worth mentioning. Included among the more significant examples is the record of Southwest Airways at the various intermediate cities on its system in California between the terminals, Los Angeles and San Francisco. Allegheny Airlines' note-worthily record between Pittsburgh, Cleveland and Atlantic City is another example. North Central Airlines' service pattern between Chicago and Detroit has during 1955 and 1956 provided the intermediate points of South Bend, Kalamazoo, Battle Creek and Jackson, with substantial improvements in airline service, ever since the trunkline which had formerly served these cities withdrew and North Central's service was inaugurated. In contrast to the trunkline's one daily round trip to these intermediate points between Chicago and Detroit, North Central's schedules have totaled as many as seven daily round trips.\footnote{The fact that the issue of selection of carrier in the Detroit-Chicago Local Service Case is now before the Courts is, of course, recognized. The service improvement of North Central Airlines over that previously offered by the trunkline carrier is nevertheless worthy of note.}
It is also significant to point out that many of the smaller communities throughout the country have become aware of service records like this one and are either suggesting or actually petitioning that the Board replace their trunkline service with that of a local air carrier. Space does not permit a detailed recounting here of the many other successes achieved by individual local air carriers in numerous airline markets. Suffice it to say that not only in the over-all industry trends, but also in their records achieved in individual markets, our local air carrier industry has proven its ability to take over the secondary air travel markets in which our trunkline carriers are no longer vitally interested; and in addition, to offer a valuable supplemental service to that of the trunks in some of the high-density, relatively short-haul markets which may still be counted as primary trunkline markets.

The need of our local air carriers for an opportunity to serve on a one-stop or non-stop basis the large cities and markets on their present routes is finally demonstrated by a comparison of the present stage of development of the local carriers with the development of the trunklines from the pre-war period to the present time. This comparison points out in specific terms the need of our local air carriers for substantial increases in traffic density—revenue ton-miles per station—and a need, also, for an increase in haul—the average length of passenger trip over their systems. Both traffic density and haul for the locals can be substantially improved even with their present equipment and, of course, within the framework of the Civil Aeronautics Act, given an enlightened Board policy directed toward such improvement.

The following table compares the local air carrier industry of 1955 with the trunklines of 1939 and 1955, showing in certain significant indexes the improvements in operating economics that have taken place in the case of the trunks over the past 16 years.

<table>
<thead>
<tr>
<th></th>
<th>1955 Local Carrier</th>
<th>Increase (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>1939</td>
</tr>
<tr>
<td>Number of Stations Served</td>
<td>365</td>
<td>275</td>
</tr>
<tr>
<td>Rev. Ton-Miles Flown (000)</td>
<td>53,695</td>
<td>76,464</td>
</tr>
<tr>
<td>Rev. Ton-Miles per Station (000)</td>
<td>147</td>
<td>278</td>
</tr>
<tr>
<td>Length of Passenger Trip</td>
<td>181</td>
<td>397</td>
</tr>
<tr>
<td>Est. Subsidy Mail Pay(000)</td>
<td>$23,564</td>
<td>$13,050</td>
</tr>
</tbody>
</table>

*See, for example, Resolution of the City Council of the City of Duluth, Minn., adopted Jan. 23, 1956, and the Resolution adopted by the Board of Directors of the Superior Association of Commerce, Superior, Wisc., dated May 21, 1956. Also see correspondence filed with the Board by Mason City, and Waterloo, Iowa, in connection with the Route 106 Case, Braniff Airways, Docket No. 6050 et al., Order Serial No. E-8841, December 23, 1954.*
It should be clearly understood that the purpose of this table is not to argue that the trunkline industry could have made its phenomenal record of progress even with the DC-3 airplane; nor that the Board and the industry should cooperate in an all-out effort to triple the length of passenger trip for the local air carriers; nor to increase their revenue ton-miles per station some 1,200 percent. Obviously, the tremendous record of the trunkline industry since 1939 is due in no small part to the introduction of modern aircraft with its pressurization, reliability, high speed and low seat-mile cost.

The foregoing table has been shown simply to indicate how far the local air carriers of 1955 still are behind their trunkline counterparts in terms of total volume of traffic carried, over-all traffic density and length of passenger trip; and by the same token, to indicate those specific areas in which the Board must improve the basic economics of local air carrier operation. It follows from the table and from all the foregoing, in the opinion of the writer, that until the total local carrier traffic volume is increased substantially, so that the carriers can realize significant increases in revenue ton-miles per station and increases also in the average length of passenger trip (or size of ticket sold), the dependence of the local air carrier industry upon Federal subsidy support cannot be expected to decline.

On the other hand, if the operating restrictions of the local carriers were relaxed somewhat, their traffic density would increase, as would the average length of passenger trip. Their improved operations would permit them to offer a more attractive service over their presently authorized routes between terminal points now served by them only on a time-consuming, multiple-stop basis. Not only would their revenues increase sharply but their unit operating expenses would decline, with the result that their dependence upon Federal subsidy would also decline. The decline in the subsidy would be substantial for the entire local air carrier industry and in the cases of four or five of our strongest local airlines, subsidy might be eliminated entirely.

Such improvements in the economics of local air carrier operations will require, of course, a determined effort on the part of the local air carriers themselves and will in large degree inevitably depend upon the support of the Civil Aeronautics Board. The entire program of local air carrier operational improvement would, of course, be made easier of attainment if the trunklines also cooperated. Fortunately, it is possible to report here that there are significant indications that this cooperation will be forthcoming. Several of the trunks have voluntarily dropped cities from their systems which, though accounting for sizable populations, have been so located that adequate trunkline service to them had become either impractical or uneconomic.9

9 See, for example, TWA position in New York-Chicago Case, Order No. E-9537, September 1, 1955, as to its short-haul Detroit-Cincinnati route; American Airlines' position in Chicago-Detroit Route 7 Local Service Case, Order No. E-8975, Feb. 28, 1955, agreeing to its removal from South Bend, Kalamazoo, Battle Creek and Jackson/Ann Arbor.
In a recent case involving a short route segment containing five large cities—Detroit, Toledo, Columbus, Dayton and Cincinnati—the trunkline involved, Delta Air Lines, has not only agreed to interpose no objection to the introduction of local service over the entire segment, but has also agreed to accept a long-haul restriction precluding the operation by it of turn-around service between the terminal points Detroit and Cincinnati.\textsuperscript{10}

It is this kind of cooperative effort on the part of the trunklines which would be helpful in effecting a substantial reduction in the local air carrier industry subsidy bill. The writer believes that such cooperation will increase, once the trunkline carriers are assured that the Board will direct the further development of the local air carriers with due regard to their legitimate interests and the obligations of the local carriers to their communities. In this connection it is suggested that the Civil Aeronautics Board and the entire airline industry seriously consider, as a guarantee that such will be the case, the adoption of a practical rule of thumb which will enable the local air carriers to improve their operating economics and at the same time preclude any tendency on their part to overlook their public service obligations to their smaller intermediate points. This rule would require the local carriers to provide a minimum of one or two round trips per day to every small city served by them with a population of, for example, 5,000 to 30,000 people. Over and above that minimum service pattern, however, the suggested rule would allow the local air carriers unlimited non-stop or perhaps one-stop service between the larger terminal points.

Such a suggestion has in fact already been made by the Civil Aeronautics Board in a recent case involving a new local air carrier route between Atlanta, Georgia, and Panama City, Florida, via the intermediate points, Dothan and Columbus. In its opinion awarding the route to Southern Airways the Board put it this way:

"... Having in mind the substantial needs shown by Columbus and Dothan for new and additional service, it is our conclusion Southern should be required by its certificate to provide at least two daily round trips to each point from Panama City and Atlanta, before offering Panama City-Atlanta nonstop service. This will insure proper service for Dothan and Columbus on the new segment. Beyond this limitation, we find no occasion for imposing further restrictions, since there is no problem here of protecting other carriers against diversion of terminal-to-terminal traffic."\textsuperscript{11} (Emphasis added.)

\textsuperscript{10} TWA Cincinnati-Detroit Route Transfer Case, Docket No. 7378, Brief of Delta Air Lines, Inc. to the Examiner, dated March 26, 1956, page 53. It is recognized, of course, that as this is written this case has not yet been decided by the Board, and there is no intention here to prejudge the matter. The position taken by the trunkline in the matter is a fact of considerable significance to this article and is cited for that purpose only.

\textsuperscript{11} Panama City, Florida-Atlanta Investigation, Docket No. 7233 et al., Order No. E-10332, decided May 29, 1956.
The philosophy expressed in this recent Board decision must obviously be more widely adopted if the local air carrier subsidy bill is to be reduced or in some cases eliminated entirely. It must be adopted not only in such cases as the Atlanta-Panama City Case, where no trunkline service existed between the terminals, but also with respect to trunkline segments with strong terminals where there is little or no basis to fear that the local air carrier will be a really effective competitor.

Route improvement for the local air carriers, then, through a program of lifting uneconomic operating restrictions, will reduce substantially the subsidy required by the local airline industry and in the cases of our strongest local air carriers will eliminate subsidy entirely. As already pointed out such a program can be effectuated by the Board without changing the Civil Aeronautics Act. The program called for here, furthermore, would be in accord with Congressional expressions on strengthening the systems of the local air carriers.

B. Local Carrier Share of Interline Fares Might Be Increased.

Aside from strengthening the route systems of the local air carriers, another possibility of reducing their dependence upon Federal subsidy support lies in their obtaining a greater share of the proceeds from interline sales. Our local airlines have since their inception been dependent for a substantial portion of their revenues upon interline business—air passengers which they have originated or terminated, but whose total trips involved travel over trunkline routes for a major portion of the journey. It was because of the importance of these interline passengers to the local air carriers that the local air industry was for many years referred to as the feeder line industry.

The complexities involved in determining just how each of two carriers should share in the ticket of the passenger whose journey includes travel over the routes of both are admittedly not capable of easy solution. At various times in the past and in the cases of particular carriers, the distribution of the proceeds of such an interline fare was made on the basis of the mileage traveled on the systems of the respective carriers. Today the usual rule is that instead of the mileage, the respective rates are used as a basis for distributing the entire value of the ticket among the air carriers concerned. This method is called the "rate pro-rate method" as contrasted with the older "mileage pro-rate method."

It is common knowledge that at various times in the past certain of our shorter-haul trunklines endeavored to obtain from the longer-haul carriers more than their proportional share of the ticket (whether that share was measured by relative rates or relative mileages) because of the substantial cost involved in selling the ticket and boarding the passenger in the first instance. Such efforts were, however, generally unsuccessful, because of the competitive conditions in the industry among the trunklines and the fact that some of the shorter-haul carriers gradually became, or hoped to become, long-haul carriers them-
selves. Also, some carriers did not relish the idea that a particular short-haul carrier might receive from longer-haul carriers much greater numbers of interline passengers than those which it originated on its own system and transferred to them.

The local air carrier industry of today, however, confined as each member of that industry is to a relatively small area of this country, is a sufficiently autonomous group, and is sufficiently different in its present and foreseeable operation so that serious consideration should again be given to the problem of redistributing the proceeds from interline passenger fares in a manner more equitable to the locals. More than 23 percent of all passengers carried by local airlines, accounting for almost 40 percent of their revenues, are transferred to the trunklines. The average ticket sale of a local airline in 1955 was approximately $11.52, but the average passenger originated by the local carrier industry and transferred to the trunklines brought more than thirty dollars each in revenue to the trunkline industry.

The following table summarizes the interline passengers shared by the local service carriers and the trunklines during three recent years.

<table>
<thead>
<tr>
<th>LOCAL SERVICE—TRUNKLINE</th>
<th>1952</th>
<th>1954</th>
<th>1955</th>
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</thead>
<tbody>
<tr>
<td>Passengers</td>
<td></td>
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<td></td>
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<tr>
<td>Contribution of locals to trunks (000)</td>
<td>309</td>
<td>539</td>
<td>677</td>
</tr>
<tr>
<td>Contribution of trunks to locals (000)</td>
<td>457</td>
<td>731</td>
<td>1,014</td>
</tr>
<tr>
<td>Contribution of locals as percent of that of trunks</td>
<td>68%</td>
<td>74%</td>
<td>67%</td>
</tr>
<tr>
<td>Passenger Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution of locals to trunks (000)</td>
<td>$9,714</td>
<td>$16,806</td>
<td>$20,510</td>
</tr>
<tr>
<td>Contribution of trunks to locals (000)</td>
<td>5,311</td>
<td>8,619</td>
<td>10,973</td>
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<tr>
<td>Contribution of locals as percent of that of trunks</td>
<td>183%</td>
<td>189%</td>
<td>187%</td>
</tr>
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</table>

It will be noted, of course, that the local air carriers contributed only about 67 percent as many passengers to the trunklines as did the trunklines to the locals in 1955. On the other hand, in terms of revenue value, the contribution of the local carriers to the trunklines was almost twice as great as that of the trunklines to the local air carrier industry.

The figures in the table, together with earlier data describing the nature of the local air carrier industry, have demonstrated the high cost, relatively low-revenue type of operation which characterizes the industry. Moreover, in a practical sense all 13 of the local air carriers might be regarded as sales agents for the larger, long-haul and more profitable trunklines of the United States. It does not seem unreasonable to this writer, in light of these facts, to urge the possibility of a new distribution of interline passenger revenues upon the entire airline industry which, in favoring the local air carriers more than does the present system, would recognize their promotional value to the trunklines, their need for more revenues, and the higher cost nature
of their operations. If such a redistribution of interline fares were accomplished, the local service industry’s dependence upon subsidy support would be substantially reduced. Moreover, a more liberal distribution of joint fares could be expected to stimulate the promotional efforts of the local carriers in selling long-haul transportation and thus also benefit the trunklines. It would be preferable, of course, if the entire airline industry came up with a good solution to this problem, but failing that, it would seem to be incumbent upon the Board to enter upon an investigation of this problem.

Conclusion

The foregoing presentation of the subsidy versus service problem faced by the local airline industry of the United States has been an attempt to describe what is unquestionably one of the most serious problems facing the entire United States air transportation system today. The suggested solution to this crucial problem is, in the opinion of the writer, the only feasible one within the framework of the Civil Aeronautics Act. The expeditious implementation of the solution is admittedly dependent in substantial part upon the strong support of the local carriers themselves and upon intelligent, affirmative action by the Civil Aeronautics Board. In view of the important goal to be attained—substantial reduction of the Federal subsidy bill and continued further development of the public services rendered by our local airlines—the necessary cooperative efforts of both the local airlines and the Civil Aeronautics Board should be assured.

(See next page for Appendix I)
### APPENDIX I

*Local Service Carrier Operating Results — 1947-1955*

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<thead>
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<tr>
<td>Mail Revenues (000)</td>
<td>$7,137</td>
<td>$11,629</td>
<td>$13,932</td>
<td>$17,273</td>
<td>$18,843</td>
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<td>$24,407</td>
<td>$24,652</td>
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<td>Nonmail Revenues (000)</td>
<td>2,492</td>
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<td>7,917</td>
<td>11,189</td>
<td>17,951</td>
<td>20,561</td>
<td>24,164</td>
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<tr>
<td>Operating Expenses (000)</td>
<td>9,017</td>
<td>15,577</td>
<td>21,873</td>
<td>27,088</td>
<td>35,993</td>
<td>42,741</td>
<td>50,049</td>
<td>53,221</td>
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<td>Revenue Ton-Miles (000)</td>
<td>4,834</td>
<td>9,278</td>
<td>14,235</td>
<td>20,565</td>
<td>31,219</td>
<td>35,466</td>
<td>40,498</td>
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<td>Available Seat-Miles (000,000)</td>
<td>156</td>
<td>324</td>
<td>478</td>
<td>599</td>
<td>775</td>
<td>906</td>
<td>1,019</td>
<td>1,070</td>
<td>1,184</td>
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<table>
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<tbody>
<tr>
<td>Mail Pay per Revenue Ton-Mile</td>
<td>$150c</td>
<td>$127c</td>
<td>$99c</td>
<td>$87c</td>
<td>$62c</td>
<td>$61c</td>
<td>$61c</td>
<td>$52c</td>
<td>$46c</td>
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<tr>
<td>Mail Pay per Available Seat-Mile</td>
<td>$4.59c</td>
<td>$3.59c</td>
<td>$2.92c</td>
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<td>$2.43c</td>
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<td>$2.40c</td>
<td>$2.30c</td>
<td>$2.10c</td>
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<tr>
<td>Mail Pay as Percent of Total</td>
<td>74%</td>
<td>70%</td>
<td>64%</td>
<td>61%</td>
<td>51%</td>
<td>49%</td>
<td>50%</td>
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<tr>
<td>Operating Expense per Available</td>
<td>$5.80c</td>
<td>$4.81c</td>
<td>$4.58c</td>
<td>$4.52c</td>
<td>$4.64c</td>
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<td>Seat-Mile</td>
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<tr>
<td>Nonmail Revenues per Available</td>
<td>$1.60c</td>
<td>$1.55c</td>
<td>$1.66c</td>
<td>$1.87c</td>
<td>$2.32c</td>
<td>$2.27c</td>
<td>$2.37c</td>
<td>$2.77c</td>
<td>$2.99c</td>
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<td>Seat-Mile</td>
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<tr>
<td>Revenue Passenger Load Factor</td>
<td>29.9%</td>
<td>27.1%</td>
<td>28.2%</td>
<td>31.5%</td>
<td>37.4%</td>
<td>37.5%</td>
<td>38.4%</td>
<td>42.0%</td>
<td>45.2%</td>
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</tbody>
</table>

Source: Form 41 Reports of Air Carriers filed with C.A.B.