The Future of Airline Travel

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GOOD AFTERNOON. I would like to welcome all of you to this final session in our conference on airline security. As many of you know, this is the first in a series of three conferences that the Dedman School of Law will be sponsoring on the events of September 11th. The next one will be in February and will be on terrorism's burdens on globalization.

This conference is being organized by The Journal of Air Law and Commerce. I would like to thank the officers of The Journal, and in particular Evan Singer, the editor in chief, and also Alisa Sheldon, the managing editor, and all those associated with The Journal for a remarkable job, particularly, as it was organized under intense time pressure. I would also like to thank Al Casey and John Nance who played instrumental roles in organizing this, again on very, very short notice. Actually, I think we should give them all a round of applause.

I will briefly introduce our distinguished panel today in the order in which they’re going to be speaking. Dr. Michael Cox is senior vice president and chief economist of the Federal Reserve Bank of Dallas. He is president of the Association of Private Enterprise Education, and adjunct scholar at The Cato Institute. He is senior fellow at the National Center for Policy Analysis and author of Myths of Rich and Poor, which was nominated for a Pulitzer Prize. He’s also served as an adjunct professor in our economics department for a number of years.
Dr. Albert Casey is the former chairman and CEO of AMR Corporation/American Airlines, Inc. and is the distinguished executive in residence in the Department of Management and Organization in SMU’s Edwin L. Cox School of Business. He is the former Postmaster General of the United States and is the former chairman and CEO of First Republic Bank Corporation, and president and CEO — former president and CEO of The Times Mirror Company. Did you really do all that?

Unidentified Speaker

He really did. He really did.

John Attanasio

Did you write this?

Unidentified Speaker

I hope so. His mother did.

John Attanasio

Next, we’ll have James Hall. Mr. Hall is former chairman of the National Transportation Safety Board. He has also served as chairman on the Board of Inquiry for Public Hearings on many major transportation accidents including the US Air Flight 427 and TWA Flight 800. He is a former member of the White House Commission on Aviation Safety and Security and has served as counsel to the United States Senate Subcommittee on Intergovernmental Relations.

Our final panelist is E. Ray Hutchinson, who is a partner at the law firm of Vinson & Elkins and specializes in the field of public law and finance. He is a distinguished graduate of this law school, I’m proud to say, and two years ago, won the Galvin Award for service to the school, one of the two highest awards that the school can bestow on alumni. He is a former member of the Texas House of Representatives and a former chairman of the Republican Party of Texas. He is a member of the executive committee of the Republican National Committee of the United States and chairman of the charter review committee of the City of Dallas. He has represented Dallas/Fort Worth International Airport since its inception. And you might be interested to know there’s a little bit of other history regarding the law school, that this building, which is named after Mr. George Underwood, George Underwood chaired a lot of that effort. He
said, "Who are we getting to talk about airports?" And I said, "Ray Hutchinson." He said, "Well, he's the best there is."

Finally, to moderate today's panel, we have Mr. John Nance. Mr. Nance is also a distinguished graduate of the SMU Law School. He is a native Texan who grew up in Dallas, received his Bachelors degree from SMU, and his JD from this place. He is a licensed attorney and a decorated Air Force pilot veteran of Vietnam and Operations Desert Storm and Desert Shield. Mr. Nance is an internationally recognized air safety analyst and advocate best known to North American audiences as aviation analyst for ABC television network, and is the aviation editor for Good Morning America. He has authored twelve major fiction and non-fiction books. He has piloted many aircraft and logged over 13,000 hours of flight time in his commercial airline and Air Force careers. In fact, he continues to serve as a Boeing 737 captain for a major airline and flies his own aircraft.

Mr. Nance will be the moderator of our panel. And so it gives me great pleasure to introduce Mr. John Nance.

John Nance (Panel Moderator)

It's always wonderful to be back in my law school here. And Dean, this time I have read the case. I still have nightmares about being unprepared in my law school.

When we talk about the airline industry, we are talking about not just airline companies. We're also talking about a huge infrastructure, an infrastructure which includes the airports that have to expand and contract and maintain the capability to be the end receiver of all the passengers in the place it begins. It also includes government, and it includes a society.

Let me go back briefly here before we get started. Just a little bit of a history I think is in order. The contemporary development of the airline industry is something that we don't often talk about. In the '50s, the airline industry of the United States was pure transportation. It was a little bit unavailable to the majority of people. In the '60s, it was not just transportation, but with the advent of the jet age, it became part of the American dream. The term "jet set," for instance, the idea that you could aspire to get to the point of having enough money to be able to fly anywhere any time. It was something that was a comfortable position of wealth to which we could all aspire.

The '70s brought the beginning of democratization of the airline industry with 747s and DC-10s carrying more of us for less
cost because we ended up with Super-Saver fares and things of this nature. And with the Deregulation Act of 1978 and the advent of the ‘80s and deregulation, the tumult of the airline industry going through a revolution, ended up basically in causing a complete re-definition of what the airline industry was. What it clearly became was part of our way of life in the United States.

It was a new way of life available to all of us. And in the ‘90s, that relation was cemented, although somewhat muddy, because one of the things that we ended up doing was devaluing, devaluing the idea of transportation by airline to the point that we would put an individual in one seat for $2,400 and seat next to him an individual who paid $150 for the same ticket, and next to that, somebody who was paying nothing because they were using a frequent flyer award. In other words, we got confused over the fact that it costs money, and a lot of it, to provide airline seats and to do it safely as we do.

Let me give you a couple of not just definitions, but I think, axioms to get this started. These are the things that we want to talk about today. The shock of September 11th has caused us to go back and redefine what this system is and what it means to us. Axiom number one: The airline industry of the United States is a vital and indispensable part of American life. Axiom number two — and by the way, these are axioms that everybody can shoot at — The airline industry of the United States is a vital and indispensable necessity for American business, for the conduct of American business. Axiom number three: The airline industry of the United States is a vital and indispensable pillar of our economic stability. That’s another one that we need to look at.

How do we make it safe after September 11th? How do we, as a nation, ensure its survival? And should we? What are the consequences of failure to whatever degree? Those are the issues on the table. I’d like to start by turning this over to Dr. Michael Cox, who’s been gracious enough to come to talk to us about the fiscal side.

Dr. Michael Cox

I must tell you before we get started here that I’m not from the airline industry. I’m from the Fed. I’m not here really representing the airline industry. I have no air transportation product to sell you. What that means is that I hope to bring you just some facts. You can make up your mind about how important
the airline industry is to the economy from those facts and how
safe air travel is and so on.

Let me give you a little history of the airline industry. I want
to look at air transportation and the overall economy. First,
Americans first started to fly commercially around 1926. This
data takes you back to 1930 and shows that the number of air
miles traveled per capita. So today, the typical American flies
about 2,300 miles a year. That is the total number of miles this
nation flies divided by the total number of people, including
babies and including people who don't fly at all. This is just a
simple ratio just to show you how big this industry has become.

In 1971, about half the population had flown on an airplane
during their life, population age 17 or older. The latest statistic
we have on this from the Air Transport Association of America is
that about four-fifths of Americans have flown during their life-
times, age 17 and over. In 1971, one-fifth of us had flown over
the last year. Today, it is twice that many, two-fifths. And of
course, many of those people do not just fly once or twice a year.
They fly a lot. It's like me. I fly probably 100,000 miles a year
minimum.

In 1950, we had about 6,400 airports total, including public
and private airports. We have three times that many today,
19,000 airports. One of the reasons, one of the greatest reasons
that air travel has spread across the nation is it's become very
cheap. The jet set used to include society's wealthiest people.
Even Ricky and Lucy rode the train if you watch I Love Lucy. If
you were going to be an entertainer, you had to be at the level of
Peter, Paul, and Mary to get on a plane and fly. But today, of
course, the jet set includes all my students over at SMU who feel
it's their birthright to bop down to Cancun during the spring
break for $199 round-trip airfare. It's a way of life that, of
course, we enjoy, and we don't want to give up. I really don't
think we will. I'm convinced that we won't have to.

How many hours of work would you have to put into your job
for a typical middle-income worker in America in order to af-
ford to fly 1,000 miles? The answer is 221 hours of work back in
1926 but less than 10 hours of work will buy you 1,000 miles of
air travel today. That's just a little over a day of work. You can
get 1,000 miles via air travel. So, the reason it's become cheaper
is because it has become more prevalent in society.

Now, I want to argue that another reason that it has been —
has spread throughout society — is because never in the history
of mankind has there been a safer form of travel. On average,
from 1903 to 1913, over 10,000 people died per year in train-related accidents—10,000 per year. That's people on the track and hobos. That's people in the trains. That's people working in the yards. A lot of those people were passenger deaths. America accepted that because train transportation was better than by carriage, which was very risky itself. It was better than traveling by a horse. It was inexpensive in terms of its toll on human life even compared to other things at 10,000 people a year.

Now, this is what we pay to be able to drive our cars. Americans, over the five years on average, from 1946 to 1950, Americans drove about 400 billion miles a year as a nation. Today, we drive 1.5 trillion miles, on average, over the last five years. We averaged, over the last five years, about 42,000 deaths per year. That's about 120 to 130 a day. You can do your own math: Divide it by 365. It equals 130 a day. That's how many people die in automobile accidents. But we don't really report them. Why don't we report them? Why don't we worry about them so much? First, we don't report them because we don't have time. If we were to show all 42,000 automobile deaths on TV every year, time after time after time, like we showed that plane, those planes, the 737, I guess, crashing into the twin Trade Towers, you would never have time to watch all those 42,000 things. Second, you wouldn't get back in your car. Another reason people will continue to drive their car even with this kind of risk is because they're behind the driver's seat, and they feel more comfortable. But even the automobile industry is succeeding at reducing the death rate down to about 83 people per billion miles traveled, from 1946 to 1950 to 28. That is a huge reduction in the death rate with air bags and things like this.

How does this compare to air travel? Here's the air travel data. Americans from 1946 through 1950 flew an average of eight billion miles a year, and now we fly 630 billion as a nation. The death rate per billion miles flown is 0.14. On average, ninety have died from 1996 to 2000 in the United States in air-related accidents—90, not 42,000. That rate of 0.14 is 1/194th that of automobiles. Even including the deaths that happened this year, this number is still an extremely low rate. If you were to get on an airplane and fly and get off that plane and get on another airplane and fly and do the same thing forever, your life expectancy would go up. The reason is because you wouldn't be driving your car. I'm not putting down cars. Don't get me
wrong. I love the car industry. I drove over here. But I think we have to get a grip on the cost benefit analysis that you and I and every one of us face every year in every one of our activities.

What we’re having right now is a tremendous amount of ignorance. The word “ignorance” doesn’t mean stupid. It doesn’t mean dumb. It just means ignoring the facts, seeing the facts and choosing to ignore them. We are ignoring the facts about this, and in doing so, we are creating far too much scare around air travel. I made a list of twelve things, which I’m not even going to go over, of what we can do to make air travel more safe, and some of which we’re already doing. One of them happened automatically.

Now, let me ask you this: How many people out there, if faced with a situation like what happened on September 11th where people start to take over the plane, how many people are going to sit in their seat and do nothing? Hey, that means that the likelihood of anybody standing up and saying, “I’m taking over the plane” has just gone to zero if they have any sense at all. They know that we know what happens with this plane. We’re not going to allow it. Therefore, we’ve already got 200 air marshals on board. That’s us. That’s already happened. We just need to realize that.

Now, let me rank for you what I see as the sectors most affected by the terrorism incidents and the economy, and what percent they are of the gross domestic product. Air transportation alone, just the service of air transportation, is about nine-tenths or one percent of GDP. If you were to rank these sectors by what’s the most effective to the least effective, I would put a nine by that one, and the only reason I don’t put a ten is because even if we didn’t transport people, we would still be transporting packages.

Services to the transportation industry like travel and so on, of course, gets heavily impacted. Hotels and lodging places are impacted when folks don’t travel for recreation and leisure. The production of airplanes and even cars is impacted because we don’t need as many rental cars at the airports when people don’t travel. That gets impacted. Taxis that drive folks around as part of interurban transit, the taxi drivers in the cities I’ve gone to are complaining about the lack of passengers in their taxis.

Business services, a portion of that is going to be affected because we don’t have as many conventions. I’ve had three of my conferences that I was speaking at cancel. Membership, organi-
izations, the same thing. Even oil and gas extraction, we’re not going to use as much jet fuel if we’re not going to fly as many planes. That’s affected. Retail trade is affected simply because people spend some money when they’re out touring and also when they’re at the airport. All of these sectors will be affected to some degree.

If you add it all up and put some multiples on it, it would turn out to be somewhere between a four and five percent reduction in GDP if we were to wipe out the air transportation industry, just a fact. That’s far too much to allow the economy to have. That would just be the first-round effects. Of course, that’s not going to happen. We’re not going to allow the transportation, that part of our lives, to be eliminated. There are too many things we can do about it with technology and so on.

Now overall, this is the way the economy is broken up. GDP is more diversified than ever. The entire transportation sector is 2.9 percent of GDP. I put this up here to give you some feeling of good news. This is a very diversified economy. In 1947, if you were to take agriculture, manufacturing, and retail trade, just three sectors of the economy, it would have made up 49.7 percent of the gross national product. Today those three sectors make up only twenty-five percent of gross national product for a much more diversified economy than ever. So, it’s much harder to hurt our overall economy. Thank goodness.

So, I say in conclusion, we should keep the faith. The first coast-to-coast flight in 1930 was a $200 flight, which in averages of that day, would have been 366 hours of work. Today, it’s just 16 hours of work for a coast-to-coast flight. Two days of work and you can get on a plane and fly coast-to-coast.

And finally, let’s keep a perspective on this. There are some people that like to talk about how inconvenient air travel has become. But you know what? Some of society’s richest people were willing to get on this plane in 1930, American Airways — at that time it was called American Airways — for a tri-motor plane, fly 2,000 feet above the ground at 120 miles an hour, making ten stops overnight, one of them in Kansas City, to get to their destination in over two days. They carried all of their luggage on board. They plugged their ears with cotton. The plane wasn’t pressurized. It wasn’t heated or air-conditioned, and their feet would swell and so on. They went through all this inconvenience just to travel. I think that if rich people in society back then would do it, certainly today we’ll do it as well.

Thank you.
John Nance (Panel Moderator)

We’re privileged to have all these gentlemen here, but there’s one in particular that I want to point out. Chairman Al Casey literally brought American Airlines to the Dallas-Fort Worth area a long time back. The chairman has had a tremendous history in aviation. Al, could we get you up here and then get your perspectives, please?

Dr. Albert Casey

Everyone feels their industry is special and a major contributor to our economy—more than any other—and therefore, they are due special consideration in times of panic caused by terrorism. Thus, the government and the public should understand and be sympathetic—as theirs is a special case.

Now, the question is: are the airlines truly a special case?

Believe me, the airline industry is one of a kind. The public generally views it as a public utility, and it expects our government to protect it from monopolistic prices and unfair competition. But, of course, the airlines must continue to provide bargain fares.

To date, the airline industry has been assigned $15 billion of emergency funds—of which $5 billion has been distributed and another $2 billion is ready to go. Also, the insurance industry wants the government’s help in covering future terrorist attacks. The hotel, car rental, and fast food industries also all pronounce themselves in need of governmental financial support.

President Bush’s senior economic advisors told lawmakers on October 24, 2002 that the nation would face an economic crisis if Congress failed to guard the insurance industry against losses from future terrorist attacks.

They said that construction, manufacturing, and other projects in such industries as energy and transportation would grind to a halt as bankers and others lenders stopped offering loans or raised their rates because insurers were unwilling to renew their coverage for terrorist attacks.

Treasury Secretary Paul O’Neill testified, “We’re facing a cliff. The administration believes the economy is facing a temporary, but critical market problem in the provision of terrorism risk insurance.”

He went on to say, “Keeping our economy moving must be our overriding concern. Leaving this problem unresolved threatens our economic stability.”
On September 25, 2002, under the most likely arrangement to survive, the government would not provide any assistance until after the insurance industry suffered significant losses, possibly as high as $10 billion from any terrorist attacks next year. Then, the government would contribute 70-90% above a deductible. (The earlier plan proposed that the government cover 80% of the first $20 billion in losses next year and 90% of additional losses.) So, you can see the final terms are still in a state of flux.

The Treasury, under O'Neill's plan, would have the authority to audit insurers and force them to make disclosures. This would be a new role for the federal government, which heretofore, has left insurance regulation to the states. This agreement is between the Senate Banking Committee and the White House. The House of Representatives has yet to be heard from.

Thus, the pot boils, and the role of government aid becomes ever more complex.

Now, the task of distinguishing deserving claims from bogus ones starts with a simple question: does the distress in a given industry cause only local hardship or does it cause wider chaos?

After the terrorist attacks, the Federal Reserve rightly offered unlimited loans to the banking industry because cross-lending between banks means that distress in one will spread quickly to others and because distressed banks can destabilize hundreds of businesses. By contrast, the closure of a particular hotel or fast food chain has very few ripple effects.

The “Ripple Test” suggests why Congress was right to help the airline industry. The closure of one or two airlines might not be a bad thing. But the collapse of more than half the industry, which seems possible, would hurt thousands of firms that rely on air transport to move employees and goods.

The selection of which airline to help is a most delicate question. The government must give money only to the airlines that can prove they are viable. This might require renegotiating labor contracts, airline purchase commitments, and other obligations. Today, there are at least two to three hundred surplus commercial airplanes available, and some estimate this number to be as high as one thousand. This, of course, lowers the collateral value of planes already owned.

As an aside, the September 11th crisis has caused United States industry to rethink many accepted business practices. For example, once all planes were grounded on that fateful day,
there was chaos in the plants depending upon "Just in Time" inventory procedures.

Several plants closed at Alliance airport, just north of D/FW or came alarmingly close to it. Businesses are grappling with striking a balance between "Just in Time" and "Just in Case"—that is of staying efficient—while boosting the security of supply chains. Executives are weighing the need to accept some redundancies and inefficiencies in their operations, possibly increasing inventory levels and maybe even locations. Both Ford and General Motors shut down production at plants in the days following the attacks.

Now, a bit of history: In the late 1970's, Bob Crandall and I fought a losing fight against the "Deregulation of U.S. Airlines." The outcome of the legislation was foreseeable due to the climate of the time, namely—"Let free competition determine prices and services"—and "get government off the backs of private enterprise."

Following de-control, all airlines wanted to put their planes in the air for as long as possible on long-haul routes, which are the most profitable. Thus, the routes of American Airlines, which were basically then trans-continental and semi trans-continental, were popular targets for other airlines. And we knew this.

Subsequent facts bore this out. Eastern Airlines came into the cross-country flight arena with a $99 fare, which had to be matched due to the fact there is little or no product differentiation. And the long road downhill for the industry was on its way.

American fought deregulation for years by pointing out that markets like New York City and Los Angeles were awarded to TWA, United, and American only if we, in turn, agreed to provide service to Providence, Rhode Island and stations in upper New York. Thus, under the Civil Aeronautics Board, the airlines were used to help develop the country. This practice is similar to land grants to the railroads and many homestead acts in the Nineteenth Century.

All this programmed expansion of service to less populated areas went off the board when airline deregulation legislation passed. And, as it was easily forecast, the smaller markets were abandoned by the airplanes. Some retained prop jet service, but for the most part, airlines withdrew from the markets that had been forced on them by the Civil Aeronautics Board, which incidentally, went out of business.
Thanks to Bob Crandall and his team, by the time deregulation became effective in October 1979, I believe, American was more prepared than most to operate under the new guidelines.

We worked during all the delays we caused. First came the establishment of the hubs in Chicago and Dallas. Then Super-Saver fares, followed by Yield Management, which is important. The latter was a new process to open reservations a year before the scheduled flight date and control the seat availability and prices as the flight date approached.

Now, during the Darwinian struggle of the 1980’s following deregulation, dozens of airlines folded. They either went bankrupt or were acquired by the survivors. The remaining few—United, Delta, Continental, Southwest, Northwest and American—expanded and competed fiercely on prices, leg-room, loyalty programs, and alliances with foreign carriers. Others, such as US Air, did not have the financial strength to compete effectively.

As the battle went on into the 1990’s, operating costs rose exponentially, particularly the largest cash drains. Every airline has three enormous cash drains: cost of aircraft, payroll, and fuel prices. The cash drains went through the roof. Life in the airline industry became very, very difficult.

The possibility that United and US Air might merge in the mid-1990s was a distinct threat to American. Also, the emergence of Continental and Southwest, the lucky devils that didn’t serve meals, they haven’t have a problem, because we’re not going to serve meals now either. This development coupled with a shaky economic outlook was certainly enough to cloud the outlook for the fall of this year.

Following the terrorist attacks of September 11th, there was total panic in the airline industry at the highest level. It is no wonder. No industry in our history has ever faced such a sudden crisis or such an uncertain outlook. It is staggering—overwhelming—truly incomprehensible that it actually happened. Since all U.S. flights were grounded on September 11th, the airlines have bled about $1 billion. The immense losses are continuing because the airlines are now flying, at the most, half full.

Now, for a quick look at some of American’s competitors. US Air was particularly hurt by the closing of Regan National Airport in Washington, D.C. Many passengers are finding they can easily drive the distance of many US Air’s short-hop east coast routes.
Today, US Air is frequently mentioned as one of the two or three most likely candidates to seek bankruptcy law protection. It is the leading carrier at Reagan National with 45% of the airport’s daily departures, including its premium-fare business shuttle flights to New York and Boston. Last week, it cut 11,000 jobs and said it would reduce its capacity by 23%. Also, it announced that it is retiring more than 111 jets from its fleet by April 2002. US Air is essentially a regional airline with the cost structure of a big international carrier, flying too many short routes, which are not balanced by enough lucrative long hauls.

Like its competitors, US Air is in a survival mode today, struggling to secure its federal bailout, recalibrate a reduced flying schedule, and let go thousands of workers. But at the same time, it has one of the most sympathetic audiences imaginable. The members of Congress are heavy users of airlines at Reagan National Airport.

Now, as to America West. America West, and you may not know this, is a big airline. It is the eighth largest airline in the country. Today, they have less than $80 million in cash, down from $124 million in June 2001.

Mr. Douglas Parker, CEO of America West, said, “We need a cash infusion immediately or we shall have to seek shelter in bankruptcy court.” It has drawn down the maximum $95 million on its revolving line of credit. It is already working with its vendors, asking them to delay demands for payment.

Now, as to Delta, Mr. Leo F. Mullin, Chairman and CEO, has become a leading spokesman for the airline industry in our Nation’s capital. To quote him, “This is a tidal wave that unabated, could engulf us all.”

Their loads are abysmal with fewer than half the seats occupied while operating costs, in the face of tighter security, are spiraling. As a result, Delta plans to reduce its capacity by fifteen to twenty percent.

Delta is the least unionized of the major airlines, with only its pilots and a handful of dispatchers and pilot ground instructors having union status, which of course gives them more flexibility than the rest of us. It has one of the strongest balance sheets in the industry, with $2.5 billion in cash and a relatively low debt-to-capital ratio.

Delta owns almost $9 billion in unencumbered aircraft. However, Moody’s Investor Service and Standard and Poor’s cut their debt rating on Delta’s debt to junk bond level in the wake of the Trade Tower attacks. The debt ratings of other U.S. air-
lines have also been downgraded, and, today, Delta boasts the second strongest rating after Southwest Airlines.

As Delta's Mr. Mullin was quoted, "We are clearly one of the very best in terms of financial strength. However, all of the airlines will need help, including those in the best of financial shape."

Now, as to Northwest Airlines. Without government assistance of $249 million in September and excluding "one-time items," the airline would have lost $100 million. But thanks to the help, it reported earnings of $19 million compared to $207 million a year earlier. Northwest suspended service for four days and reduced its flight schedule by twenty percent, permitting a reduction of 10,000 jobs. They reported that their daily cash loss is about $7 million a day.

To save themselves, the airlines are frantically cutting jobs, approximately 20,000 a piece for United and American and industry wide 1,200,000 for 2001.

The AMR Corporation, the parent of American Airlines, posted the largest quarterly loss in its history last Thursday after an already difficult third quarter was turned into a financial disaster by the September 11th terrorist attacks. AMR, which bought Trans World Airlines this year and is now the world's largest carrier, lost $414 million, or $2.68 per share in the third quarter, compared with a profit of $315 million, or $1.91 a share, in the period a year ago. Everyone is breathless.

Without the company's share of the $5 billion in emergency cash assistance given to the industry by the federal government, AMR's quarterly loss would have been $922 million—evidently they have already received $500 million.

On Thursday, October 25, 2001, the Department of Transportation said it is ready to distribute another $2 billion in airline aid.

Despite paring twenty percent of its flight schedule and cutting 20,000 jobs, AMR expects to lose $10 million to $15 million a day during the current quarter.

Even before September 11th, the airline industry was facing one of its worst downturns ever. Revenue for each seat mile flown was down ten percent as the boom in business travel of the late 1990's ended abruptly. But after the attacks, revenue per seat mile plunged to forty percent.

American plans to ground seventy older jets and has cut expenses such as in-flight meals. The airline has also cut its capital
budget for next year in additional $2.5 billion after trimming $1 billion before the attacks. The airline will defer twenty-nine of the forty-five jets it expected to receive next year from the Boeing Company until after 2003.

Counting the government aid, $820 million borrowed the day after the attacks, and $1.6 billion raised by mortgaging some of its planes, AMR has $2.3 billion in cash. It also has $8 billion worth of airplanes it can borrow against.

Incidentally, on October 25, 2001, ground workers voted 94% in favor of a three-year deal. These unions represent nearly 55,000 employees—or almost 50% of the total. Flight attendants—about 23,000—approved their contract on September 12, 2001, the day after the crashes.

As for American’s arch rival United Airlines, last week, James E. Goodwin, UAL’s Chairman and Chief Executive, told employees that costs were exceeding revenue at four times the rate before September 11th, when the company was already posting huge losses. He warned that if the situation did not change, UAL would “perish sometime next year.” United will announce its earnings on November 1, 2001. Also, over the weekend Mr. Goodwin was let go and replaced by a Board member. Remember, United now has union representatives on its Board of Directors. Chaos prevails.

Airlines simply cannot cope with a sharp fall in revenues. They are capital-intensive and need to maintain a network of service, which means high-fixed costs. Airplanes cost up to $200 million each, and an airline must fill three-quarters of its seats to make money. Even a fall of five percent in traffic can wreck the operating economics.

Before September 11th, this country’s airlines were forecasting losses of $3 billion. Now, that number will be at least $5 billion for 2001.

In closing, let us pause and look at the United States airline industry as an investment. In my opinion, absolutely no one that had an ounce of intelligence or advanced business training would turn to the airlines for either investment or career purposes. The airlines are capital intensive, labor intensive, and cyclical. I believe more dollars and more ambitions have disappeared down this vortex than any other in our society.

Throughout the years, the industry has only been sporadically profitable—since Wilbur Wright pushed brother Orville off the bicycle seat eighty-five years ago.
Remember what Bob Crandall told you yesterday. From Kitty Hawk to 1992, the airlines lost $15 billion; then from 1993-1999—they made $28 billion. And that is rapidly disappearing this year. Its service offerings are in units of 100 seats or more. Thus, if it can’t reduce its product supply proportionately to a shrinking market, many other industries can.

As the economy slows, it is most difficult to adjust in the short run, so it oversupplies product. Its most productive period is when the economy is turning up and more seats are filled before we realize it. It is a highly visible service business with all the problems and pleasure associated with accommodating the traveling public. It is exciting and in a constant state of flux—highly competitive, and plays an integral role in our business world.

Yes, I believe it should receive government financial assistance. However, it should receive this aid on a highly selective basis. And therein lies the problem.

My role here is to pose this problem. Your role is to propose the solution.

John Nance (Panel Moderator)

Thank you, Mr. Chairman. There’s another gentlemen here who we have to call “Mr. Chairman” too. He’s a gentleman I have watched for many years take a noble institution and make it even more noble, the National Transportation Safety Board, under the tutelage of Jim Hall, achieves new heights of performance and reliability as one of the elements of the heart and soul of aviation safety. Jim, thank you very much for being here. Come on out.

James Hall

It is an honor to be here. But had I known I was going to have to follow Dr. Casey, I would have declined. I want to compliment the Dean and the students for putting this panel together. I assume that classes have been let out because it is so well attended. I really think it is very important.

We live in a very small world brought together by aviation and by communication. For so many to be actively involved in what obviously is an event that is going to impact the rest of your lives, I want to compliment the school for doing that.

I am honored to be a part of such a distinguished panel. I had the honor to work at the NTSB and serve as Chairman for
seven years. The NTSB is responsible for the oversight of transportation in all modes of transportation, not just aviation. Thus, I was extremely interested in Dr. Cox’s presentation on transportation safety because the Board is involved with highway, marine, and railroad safety, as well as pipeline and hazardous materials safety. All are very important issues.

To the subject of freedom versus fear. Obviously, we all have a lot to fear because all of us have the images of September 11th in our mind. The public is going to have a difficult time dealing with those images as we try to rebuild the confidence in the security of our aviation system. This conference could not be more timely.

A very important debate is taking place in Congress on the issue of strengthening commercial aviation security. In fact, two very prominent Texans are heavily involved with this debate: Senator Kay Bailey Hutchinson and Congressman Dick Armey. Before being elected to serve on the Senate, Senator Hutchinson served as acting chairman and vice-chairman of the NTSB.

I have been concerned about this debate because I feel that much of it is centered on the question of whether pre-board screening operations at the nation’s airports should be completely federalized. While the sometimes partisan debate over federalizing airport screeners is well-intended, it has in my view focused on the wrong subject. The main focus should not be on whether screeners should be government employees or private contract workers, but rather on what caused the problem in the first place.

The inadequacies of our aviation security screening, as well as the system as a whole are the result of a deeply flawed system caused by the collective failure of the government and the airlines to provide a structure that is adequately funded and contains provisions of accountability. These problems cannot be explained simply by pointing a finger at private-sector screening personnel. Rather, they are the result of the government – at the urging of the airlines and others – to leave the responsibility up to individual airports and airlines, which in turn, demand private bid packages that force contractors to pay hourly wages barely competitive with fast-food hamburger chains. And it resulted in a system so loose that even convicted felons were able to gain employment as screening personnel.

As a member of the White House Commission on Aviation Safety and Security during my tenure as Chairman of the National Transportation Safety Board, I toured and studied airport
security programs at numerous domestic and international airports. It was apparent then, as it has become painfully so now, that the American system was woefully inadequate. That Commission made a multitude of recommendations to begin improving the safety of our air transportation system, including increasing the professionalism of passenger screeners. Although some have been implemented, more work needs to be done.

As part of the multifaceted response to the September 11th tragedies, the Senate has approved legislation that would make pre-board screeners federal employees. The House of Representatives, meanwhile, is preparing to debate the status of screeners as part of its version of aviation-security legislation. Many House conservatives and moderates are opposed to staffing passenger-screening posts with a new cadre of federal workers.

While there are persuasive arguments being made on both sides of this issue, I believe that private-sector contractors are fully capable of handling the job if there is a system of government oversight that will provide adequate levels of funding to put in place the newest technology and to implement a positive bag match program. We need to focus on not just the passengers, but obviously on the security of the entire aircraft and system. It also must ensure high levels of pre-employment screening, ongoing training and, most importantly, accountability. These steps must be taken regardless of whether the system is federal or private.

There are many examples of the effective use of private contractors in high-security areas. The Nuclear Regulatory Commission, for example, allows the use of private security personnel to help safeguard the nation’s nuclear reactors, materials, and waste facilities. This approach succeeds because private contractors operate under an oversight system that holds them to high professional standards and does not force bargain-basement competitive bidding.

The point is that the litmus test on the best way to increase aviation security should not be on whether airport screeners are federal employees or private contractors. Rather, it should be on which system has the best chance of succeeding and guaranteeing security over the long run. Only through a system-wide approach can we ensure the timely implementation of technology and the highest level of security for all Americans.
I believe one solution lies in a public-private partnership that puts together the advantages of both. The best model for this can be found in the United Kingdom. Under the British system, either private-sector contractors or public airport personnel perform pre-board passenger screening under strict government oversight. They are held to very high standards. This system works. But regardless of what Congress decides on this particular issue, it ultimately must address the aviation security system as a whole. I am confident that the members of the House and Senate in conference will accomplish this task when they marry the two bills.

The responsibility for implementing this new system and ensuring that new regulatory standards are met should be placed in the new Office of Domestic Security, where clean lines of accountability can be established. It should not be buried within the multi-layered bureaucracies found in the departments of Justice and Transportation. Additionally, I believe an independent board or agency that would function much like the NTSB should be created to serve as an integral part of a new system of checks and balances. In essence, it would be a watchdog on behalf of the American public regarding aviation security. And it can be in place once our attention and the attention of the media has moved from this important issue.

The U.S. aviation safety system, which Dr. Cox gave you the statistics on, has been a model for the world because of the hard work of FAA regulators, airline employees, and the dedicated employees of the NTSB, who continually monitor the system through its investigations of accidents and incidents. The independent safety board has never been afraid to speak out to protect the interests of the traveling public. There needs to be a similar independent voice to ensure that those responsible for aviation security are held accountable.

As it deliberates, Congress needs to remember that the system failed—not individuals. If a new security system, such as the one I have described, is implemented, concerns regarding private-sector passenger screeners will be moot.

The time for decisive action is now. It is imperative for Congress to make the systemic changes that are needed, not only to address the problems of the past, but also to create a model of security that is strong enough—and flexible enough—to keep us safe and to rebuild confidence in the future. I would encourage those of you who—because I think you will be the users
of this new system—continue as you are doing. Follow this debate, be knowledgeable, and express your opinion.

Thank you.

Ray Hutchinson

Thank you very much. Ladies and gentlemen, I’m delighted to be back at SMU and am delighted to be with this distinguished group. I’m going to talk very briefly about a subject that you don’t hear a lot about but is so intimately involved in this whole process of security as a result of September 11 activities.

When I was looking at Dr. Cox’s slides a little while ago of the planes flying at 2,000 feet, I remember that in the regulated environment, that was also referred to by Al Casey, the CAB ordered that airlines taking off from Love Field in Dallas in planes looking about like some of the three-motored jobs that Michael mentioned, must take off at Love Field, fly 2,000 feet across the county line and land at an airport called Greater International Airport and pick up passengers there before it could go to Austin, and then reverse it coming back.

The population of this community, North Texas, as well as the governmental intervention, had enough in about 1967. The two cities, after about 20 years of wars over where we’re going to fly these airplanes, were told by the CAB that, “If you don’t settle the war, we’re going to order that Dallas and Forth Worth be overflown and that if you want to go to New York, you’ve got to go to Houston first,” and vice versa. That got the movement under way to create in the beginning of 1968 what we now know and call the Dallas/Fort Worth International Airport.

It’s been my happy experience as a lawyer to represent that airport since the two cities were not speaking to each other. And this is a literal truth. The city attorneys would not speak to each other. They’d see each other on the street from Dallas and Forth Worth. One would take the other side. So, they needed a third party, someone who at least could go and knock on the door and hopefully get it opened. That was my luck as a young lawyer.

Having represented D/FW, Houston Intercontinental, Austin Bergstrom, El Paso International, and having been involved in Memphis and others, with Federal Express and Alliance, it’s been an experience in which we sometimes lose sight of why it’s
relative and relevant. In particular, we sometimes fail to ask the question that’s so important: Who pays for this?

It may surprise you to learn that D/FW Airport, like most of the major airports in the nation, are not supported by tax dollars, that is, local tax dollars. They’re not supported by contributions from the owners. Dallas and Fort Worth do not pay money from property taxes or sales taxes to support D/FW or Love Field. So the question is who pays for it?

Then, there’s some other questions that are equally important. That is some rather fundamental self-truths. It takes at least two airports to have a system. You can’t have just one. So, the question then is who pays for both of them? If you have any kind of system at all, you may need a few more in order to make it a system of public transportation. And who pays for them? Then you’ve got to ask the question, well, who’s going to use it? You’ve got to have at least one airline that’s healthy. If you don’t have that one, you don’t even have a chance. And the fact of the matter is, if you have only one, you don’t have a chance.

It’s an industry that feeds on itself. Airports are an integral part of the system of air transportation. They are paid for by no one other than the airlines themselves and occasionally, through passenger service charges and the like that the federal government authorizes in interstate commerce. They’re paid for almost exclusively by the airlines.

An airport is a part of the public infrastructure. It’s like a street, a sewer system, a city hall, and the fact is, that the day you build it, it begins to get old. It deteriorates immediately. It stops its value. The minute you cut the ribbon, you go buy the concrete for the repairs. That’s the life, the same life that we live, and the public infrastructure lives the same way. Thus, on September 11th, that occurred at a time at D/FW when they were in the process of trying to arrange for the financing of anywhere from $3 to $5 billion of public infrastructure improvements. The same is true at Houston Intercontinental. The same is true at JFK in New York. The same is true all over this nation. There are literally billions and billions of dollars of bonds that are payable from the revenues of an airport that are owned by guess who? As we used to say in law school in the old SEC classes, the widows, the orphans, and those folks.

How they’re going to be paid if you don’t have an airline, at least one? On September 14th of this year, Moody’s and Standard & Poor, that rates all municipal bonds in the country, issued a press announcement placing all North American airports
on credit watch. The ability to finance public infrastructure in that area halted immediately. They decided and announced that this does not mean that every airport is bankrupt. But it says, "We want to freeze things in place until such time as we can analyze each airport on a case-by-case basis. And then we can make a determination as to whether the widows and orphans ought to be asked to loan more in the future."

In much of the aviation industry, the question is still unanswered. But I’ve got some numbers that we’ve just completed in order to address that that just may give you some sense of relativity of what’s happening at the airports after September 11th in fact, not what the airlines say, not what investors may fear, what’s happening, what’s really happening.

Airports are paid for by airlines based on, generally speaking, landings and takeoffs. If you land and take off, you pay rent. If you’re the only airline standing, you get the whole bill. And you effectively have the privilege, American, if you want to be the 70 percent dominant carrier at D/FW, that means you’re going to get the privilege of paying 70 percent of the costs after you deduct the rent to the hot dog vendors and so forth.

But that’s the way it works. In D/FW, these are numbers taken from published materials from the Official Airline Guide. They give the jet departures in November of 2000 and compare them with September of 2001 and then November of 2001 based on the projections. Jet departures at Dallas-Fort Worth are down by thirteen percent from November of 2001 and fourteen percent from in September compared with November of 2001. That’s not bad.

Given the environment, relatively speaking, that’s pretty good. If you look at Los Angeles, for example, these are domestic, they’re down twenty-five percent. This doesn’t say it gives you the number — we give you the number of seats that are available. It doesn’t give you passengers because that’s not relevant to an airport. The airline pays based on landings and weight of the aircraft, not who’s riding in it. So, that’s how they’re financed. But the usage is down.

In the international arena, this is extremely difficult. New York JFK is down twenty-one percent. Honolulu is down about thirty-five percent. Dallas-Fort Worth is down twenty-three percent in the international arena. And then you look at some of the others: Minneapolis, LaGuardia, Pittsburgh, and others. It soars. This is what’s happening. This is why these issues are important.
The question is how do you reverse it? Obviously, you reverse it as it relates to airport financing. You reverse it by getting the aircraft flying again, more than one, at more than one airport. The way you do that is to restore confidence, we believe, in the traveling public, that it really is safe. And I wish they could have seen Michael Cox's presentation in that regard, and I'll be happy to review any of these other numbers with you later.

Thank you.

**John Nance (Panel Moderator)**

Before we go any further, and I wanted to bring the Dean into the conversation, Dr. Michael Cox has got to leave very shortly. If any of you have any questions you've been harboring for him, before we get the general discussion started, I'd like to go ahead and open the floor for Dr. Cox. Any burning questions from the audience here?

Q: How has Dallas-Forth Worth been affected by the downturn in air travel and the way the business is?

**Dr. Michael Cox**

Well, not just Dallas-Fort Worth, but Texas as a whole. Texas as a whole is being hit by four things right now: Number one, the airlines are a large part of our industry, of our economy. Of course, Southwest is not being affected as much as, say, the other airlines, but still they're being affected. Houston is a hub for Continental. So, airlines are a big part of our overall economy, our airports. The second thing we're being affected by is that it's much more difficult to get immigrant workers back and forth across the borders. Sometimes the wait is four hours just to go one way.

So, there are not as many shoppers coming from Mexico up to America. There are not as many workers coming from Mexico to America as there used to be. That's kind of hard for the economy to take. The third thing is that oil and gas, of course, prices haven't gone up, which is in Texas. As the net supplier of those, in fact, it probably has slipped a little bit, which brings in less revenue for us. What is the fourth thing? Then you can [unintelligible] our economy, yes. Our proximity to Mexico not for border things, but just for, say, maquiladoras. The maquiladora industry is taking a big hit in Mexico. As United States residents buy fewer manufactured goods in an economic slump, fewer of those folks have money that they can spend on import-
ing goods, which in Texas, is more impacted by that than any other state in the nation.

Texas used to lead the nation in growth. For the past ten to twelve years, we have grown faster than the rest of the nation. The unfortunate anecdote is that we’re probably growing slower than the nation now if we’re attracting a little bit more because of the quadruple whammy we’ve received. It’s not as bad as you would think.

When Texas got hit by the drop in oil prices from $30, $40 a barrel to $12 or whatever it was back in ’85, ’86, we had the British Parliament come to Texas about five years after that and ask us, “How did you do that? How did you recover from that?” We just re-grew in a whole bunch of other sectors. Texas will do that. Texas is a very resilient state and has ability to recover from — to take the licking and keep on ticking probably better than just about any state in the country.

James Hall

Absolutely. We survived Sam Houston, didn’t we? I’m sorry, ladies and gentlemen. Thank you. Dr. Cox, let me ask one question before we get to the gentleman down here. And that is this: We hear figures of a dollar and the economy turns so many times, three-and-a-half, three times. I don’t know what the current wisdom is on that. If we invest a dollar of public money in the airline industry as we have just done, the $5 billion, how many dollars in terms of public overall economic benefit do we end up seeing that represent?

Dr. Michael Cox

Nobody has done an input/output analysis on the air transport sector, to my knowledge. I sat down and tried to do some truly back-to-the envelope calculations on this, trying to take account of the so-called collateral damage from the airline industry. If the airline industry gets hit and that spills over into other things, then eventually the last little ripple, and you add it all up, what does it wind up being? So, if I had to give — if you forced me to give an answer, I would say somewhere between $4 and $5.

James Hall

A significant amount, in other words.
Q: That kind of ties into the question I was going to ask. Could the airline industry stand another September 11th? We have the traditional warnings that something's going to happen, something's going to happen. That's very obvious, a very high-profile —

James Hall

I think the answer is yes. But I don't think it will have to. I don't think it will have to. I think the airline travel today is five times, at least, safer than it was on September the 11th, at least. We have so many things. Let me just get my list up here. Let me list twelve ways that airline travel is safer or can be made safer, and will be made safer. Some of it's already happened.

Number one, and these are in no particular order. Number one, the installation of more substantial, bulletproof entry doors between the cockpit and the cabin; number two, people aren't talking about doing this necessarily, but we're thinking about arming — not necessarily following through with it — arming the pilots and teaching them martial arts; number three, having the ability to release some kind of sleeping gas into the cabin that puts the passengers to sleep; putting plain-clothes air marshals on the planes; having the Air Force fly scrambling missions to shoot down planes — nobody's going to fly a plane if you're going to shoot it down — using iris scanners at the airports and linking the scans to passengers' data or criminal databases; putting airport security in the hands of somebody else, changing the system for more accountability I think is the number one thing. We've got to have accountability here. If I go to the doctor for my toe on my left foot and he cuts off my right foot, the doctor is accountable for his mistakes. And if we have accountability, then we'll have better security. We'll fix the system.

Number eight, random searching through passengers' carry-on luggage; number nine, prohibiting the carry-on of some kind of weapons or guns or something. They can't even have tweezers. These are things we've done. Number ten is what I mentioned earlier. The image that we have all burned into our brain right now of what happens if you let this plane be taken over by the hijackers, in other words, passengers fight back. Number eleven, stopping the policy of negotiating with terrorists. We had a policy before this. My understanding was that if somebody hijacks a plane, ask them where they want to go. But if you stop negotiating with terrorists, they don't have any incentive to. Number twelve, and I think one of the most impor-
tant things is disable — it’s my understanding that most of the modern jets have the ability to disable the transponder and then have the plane be landed by the final approach spacing tool, which an air traffic computer would land the planes in Dallas.

If the person who gets control of the plane cannot take the plane where they want to and somebody on the ground control says, “Whoops, no longer getting any signals of this plane” and they land it, you can’t take the plane where you want to. There are so many ways that technology and common sense can solve this problem. I don’t think we’ll have to solve that again, that problem. Anyway we have so many lines of defense and offense.

John Nance (Panel Moderator)

Dean, you had something that you really wanted to kick off with before we get a back and forth going.

John Attanasio

Yeah. I didn’t know I was going to have a placard. When I saw a placard, I figured I’d say something.

John Nance (Panel Moderator)

He who has a placard must —

John Attanasio

There’s one very important issue, which seems to me has been ignored. I do Constitutional law. There are at least three governmental powers that are involved here under the Constitution, which would make it necessary for the federal government to do policing here. The first one and the most obvious one is the power of interstate commerce and the power to control international commerce. This is probably the central regulatory power of the national government. It is the power that transformed the United States from a group of states into a nation. If there’s anything that strikes me that is centrally interstate commerce, it’s air travel.

Virtually every plane that gets boarded goes interstate. And even the ones that don’t link up with other planes that go interstate. Many of the planes go international. The power of interstate commerce gets talked about a lot more than international commerce. But the Congress has the power to regulate both, and indeed, has taken on the responsibility to regulate both. The second power is the central power of the executive branch
is the police power. The central power of the executive branch is the power to enforce the law. And to have handled all the policing of something as important, it always struck me as odd as I’d go through the line.

To handle something as important as the policing of the airplanes in a world in which hijacking has been a reality ever since I was a young kid, and that’s a long time ago, ever since 40 years or something like that, hijacking’s been a very stark reality, seems foolish to me. Now, it is true September 11th is a discontinuous event. That is that in September 11th, the hijackers no longer had the intent to use the plane as a means of transportation or to use the plane as a means to get their way for something.

The transforming event of September the 11th was to use the plane as a weapon, indeed as a missile. That brings up a third central power of the federal government, and with power comes responsibility. That is the war power. Currently, if we listen to what the federal government says, we are in a state of war. Congress has all but declared war on the people who hijacked those planes. And indeed, the act that occurred that day was an act of war.

It seems to me that that’s a third power, which behooves the federal government to engage in regulation here. Even under the most minimalist theory of the state, Milton Freedman, the Nobel prize-winning economist from the University of Chicago, posited a traffic cop theory of the state. Freedman said that if the State does nothing else, it has to do policing. Freedman also said it’s an interesting sort of addendum to the State, the police conception of the State, said that the State might have to regulate public utilities. That’s been something that’s been talked about, and it seems to me, a good characterization of the airlines, particularly since they lose money routinely. As a public utility, it strikes me as a real characterization.

Just to conclude, it strikes me as very odd that the federal government has not policed this area for such a long period of time. It also strikes me as very odd that the federal government, one month later, has not yet gotten its act together in terms of policing, particularly in light of what’s happened. And there’s one last point. There’s an argument that gets made that the cost of policing should be internalized to the air traveler. That argument I could see going both ways prior to September 11th.

It seems to me that that argument is far less persuasive post-September 11th than it was pre-September 11th. The reason is
that the airlines that were impacted on September 11th, as terrible as that event was to the passengers on those planes, for every passenger who died, many others died, because the plane was used as a weapon. At that point, the internalizing the cost, the cost of what happened that day, was not solely borne by the travelers who tragically traveled on that day. It was borne by the people as well who occupied the World Trade Center, the Pentagon, and thank God, the other buildings that were under attack, but did not succeed.

With that in mind, it seems to me again that centrally this is a police function, and centrally, this is a cost. It’s a danger that all of us face, whether we travel by air or not unfortunately. And consequently, it’s a cost that all of us should bear. Now, to suggest who should do the policing, that is, whether private concerns should be hired or whether the federal government should hire its own employees, is a question which is not within my range of competence. I have no idea what the right answer to that is.

I do know that when Constitutional powers of this magnitude are engaged, typically what happens is that the federal government does it itself. If the federal government doesn’t do policing itself at an extreme, and I mean extreme level of oversight and regulation is going to have to take place. Otherwise, this will continue to be something that in Sesame Street, where one of the games played was “one of these things does not look like the other.”

It seems to me all the other police functions that we have that are similar are run by the State. This one would be anomalous in terms of being quite exceptional. Now, maybe a model like the Nuclear Regulatory Agency might be a useful model. But in any event, this will look very different from our other policing functions. Even if it does, we have to take this very seriously. It seems to me centrally a responsibility of the federal government.

John Nance (Panel Moderator)

Thank you. First of all, what this goes to the heart of, I think, is one of the questions really that’s before all of us here. We’re dealing with the question of not just how much government is enough, but what is the role of government in very definite form, in other words, a very specific form, and this goes to the heart of the debate that’s currently raging in the House over how to do this. It goes back to the Deregulation Act of 1978, which I’ve studied and lived with. All of us in aviation have lived
with that and the question of whether or not there was a role for government. The attitude at that time on a bipartisan basis was that the baby and the bath water could be thrown out the window at the same time. There was no role for government. I think we’ve regretted institutionally some of that, although there are those like Dr. Alfred Kahn, who will fight to his dying breath to say that no, this was the appropriate thing to do.

But without trying to rehash that, the question is still here. What do we do as a people as expressed through our government to solve the problems that may be extant to us at this point that we’ve been talking about here in regard to the airline industry? And I think we start with that question. What should the government do at this point? Let me open that for any of the four of you.

**Ray Hutchinson**

They should take up as they’re doing this week and address first the obvious, and that’s the Airport Security Bill because it’s the most immediate way to attempt to restore confidence in the American people that flying is safe, which it is. But you’ve got to win their confidence. I think they have to take the bill and address it, and do it immediately. I share the concerns of others. I’m astounded that they hadn’t done it before now.

**John Nance (Panel Moderator)**

We have a tendency to have a very short attention span in modern America. Part of that may be the media. I may have to put on my ABC hat and take some responsibility for that. But the whole point is we do already see newspaper articles coming out saying, “What’s going wrong with the war?” It hasn’t even really started yet. We’re seeing this kind of impatience. This is going to be for the long haul. When you talk about, Ray, the infrastructure of the airports and the difficulty of keeping the financing going and the dropping of the number of flights, do we have to look at a different way of financing the airports in order to hold them in place?

**Ray Hutchinson**

I don’t think so. I think that the airports of the country are financed in an eminently fair manner. I think it is entirely appropriate to impose the costs, the net bottom-line costs, on the airlines. They do benefit from the public infrastructure and the
public use. They then derivatively, ultimately the passenger presumably will pay that cost. But the fact of the matter is that the airports are not an appropriate piece of infrastructure that should be supported by general taxes on the homeowners or on others, in my opinion, at the State and local level.

Now, at the federal level, I think this whole question of security and what the federal government pays for and what it requires should be debated, should be debated quickly, and should be implemented quickly, because you’ve got to get these numbers back up.

**John Nance (Panel Moderator)**

That’s what I’m hearing you say, is that we have a credit hold. We have no municipality who can do anything right now. And we’ve got another problem. I’d like to shift to you, Jim, on this one. One of the things that the NTSB has done is led the way in systemic analysis of accidents and understanding that nothing ever happens for a single reason. There’s always a multiplicity of causation.

We have in the ‘80s a period of time in which the pressures of the chaos of deregulation, and again, not to argue plus or minus whether it should have been or shouldn’t have been. But there was a downward pressure in many boardrooms on how much could be spent on safety. The definition of what was safe enough was a constant question. We had senior vice presidents of maintenance saying, “Look, I would love to build a new maintenance space. But I can’t afford to do it.” We had the FAA saying, “These are the minimums not to which you should consider standard, but that we don’t want you to sink below.” How are we going to keep the safety levels where they ought to be if we’ve got airlines teetering on the brink of bankruptcy for these various reasons?

**James Hall**

I think the same way we handle the highways. You have a user tax, which is paid for partially through what you pay for your ticket, and obviously, some through appropriate funds. This is a situation; it’s not a choice. If we don’t make the necessary investment to rebuild the confidence with the American people, then all the things that the doctors talked about and the other panelists have spoken about, aviation is extremely important to
our economy. It’s extremely important to the number one word you’ve got in your title here, our freedom.

We, as a nation, have got to come together and address this. We can. But it cannot be done cheap. That’s what happened in the past. We tried to do security cheap. We can’t do it this time. We need to determine systematically what it’s going to cost to do it properly.

Ray Hutchinson

You mentioned what do you do now. What do you do now? You try to approach the immediate — address the immediate problem. But then you’re going to have to ultimately address other things. There are some crazy things. This is no secret in a law school. But there are some crazy things in federal law. Here, we’re talking about the airlines. They’re in trouble. We’re talking about writing them a check for $5 billion as the first installment. Yet, all we’ve got to do is go to the tax code, change the AMT mechanisms as it relates to airports in America, eliminate them from it. That would produce incredible benefit to guess who? The airlines. It would lower the cost of doing business. That’s a direct charge imposed by the federal government.

I promise you, if you walk to Washington tomorrow, and you walk up to somebody on the Ways and Means Committee, they will say, “You want us to do what?” They’ll say, “No way.” That’s a problem. We’ve got a problem of communication, of public policy communication. It’s easier to address the question of mechanically writing a check to some airline than it is to go into the foundation for what makes up the incredible cost of doing business? A lot of it is attributable to the federal government’s policies that are unnecessary and do not produce anything but negatives.

Dr. Albert Casey

I don’t really agree at all. We’re not going to have an airline industry unless we address it. Now, we’re addressing it through the supplementary agencies. We’ve got a Committee, Greenspan, and O’Neill. Greenspan doesn’t want to be on it. He wants someone else to do it. We’ve got to pick and choose and keep the airlines, prove their viability, in the air.
Ray Hutchinson

But why should I write you a check, from that committee, write you a check at American Airlines so that you can turn around and write a check back to me to cover the increased cost of business that I've imposed on you?

Dr. Albert Casey

I'm not going to write you a check.

Ray Hutchinson

Oh, yes, you are.

Dr. Albert Casey

No, I'm not.

Ray Hutchinson

Under existing law you are.

Dr. Albert Casey

No. My employees and my fuel bills and rent on the airplanes are State business. I think we're dancing away from that. Nothing has happened. Who else is on the Committee? I know there's Greenspan and O'Neill.

Ray Hutchinson

O'Neill and —

Dr. Albert Casey

There are about four of them on the committee. But I haven't done a thing. We've done nothing about picking and choosing.

Ray Hutchinson

I don't quarrel with that. They need to get down to business. But there are other things that can and must be addressed, Al. You've got to address —

Dr. Albert Casey

You do it concurrently. You currently ignore this.
**Ray Hutchinson**

I didn’t mean you should ignore it, of course.

**Dr. Albert Casey**

It sounds as though you really didn’t care.

**John Nance (Panel Moderator)**

But what we’re talking about is basically a methodology of public support. When we’re dealing with public support, one of the questions is how much should there be in whatever form.

Q: [Inaudible]

**Dr. Albert Casey**

It is real. We haven’t done a single thing about it. We haven’t identified [unintelligible].

Q: Well, even if we do that, if there’s a bomb in it, I mean, [unintelligible]

**Ray Hutchinson**

As Jim pointed out to some of us earlier, he did not mention it in his remarks. But he reminded us that at Heathrow, I believe it is, at Heathrow they do precisely that. I think that the failure to include that in the listing that Michael Cox was talking about was just an oversight. I think that certainly I’ve heard of the potential remedies or to have a complete remedy would include passenger baggage screening.

**James Hall**

I think that’s why you have to look at the whole system. If you don’t address the subject of the baggage, you obviously have left a huge hole. One of the problems that I’ve alluded to in the attention on the screeners is that screeners aren’t the only people that are involved with — that are private employees, contract employees. They have private contract employees that clean the airplane now. Are we going to make them federal employees? We have private employees now that do the pushback on the plane. We have private employees that with a wheelchair go through the security area into the aircraft with disabled people.

We have to have a system that looks at all of these possibilities. It can be addressed in my opinion either way with federal employees or with private employees. But if we don’t have a system-
wide solution, we will have a solution that leaves a hole. Unfortunately, we've seen how evilly brilliant these people are in finding holes in our systems.

**John Nance (Panel Moderator)**

By the same token, not to disagree in any way, but just to refine this a little bit, it's true, I think, and jump on this, anybody if you want to, that we've got to define very carefully. It's almost like a cost benefit analysis. We can harden up certain things and make them absolutely impervious to a hijacker who would be either a September 11th-type or somebody else. It would be an infinitesimally small hole that we were filling, in other words, one that had very little chance of resulting in a hijacking.

We can also do some things that would be ruinously expensive, basically technologically dangerous, and basically what I'm referring to here is Dr. Cox talking about something. The President had some bad staff work and mentioned from Chicago a number of days back, a number of weeks back, when he said there was this device that might be able to bring the airplane in and land it. Most of our airplanes have auto-land systems.

But you cannot automatically bring an airplane down with any form of ground control today outside of a military aircraft. It simply can't be done for many different reasons. First, our reliability of electronics is not there yet. It'll be another ten or twenty years with the redundancy necessary. Second, we have flaps and gear that are not operable except for the human hand. Therefore, you're not going to be able to get the flaps and gear down. I would challenge you that landing automatically a gear-up airplane is not a good idea with no flaps. That one's really not a solution. But we could waste a lot of time and money on it. So, I think we have to target pretty carefully.

**John Attanasio**

Well, there's no declaration of martial law. In a war situation, there's not an absolutely formal declaration of war as I understand it. There is a clear-cut check from the Congress for us to pursue military action outside of the boundaries of the United States. Even if we had a declaration of war, the Constitution, and there are several Supreme Court cases in point, the Constitution tends to differentiate between what happens within our shores and what happens outside of our shores, and declarations of martial law and things of that kind.
The President would have some authority. There’s been some talk about implementing some things by executive order. Depending on what it is, I would be wary about — a little wary about that. The President can do certain things. But it seems to me not to have Congress, which is one of the co-equal branches of government, after all. And the framers looked at Congress as the central policymaking body, centrally involved in this, I think, probably is a mistake.

Your point about urgency though is something that’s well-taken, very well-taken.

Q: And I’m still at a loss as to figure out even Mr. Attanasio’s statement that echoed Robert Crandall’s yesterday about immediacy—immediacy and urgency. Who is responsible?

Ray Hutchinson

Well, there are a number of things that have been done. The President put the National Guard in the airport. There are a number of things that have been put in place. The President does have the executive power to move in this area. I think the President obviously understands that regardless of what he does, someone has to pay for it. That’s where Congress comes in. That’s why it’s very important that in terms of this, whatever the ultimate resolution of this is, it’s done together between the President and the legislative branch.

Q: People that are not flying, they’re looking — they don’t believe that the first place is effective.

Ray Hutchinson

I don’t disagree with you. I think this has not gotten enough attention. We need to get someone in charge. But at the same time, and I’m a card-carrying Democrat, so I’d express this opinion. The President has had a very difficult situation. This is not the only thing he has to address on his plate. Anthrax, of course, is in the news now. We don’t know what may be in the news tomorrow. So, Congress needs to put this structure in place, designate who’s going to be responsible, and move forward. I agree with you on that.

Q: How long would that take?

Ray Hutchinson

Well, hopefully we will see a — tomorrow there will be a vote in the House on the Aviation Security Bill. I assume that they
will hopefully move very closely to a conference and the final passage of a bill within the next few days.

**John Attanasio**

Let’s also talk about who’s going to be the police force. That is, the Senate has voted 100-nothing for it to be federal employees. And the House bill, which is also favored by the President, is for it to be private contractors. However, I think the President has declared that he would be willing to sign either bill. I think that’s what I’ve seen in the news.

**John Nance (Panel Moderator)**

And one thing here. I think we also ought to get involved in the question here too of what is it—not just what is it going to take to get the public flying again, but is it just scared members of the public who are causing this diminution of air traffic, or isn’t it a combination of that and business travelers who no longer have the cash to be able to travel or perceive that they don’t for various reasons?

Q: [Inaudible]

**John Nance (Panel Moderator)**

None of us are talking about, are we, the idea of using subsidiization to the point of reinvigorating profits just for survival purposes.

Q: We didn’t make any money.

**John Nance (Panel Moderator)**

Yeah, well, that’s what Bob said yesterday.

**Dr. Albert Casey**

You’re not going to make any money. You’re going to just stay alive.

**John Nance (Panel Moderator)**

But there’s another point here too, is there not? And that is, when you look at the way the airline industry has developed and Al, you’re in a perfect position to comment on this. During the ‘90s, there was a tremendous expansion. An awful lot of airplanes had been ordered and bought. The reaction of our own Boeing, and I live in the shadow of Mother Boeing up there in
Tacoma, you know? We genuflect in the direction of the factory every day. We know Boeing well. They came out with lightening speed right after Bethune came out and said that he was going to cut back 12,000 people, and made the staggering announcement of how many Boeings we’re going to cut back because there were so many airplanes. In other words, it seems to me that we are right at the edge now of seeing effectively what happens when you fine-tune a system so close to the edge that it doesn’t have any elasticity whatsoever to take a downturn. And there had been a downturn already. Any disagreement with that, Al?

Dr. Albert Casey

No.

John Nance (Panel Moderator)

No? All right.

Q: [Unintelligible] problem for any airline executive really.

Q: Actually that [inaudible]?

Ray Hutchinson

You ask a number of things. Let me just say that can we solve the problem? Yes. Can it be solved more efficiently and effectively than it has in the past through rule-making and not putting anything in the system until it’s gone through the whole FAA test? We’ve got to have somebody in charge.

We’ve got to have somebody that says, “We’re going to do this. We’re going to look for the technology.” Obviously, if you buy the technology en masse, you’re going to drive the price per unit down. But somebody has to take the responsibility and be accountable to put a positive bag match in place in this country. We cannot face terrorism in the future, which is going to be with us probably, and with many of these students, for most of their lifetime, without making the necessary investments for our safety.

It can be done. The technology, most of this technology is in place. There are people crawling over Washington, D.C. right now. I’ve had three or four come visit me, each saying, “I’ve got a new idea on how to solve this problem.” If we loosen our creativity tied up in this problem, I think we can solve the problem. But one size won’t necessarily fit all at all airports. We’ve got to have one level of safety. But some systems may need to be like
Heathrow where every bag goes through three different screening devices before it’s put on an aircraft. So, there are various levels, I think, that can be put in place on this.

**John Nance (Panel Moderator)**

I couldn’t agree with you more in terms of the creativity. As a matter of fact, it was very interesting. None of us knew. Even those of us who know this industry really well, you may not have known, Jim. I didn’t, certainly. I remember talking about this with somebody once before September 11th. Boeing already has a door engineered. They’ve had it engineered for some time that’s impervious. Nobody ever wanted it.

**James Hall**

There’s plenty of money out there to do this. I mean, our problem is we’ve wasted money. The Denver Airport, for example, right now, all the short-term parking has been shut down in our country. We’ve spent millions of dollars. The Denver Airport is built on top of a parking facility. We have not designed our airports or our system, the infrastructure that we’ve put so much money into it, with security in mind. We need to change that in the future so our airports are designed not as shopping malls, but first, as areas that can provide security and then obviously, add the retail and others outside the security area.

Q: My question is to Mr. Hutchinson. [Inaudible]

**Ray Hutchinson**

The emergency funds go strictly to the airlines. There has been some talk about some kind of stand-by program should a series of airlines go into bankruptcy or whatever and not be able to pay. Could the federal government step in? The odds of that going anywhere are pretty remote. In terms of the overall health of the airports of the country, your major airports are in pretty good shape financially. But it’s simply because the airlines, even though they’ve had a reduction as these numbers demonstrate, in their flights, they are still able to pay the bill.

Now, one very respectful observation of my friend here and a remark he just made, you make an airport a shopping mall. The question is where do you put the mall? But you have to make it a mall in order to collect the rent, in order to reduce the cost to the airline to do business.
John Nance (Panel Moderator)
I'd agree with that.

Ray Hutchinson
And that's why it is absolutely true that our airports were not generally, at least historically, designed with security in mind. Just a very short vignette, if you'll remember the peculiar arrangements of the terminals at D/FW, that airport was designed in a regulated environment. It was talked about earlier. And what that meant was that the federal government was going to tell you to go to Texarkana, then go over to Tyler, and then come to somewhere else, and then land at D/FW. That's the regulated environment.

The design was that that spine road at D/FW would have fourteen half-loops by the year 2001, this year. This was the target year. Then, deregulation came along in 1978 and 1979. All of that changed. So, now you don't have that land used for terminals. You have — when you went to the hub-and-spoke system, that's where you have a dominant carrier or two at an airport. Then, they create the hub. Then, they go out with the smaller airplanes to Tyler and Longview or wherever to bring in the feeder system. That's where the terminal areas became obsolete at D/FW.

By and large, the recent credit reports after the immediate concern by Moody's, the recent credit reports are suggesting that there is some movement in the airline's creditworthiness. As a matter of fact, these numbers demonstrate some increased activity from September to November. November's a little bit better than September was. If that continues, then there should be no material problem. There could be an expected cutback in some of the projected infrastructure at airports.

John Nance (Panel Moderator)
You say that we've lost a number of airlines. I can personally attest to that. I was with Braniff International in 1982. We went bankrupt on May 12th of 1982 at 4:34 in the afternoon, not that I remember it well.

Ray Hutchinson
Jim, as a matter of fact, one of the interesting vignettes of Braniff, because it was not American initially that was the big player in the Dallas-Fort Worth market. It was Braniff. And
when deregulation came along, the leadership of Braniff said, “It will never work.” And so what we need to do is to expand our routes all over the world because when Congress comes back in, it will leave the carriers in place where they find them. They will re-regulate them there. That didn’t happen. Braniff is no longer with us.

**John Nance (Panel Moderator)**

We asked for 786 routes on one day in front of the CAB, as a matter of fact. That was right. And by the way, for any of you who may not know, I wrote the book on this. I can tell you. There’s still that rumor out there among old Braniff employees that American killed Braniff or something else, that interest rates killed Braniff. Nothing could be further from the truth. We killed ourselves. We couldn’t communicate. This is a different story for a different day.

**Ray Hutchinson**

You see, Chili’s is configured inside the security area, so what do you do about the knife? You know, that’s inside the zone. So yes, there’ll have to be some re-design. You’ve got to flip it. No question about it.

**James Hall**

When I was on the White House Commission, I decided to take two airports. I was familiar with Memphis. I found an airport comparable in size in Amsterdam. The entire philosophy of course in the Netherlands is for gate security. You have screening devices at the gates. Obviously, that required you to have additional equipment at each gate. But everything behind that gate was then a secure area.

Our philosophy here, which was to save money, so there was just one device for the whole concourse, has now resulted in, and I agree very much. They need the retail income. But we now have all the minimum-wage employees, so to speak, and others, we have a tremendous — all within the secure area of the airport. We need to redesign.

**John Nance (Panel Moderator)**

As a matter of fact, when Braniff had their first terminal. I don’t know if American did it or not. But we had the security at the gate. That’s part of the design of this terminal. You’d come
right through from the curbside, go right to your gate. And you went through security there.

**Ray Hutchinson**

And you don’t have to have — you know, give your license and ticket here, there, and everywhere. You can do it in one place, one time.

**John Nance (Panel Moderator)**

That’s true. Back to the question.

**Ray Hutchinson**

There were two entities. After Pan Am 103, President Bush put a special presidential commission in place. It studied the subject of security. We saw the result in the British system that most of the changes were made as a result of Pan Am 103. If you remember, it was a piece of luggage that blew up Pan Am 103. That is why the British were very big on positive bag match and putting in place screening for the luggage.

After TWA 800, which many people initially thought was a terrorist act — it happened very close to the Olympics, and a long story there — President Clinton had a White House Commission on Aviation, Safety and Security, which was known as the Gore Commission. But now since last November, we don’t refer to it as the Gore Commission anymore. We refer to it as the White House Commission on Aviation Safety and Security.

It looked at security issues. Out of TWA-800, we had millions of dollars that were given to the FBI and the CIA for additional work and terrorist activity. And a number of recommendations were made to the Department of Transportation, and specifically to the FAA, on what should be done on aviation security. Some of those were in the process of being implemented. The progress was very slow on the recommendations. The recommendations were heavy on using technology to address the issue, not manpower.

**Q:** [Inaudible]

**Ray Hutchinson**

I’d like to see the President take somebody that’s a strong-minded, well-respected person like Mr. Casey or Mr. Crandall or somebody that he has confidence in and give them the responsibility and say, whether it’s Governor Ridge, or this individual’s
going to be responsible and accountable for pulling this

Q: Who gets trigger-pulling authority? How do they get it?

**John Attanasio**

To do something like that, the President would have trigger-pulling authority. You look at the office of Governor Ridge. Something could be done. I think what Jim might have in mind is something along those lines. Something could be done along those lines and put it in the office of the White House.

**James Hall**

I hope that I’m proven wrong, but I don’t think we can address this through the multi-layered structures and bureaucracies we have in place. I think we’ve got to short-circuit it. We’ve got to put somebody in charge. We’ve got to address it immediately. I think if we do that, then the American people will — we can start beginning to rebuild confidence. I think the President made a very wise decision in putting the National Guard in the airports. That’s a very visible presence for everyone here of security. But people very soon are very knowledgeable now. They’re going to ask the issuer, ‘That’s wonderful. But what about the bags?’ So, we’ve got to have somebody that’s looking at the whole system, somebody that has the confidence of the President to take charge.

**John Nance (Panel Moderator)**

Well, this is the eternal difference that we always have to keep in mind between a calcified, bureaucratic methodology, which bureaucracy is part of our strength and part of our weakness. It’s our weakness when we need to move fast. It’s our strength when we don’t want to change things catastrophically without having time to figure out whether we’re right or wrong about it.

Q: [Inaudible]

**James Hall**

I was responsible for aviation safety in terms of oversight and the work of the NTSB. We would have literally several times a week a safety incident that could get attention or publicity. A plane would have to land because of smoke in the cockpit or something would happen. But generally, people have confi-
dence in the system because the system has produced. It will take time to turn that around. But it can be done.

**Ray Hutchinson**

I think that’s a very good question. How can you expect the people to be confident if you’re telling them every other day you’re fixing to get rained on? That’s a pretty tough challenge. I happen to believe that you are going to change — you are facing a new day. There will be a necessity to alert the American people. I do believe that the American people are mature enough to take it at its value, be alert, go on about your business, but be alert.

We’re in a new day in a new era. I’ve not engaged in this federal versus private debate on purpose because I may differ in opinion with some of my good friends. We’re the only nation under attack. Speaking solely for myself, I can accept the proposition that my government is telling me, “Look, be careful, Ray, when you go downtown today.” I think that’s fine. I don’t like it. I’d rather them do that than not, and I go downtown.

**John Attanasio**

I don’t mean to be glib about this. Given a choice, I’ve been on an airplane a lot of times as has the whole panel since this happened. Given a choice between going on a plane and going on I-635, there’s no doubt that the statistics that the good economist gave us, there’s just no doubt. There’s just no question, which one is safer even today. And part of it is that I, like many of you, we’ve all seen the Trade Towers collapse.

I still have great difficulty even conceptualizing that. That act, I think, strikes fear in all of us. But I think that when one looks at the hard numbers, there’s just no questioning in terms of the level of safety between all the other things that we do. I think Crandall yesterday talked about taking a shower. I couldn’t figure that one out. So, I was scared to take my shower this morning. But in terms of certainly going on I-635, there’s just no comparison level of safety.

Q: [Unintelligible]. But I just wonder how you reconcile the position that we’re safe to go out there, but no, we’re not safe.
Ray Hutchinson

Well, I think we’ve got to give that message. I think you need to have somebody that’s that responsible over the short period of time here, the next year or two, that can be talking on that subject and reassuring people. The problem we have in aviation is that God didn’t give us wings. Therefore, there are a lot of people that just have a basic fear of flying. So, you’ve got that in addition to what occurred. It’s a little harder than trying to get people back in their automobiles.

John Nance (Panel Moderator)

Flying is not a natural act. Let me address this too. There’s one point. I don’t think it’s excessive flag-waving. I think it is a very important point. You all shoot at it if you want to, anybody in here. Look, we are under attack by an enemy who is inchoate, difficult to find, difficult to identify, difficult to target. But we know what that enemy wants. They want to disrupt our lifestyle. They want to bring our economy to its knees. They want to get us so full of fear that we will help with that self-destruction.

I’ve been saying, and I’ve said this on the air a number of times lately, any time you cancel a flight, a trip, anything else that you are planning to do that you need to do, look yourself in the mirror and say, “Do I really want to send a love letter to Osama bin Laden?” Essentially we’re helping our enemies when we do that. Now, that doesn’t mean that we should just be blind to any risk. Obviously, when the word comes out from the Attorney General that we need to be careful, just as you’re saying, we need to be careful when we go downtown. We need to be alert. We need to have 280 million of us, to the extent possible, being part of the solution of looking for things.

After all, those people of September 11th didn’t move silently through our society. They clunked through our society and left a lot in their wake that nobody saw and nobody reported. Things are different now. But what I’m saying is this is a matter of patriotism too. This is part of the cost of being in a society like ours. When we get attacked, we have to look at ourselves in the mirror and say, “What is it that’s our responsibility here?” Part of it is to understand as much as we can. Part of it is to say, “Not damn the torpedoes full speed ahead,” but, “I am going to take reasonable risks.”

And certainly, if I know that my cowering under my desk rather than going out and flying is going to help destroy an in-
industry that’s going to come back on me later, then I’ve got a responsibility as a citizen to get out there and fly. It seems a little strange on some points to say. It’s almost like saying, “Just go write a check to American,” and you can stay home. But the point is that we really do need to keep our system operating as much as we can. I really do think that is a matter of responsibility as citizens.

Ray Hutchinson

Well, I think Dr. Cox said it best. The biggest deterrent that happened and didn’t get a ton of attention was the philosophy we had on dealing with hijackers, which was to cooperate with them.

John Nance (Panel Moderator)

Yeah.

Ray Hutchinson

Now that’s changed. Nobody is going to get up, go down, and take over an aircraft again without — in this country — without having the citizens attack as those brave people did in Pittsburgh.

John Nance (Panel Moderator)

Exactly.

Ray Hutchinson

That makes that whole system — the system is tremendously safer just because of that change, in philosophy regardless of what we do with the other areas which are important.

John Nance (Panel Moderator)

Let me just direct it back out again. Then we’ll come back out here. Let’s direct it back again to kind of beginning to summarize some of the things that we’re talking about here. We’re dealing with the question, first of all, of is there a survivability question of the airlines? If airlines are hemorrhaging $400 million in a quarter, there’s a survivability question.

What should we do about it? Should we keep everybody propped up? Should we prop up only a few? How do we make the decision? What’s the role of government? And certainly an-
other question I think that we've gotten on the table here which is very important, isn't the police power of the federal government right on the griddle here in terms of being able to accept, take, and properly execute the responsibility for the security aspect that was breached so horribly by our unpreparedness as a system, our unpreparedness on September 11th?

Q: Given that a lot of the discussion has been government service, we don’t take money, but we’re vital to the economy?

**John Nance (Panel Moderator)**

First of all, I want everybody in on this. But I would argue that there is no question. There has never been any question. There was on Capitol Hill in 1978. Is it a public utility? No. It’s not a public utility. It’s a private business. Baloney. It is very vital to the American society. Therefore, we have to expand the definition of public utility. That’s me speaking. But I think I’ve been borne out over the last twenty years. But that doesn’t mean that you immediately lock it down in the type of governmental regulations that were strangling the industry by 1978 and that led to the overreaction, overreaction, my point of view, that ended up with the Airline Deregulation Act of 1978.

Let’s address that. Does this in any way, gentlemen, mean that we’ve got to go back and consider some form of regulation? Is there anything to be accomplished?

**Dr. Albert Casey**

No, no, no.

**John Nance (Panel Moderator)**

No?

**Dr. Albert Casey**

You don’t want to go back and consider regulation. No question about it. We’ve paid the price of moving into deregulation. We’ve got a good deregulated industry here. It’s working very well. We don’t have the trouble of monopolistic problems. We don’t have the trouble of users prices. I don’t see anything wrong with the airline industry as it has evolved. It’s been very hard in the small communities. It’s been very good in the big communities. That’s just the price of industry. I would hope we’d just stay with it. I don’t think there’s any real move to go
back to deregulation. I don’t see how that helps the terrorist thing anyway.

Q: Not a backwards move. I was curious with how you thought the [unintelligible] would proceed?

Dr. Albert Casey

It’s coming along just fine.

Q: What’s the business model for American Airlines? [Inaudible] lots of money. When you talk about how much money’s been lost, if it’s not going to go back to deregulation, what form can it take that would be successful?

Dr. Albert Casey

Well, we’ve been trying since the days of Kitty Hawk to find out how to make money. It’s a very difficult business. I go back to the earlier remarks. We’re capital-intensive. We’re labor-intensive. We’re cyclical. It’s a very, very poor business to be in.

Q: Well, Southwest Airlines has made money every year since —

Dr. Albert Casey

I know, but Southwest Airlines gives you peanuts. You go to San Francisco.

Q: We’re getting ready to prop up these industries whether they’re failing or not because they’re so important. Isn’t the [unintelligible] that we asked which ones are worthy? You brought this up earlier. Maybe is there something flawed fundamentally about this hub-and-spoke system that gets —

Dr. Albert Casey

I don’t think it’s the hub-and-spoke system. I think it’s the way that we operate as such. In other words, our food is terribly expensive. If we get rid of the food service, we can turn airplanes around in half the time that it takes us today to turn an airplane around. I think we’re going to have to do things differently. Food’s going to go by the pass. I don’t believe food will ever come back really to the degree that it was.

Q: And how do you see this continuing?

Dr. Albert Casey

Absolutely, because if the gathering [unintelligible].
John Nance (Panel Moderator)

We’re just about out of time. We want to give everybody a round, a final crack at this. Let me just say again. With great respect to Herb Kelleher and everybody at Southwest, they’re not an airline. Let me let that sit there for a second. They’re not an airline in the traditional sense. They are a special form of transportation brilliantly conceived, marvelously executed, and greatly profitable. But they are not an airline in the traditional sense. I’ll stand by that. I’ve been arguing this for twenty years.

Let me give everybody a round here in terms of a last shot at this in any aspect that you’d like to. Ray?

Ray Hutchinson

Well, I think we may not have made a lot of progress in terms of advancing what they need to do. I do think there are many other things that they need to look at. I will throw on the table and leave this God-awful question of making sure that if a visa that’s issued in another country is for a person to come to this country to go to Southern Methodist University, that we make sure that that’s what he’s doing when he’s here.

I’m afraid that that system has failed. That’s got to change. I think the President was right on the mark yesterday when he addressed it. There are many, many things that need to be done. I personally believe that there is some level of confidence that’s stabilizing. We will be going, I suspect, to the market in airports around the nation here pretty quickly. You’re going to see that’ll be the measure.

It doesn’t matter what we say or what Congress says or what anybody else says or what American Airlines says. What is that investor going to do at that airport? Is he willing to buy or not? And I suspect you’re going to get a pretty serious, quick test of that in the marketplace within the next couple of months.

John Nance (Panel Moderator)

Thank you. Jim?

James Hall

Well, let me just first say it’s a pleasure to be here. It’s always nice to be in Texas and see how well our new territory is doing. But you know, I think I’ve got to get back to the title. If I remember the title, we’re talking about aviation security and fear
or freedom. And you know, can we address the problem? Do I think the structure of aviation is going to change dramatically in the future? No. It’s going to be basically the same.

What we need to do is it’s the old capitalistic, “You get what you pay for.” We did not pay for a good security system. We now have realized that we have paid a horrendous price for us collectively as a society. It’s a collective failure not addressing this issue. It now needs to be addressed. Congress needs to move expeditiously to put a structure in place that can unleash the creativity and rebuild the confidence of the American people. It’s certainly something that we can all address.

Of course, Winston Churchill’s everybody’s hero. He happens to be one of mine even though he was not a Tennessean. But you know, the only thing you have to fear in this situation is fear itself. We can address these problems. We just need to be about doing it.

I’m very pleased to see the law students, the people that — they’re going to live a much longer time under the situation that we’re going to have to address with our society, being involved and participating and expressing your opinion. That’s what makes this country unique. I hope everybody would be sure they express themselves to their elected representatives, and we can move forward.

**John Nance (Panel Moderator)**

By the way, before we get started, I’m a little constrained in engaging in a Texas versus Tennessee tug-of-war here, because in about 1840, the Nance family came from Tennessee.

Al.

**Dr. Albert Casey**

I’m very pleased to be here. I enjoyed it too. I still think the real thing is we’ve got to react to this terrible cash train right now. We’ve got to supply with the money that they need to stay in the air. On what selective basis, I’m not sure yet. I think the real thing we need is a little passage of time. We’re going to get more and more confidence as this happens. I can recall saying, “Gee, I wish I” — I had five hijackings when I was at American. I’d love to go back to the quiet days of the hijackings instead of the terrorists. They were much easier to handle. We never lost a soul. We never even lost a hijacker.
I'm pleased to participate. We're all indebted to Dean Attanasio for putting this thing through. Our priority has to be security and survivability of a way of life that's important to all of us. Thank you all for participating.

John Nance (Panel Moderator)

Dean?

John Attanasio

Yeah. I just think that what happened on September 11th was a systematic attack on our way of life in many, many different respects. And because of anthrax and a number of those current attacks, whoever is carrying them out, the systematic nature and the military nature of the attacks has been sort of overlooked. I think this is one of the most untold stories until the losses of American and United came out last week. This is one of the way in which our society can be attacked in a very real and vital way.

I think that John spoke earlier about the economy being tightly wound. There's no question about that. We did a conference here two years ago about the global financial crisis, which suggested just that. Consequently, like anything that's tightly wound, we were in an extremely vulnerable position. We got hit hard. Now, what we have to do is to make sure that we're not hit too hard and that we don't inflict damage on ourselves. So, hopefully this has been — for me, it certainly has been an enlightening panel where I've learned a lot.

I want to thank everyone for coming here, and the organizers in particular. This will be the first of three discussions on this. Thanks.

John Nance (Panel Moderator)

Chairman Casey, Chairman Hall, Ray Hutchinson, Dean John Attanasio, and everybody here, thank you very much for participation. I do want to leave you with one thought. The strength of Americans as a people comes from two forms, two things. Number one, is our diversity, because we are made up of all the peoples of the world and all the good ideas of the world. We've become in effect the world's country. I think that's very, very true. Just like New York was America's city that was one of the reasons that it hit us so hard to see those towers go down.
There's another thing. We have an infinite capacity for discussion and the ability to find alternative methodologies and to pick ways to go. We are unfettered in our society in being able to do that with open discussion, which is what, of course, this is all about. In this great law school, which I'm so proud of, this is a great place to have this not just start, but to continue. And it's incumbent on all of us to continue this debate, to bring it to points of fruition whenever possible, and to communicate your ideas without any fettering of those ideas to your elected representatives.

Thank you very much.
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