

STATEMENT

of

C. R. Smith, President,

AMERICAN AIRLINES, INC.

before

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE

United States Senate

July 13, 1951

SEPARATION

We have been and are in favor of identifying subsidy payments and in separating their disbursement from the payments for air mail transportation. The reasons for that have been given often, are convincing and will not be repeated here. We recommend that legislation to establish that objective be passed at this session of the Congress.

APPROPRIATIONS FOR SUBSIDY

Whether or not the subsidy disbursements are made by Post Office or the Board, the appropriations should be to the Board and it should have responsibility to justify the budget for that purpose.

OVERSEAS CARRIERS

Your legislation should provide that separation will be made in both the domestic and overseas fields. There may be good reason to defer the effective date for the foreign separation beyond that of the domestic.

LEGISLATION OF RATES

We adhere to the belief that air mail rates should be established by the Board. That is the intent of the Civil Aeronautics Act and I know of no reason for change. We would prefer that the rates not be set by legislation; that, in our opinion, establishes a bad precedent.

We take that position despite the fact that American Airlines has not had a firm mail rate for more than three years. The rate-making function of the Civil Aeronautics Board has consistently been on the basis of "hindsight". The method needs to be changed and improved. The Board has ample authority to make the change without additional legislation. If it is not changed by action of the Board we favor a legislative directive to have it changed.

BASIS OF RATES

We favor an air mail service rate "fair and reasonable" by the standards of the Civil Aeronautics Act. That Act is patterned on the experience of the Interstate Commerce Commission. Both of the Acts have sound foundation, in principle and in practice. Fair and reasonable rates can be established under the provisions of the Civil Aeronautics Act without amendment to the Act. We prefer that there be no amendment to the Act which will provide narrow and doubtful restriction on the rate-making function of the Board.

COST-PLUS BASIS

I subscribe to the testimony of Mr. Tipton and others who have appeared before your Committee, about the futility and inequity of using "cost" and "return on investment" as the only factors in the determination of rates. The short description given that method by its proponents has an intriguing ability to make the situation seem a simple one. Instead,

it involves some of the greatest complexities in modern accounting. There is nothing new about the proposal; it has been suggested before for use in establishing rates for other forms of transportation. It has never been adopted, for it has been considered ineffective and inequitable and the principle is not used in rail, highway or marine transportation.

You have had before your Committee a great volume of testimony on the subject of cost ascertainment, and it is not my purpose to tax your time with a reiteration of the very sensible arguments against sole use of the "cost" and "return on investment" factors in rate determination.

This industry is already laboring under the burden of a highly complex set of accounts specified by previous legislation and by the regulations issued thereunder. A further addition will prove wasteful and is not reasonably required. Each month we seem to receive some suggestions from Washington about amendment of our accounting records, with the inevitable result that they grow more expensive and perhaps less understandable. I hope that your Committee will hesitate to encourage the government agencies to add further difficulties to the situation. We will, I am sure, do a better job for you if we can spend a higher proportion of our time operating the airline, and less time on voluminous paper work.

MAINTENANCE OF RATES

We are informed the Board has now determined that 45 cents per ton mile is a fair and reasonable service rate for American, Eastern,

United and TWA from January 1, 1951. If so, that rate should be in effect for two years. Three years is too long and one year is too short. It is true that costs are rising rapidly, and that rates may need to be increased, but we are willing to run the risk of that for two years in order to have a firm foundation on which we can predicate plans for the business. If the Board will maintain the rates for two years, well and good; if not, there would be no objection to your including them in your legislation, as you have suggested in S. 1657, to be effective for two years.

CARRIER CLASSES AND RATES

The domestic air carriers should be divided into three classes as you propose. It is essential that each of the carriers within a particular class shall receive an identical service rate. Those two requirements are a "part and parcel" of the plan to separate subsidy from service mail payments and no separation program will be complete without them.

There are differences in the operating costs of the different carrier groups, and, after the carriers have been classified by groups, these differences should be taken into consideration in fixing the class rate. It is sensible that there be a different rate for each of the classes, provided the amount of the differences can be justified by differences in operating conditions.

We have agreed to accept the basic rate of 45 cents a ton mile for the principal carriers, although a good case could be made for a higher rate predicated on the increased cost of operation and the further increases clearly ahead. In any event, we will accept the 45 cent rate. The Board is equipped to determine what should be the rates for the other groups and for their relationship to those of the principal carriers.

SUBSIDY BY COMMUNITIES

On the question of allocating subsidy to the communities served; I believe I understand your purpose, and it is a constructive one. The communities should know more directly of their responsibility for the maintenance of the national air transport system. On the other hand, the cost of maintaining records on community-type of service basis would be shocking. I believe your purpose can be served by assuring that the Civil Aeronautics Board will provide estimates on the subject when it defends the budget for subsidy payments. I feel sure that the estimates will be sufficient for your purpose and if some individual situation seems to justify more meticulous examination, a detailed study can be prepared by the Board.

Please make sure that the carriers which request no subsidy are free from the requirement to maintain records for community allocation. I can see no point in keeping records for the allocation of subsidy when no subsidy is required for the operation. Yet, accountants seem to be intrigued by what they term a "standard method of accounting"

and we may find ourselves with a set of records providing no useful information but required by a regulation issued in the name of "standardization".

ELIMINATION OF SUBSIDY

There should be no obligation on the government to continue subsidy for any air operation unless public convenience and necessity continues to require the service. Any belief that the government "owes you a living" from and after the time a certificate of convenience and necessity is issued, can contribute to duplication and waste.

Your legislation should authorize and encourage the Civil Aeronautics Board to withdraw subsidy from any and all routes where changed conditions, or the record of actual operating experience, no longer sustain the belief that public convenience and necessity require the operation. If the carrier has a certificate and desires to continue service over the route at his own expense and risk I see no reason why he should not be permitted to do so, but subsidy support should be withdrawn when the evidence reasonably indicates that the lack of public support shows lack of public convenience and necessity.

SUBSIDY TO NON-MAIL CARRIERS

There is, in my opinion, no need to change the existing provisions of the Civil Aeronautics Act which govern the certificating of carriers for the purpose of providing mail transportation. In some sections

of the route pattern there are already too many carriers of the mail, as the subsidies needed to sustain them indicate. If and when there is need for additional mail carriers an authorization to provide the service can be secured from the Civil Aeronautics Board, under the provisions of existing legislation, by proving public convenience and necessity.

RECOMMENDATION FOR LEGISLATION

The purpose of your hearings has been to find and adopt a method to separate subsidy payments from service payments. The record contains much data which is but distantly related to that objective. Your task now is, of course, to return directly to the original objective, to provide a method of separating subsidy from other payments.

I like very much the conciseness of S. 1757. It gets to the point and clearly expresses your direction that the separation be made. I recommend that you consider the passage of S. 1757 after adding an amendment which will authorize the Civil Aeronautics Board to withdraw subsidy from routes no longer required in the national interest.

NATIONAL DEFENSE VALUE

May I, while I have the privilege of appearing before your Committee, make a comment on the national defense value of the air lines. I have read the discussion between Senator Johnson and Congressman Hinschaw in the record and that calls my attention to the subject.

It is tragic that each time this country is faced with a national emergency we seem to find the requirement that we learn entirely by new experience. We have not demonstrated the ability to evaluate and use the difficult, hard-bought lessons of the preceding emergency.

We went into World War II ill-prepared. The lack of preparation was nowhere so clearly indicated as in the field of air transportation. We were preparing to fight a war which would extend over most of the surface of the world. We urgently required the transportation ability which only the airplane can provide. Yet the Army had only a handful of air transports and no military organization experienced in air transport operation. The airplanes of the civilian lines were limited in number and their range and carrying capacity was quite insufficient. We were woefully weak in air transport capacity. We were able, later, to provide a substantial air transport system, but only toward the end of the war. In World War II we had "TIME"; "time" which we assuredly will not have again.

If another war is required, is there any reason to believe that it will cover a lesser area of the world? "Time", if there be any, will be reduced to the minimum. We will fight the early days of the war with "what we have", not what we will later secure. And that applies to transport aircraft as much as to any other war vehicle.

In air transportation the greatest source of national strength is the capability of the airlines. You know that from your own records. The air lines have more experience in air transportation; they have more trained personnel and they have more air transportation capacity than any

other agency in the United States. The capacity of the air lines will constitute the backbone of the United States ability in air transportation in the early, decisive days of the war.

The strength of the civil air line fleet has grown amazingly. The subsidies which you have paid for the development of national air transportation constitute, in result, one of the best of our national investments. The air lines have long looked forward to the time when the need for subsidy would no longer exist, and for many of them that time has come. But, irrespective of that, the important thing is that your confidence in civil air transportation has been justified and the nation has been rewarded. I wish that we could fly over the Capitol in an unbroken stream the hundreds of modern aircraft available to the carriers today, to give you a visual demonstration of the capability you have nurtured and brought to pass.

I spent more than three years in military air transportation, in all parts of the world. I started to work for the Army when we had less than a dozen air transports available for Air Transport Command. I saw the Command grow to more than two hundred thousand men and women, with an adequate complement of transport aircraft. But that took years, and it was possible only for the reason that the nature of the war permitted "time". It will not be possible again.

The requirement for air transport capacity in the next war will be tremendous. As members of the Senate you are acquainted with that. It is obvious that the National Defense Establishment does not

have the air transport capacity to satisfy the requirements of the forces. It is obvious that the air transport job for the military establishment cannot be done without major contribution of capacity by the civil air carriers. It is obvious that the civil air line fleet is the backbone of national air transport capacity, and that its importance will grow, relatively.

All of this is known, and recognized, by many of the men of the National Defense Department, but not by enough. That is unfortunate and should be corrected. Any informed person who is not aware of the military need for air transport capacity, of the urgent need for further strengthening our capability in military and civilian airlift is without ability to understand the hard-bought lessons of World War II.



AMERICAN AIRLINES

CABLE ADDRESS AMAIR

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July 18, 1951

OFFICE OF
SECRETARY

Mr. Amon G. Carter
Fort Worth Star-Telegram
Fort Worth, Texas

Dear Mr. Carter:

Attached is a copy of our summarized history of negotiations with American's pilots in which you expressed an interest at the meeting today.

In addition, I am enclosing for your personal records a conformed copy of the affidavit relative to stock transactions which you executed.

Sincerely,

Walter H. Johnson, Jr.

WHJ/f

