
John Attanasio
SECURITY FOR THE FUTURE: LET'S GET OUR AIRLINES FLYING

John Attanasio (Moderator)

GOOD AFTERNOON. My name is John Attanasio. I'd like to welcome all of you to the Dedman School of Law at SMU. Today's talk by Mr. Crandall is one part of a two-day symposium that we're doing on airline security. Actually, the conference will comprehend airline security and airline economics issues, which are timely today, unhappily, and stem of course from the tragedy of September 11th. This conference is one in a series of three conferences, which the School of Law is doing on these issues. The second one will occur in February and will be on terrorism's burdens on globalization. The third one will occur in April. We'll discuss unilateral versus multilateral responses to global threats.

I would also urge those of you who are interested to come. The third session is tomorrow at noon. From noon to 12:30, there'll be a panel discussion. Al Casey will be on the panel, Dr. Michael Cox, who's the senior economist for the Dallas Federal Reserve Board. John Nance, the aviation editor for Good Morning America and a best-selling author, I'm proud to say, our graduate will be moderating. Ray Hutchinson will be another one of the graduates of this law school and will be talking about airports, the economic and safety impact on airports of the crisis, so that should be a wonderful and timely discussion, as well.

Before I begin, I want to thank a number of folks. This conference is being sponsored by The Journal of Air Law and Commerce. Evan Singer is the editor in chief, and Alisa Sheldon is the managing editor. They're both here today. This particular session is being co-sponsored with the new Corporate Law Association, and Kristi Bracey is here today, who's the president of that organization. Thank you all very, very much. I also want to acknowledge Al Casey and John Nance, who have been instrumental in planning this conference. This was done on very short notice. We're very grateful to them for all their help.

I want to welcome everyone to the lecture, and it's my great honor to introduce Robert Crandall. Mr. Crandall is a native of Usquepaug, Rhode Island. He's a 1957 graduate of the Univer-
sity of Rhode Island, and received a Masters degree in business from The Wharton School in 1960. He began his career as a regional credit supervisor for Eastman Kodak, and later headed the computer programming division at Hallmark Cards. In 1966, he joined TWA as assistant treasurer. He briefly left the airline industry in 1972 to become senior financial officer at Bloomingdale's department stores, but returned the following year to join American Airlines as its senior vice president of finance. From there, he advanced to president and eventually succeeded Albert Casey as chairman, CEO, and president of American Airlines.

During his twenty-five year tenure with the airline, he was instrumental in introducing a number of changes, which revolutionized the travel industry. Changes such as the computer reservations system known as Sabre, which I'm sure we've all used, the creation of Super-Saver fares, and the introduction of the Frequent Flyer program. Mr. Crandall now serves on the board of directors of Anixter International of Celestica, Inc., of Clear Channel Communications, Inc., of the Howard Burton Company, and of i2 Technologies. He also serves on the international advisory board of American International Group, Inc.

Mr. Crandall has been honored by many national and trade publications such as *Business Week, Aviation Week, and Space Technology, Financial World, and Air Transport World* for his achievements and his executive leadership. He received the Horatio Alger Award in 1997, which honors individuals who have achieved success despite challenging life circumstances. His talk today is titled *Security for the Future: Let's Get Our Airlines Flying.* It gives me great pleasure to introduce to all of you Robert Crandall.

**Robert Crandall**

Thank you, and good afternoon, ladies and gentlemen.

I am delighted to have this opportunity to join in a discussion of how we can get our aviation system back to normal after the dreadful events of September 11th. I wish we were here to discuss new air traffic control systems or the construction of new runways and terminals or even the continuing growth of the business. And I hope that in the not too distant future, we will have an opportunity to do so. For now, however, our overriding concern must be the question of how best to get both tourism and the airline industry back in business.
As everyone knows, commercial aviation has always been a challenging business. The pioneers of the business struggled to establish a new industry, and in more modern times, the industry’s leaders have struggled to optimize system performance and maximize its economic reach. While the airlines have seen many hard times, I do not think it is an exaggeration to characterize today’s circumstances as the greatest challenge our aviation system has ever faced.

For those of you who do not have day-to-day contact with this data, let me remind you of a couple of numbers. The commercial aviation business in the United States supports fifteen million jobs in addition to the million or so jobs represented by the airline employees. Those fifteen million jobs represent payrolls of about $400 billion. That is why you hear about so many people in so many communities around the country being out of work. And those astonishing totals do not count the value of all the business that is done, in this country and around the world, because our commercial aviation system has made travel both easy and relatively affordable. Those numbers tell us pretty clearly that the health of our economy is absolutely dependent on safe, reliable, convenient, and affordable air transportation.

Even before September 11th, the world’s airlines and this country’s airlines were enmeshed in economic hard times. Additionally, they were struggling with the issues of reliability and convenience. Aviation has grown so rapidly and so many people are traveling, that in recent years, the infrastructure of the world’s aviation industry has become inadequate. Thus, before September 11th, the public’s principal complaint was “my flight is late.”

While the infrastructure issue remains a problem which must be dealt with, the aviation industry is now struggling with different and much more serious issues. First, is it worth the trouble? Successfully dealing with those challenges will require:

- Formatting a fully satisfactory security plan, and
- Persuading policymakers, both here and in the United States, to promptly and vigorously implement that plan.

Doing so is not going to be easy. Everybody seems to agree that better security is important, but there is very little agreement on the best solution. Moreover, the right solutions face formidable obstacles of both ignorance and ideology.

Let me say first, that aviation is safer than it was before September 11th, and in absolute terms, it is safer than taking a shower or driving to work. Then, let me follow up by acknowl-
edging that it is not as safe as it can be and not as safe as it needs
to be. Further, much of what has been done since September
11th is, in my opinion, show rather than substance:

- We have National Guard troops on duty, but there is no
  threat to which the National Guard can logically respond.
- There are many more screeners at the security points, but
  they are badly paid, turn over very quickly, have very little
  training, and are often working with equipment that is one
  or two generations out of date.
- We temporarily stopped curbside bag check-in. But curbside
  bag check-in has no impact on the security problem.

There was a joke on the Internet, which some of you may
have heard, where it had Osama Bin Laden and his friends
sitting around in their caves. One turned to Osama and
said, "Look, Chief, we blew up the World Trade Center,
and they stopped curbside baggage check-in."

Such changes fall far short of what is needed. Moreover, the
public will not tolerate long, slow security lines forever. We
need to find a better way—and we need to do it soon!

Happily, work is underway on more substantive changes. On
the planes themselves, several changes have occurred:

- The cockpit doors on every airplane in the United States
  airline fleet will soon be reinforced. To facilitate that
  change, the FAA has waived a number of restrictions that
  would have prevented prompt action.
- New in-flight procedures have been agreed upon, which
  include a requirement that seatbelts be fastened during a
  much higher percentage of the time passengers are on the
  airplanes.
- Passengers will be prohibited from congregating in the
  vestibule around the restroom doors and close to the cock-
  pit, and
- Many more air marshals have been and are being hired.
- Cockpit crews across the industry are thinking about and
  practicing aerobatic procedures, which will rather severely
discombobulate anybody who is causing problems in the
cabin.

There are also a number of other things under review:

- Cameras with which the cockpit members can see the
  cabin,
- Flight attendant panic buttons;
- The arming of both cockpit and cabin crews with non-le-
thal weapons such Tasars and other steps.
At the airport, unfortunately, less of substance has yet been decided upon:

- Law enforcement officers have been stationed at every checkpoint. But, like the National Guard, there is no security threat to which checkpoint law enforcement is responsive. This is an example of a change that is show, but not substance.

- The FAA has agreed to expand the so-called caps program—CAPS stands for “Computer Assisted Passenger Screening”—to all passengers, rather than to only those passengers who check baggage. This means that the number of selectees that drop out of the CAPS program—people who display idiosyncratic patterns of either travel, or reservations, or ticket purchasing—will rise from about five percent to about ten percent. Those people will be the subject of much more intensive search and interrogation.

- The amount of carry-on baggage has been reduced.

- However—and this is key—Congress of the United States has, as yet—more than a month after the horrible events of September 11th—failed to act to federalize responsibility for passenger, aircraft, and airport security. In my judgment, that is both disgraceful and ridiculous. It is even more disgraceful that no one—not the FAA—not Congress—not the special working groups—and not Governor Ridge’s new organization—has yet outlined a comprehensive, fully integrated aviation security plan.

Such a plan must include several elements:

- First, it must mandate the collection of comprehensive data on every passenger during the reservations and ticketing process—before the passenger arrives at the airport.

- Airlines must be required to gather passenger names, addresses, phone numbers, driver’s license numbers, passport numbers—perhaps the number of a national identity card—and then, they need to program their computers to match that data against the travel habits of the passenger, the FBI and CIA lists of suspected terrorists, and lists compiled by the U.S. Government of illegal immigrants and expired Visa’s. If we do not do that, ladies and gentlemen, we will never be able to focus our screening resources—our physical resources—on that small percentage of the passengers who represent a real security risk. And that is what we do if we want a safe and convenient aviation system.
A comprehensive plan must also include professional, well-paid, well-trained screeners. These people must be supervised and selected by the U.S. Government—but do not necessarily need to be government employees.

It must include secure operations areas, which means that every door that goes from the terminal out to the area where the airplanes are—an area known as “the ramp”—must be absolutely secure.

It must require that every person who works at an airport be given a comprehensive, thorough background check before they are allowed access to secure areas.

It must require federal licensing of every contractor who works on every airport.

It must require examination of every bag and every package that goes into the belly of every airplane.

Finally, a comprehensive plan must include a secure airplane. Things like secure cockpit doors, non-lethal weapons, and the other things I have already mentioned.

To accomplish all that we must change some laws:

- We must change legislation, which prohibits banks and financial institutions in the United States from sharing personal data with those who build the databases that the airlines and security agents will need to determine who is a threat.

- We must change federal legislation, and in some cases, state legislation that prohibits the database aggregators from having access to information gathered about those who secure driver’s licenses.

- We must also require that the federal government keep track of everyone who is not a citizen of the United States. How many of you know that people can come to the United States on a student visa, or any other kind of visa, and stay as long as they like? The United States of America keeps no records. If we do not know who is in this country, legally or illegally, how can we expect to know who might wish to blow up an airplane?

Does all of this represent a greater invasion of privacy than we have been used to? Yes, it does. Does all of this mean discriminating between high and low-risk travelers? Yes, it does. However, as many people have said on many television channels and written in both newspapers and news magazines, nothing will ever be the same as it was before September 11th. And travel cannot be either.
On the other hand, travel need not be either extraordinarily expensive or disconcertingly arduous. Once we have the right kind of security system in place, the public will regain its confidence, and the inconvenience imposed on low-risk passengers—which means most of us—will be minimal. Once confidence and convenience are restored, the public will go back to traveling.

Airline costs must also be controlled, for only low costs can sustain affordable prices. Labor costs, which have skyrocketed in recent years, must be brought under control, and management must move as quickly as possible to rebuild their schedules and fully utilize their assets. We must also be certain that we do not burden travelers with the costs of an improved security system.

Unhappily, lots of folks in Washington cannot seem to understand that forcing travelers to pay for the aviation security system is self-defeating. The hue and cry from around the world about lost traffic, lost revenue, and lost jobs is deafening. Given that concern, I cannot understand—for the life of me—why Congress seems intent on adding security surcharges to ticket prices. It is now clear to everyone that community and every citizen—whether they travel or not—shares in the economic benefits spread by travelers. Thus, it should be equally clear to all that aviation security costs should be paid from the general funds of the U.S. Government. Making travel more expensive by adding security surcharges does nothing but discourage travel, which is the exact opposite of what we want to do.

President George W. Bush has said that this will be a long war. And he is right. It will be a long war. Aviation’s war will go on forever. The system we need to put in place can never be allowed to wither away. Its rules and regulations must be implemented rigorously. There is no other way to rebuild the vitality of the aviation business and the vitality of the U.S. economy.

To get this job done, we need fast, decisive action. We do not need a wishy-washy political compromise.

I submit to you, ladies and gentlemen, that it is time for all of us to understand that issue. It is time for everybody in this room and everybody else who understands and cares about the vitality of the aviation industry to get into the game. It is time to call your representative and your senator and tell them to stop fooling around and build an aviation security system that works.

Thank you very much.
Dean Attanasio has indicated that he would like to give you an opportunity to raise any questions and make any comments you would like, to which I will try to respond. For those of you who are in the press, if you will refrain from participating in this part of the program, I would appreciate it. I will meet separately with you afterwards so we can give the students and the others from the community here their time to ask whatever questions they would like to. Fire away if anybody's interested.

Question and Answer Session

Q: If Congress doesn’t get their act together and improve security measures, what do you see the actions for the airlines to be? How will we respond to that?

A: Well, if they do not pass appropriate security legislation, we will continue, I assume, to sort of move along as we have. What’s happened to date is that we’ve got more security screeners, but they are not better paid. They are not better trained. They continue to turn over by taking better jobs every time they get an opportunity. I think what you will see if the government does not step up to this appropriately is that security will continue as in the past, which is very imperfect.

Now, even if it does step up and take control of some aspects of the screening process, the screening process simply cannot provide the kind of security that’s required. We’ve got to have a comprehensive plan. In my opinion, you have got to get a lot of advance information. We have to know who you are before you get to the airport. Then, when you get to the airport, we need a means of confirming that you are who you say you are, which can be done with fingerprints. It can be done with facial recognition software. It can be done with retina scans.

Once we know about who you are, what your background is, where you’ve been, and we have confirmed that you are who you say you are, we can divide the world into high risk and low risk suspects. We can then spend more substantial time questioning those who represent a higher level of risk, which is exactly how the Israelis do it who have certainly done the best job of anybody in the world on this subject. That’s the only way to build a real security system. Unfortunately, Congress isn’t even debating that kind of bill.

Q: How do you feel about foreign ownership of airport security companies?
A: It doesn’t make any difference to me who owns them as long as they are appropriately licensed and regulated. The fact of the matter is if you’re going to — if we’re going to use — for example, if we end up with a system, which is what most of the European governments do, where the government establishes the rules and oversees the execution of those rules, most of the companies that do the work are private enterprise companies. I don’t think there’s a whole lot of difference between whether those companies are owned by people in the United States or whether they’re owned by investors in Britain or elsewhere. What is required is a level of background check, which today is impractical because of some of the obstructions to data flowing into the database aggregate and an almost complete lack of compliance even with those rules that do exist. So the problem is make the right rules and then enforce them originally.

Q: Would you be in favor of having like an aviation czar who is responsible for seeing that these security things come about from the government? There seems to be no individual now [unintelligible].

A: I think what should happen is a separate aviation security administration should be set up. That department should operate the aviation security system. I think it should be taken out of the FAA, which in my judgment, has been proven incompetent.

Q: Mr. Crandall, you’ve mentioned the entity that will verify my identity. You’ve said that before on [unintelligible] talk shows. Do you propose a commercial entity such as a Sabre, EDS, or IBM, or is that a government mandate under what you’ve just said about —?

A: Once again I think that system would be selected and operated under rules established by the government. I would assume that the government would contract that out because the government lacks the sophisticated data processing and communication skills that are required. But once again, it’s what the rules are and how those rules are enforced that is key, not who actually does the work.

Q: [Inaudible]

A: For those of you who might not have heard the question, the recruitment or the participation of passengers — well, let me say this. I think the participation of untrained people in physical confrontations is for the most part unwise. It doesn’t make a difference where they are. Untrained people rushing into burning buildings are likely to get themselves seriously burned and not do much good. So, I think the notion of sort of
recruiting passengers to be a vigilante force is not a very good idea. On the other hand, if you and I were on an airplane and there was an untoward incident, somebody obviously was trying to take over the airplane, I think you and I would probably join in attacking them. So, without being a full-fledged vigilante, I think we’d probably get after them. I mean, at least, in the short term there’s going to be a very high level of awareness of untoward incidents on the airplane. I think passengers are much less likely to be passive in the future than has been true in the past.

In the past, as you know, and I’m sure everybody in the room knows, the pattern of hijacking has been don’t resist the hijackers because you can get hurt. And the hijackers are going to land the airplane, and then we’re going to deal with his or her demands as the case may be. Now we’ve got a different pattern of behavior where we don’t know what the hijacker’s going to do with the airplane. I think under those circumstances everybody on that airplane is going to resist much more stoutly than was true in the past. I really don’t think they need to be recruited beforehand.

Q: [Inaudible] structure as it relates to passenger data and the recovery of it [inaudible] suggests [inaudible] recognition center, what would be a reasonable timeframe to replace the current structure, and deal with the service cost [inaudible]?

A: Well, as I’ve said, I think all of the costs of the security system should be paid from the general funds of the U. S. Government. You know, it’s an absurdity to say that a company is going to pay for anything. Companies don’t pay for anything. Companies collect money from passengers, buy and sell things, construct goods, sell them, and distribute the money to their shareholders. They don’t pay for anything. To say that the airlines are going to pay for a security system is an absurdity. They’re not going to pay for a security system. They’re going to make the intermediate disbursements and pass it along to their customers. That doesn’t work because we know that the security system as it exists today is competitive.

The fact is that one airline competes with another airline. No airline can spend more than any other airline for security. Thus, the system we have today doesn’t work. The alternative system being discussed in Washington is that the government will be the intermediate payer, but the individual passengers will pay it in the sense that there’ll be a $5 or $10 charge on every ticket.
Now, I've been out of the business too long to remember the details, but we can tell you, the airlines can tell you precisely how many people will stay home for each $1 of additional cost, and it's a big number. It's not a trivial number. So, you put $10 more on the cost of every ticket, and millions of people won't fly because it's too expensive. Instead of taking the husband or the wife and the three kids and going to see grandma for the holidays, they just won't go. We know what those numbers are. They're not a mystery.

If we say on the one hand that the economy is under a lot of stress because waiters and housekeepers and cobblers and people of every ilk are out of work because people are out traveling, why would we want then to make travel more expensive and thus, cause people to stay home and leave those people unemployed? It just doesn't make any sense. The problem is we are stuck in a Calvinist hair shirt idea. I think that those that apparently benefit must pay is wrong.

Q: [Inaudible]
A: None. You want to travel on the airline system? You give up your privacy. You don’t want to give it up? Don’t fly. Your privacy isn’t equal to the safety of the rest of us. As far as I’m concerned, flying, which is voluntary, when you fly, you give up your privacy rights if there’s anything — there’s nothing about me I’m not happy to have you know anyway. If there’s anything about you that you don’t want me to know, then don’t fly.

Q: Would you comment on the United CEO stepping down?
A: I beg your pardon?
Q: On the United CEO stepping down?
A: No.
Q: Thank you.
A: Yes, sir? No. I won’t comment on that. Thank you.
Q: How often were you [inaudible]
A: Well, I think we’re talking about two things. I mean, I really — as a matter of fact, I think we’re talking about a number of things. In the first instance, we’re talking about public confidence, and my guess that — my guess is that most Americans being natural optimists, and I think most Americans are optimists, and most people recognizing the improbability of being on an airplane with a terrorist is about the equivalent of the probability of bitten by a shark if you go swimming. My guess is that confidence is only a part of the issue. There is certainly
some part of the public that lacks complete confidence, but I don't think at the moment it's very large.

The second part of the public is I think very adversely affected by the simple convenience question. I mean, how much trouble am I going to go to to go on this trip? And so you see a very heavy resurgence of private aviation. You see a lot more people driving to where they're going. The Amtrak ridership is up. A bunch of people are just staying home. So, I think that convenience factor combined with a desire for security is a big part of it.

The fact is that a fairly large percentage of business travelers are very, very much affected by convenience. They fly all the time. If you're talking about adding an hour, hour-and-a-half, two hours at each airport interface, you're talking about adding lots of time, and you're looking at dramatic productivity decrements. So, I think it's partially security. It is partially convenience, and it's partially cost. You've got to keep in mind that the troubles of the airline industry that are imminent, that are now extant, which are real and dreadful, are partially attributable to September 11th and partially attributable to the fact that we've got a terrible recession.

Business travel in the United States was down by 40 percent between January and June of 2001 absent September 11th. So, you've got a combination of many factors, I think. I think all of those factors can be dealt with only by the kind of comprehensive security system. We've got to take the people who travel all the time who are not a security risk and whisk them through the airport, the interface process, and get them on the airplane, and take the 5 or 10 or 15 percent of people that we're not sure of where we need more serious interrogation, and work with and on those people to try and isolate the problems the way the Israelis do.

Q: Would you recommend requiring the same basic changes to other means of transportation like rail or cruises?

A: Well, yes, except I think each mode has probably got a different set of problems. I don't know as much about those modes of travel, but the answer is yes. I think, for example, cruise ships need to have reasonably tight security. You can't—you don't want to be out in the middle of an ocean and suddenly find that somebody's blown the bottom out of the boat, which would be a disaster. But the potential for far-reaching damage is probably greater in aviation than in other aspects of travel.
But sure, I think every means of mass travel, every place where masses of people congregate, we’re going to have to have much higher levels of security. I do not think you can do the same kinds of things in a football stadium in terms of advance information that you can in terms of the aviation system. I’m not sure you can do the same kind of advanced reservations information on buses or even on trains, because in some cases, they don’t depend on reservation systems. So, each one’s going to have to be adopted. But I think we’re going to have to be careful in all cases.

Q: Some of the solutions are long term for creation. What problems would you see immediately in the establishment of a volunteer corps of people? You know yourself, once an airline person, always an airline person. You have a tremendous [inaudible] volunteers from every walk of life. What about stuff that [inaudible] volunteer corps of ex-military, ex-airline?

A: Well, I think the answer to your question is that if the federal government came along tomorrow and adopted this and said, “Look, we’ve got to hire 20,000 people. And even if you don’t want a full-time job, all right, come work for us for six months. We’ll pay you $20 an hour, and we’ll train you, but you already know a lot about how airports function.” So we’re going to go out and we’re going to recruit these 20,000 people. We hope we can recruit people that have had some airline experience. My guess is you’d get a very large response, even from people that don’t want to work full-time and say, “Sure. I’ll work the six months while you fill the corps out maybe.” A bunch of those people, I suspect, would like to work full-time on a continuing basis.

Q: The Concorde is supposed to start flying next week. Do you think that’ll restore any confidence in the business traveler if they know about it?

A: No, I don’t. That won’t have any effect. I think it will benefit those who like to fly the Concorde back and forth between London and New York. But I don’t think it will have any effect. I mean, the Concorde problem was an engineering problem. It’s been fixed. I think those people who like to fly Concorde will get back on it.

Q: Do you think it’s a government [inaudible] quantifiable ways [inaudible]?

A: Well, you have to keep in mind, the airlines are really not a business. They’re a club. They don’t make any money. Now, let me give you a number. This is a real number. Between the
time that Orville and Wilbur first flew and the end of 1992, the airline industry lost $13 billion. That was accumulative earnings over time. Between then and now, they have made, I think, about $28 billion, so they’re moving back towards zero.

Now, the fact is no airline in any year that I know of, the airline industry has never returned its cost to capital. Are they going to give the money back? Airlines don’t work that way. They say, “My God, is there any way we could possibly make a profit next month?” And everybody scrambles around and sees if they could make a profit. So, the answer is they never have made money. I don’t expect they ever will make much money. The fact of the matter is they will deal with their costs and revenues. It isn’t as if this is a hugely profitable business where they can identify, “Oh, wow, here’s this last little slice of our profits which we should now give back because the government’s going to pay those bills.” It just doesn’t work that way. I mean, nothing that I’ve told you is made up.

Q: The last three years [inaudible]
A: Even in the last three years, the airline industry, you compare the airline industry’s profits in the last three years with the profits of any other major industry of comparable size, they’re at the bottom. They don’t make any money.

Q: How many other current majors will still be in business, or do you see them all —
A: Oh, I think they’ll all be in existence. Airlines don’t have to make money. They’re a cash flow business. Pam Am didn’t make money for eleven years, ten or eleven years before it went out of business. These are big companies. They generate a lot of cash. They’re going to lose a lot of money over the next two or three years. They will borrow that money. Their shareholders of course will suffer because the stock prices won’t go up. They’re not going out of existence.

Look, the reason that the government stepped up and put $5 billion in cash into the airline business, I think, was this. I think it was the right thing to do, but here’s why they did it. It would not have helped the collective psyche of the United States of America and all its citizens if four or five major airlines had declared bankruptcy three days after the September 11th event. When you declare bankruptcy, you don’t stop doing business. You just say, “I’m not going to pay the people to whom I already owe money.” You do that to save your cash because in order to keep running your business, you’ve got to have cash. You’ve got
to pay for your fuel. You’ve got to pay salaries. You can’t run off the cash.

The government, I think, properly recognized that the airlines suddenly — I mean, some of you, many of you are not yet in business. You’re still in law school. Some of you are in business. All of a sudden overnight your revenue’s down 70 percent and your costs are flat. Money’s going out the door in a huge gush. If somebody doesn’t do something, you’re going to run out of cash. Then you won’t be able to operate. Under those circumstances, the responsible thing might very well be to declare bankruptcy. I think the airline chief executives — I’m obviously no longer part of that group — but I think they made that case in Washington strongly. The consequence is that’s where the $5 billion came from.

Now, I’m less sure about the wisdom of the loan guarantees. I don’t necessarily think that’s a good idea. The government’s sort of back in the business of regulating the airline industry. The government says they want warrants, which are a claim to buy common stock. I’m not sure that any of us want the U.S. Government to be a shareholder in the airline industry because after all, shareholders like to decide how things get done. Not a good idea.

Q: [Inaudible] a big proponent of deregulation [inaudible]. Do you see that coming back?

A: Well, I don’t know that it will come back. I mean, in the late 1970s, those of us who didn’t think deregulation was such a red-hot idea made this point. I think over the years this point has been proved out. If you deregulate the airline business, you will get an entirely different result. You will likely get a more efficient economic result. You will not get service to all the places that you have today where service is required by the CAB. And Senator Byrd is still trying to get service back to West Virginia. But the fact of the matter is I’ve told him, “Nobody goes there because nobody wants to go there.” He doesn’t like to hear that.

Anyway, a long story short, I think all of this federal involvement inevitably will lead to more discussion of whether or not there needs to be some regulation. Particularly, I think you’ll get that discussion if, as a consequence of this economic travail, airlines seek to combine themselves. And if they seek to combine themselves so that the number of competing airlines shrinks, there may very well be a debate about whether some
regulation to substitute for that now-absent competition is required.

I hope it won’t go back to a regulated system. I think the deregulated system works better. It does not fulfill all the same social objectives, but it gives us a materially better economic result.

Q: Let’s just play out the bankruptcy scenario. If some of the airlines were to go bankrupt, clearly the obligations of the trustee in bankruptcy are to cut back roots, right, and therefore —
A: No, no, no. I don’t know that the obligation of the trustee is to cut back roots.
Q: But it may be. I mean, it may be to the extent —
A: Well, it’s possible, yeah.
Q: It’s very possible. To the extent you’re seeing planes with 40 people on them, it’s very possible that’s part of their obligation. Assuming that they were, some airlines were to go into bankruptcy, wouldn’t we see even less travel than what we’re seeing now? And what does that mean to an economy that is already at the edge?
A: Well, it’s not clear that that would be the outcome. One of the tactics of bankrupt airlines in the past — now we’re in a different era now, so who knows — but one of the tactics of bankrupt airlines in the past when all these bankruptcies were going on, they’d go bankrupt. The public would lose some level of confidence in the idea that a bankrupt airline would cut prices.

Every other airline would have to match prices. The bankrupt carrier would cut some more prices. Everybody else would match, as you have to do because this is a non-differentiated product. The consequence is you can’t let anybody have a price advantage or all the business flows to the person with the price advantage. And prices kept getting forced down and down and down and down, which led in the long run to a great debate.

What are the bankruptcy laws accomplishing here? Are they giving companies a second chance to start up? Or are they simply creating an instrument by which already failed companies destroy companies that have not failed? I think it’s the latter. I don’t think bankrupt companies should be allowed to continue to operate. I think if they were not allowed to continue to operate, managements would be much more careful. Now they’re not careful. They say, “Well, if we make a mistake, you know,
we’ll go bankrupt. We’ll get a break. We’ll get rid of some debt. We’ll start again.”

Q: [Inaudible]
A: Right, you’re perfectly right. I don’t know the answer to that. Again I’m certainly not an expert on subways. As you know, they had a Sarin gas incident on the Japanese subways some years ago. Certainly, I would think that if somebody were able, he or she could take a large container of weapons-grade anthrax and explode it in the middle of Grand Central Station in the middle of the rush hour, that it would have a dreadfully deleterious effect. And I don’t know how to protect against that except to put more physical security around Grand Central and to, in a crunch, you could put metal detectors and x-ray equipment around Grand Central and at all of the stations. And before anybody was allowed to bring boxes, packages onto the train, they’d have to go through that device. My guess is if we ever had the kind of incident we’ve just described, that would happen.

Whether it will happen now is an open question. And I must say to you I don’t know the answer to that. I don’t know whether that possibility is sufficient to justify the kind of security that would be required to prevent it. In aviation — see, I think the answer in aviation is more clear. We know we can do these things. We know that if we put the right equipment in place and the right people and build, structure the system right, we can continue to operate an economical and convenient aviation system and make it pretty — absolutely safe.

In other modes, we have greater problems. So, it seems to me that we ought to continue to study those things. I assume there are people, urban transportation people, that are looking at those kinds of things. But I think it is a great grave mistake not to do what we know how to do.

Q: To make a great point or rallying cry, we need to take action and tell our representatives to do that.
A: Right.

Q: To let them know we’re serious. To give one example, the Israelis are doing it right and this notion of, this concept of the business traveler or the frequent traveler having the ability to maybe voluntarily give up their information [inaudible] —
A: Right, right.
Q: It’s really helpful [inaudible], another good example of [inaudible].
A: Well, the Israelis have an exceptionally good system. Most of the European systems are much tighter than the U.S. system. In most of the European countries, the government sets the rules, hires the screeners, and oversees the screeners. In most European countries, there are tighter restrictions on what you can take into the airport and so on than there are here. Now, I don’t think the European systems reach the level of that which I think we should do here, but they’re better than what we’re doing now.

Q: A lot of people are suggesting that domestic positive baggage [inaudible]

A: Well, domestic positive bag match is whether or not every — a passenger who gets on an — who checks a bag, whether you should match the bag and the passenger on the airplane so that a passenger cannot check a bag and then not get on the airplane, thus effectively putting an explosive device on the bag — on the airplane. Yes, I think we should do a positive bag match. I think we can do positive bag match. We can’t do it tomorrow because we’re not equipped to do it. But I think in twelve to eighteen months time, given the fact that you must do it, the airlines can do that and not slow down the flow of traffic or the flow of baggage onto the airplanes to a material extent. I think we should do that.

I think it’s a whole lot easier for an individual to check a bag with a bomb in it and then get off the airplane. And that doesn’t require quite the level of self-sacrifice that blowing yourself up does. So why make it easy?

Q: [Inaudible] on the safety of the flight [inaudible] segregation of the cockpit in flight [inaudible]?

A: Well, you talk about a mechanical issue that could be resolved in the cabin. There may be people in the audience that know the answer to that better than I. But there are very few, if any, serious mechanical problems that could be solved by anybody that’s in the cockpit while the airplane is in flight simply by coming into the cabin. There just aren’t any. I mean, really serious mechanical problems are in the engines or in the navigation systems. Those things are not accessible from the cabin anyway. The only kind of mechanical thing is that pilots ever try to fix are things like seats that won’t slide backwards and forwards and lights that won’t go out and doors that won’t close. But the fact is door-closing problems are on the ground, not in the air because they’re all plugged doors. You can’t open the door in the air anyway. So I think confining the crew to the
cockpit entails little, if any, very little, and I think probably none, risk of not having been able to intervene in a mechanical situation in the cabin.

John, I think we’ve exhausted the group’s questions.

**John Attanasio**

Bob, I want to thank you very, very much for a typically informative presentation. I just wish for once you’d tell us what you really think. Thank you very, very much.