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STEWARDSHIP OF THE AIRLINES BY THE CIVIL AERONAUTICS BOARD*

By WILLIAM A. PATTERSON
President, United Air Lines

BANKERS not only in Iowa but throughout the rest of the United States should interest themselves in air transportation together with its problems, because air transportation today has become a necessity in our social and economic life Today millions of people are traveling by air. Millions of communications and hundreds of thousands of cargo shipments are being transported by air. Consider the impact of this volume of air traffic on the business and social habits of the past. Let's take a very quick look at the record of air travel growth accomplished by the commercial airlines during the past twenty years, a record that speaks for itself:

| | 1928 | 1947 |
|------------------------------|------------|-------------|
| Passengers carried | 47,800 | 13,180,000 |
| Fare per mile | 11c | 5.5c |
| Miles flown | 10,400,000 | 330,000,000 |

We are proud of this record. We are also proud of the record we have achieved in our mail and cargo growth. Air transportation has come a long way indeed in two decades.

Those sponsors of such a program in the early 1920's who had the foresight to place commercial air transportation in the hands of private operators can also look back on that record with pride. In fact, I would say there is no precedent for such accomplishment in any government-fostered industry over a short period of 20 years. And what has this twenty-year development actually cost the government? Let us examine those figures.

Twenty years ago 95% of our revenue came from air mail. Today, we receive only 7% of our total revenue in payment for performing a vastly improved air mail service for the Post Office Department.

Over a thirty-year period, from 1918 (when the first government planes started scheduled air mail flights) to 1947, the government paid out \$405,000,000 for the transportation of air mail. To that figure they added \$183,000,000 representing overhead or other related services connected with air mail. That gives us a total of \$588,000,000

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for a thirty year period. The records show that during this same thirty year period \$539,000,000 represented receipts from the sale of postage stamps.

After considering the revenues and the expenses, we find that the government has spent \$49,000,000 in excess of receipts for the job that we have accomplished over these twenty years. Stop for a moment and examine the air transport map of the United States. Observe for yourself just what has been built at a net cost of \$49,000,000. Appraise the technical and mechanical accomplishment the government has received for \$49,000,000, and then consider that during the war the government advanced \$23,000,000 for the construction of a single flying boat. Which was the better buy? Since their inception, the railroads have received 2¼ billion dollars in subsidies. I offer that not as a reflection against the railroads, because I know that represents a good buy. I offer it only for comparative purposes.

Air transportation today occupies a position of major importance to our commerce as well as National Defense. It continues to show a constant increase in volume of business carried, and in efficiency of operations. It has a safety record second to no other air transportation system in the world. And this continued progress has been accomplished at relatively small cost.

WHAT IS THE REAL AIRLINE PROBLEM?

If all this is true, then why are the airlines of this country in difficulty? Success should produce profitable operations. Well, I can tell you in just a few moments what is wrong with the airlines.

I have before me an advertisement of the Pennsylvania Railroad which appeared in the United States News and World Report of September 10. The heading of this ad reads: "If this happened in your business, then, like the railroads, you would need increased prices to meet increased costs."

Following this, the Pennsylvania Railroad gives a complete explanation of its problem and the solution. The railroad shows that since 1939 costs have increased 77%. During this same period, freight rates have increased 46%; coal rates have increased 28%; passenger rates are up 40%; mail rates have increased 25% and express rates have increased 46%.

I have prepared an overlay to depict the problem confronting my company, United Air Lines, which is quite representative of what is happening generally to all airlines. Our costs have increased 86%. The difference between the increased cost of 77% of the Pennsylvania Railroad and 86% for United Air Lines can I believe be explained by the fact that during this period we went to a 40-hour week for all employees in the company and paid them for 48 hours. Our freight volume has not yet reached proportions where it can be mentioned in

the same breath with the volume of the railroads and we have very little of that business, although those rates are lower than they would have been in 1939. We do not carry coal, so we can make no comparison on that point. However, we do carry passengers and at the present moment our rates are 4% higher than they were in 1939 as compared with the Pennsylvania Railroad's increase of 40%. Our mail rates are actually 56% less than 1939 compared with the 25% increase of the railroad, and our express rates have decreased 44% compared with a 46% increase on the railroad.

Now, the Pennsylvania Railroad was able to increase its income to meet its outgo through the Interstate Commerce Commission which regulates rail transportation. It received relief in the form of higher rates. We must apply to the Civil Aeronautics Board for relief to the airlines. The main difference is that the Interstate Commerce Commission has been realistic and acted, whereas the Civil Aeronautics Board has appeared to be confused and vacillating. So, I say the problem today is not what is wrong with the airlines, but what is wrong with the Civil Aeronautics Board.

THE FAILURE OF THE CAB

Early in 1938, when air transportation had become an important part of the transportation of the country, it was recognized by all concerned that it should be regulated in the public interest. There was no argument from the airlines on that point. There was the usual debate concerning the preparation of the law and the type of agency that should be created to regulate this business. Some thought that the already established Interstate Commerce Commission should assume this responsibility. Others concluded that because air transportation was new and presented some rather unusual problems, an entirely new agency that would be dynamic and aggressive be selected to move this business forward. Those sponsoring a separate agency were successful. Legislation that I still consider to be constructive and sound was written, and the Civil Aeronautics Board established.

We in the air transportation business looked upon this action as encouraging, and hoped that we could proceed in carrying forward this business for our country and at the same time develop a reasonable return to our stockholders, who have invested in excess of \$35,000,000 in this company.

The Civil Aeronautics Board soon started to function. It would be impossible for any administrative agency to be in operation for over ten years and not accomplish some good things. It would be very unfair of me to say that they have been a complete failure. Furthermore, it would be unfair for me to blame individuals who are now members of the Civil Aeronautics Board. Some of these members have only

recently taken office, and have had no part whatsoever in formulating the policies of the Civil Aeronautics Board in the past.

Now let us look at just where the Board stands. During the past 18 months, the domestic air transport companies have suffered a loss of \$36,000,000. The Civil Aeronautics Act has a declaration of policy from which I quote: "Assures the highest degree of safety in and fosters sound economic conditions. . . ." Sound economic conditions do not produce such tremendous financial losses. That, in itself, would reflect against the Civil Aeronautics Board.

As a further declaration of policy, the act states that rates shall be sufficient to enable the carriers under honest, economical and efficient management to maintain and continue the development of air transportation. My interpretation of that section of the act fixes a responsibility upon the Civil Aeronautics Board to eliminate dishonesty where it may exist, to eliminate uneconomical operation, and to insist on improved efficiency where lack of it can be shown to exist.

Now the Board hasn't accused anyone of being dishonest. However, the Board (and I have particular reference to certain members of the Board's staff in the rate and tariff analysis division) is implying that we are uneconomical and that we are inefficient by certain charges to that effect. The public is left with the impression that people in the air transport business are irresponsible and lack business judgment. What are these charges, and what is the airlines' side of the story?

WHAT ABOUT "FREE MEALS"?

For one thing, the Board suggests that passengers should pay for their meals as a separate cash transaction when meals are served in flight. Somebody is naive enough to refer to the meals as now being "free" because no such meal charge is assessed. Actually, the price of meals is definitely considered in arriving at the tariff we charge a passenger for service. In my opinion, the Board hasn't the least conception of the practical problems that would develop as a result of charging separately for meals. Instead of our present single menu type of meal service, separate in-flight charges would lead to a demand for a variety of meals which we haven't the space in our airplanes to transport and which, in addition, would increase the overall cost. Also, this would lead to the nuisance of tipping from which our passengers are now free. Frankly, the subject is a minor point in my analysis of our overall financial problem.

Secondly, it is said that there are too many airline ticket offices in certain cities and such sales offices should be consolidated. Let us consider this in relation to the Board's own policy.

Permit me to quote from a decision of the Board justifying its action creating more competition:

"Economic regulation alone may not be relied on to take the place of the stimulus which competition provides to the advancement of technique and service in air transportation. Competition invites comparisons as to equipment, cost, personnel, method of operation, solicitation of traffic, and the like. All of which tend to assure the development of air transportation system properly adapted to the present and future needs of the Foreign and Domestic commerce of the United States."

This is an example of the thinking of the Civil Aeronautics Board at the time it was creating unnecessary competition. Now that this excessive competition has become wasteful and destructive, the airlines are being blamed for having their own ticket offices in each city to provide the competition the Board created. If there are too many ticket offices in a particular city, it may be that the Board has certificated too many airlines to serve that city.

We in United Air Lines believe in the competitive system. It is true that we occupy one of three corners in Chicago occupied by airline ticket offices. I can walk two blocks west of those ticket offices where I can find four department stores on four corners, and I can go farther west and find four banks on four corners. This is the American competitive system in action, and United Air Lines does not intend to restrain its own competitive efforts arbitrarily just because an excessive amount of competition has been created by Board action.

THE EFFECT OF CONSOLIDATION

The next criticism is that airlines should consolidate their activities at airports using the same personnel to eliminate duplication and, therefore, produce economy. Again, this suggestion is contrary to the Board's decision which made reference to competition in benefits of personnel and in operations as well as competition in solicitation of traffic. This particular suggestion is the most dangerous of all. The first step may not in itself be dangerous, but there is danger in steps to follow. Let me review this point more thoroughly.

A consolidation of servicing facilities at the larger airports would bring no real saving because the peaks and valleys in the work load of the airlines are identical during the 24-hour period of the day. When that would be discovered, the next obvious suggestion would be that since no economy had resulted from the first move, the airlines should spread their schedules so that there would be no overlapping or competition, thereby eliminating the peaks in the work load. After a short experience with that arrangement it would then be discovered that some airlines were benefitting more than others financially because of the advantageous times of the day they were operating their schedules. Then the third and crowning suggestion would be made that those airlines operating between such competitive points would pool their revenues and expenses. I maintain this would produce the

perfect cartel that so many people look upon with such distaste when talking about such arrangements in international trade.

Another criticism of the airlines which is occasionally mentioned by the advisors to the Civil Aeronautics Board is that we are conducting unprofitable operations. We recognize that we are conducting some unprofitable operations which are all required under the certificates of public convenience and necessity issued by the Civil Aeronautics Board. For example, we serve 38 small cities on the United Air Lines system. Those 38 cities provide us with 8% of our total revenue. However, it is necessary that 40% of our mileage be flown to acquire that 8%. For serving those 38 cities we receive \$20,000 a month in mail pay. We could discontinue service to those 38 cities and save \$4,000,000 a year for our company. However, if such cities on our line were abandoned it would be an obvious case of discrimination against those particular communities, because places of similar size in other sections of the country also receive air transportation service. And in this problem of service to small communities is found another example of just how the Civil Aeronautics Board and its staff have contributed to the problems of the air transport industry.

In California there is a good little feeder line known as Southwest Airways. It serves 20 cities in the population range of the 38 I have just mentioned. I have told you that we received \$20,000 a month in mail pay for serving 38 cities. Southwest Airways receives \$108,000 a month in mail pay to serve its 20 cities.

Let me make another comparison. We started this business 20 years ago by carrying the air mail for \$6.00 a ton-mile. We are now receiving 63c a ton-mile. Now, with all of the pioneering in mechanical and technical work accomplished, Southwest started in business about two years ago and is being paid \$30 a ton-mile. Compare that with our \$6 a ton-mile in 1930 and our present rate of 63 cents a ton-mile.

RESPONSIBILITY OF CAB

The Civil Aeronautics Board is principally responsible for airline difficulties today. For example, while the Interstate Commerce Commission has acted quickly, intelligently, and constructively in assisting the railroads with their problems, the Civil Aeronautics Board has been holding airline cases for the increase of mail rates for over two years.

I would like to see two or three of the outstanding transportation economists of the United States appointed to investigate the stewardship of the Civil Aeronautics Board over the airlines. They would find that the Board was handed a brand new healthy industry in 1938. If they would trace the conduct of the Civil Aeronautics Board through every decision they made, they would find some good decisions, but

they would also find that certain people looked upon the granting of airline routes as they would political patronage rather than on the basis of sound economic justification. On one hand the Board, by suggesting that the airlines consolidate activities and reduce uneconomical operations, admits there is too much service, yet it continues to grant new routes.

I am confident that an objective appraisal by qualified persons of the record of the Civil Aeronautics Board would show outstanding failure — failure to understand and evaluate the basic problems of air transportation, and failure to carry out the Board's stated responsibility to foster sound economic conditions within the industry.

I believe this record of failure must be corrected if air transportation, so vital to the economic development and national defense of our country, is to continue its growth on a sound basis.

In spite of anything, air transportation is indeed here to stay. The industry's future development must and will exceed its progress to date. People's concepts are being steadily broadened with the increasing speed and scope of air transportation. The transport plane is creating new frontiers in commerce, and spearheading fundamental changes in our social life. And it will wield an even greater influence tomorrow.

That is why I have chosen to speak on behalf of air transportation, to answer its critics who blame unfairly. I have every confidence in air transportation and in my company. I am proud of our accomplishments, and I am confident of our future. I know that with intelligent regulation, the progress of air transportation will be sound and sure.

No one can halt that progress.