

Talk by
C. R. Smith, Chairman of the Board, American Airlines
Before
The Executives Club of Chicago,
February 28, 1947

RELEASE
Following luncheon

AIR TRANSPORTATION, ITS STATUS, TREND AND PROSPECT

I can, I believe, most usefully employ the time you have allotted to me by endeavoring to answer some of your questions about air transportation. Perhaps you would like first to discuss the financial condition of the air lines, the factors which have contributed to present condition and the remedies which show promise.

That subject is a broad one, too broad to be discussed in general terms, for each situation will vary in detail from the next. It may be, however, that analysis will discover factors which are common in their effect upon the individual problems.

First, we must make sure that we will diligently seek and will honestly recognize the factors which have contributed to present status. We should not make the error of the pioneer settler, driven out of Kansas by the drought of 1895. It was evident that his difficulty stemmed from lack of adequate rainfall. Nevertheless, on the side of his prairie schooner, with its weary horses, was a placard reading "I'm going back to my relations. Damn Cleveland's administration".

The difficulties of today focus our attention on the present and unless we proceed with care we will conclude that our difficulties stem from the economic events of the past twelve months. That would be an uninformed and useless conclusion, for while we have been affected by the events and trends of the year past many of our difficulties are more basic, and some of them have been building up for a decade.

Walter Brown was Postmaster General in the cabinet of President Hoover. The Postoffice Department administered the air mail contracts and the Postmaster General had principal part in the creation of the air transport map.

Walter Brown believed that the United States should have and could have a logical and strong system of air transportation and in his administration of the air mail contracts he established certain basic principles designed to bring that about. These were:

One: Planning must first be done on a national basis. Determine between what cities and over what routes there is or will be reasonable requirement for air transportation, then draw your national map on that basis.

Two: Determine how the individual routes on the national map can best be grouped into operating units, into air lines. Insure that the routes of an air line will, together, form an inter-related, logical transportation system. Form the routes into sensible operating units and permit no illogical ones.

Three: Require that the operators of these routes, the air lines, have adequate capital. An air carrier given responsibility for the operation of a principal route must have the ability to perform the responsibility it assumes.

These were sound principles, founded on the experience of transportation, finance and public service.

The air mail contracts were cancelled in 1934, the policies previously in effect were suspect and the government began the creation of a new national air route map. The Postoffice Department continued to administer the air mail contracts until 1938. The Civil Aeronautics Board was created by the Congress in 1938 and the Board continues to administer the economic affairs of air transportation.

The route pattern which immediately followed 1934 differed but little from that previously operated, perhaps for the reason that the routes were trunk routes and their requirement and location were obvious. As the route pattern was later expanded obvious deficiencies in planning became apparent.

The first departure from logical principle was at least partial abandonment of the requirement that adequate capital should be basic in recognizing aspiring air carriers. Some of the early bidders for air mail contracts did not have capital sufficient for their initial aircraft and equipment. Many successful bidders began business with capital insufficient to see them through the first year.

The hope of many bidders was that they would secure the route authorization and then raise capital on future prospects. Many were successful in accomplishing that. Some, who began with capital deficiencies, later repaired these deficiencies; others began with capital deficiencies and have continued with such deficiencies. It is evident that some of the financial problems of today go back to the first day of operation, many years ago.

The operation of trunk air routes is a business which requires, and will continue to require, very large amounts of capital. Some in the business and some in the government have not yet recognized that requirement. Until we have that recognition there will continue to be times of periodic crisis in air transportation.

The second departure from logical principle was the lack of insistence that the air routes of a carrier should, together, form a logical transportation system, and that illogical systems should neither be created nor permitted.

If you will critically examine the route pattern of the air carriers of today you will see in some the result of deficiencies in planning. Some of the air lines form an interesting assembly of diverse air routes but in formation they depart far from the principle that routes grouped together should be inter-related. This result is partially the fault of the air carriers, in that they asked for the routes; partially the fault of the government, in that it permitted illogical grouping.

That this illogical grouping has had consequent effect upon the economic status of the air carriers can hardly be disputed. The majority of the air carriers with financial problems of urgency are those with confused route patterns. The relationship between the complexity of their route pattern and the complexity of their financial problem is hardly coincidental.

The relative ease with which an air line operation can be started, and the difficulty of sustaining the operation thereafter, have been factors contributing to the complex situation of 1947.

Air transportation is often compared with rail transportation, they both being members of the family of transportation. But pioneer air transportation in many respects was more akin to inland waterway transportation.

In pioneer rail transportation the time element was different. Many years could intervene between the time of the construction and the time you first operated trains over the tracks.

In rail transportation you had first to acquire capital, by preparing and publishing plans which would attract capital. You had to secure the right of way, lay the tracks, build the cars and locomotives and assemble the operating organization before you were really in the business of transportation.

Inland waterway transportation was not so tedious in its formation. The "road bed" was already there, you could purchase a river steamer, lease a dock and be in business. You had similar opportunity in the early days of air transportation; you could acquire an airplane, employ a few pilots and mechanics and be in business.

In spite of the requirement for planning, many mistakes were made in rail transportation, mistakes which we have been endeavoring to minimize or cure for generations, mistakes which have secured Congressional attention and brought forth advocates of rail system re-alignment and merger.

The mistakes of the rail lines were evident, written down in transportation history, for all to see and read. Many felt that there was no need to repeat the same mistakes in air transportation.

The relative ease of starting new air routes deceived, and continues to deceive, many, including operators, potential operators and agencies of the government. Some are still not aware of the capital requirements and the potential economic hazards of transportation, all forms of transportation. It remains easy to create too many air routes, too many duplicating routes, too many illogical routes, perhaps with the belief that mistakes are more easily repaired in air transportation than in other forms of transportation. The record indicates, however, that we are equally slow in correcting our mistakes in all forms of transportation. It is obviously better to make as few mistakes as is possible.

The Civil Aeronautics Board long ago recognized that some of the air carriers were having difficulties, and would perhaps continue to have difficulties. The Board might well have analyzed the situation and concluded that one of the basic factors was illogical grouping of air routes, for that was and is obviously one of the basic factors creating the difficulty. Instead the Board seemed to have concluded that the disability was one of size, and perhaps size alone; that the air carriers in question were just too small to earn a profit and to sustain themselves.

The record seems to sustain the viewpoint that thereupon the Board embarked upon a program to make big ones out of little ones,

perhaps with the belief that the size of an air line, rather than the transportation logic of an air line, is the principal factor in its opportunity for success and survival.

The past five years have been characterized by some as a period of "regulation by slogan". "Competitive balance", "equalizing the size of the carriers" and the "economic optimum size of an air carrier" have become familiar terms. Perhaps we do not so often use the phrase "public convenience and necessity".

The air map was fairly well filled at the beginning of this period of new philosophy, additions having been consistently made during each of the preceding years. As a consequence, some of the new routes and extensions for the small carriers had to go into territory of marginal opportunity. Others duplicated, and duplicated again, services already in operation, with resulting competition often beyond the requirements of the communities for increased service and beyond the evident present capacity of the communities to support the increased service.

If the fulfillment of this policy had resulted in strengthening the United States system of air transportation, we could take some comfort from that result, and be more philosophical about the obvious mistakes. The net effect, in my opinion, has been to weaken all, the small carriers and the large.

Experience indicates that a large air line with many marginal or illogical air routes will lose money and position much more rapidly

than a smaller air line with a lesser number of marginal routes. Ironically, the present policy has brought the most damaging consequences to the very air carriers it was designed to aid, the smaller ones; it has brought some of them to the brink of bankruptcy.

It would be well to conclude that we have had enough of this transportation ideology; that we should return to administration premised upon sound transportation principles. That I advocate. I am not, however, in favor of blaming all of our difficulties on the "administration"; that was the mistake of the old settler from Kansas.

The Civil Aeronautics Board is composed of five members, men of honest conviction and with demonstrated willingness to be of public service. In the responsibility of their administration they have an assignment of magnitude, for the size and complexity of their job has grown with the growth of air transportation, and the staff available to them has not grown in proportion.

Some of these men have been members of the Board for less than a year, some longer. But, no matter how long they have been there, it accomplishes nothing to endeavor to saddle all of the past on the present Board. What has been done is of historical interest and certainly the mistakes should contribute to our experience. What we are really interested in is the future, and it is responsibility for the future which is justly assigned to the present Civil Aeronautics Board.

We operate under the provisions of the Civil Aeronautics Act of 1938, on the whole a modern, enlightened and useful legislative enactment. No other country has a better civil aeronautics act to guide the conduct of its civil aviation development. The law is a good law. Its basic principle is the "public convenience and necessity" and on that basis it should be administered.

We started out in 1934 with a clean map, with the opportunity to utilize the accumulated experience of transportation in developing our route pattern and forming basis for a strong system of air transportation. We did not make full utilization of that opportunity and I am not sure that even today we are preparing to make full utilization of the opportunity remaining to us.

It may be required, probably will be, that some of the air routes be re-grouped. That might come about by mergers, by purchase and sale of specific routes or even by interchange of routes between companies. I do not profess to know the detail of what should occur or what may occur, but if you conclude that some of the routes are illogically grouped you also conclude that a way should be found to re-group them. Any or all of these methods might be used, dependent upon the desires of the operators, the circumstances of the case and the approval of the Civil Aeronautics Board.

It is probable that the Board will want to take another look at the policy which has developed such highly numerical competition. On

at least one of the routes there was in the beginning one carrier, then two carriers, then three, then four, and I am told that the Board is giving consideration to a fifth. There is need for reasonable competition, but there is a limit to reasonable competition and there is such a thing as wasteful competition. When you pass the limit of reasonable traffic potentiality you begin to get in the realm of wasteful competition, and I am not sure that we are not already in that realm on some of the routes.

Some of the policies we have been working under have not turned out well. To re-evaluate those policies and to change any and all which have not resulted in common good is, I am sure, a task which the Board would willingly undertake.

I believe that we would be ill-advised to permit our air carriers to go into bankruptcy; it is contrary to the national interest to do so. Overseas, next to the American eagle, the airplane is the symbol of American power and American prestige. Let our air services fail, and fail in full public print, and our prestige will decline. To prevent that, and to preserve the air power strength of American civil aviation, is worth reasonable investment.

I have not intended to give the impression that our national air transportation system is in major part illogically created. Some part of it is, most of it is not, but the principal thing which should concern us is the trend toward making it more illogical.

The present situation is not so complicated that it cannot be straightened out, and that in reasonable time, provided:

1. We will cease making the same mistakes, over and over again.
2. We will endeavor to repair the mistakes already made.

Given the will to do that, on behalf of the industry and on behalf of the government, most of our difficulties could be straightened out in reasonable time. When we are convinced that the future course is one of sound principle, we should be in favor of giving the air carriers time to get their house in order.

With clear definition of policy for the future, I believe that the commercial banks would lend the air lines requiring funds an amount sufficient to tide them over for the necessary period. If the commercial banks cannot assume that responsibility, we should favor the Reconstruction Finance Corporation extending short term credit.

There are many other factors affecting the economic health of the air carriers. They include the availability of experienced and prudent management, the control of rising costs, the expansion of the air transport market, the economic condition of the country and the economic condition of the world. Time will not permit discussion of all of these factors, important as they are.

I believe, however, that if the regulation of the industry is conducted on the basis of sound transportation principles and if we in the business manage it well, there are ahead the brightest days of all. Air

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transportation has a reserve of inherent vigor, based upon its great public utility. With reasonable opportunity it will do well and will perform for you the tasks you reasonably expect of it.

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