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To:

Officers and Directors:
American Airlines, Inc.
American Overseas Airlines, Inc.

CONFIDENTIAL, PLEASE

It is a strange feeling to wake up in the United States after a month in Europe. You find there, nearly everywhere, a contagious fear about today and doubt about tomorrow. It is difficult to realize that these two worlds are but one day apart.

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It is dangerous to have firm convictions about trends and conditions in an area where the basic difficulties are so deep-rooted and where day to day changes are so mercurial. I have endeavored to guard against inaccuracies by comparing the condition of the countries and their people with those of a year ago and by checking assumptions with those on the spot and better equipped to make sensible conclusions. I hope that this report is fairly well anchored to facts; it is difficult to be sure of that.

CROP CONDITIONS

Europe had a mild winter, as compared with the bad winter of the year before and as compared with the relatively bad weather the United States experienced during the same period. Crops, in all countries, reflect good attention to the job at hand and fair promise of good harvest. This condition is, of course, heartening to all; food, for the day, is one of the basic problems of Europe.

GENERAL REVIVAL

Were it not for the severe problem brought about by the Russian attitude, it would be fair to say that there has been a substantial revival in the morale and welfare of nearly all of the countries of Europe.

ENGLAND

Nothing need be said about the basic courage of the English people; much has already been said and all of it is justified. Our admiration for that courage should not, however, cloud our evaluation of the present and future position of England and the British Empire in world affairs. I fear that this generation has seen, for the present at least, the declining days of the British Empire as a number one world power.

A tired and dispirited people put a Labor Government into power. This government embarked upon a program of social reform, the cost of which would have taxed the financial capacity of the richest country in the world. And all of this was done just at the time of the greatest decline in income in the history of the British Empire, when colonies of great resource and potential income were declining to be tied to the world economy of the British Empire. This, I am sure, has been rationalized, that it is better to have the program in effect than to risk Communism in Great Britain. It is difficult to evaluate that; I wish that we could be surer.

The recent tax bill imposes a capital levy; for the first time in British history the total tax in the upper bracket exceeds 100% of income. And, at the same time, a substantial number of millions in the lowest tax bracket are relieved of contribution to the income tax. It is difficult to escape the belief that this epochal tax policy is tinged with substantial degree of political implication, the desire of the present government to remain in power, by re-distribution of wealth and by taxing the wealthy for the benefit of those less well situated. And a complaint of those of more moderate belief is that the Marshall Plan will, in itself, relieve the government of some of the consequences of its social reform program and enable it longer to remain in office.

England is today a land of detailed regulation. The days of the NRA in the United States pale into insignificance when viewed alongside the red tape requirement of England of 1948. There is virtually nothing that can be done without government permission and a very substantial proportion of the endeavor must be devoted to the reasonably nonproductive labor of filling out forms and prosecuting your application before some agency of the government. Whether it is designed to do so or not, lassitude is encouraged and initiative is severely discouraged. It is estimated that there are more than 25,000 individual rules and regulations which govern the conduct of everyday business; it must be difficult to be familiar with all of them, much less be able to comply with them all. The Civil Service is the largest employer in Great Britain and a most substantial proportion of the population is engaged in regulating the others.

The British Navy has been reduced to a relative handful of ships, for reasons of economy. The Army is not well equipped and the Air Force shows no immediate promise of substantial strength. As a military power England is at low ebb. And the Russians, the only real military power in Europe, know that as well as anyone else.

I am sure that the Marshall Plan, insofar as it pertains to the British Empire, is justified and required. Without it I doubt that there would be sufficient hope to sustain the people. There seems to be a growing belief, especially among those in conservative circles, that the United States should be more adamant in controlling what the funds will be expended for. That is most difficult to evaluate; that too may have political connotations.

The most disturbing thing to me is the seeming growth of the belief that the wealth of the United States is unlimited; that we are the rich relative, with not only the ability but the obligation to share indefinitely with our less fortunate neighbors. We think of the Marshall Plan as something which will aid people to get on their feet, thereafter with the ability to support themselves. Like the WPA, we will have difficulty in cutting off the flow of dollars once the habit of receiving has been firmly embedded. I do not like the seeming willingness of the British to lean on us; it seems much more pronounced than a year ago.

England, in spite of all of these difficulties, is pulling up. Given relief from war I am sure that there will be a gradual trend for the better. But, for a long time, Great Britain will not have the influence in world affairs of the pre-war days; even if she had the inclination she does not have the funds with which to support that position.

FRANCE

I have always been told that you have to know France to judge her course, and I do not know France. I have seen France three times since the tail end days of the war and each time the country seems to me to have made recovery. The atmosphere there is better than in most countries.

Gossip, but from good sources, is that the present government is quietly but effectively doing something about the Communists. They are being removed from positions of power without noise or fanfare but in an orderly and continuing manner. Schuman seems a strange and somewhat mystic type, but he evidently has the present confidence of the people. It is said generally that the recent lack of success of the Communists in Italy will further strengthen the anti-Communists in France. A Communist victory in Italy would not have affected France so much on an ideological basis; the principal effect would have been a further encircling of the country with countries pledged to follow the dictates of Moscow.

From a business viewpoint, France is one of the countries in Europe to which a tourist might go with reasonable expectation of pleasure and enjoyment; there are not many countries which presently offer that attraction. The recent revaluation of the franc has very substantially reduced prices, when viewed in terms of dollar equivalent. The dollar will purchase more in France than in any other country we visited.

HOLLAND

The Dutch are plodding along, perhaps working more diligently than most of their neighbors. If they do not have war they will continue to move ahead. They have the basic fear, common to most of their neighbors, that if the Russian starts out of his boundaries he will not stop until he reaches the sea. They are not prepared to defend themselves against him. There hangs over all of the Low Countries the dread of another war.

GERMANY

The German crops look fine and unless there is a turn for the worse in the weather foodstuffs will be more plentiful. There seems but little increase in Communism in the non-Russian sections of Germany; perhaps the contrary. Local government and local elections are gaining headway in the American section, with the consent and aid of the OMGUS people. If you could assure the German people that they will be able to rebuild and reorganize their country there would be the will to go ahead and the progress toward that end would probably be excellent. With the press filled with the Russian blasts at the occupying powers there is a tendency to say "Why go to work and rebuild, only to have someone else come along and destroy it again?"

We spent some days in Berlin, going there by automobile from Frankfurt, through the Russian zone. This was on the morning following the announcement that the trains would be stopped and it was not certain that the roads would not also be blocked. We had earlier wanted to see the country in detail, which is difficult to do from an airplane, and had been telling everyone that we were going to drive to Berlin. It became too late to change all of this without loss of face and we went ahead. The journey was uneventful and we were courteously treated by the Russians at both of the road blocks.

The small towns in Germany were but little damaged by the war; they were not important enough to bomb and it was not necessary to shell many of them after the American troops got that far. For that reason life in the smaller towns is much closer to normal than in the ruins of the cities. I am sure that the backbone of moral fibre in the German people must now stem from the rural communities; I doubt that there could be any other reasonable assumption. And, in connection with the thought of the people, a recent well organized poll indicates that the average German feels fairly close to no responsibility for the recent war; someone else was responsible for all of that. There is but little feeling of guilt, just disappointment that it did not turn out well. And the average German is more interested in food, clothing and security at the present moment than he is about the great affairs of state or of political parties. And he doesn't give a damn what you say to him on the radio; he wouldn't believe it if it were true.

Our country is well represented in Berlin. General Clay is a man of unusual competence and he has been given more than usual latitude in defining the United States position. He is ably assisted by Bob Murphy, one of the top hands in our entire diplomatic organization. The Air Force is represented

by Le May, one of the best Generals, and the Army is represented by General Huebner, whom I do not know but who appears competent. There are other sections of the U. S. delegation headed by men of less competence but, on the whole, we have a highly respectable, hard-hitting outfit.

The crisis in Berlin was handled with calmness and dignity. There appeared less excitement in Berlin than in New York, judging by the U. S. papers received there. The Berlin situation is, and will remain, a potential powder keg and no one can be sure of the result but it is comforting to know that our affairs are in good hands.

It is reasonable to believe that the answer to the Berlin situation will stem from whatever decision is made to attempt a reunited Germany. If the U. S., British and French ultimately decide that the Russian section of Germany cannot be put together with the others, but they will attempt to put the three other sections together, a substantial part of the logical reason for the three powers remaining in Berlin will be dissipated. At that time, if that should happen, it may be necessary for all of us to move from Berlin and leave that section of Germany to the tender mercies of the Russian. All of this is pure speculation but it would seem to me to add up that way.

American Overseas occupies a place of especial national interest in Berlin; it is the only sure connection with the outside world with the exception of military airplanes. We have our difficulties there but we also have more than usual national responsibility.

DENMARK

The situation in Denmark is not substantially different from Holland. They, too, are making progress. They, too, are worried about the Russian.

Incidentally, the revival of Germany as a nation of the world is especially important to the Scandinavian countries. A substantial part of their national economy was geared to trade with Germany and it has been impossible for them to yet reorient themselves to a world in which they sell but little to the German and can buy nearly nothing from him.

NORWAY

If all of the non-Russian people of the world had the inherent courage of the Norwegian and the Finn we would have but little difficulty with the Russian. Norway wants no part of a pact with Russia and has gone far to make that publicly known. Norway is not a strong country and a most difficult country to defend; they have 3,500,000 people in a country 1500 miles long, but they are willing to stick their chin out and do so whenever required. Their principal worry is that Sweden will play soft on them and leave them in the lurch. If Sweden would assume a role of leadership and work more closely, and with courage, with Finland and Norway, I am sure that both of the latter countries would go along. There is presently a deepseated distrust of the courage and intentions of the Swedes, both in Norway and in Finland.

SWEDEN

Sweden continues to be an attractive country, one which will ultimately attract substantial tourist business. There is the usual shortage of hotels. Food is plentiful and the people are well fed and well clothed. Sweden has always trended toward Socialism and the trend seems to continue. You gain the impression that of all things the Swede would like to know is "what side is going to win next time?".

FINLAND

There has been much newspaper discussion about the fact that the Finns made a hard and reasonably satisfactory treaty with the Russians. I doubt that any intelligent Finn believes that.

The Communists are in very substantial minority in Finland and they do not seem to be gaining. Out of about 270 seats in the Diet I believe that the Communists have 45. But they are in the more important positions in the Ministry. The Minister of Education, who among other things has control of the radio, is an open and avowed Communist. The Minister of Interior, who has control of State, Local and Political Police, is likewise an avowed Communist. This is the usual approach of the Communist; to insist on inclusion in the government and to insist on appointments of unusual internal influence. One of the results of having a Communist Minister of Interior is that the Finnish border police have been given instructions that any Russian who is able to pass the Russian border police is to be given access to Finland. When a Finnish citizen attempts to go to Russia, he usually finds difficulty with the Russian border patrol. This opens the border to the Russian and closes it for the Finn.

The treaty with Russia has not been ratified. If the Diet took a vote based on what the individual members believe and how they would like to vote, the tally would be 45 for and 225 against. But a bit more than fifty per cent would vote for the treaty as being the only sensible way out. There is a legal question of whether the treaty must be passed by a majority or whether it requires 5/6 vote, as amending the freedom of the Constitution. If it takes 5/6 it will not pass, as of present count; it can gain a majority.

The poor Finn is in the position of having his country located in the wrong part of the world; it is not a question of what he would like to do but what he may be required to do. There is no present indication that the Russian will gain control of Finland through dedication to the ideology of Russia; there is good chance that he may gain control of it through terror and implied or direct force.

I believe that the Finn would greatly prefer an affiliation with the Western Powers and a sincere belief that they would do something for him in the event things went bad. But he is not at all sure that the Western Powers could or would do anything for him, and he is reasonably sure that the Russian would act with directness, and he has to cut his cloth to fit the facts of the situation. Finland is a courageous little country; I hope it fares better than it might.

Incidentally, in connection with the spread of Communism, the general thought in Europe seems to be that the Czech incident came to a head a bit before the Russians had calendared it; they had been working diligently and better than they thought; they found an opportunity to gain early power by direct action and took it. This whole affair has frightened the small countries of Europe with its implication and may be of great aid in warning them of the dangers of permitting the Russian to put his foot in the door. It is probable that the Russian would have preferred the Czech affair with considerably less publicity, and would have been willing to wait a while to have it that way.

THE WILL TO WORK

It seems to me that the greatest danger from the military might of Russia resembles that which faced the nations of Europe prior to the downfall of the Nazi regime. You will remember the many assertions of the French government, prior to the last war, that it could adequately arm and prepare without encroachment on the forty hour week. And all of the time the average German was probably working sixty hours.

The countries of Europe, perhaps other than Russia, are neither working nor have any intention of exerting any unusual national effort involving long hours.

The principal objective in England among the working people seems to be to have more and longer holidays, fewer and fewer working hours and more pay for accomplishing less. It is probable that the situation is somewhat better than it was a year ago, but it is also probable that the progress has not been substantial. The present British government is thoroughly in favor of continuing social reform, and the average man believes that this should be defined as less work.

The average of work in Holland and Denmark is above the average of the other European Countries. We are accustomed to thinking of the Norwegian as an able and willing worker, but the usual work week in Norway is thirty-six hours. If you go to work at 8 you get off at 2; if you go to work at 9 you get off at 3. The problem of securing enthusiastic workers is not confined to the cities; they say there that one of the principal national problems is to find men to go out into the woods and cut the timber, timber being their principal export product.

The trend in Sweden continues toward less work and more Socialism. Finland is probably above the Scandinavian average; the Finn is close to the soil and one of the toughest guys in Europe, but it is doubtful that the Finn does or will approximate the Russian average for the work week.

You are told, of course, that the Russian labor is forced labor. Perhaps so, but so was the pre-war German labor, but they are both productive.

The world, including the United States, has forsaken the theory which made most of the countries great; the belief that results came only from diligent effort. If each and every country has the same viewpoint the disadvantages would be equally spread; the difficulty is that the Russian has not adopted the forty hour week and probably will not soon do so.

RUSSIAN STRENGTH

I presume there is no doubt that Russia is the only real military power in the world TODAY. Every other country listened to the appeal of peace and relief from war, and let down. The Russian did not do so, perhaps even accelerated his pace. I went to Europe with the belief that the assertions of our military people about the present strength of the Russian machine were principally propoganda to insure a strong appropriation here. People in Europe in a position to know believe that Russia does, today, have a highly capable Army, a relatively strong Air Force and the makings of a Navy. If the Russian decided, for any reason, to march to the sea, there is no one in Europe going to stop him.

BUSINESS OUTLOOK

The Operation of the Line:

I was well impressed with the operation. The crews are competent, courteous and do a good, safe job. The stewardess personnel is fine, paying, I believe, more attention to the customer than on the domestic lines on the average. I was well impressed with the stewardesses of Scandinavian descent; they know the languages, including English; they are attractive and they are willing to work.

I believe that some additional economies can be gained, without loss of efficiency in the operation, by the combination of jobs as between Sales and Operations Departments. The staffs in Europe have already been substantially pared from the personnel strength of last year; a good job has been done on that. The savings to be accomplished in personnel cost in the future will not be substantial in total amount but they are of sufficient importance to warrant getting them done. I believe that we can further improve the operation and at the same time do the job with some additional economy. We will be soon working on that in detail.

Sales Responsibility:

I have never seen a job in American Airlines which so much depended on the effective and successful work of our Sales Department; we are operating our airplanes safely and well and with reasonable economy. But we are losing our shirt on the empty seats.

The easy days of selling for overseas transportation are all over; from now on out the job will become increasingly more difficult. There will be additional travel restrictions in many of the countries; there will be

increasing difficulty with exchange problems; the tourists to some of the countries could not have pleasure with unlimited money and will not go there, and the other countries have not done a sensible job of selling the tourist.

The competition is increasing, in volume and in efficiency. The British lines are disorganized, relatively, and will not give us severe competition for a couple of years, but they are getting the preference of the Britisher, for obvious and compelling reason, and we will have that difficulty with their competition.

Air France has had a bad reputation for safety, but the operation is improving and they will be stronger competition in the future. They are serving excellent meals and giving good service. Their sleeper service attracts some. Some Americans like to travel with foreign lines and will fly with Air France if they are going to Paris. We do not serve Paris directly and we shall be offering a connecting service as against a direct service, at the same price, which is difficult competitive territory.

KLM, the Dutch Line, is the toughest competitor in Europe, and to the United States, among the foreign carriers. They work hard, sell hard, cut the corners and compete effectively.

SAS, the combination Scandinavian line, a combination of the Danes, the Swedes and the Norwegians, will spend most of this year getting reorganized again, but this line has great potentiality of competing effectively with us to Scandinavia. On the whole it will be well organized. We were told that it would put DC-6 airplanes in direct competition with our DC-4 airplanes, to the U. S., during this year.

More than any other business in which I have ever engaged the overseas air transportation has the great handicap of seasonal travel habits; people go over to Europe, in normal times, in great quantities in the summer; as few as possible go over in the winter. We had something of the same problem in domestic transportation fifteen years ago, and overcame a large part of it; we have a similar job now with overseas air transportation.

Our big job is the sales job; we shall have to devote our attention most directly to gearing up to get the job better done. We have basically a fine group of men in the Sales Department but we will have to do a more effective job than ever before.

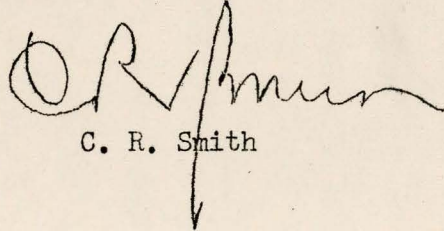
National Support:

The Civil Aeronautics Board has been most niggardly in supporting the international carriers, all of them. We have been receiving, per mile, about half as much as a feeder line flying a few pounds of mail. And this for an enterprise of great importance to the national welfare. We must impress the Civil Aeronautics Board, and the Congress, with the necessity of being of greater aid. If it is in the national interest to have overseas

lines flying the American flag the nation is going to have to aid in paying for them. We plan a meeting with the Civil Aeronautics Board this week to lay the foundation for what we hope will be an educational program on that score.

Business During the Summer:

We have good advance booking, in spite of some cancellations on account of the publicity given the Communists and their potential doings in Europe. I believe that we will have reasonably good fortune in filling our airplanes during the summer. Just as soon as the summer is over we are going to run into slack business again, and will have to redouble our sales effort. We carried more passengers last winter than the winter before but must do much better. Our difficulty now is that we lose more money in the winter than we make in the summer, with the net result of losses for the year. This will never be entirely limited until we learn to sell air transportation in the winter time; that is our principal problem and is a challenge to all of us.



C. R. Smith