COMPETITION OR CONSOLIDATION FOR UNITED STATES INTERNATIONAL AIR CARRIERS

COMPETITION OR CONSOLIDATION FOR UNITED STATES INTERNATIONAL AIR CARRIERS

By

JAMES PRESTON PAYNE, JR.

Bachelor of Arts

William Jewell College

Liberty, Missouri

1942

Submitted to the Department of Economics

Oklahoma Agricultural and Mechanical College

In Partial Fulfillment of the Requirements

for the Degree of

MASTER OF SCIENCE

1948

APPROVED BY:

Russell H. Baugh
Chairman, Thesis Committee

Raymond D. Thomas
Member of the Thesis Committee

Raymond D. Thomas
Head of the Department

D. G. McIntosh
Dean of the Graduate School

PREFACE

This study embodies a very current question in regard to International Air Transportation for the United States. Great strides have been made in Commercial Aviation within a relatively few years. Air Power is an instrument of National Policy both diplomatically and economically.

With the advent of air commerce, the world is now the market place and air transportation a means of binding the vast areas closer together.

Internationalism is the theme and aviation a tool for the promotion of better relations and knowledge in the strife for world peace.

Competition or Consolidation of international carriers may be indicative of a trend in economic thinking, characterized by the changing conditions in the world today.

Air transport, which played such a vital part in war, will play an even more vital role in the world of tomorrow.

The writer wishes to express his appreciation to Professor Russell H. Baugh, Dean Raymond D. Thomas, and Dr. R. R. Oglesby of Oklahoma A. & M. College, for their time and counsel both for this study and for courses under their guidance. He also wishes to thank Dr. John H. Frederick, University of Maryland, for his generous aid in obtaining material and suggested research. To the many who have helped in the preparation and final construction, he is extremely grateful.

TABLE OF CONTENTS

CHAPTER I

THE PROBLEM AND DEFINITIONS OF TERMS USED

THE PROBLEM

The question, as given in the title, has been of rather recent origin because it has been only in the past few years that the possibilities of air transportation branching out into the overseas and international fields have become apparent. With the advent of international flight came the question of the air policy to be followed by the United States. In recent years a majority of the foreign operators of air commerce have adopted a consolidated carrier plan with either government ownership or statutory monopoly rights. In the face of such opposition by foreign monopolies in international air transportation, the United States must decide upon a continuation of its present policy of regulated competition or some form of consolidation.

The problem has received much attention by the Congress of the United States through a number of bills presented for the changing of the policy to various forms of a single carrier plan to operate in the international field. Several hearings on the bills have been held by both the House and Senate Committees on Interstate and Foreign Commerce. There the problem was given a thorough analysis by leading authorities from the aviation industry, the air transport industry, the government, labor, and many other interests.

The purpose of this study is to present the cases for competition and consolidation as they have been stated by the advocates of each, and from a careful analysis of the facts, as stated, draw a conclusion as to the system that would best serve the interests of the peoples of the United States and the world.

The question, then, is whether we could best serve the public interest

of our country and promote our national defense and our position in the international field by permitting continuance of competition among our international air carriers or whether we should advocate a consolidated air carrier as the flag line of the United States on a basis similar to that promoted by foreign countries.

THE IMPORTANCE OF THE PROBLEM

Without doubt, this problem has increased in importance and magnitude since World War II, during which great strides were made in the technical and the operational aspects of aviation. The experience and the know-how of distance flight with safety and economy were obtained by the international operations of our domestic air carriers as links in our lines of supply and transportation that proved of such vital aid to the American cause. This valuable experience, coupled with the records and data of the Naval Air Transport Service and the Army Air Transport Command, has given the United States air carriers a firm basis for their entry into the vast field of world air commerce.

The United States holds a prominent position in air transportation and in aircraft construction. Many of the foreign air carriers are operating with aircraft purchased from American manufacturers. It is important to the American manufacturers for them to continue to do so. At the same time, the manufacturers are vitally interested in the amount of air traffic that the United States carriers will continue to carry. The high cost of experimental models of larger and more advanced aircraft cannot be borne by carriers that cannot operate at a fair rate of return or in anticipation of one. The problem, then, has a direct effect upon the manufacturers since the demand for new and faster aircraft will depend upon the profitable operation of

American carriers. In recent information from England it was learned that the British are attempting to operate with aircraft built in England. At the present, such aircraft do not compare favorable with American aircraft in the matter of operating costs and characteristics. However, the possibility of a decrease in demand for American-built aircraft by foreign operators is always present. Whether competition or consolidation will better enable American carriers to gain a large portion of the international traffic is a vital question to the aircraft manufacturer.

The question is of great importance to the air carriers themselves. Many of the domestic air carriers are operating international routes. A consolidation of the international carriers into a single carrier would mean the discontinuation of business in foreign air commerce by the domestic carriers and the elimination of two international air carriers, Pan American World Airways and American Overseas Airlines. The ability of a domestic carrier to offer transportation connections or continuous flight from points in the United States to various points throughout the world is a definite drawing card for traffic. The growing trade and business conducted by the United States with foreign countries offers an increasingly greater traffic potential for the international air carriers. It has been estimated that the United States originates approximately 80 per cent of the international air traffic. The tourist traffic by Americans in foreign countries has for many years been a prominent item in the foreign trade balance. With the possibility of decreasing passenger fares, there is good reason to believe that such traffic will expand. Whereas in the past many vacations did not permit a trip outside the continent, the reduced time required by flight will open many new alternatives for vacation possibilities.

Air cargo is another important traffic potential. At present, concen-

tration is upon the passenger, but in the future the possibility of increased air cargo must not be overlooked. Larger and larger pay loads are now possible and the costs of air cargo are decreasing. This anticipation of a growing traffic potential and the expansion of international operations has attracted many United States air carriers. The question of the policy to be adopted in regard to international air transportation greatly concerns them.

WHY THE PROBLEM IS VITAL

One definite reason for the problem being so vital is the prominent position of air power in foreign relations and international transportation. Air transport is now an instrument of national policy--economic, diplomatic, and military. The uncertainty of the international situation and the great strategic importance of air power make any policy in regard to international air transportation important. The world is no longer separated by days of travel. Air transportation has reduced it to a matter of hours and the end is not in sight. The Civil Aeronautics Act empowered the Civil Aeronautics Board to consider in its economic decisions the national security and defense of the United States. It is important to note that the Departments of the Government oppose a change from the policy of regulated competition. Fearing that advancements in air technology might be utilized by foreign competitors but not be available to the United States, the War, Navy, and State Departments were led to oppose any plan for a "single chosen instrument".

A second important reason for this study is the trend throughout the world for more concentration of economic power either in the state, political party, or in government-owned industries. The opponents of a consolidation plan continually point to the grave dangers of such an instrument

becoming entirely government controlled. It is true that almost all of the foreign competitors operate under some form of a chosen instrument with considerable government aid through subsidies or by statutory creation. It cannot be overlooked that in the United States great aid has been given to commercial aviation, both domestic and foreign, not only through mail payments but also through maintenance of airways, airport construction, weather data, beacon lighting systems, radio beams, tower operation, and indirectly, aid given to aircraft manufacturers used in research and development of new models. Support of air transportation by government subsidies still seems necessary, at least until the world situation becomes more stable and the international air carriers become established. No doubt the United States today holds the dominant position in air power both military and commercial. It seems important at this time for it to remain there. The atomic bomb has made the importance of air power and air defense expand beyond believable expectations. An industry so affected by public interest and national defense cannot be expected to develop by private interests alone. What policy will promote the public interest and the national defense and permit the economical operation of United States international air carriers, is the question.

DEFINITIONS OF TERMS USED

The definitions given here are not all inclusive, but they were chosen as the ones needed in order to avoid confusion. The policy now adhered to by the United States is embodied in the Civil Aeronautics Act of 1938 and a majority of the definitions are taken from that Act.

Consolidation, as applied to this study, means the consolidation, merger, or placement of control within a body or organization that will have exclusive rights to represent this country in international air commerce. This con-

solidation might be a combination of existing carriers now participating in air commerce or other carriers that might meet the qualifications as embodied in any law or regulation that might be promulgated to permit such an instrument.

> Air carrier, as defined by the Civil Aeronautics Act of 1938, means any citizen of the United States who undertakes, whether directly or indirectly or by lease or any other arrangement, to engage in air transportation.
>
> Air commerce, as defined by the Act, means interstate, overseas, or foreign air commerce or the transportation of mail by aircraft or any operation or navigation of aircraft within the limits of any civil airways, or any operation or navigation of aircraft which directly affects or which may endanger safety in interstate, overseas, or foreign commerce.
>
> Air transportation, as defined by the Act, means interstate, overseas, or foreign air transportation or the transportation of mail by aircraft.
>
> Foreign air carriers, as defined by the Act, means any person, not a citizen of the United States, who undertakes, whether directly or indirectly or by lease or any other arrangements, to engage in foreign air transportation.
>
> Foreign air commerce or transportation, as defined by the Act, means the carriage by aircraft of persons or property for compensation or hire, or the carriage of mail by aircraft, or the operation or navigation of aircraft in the conduct or furtherance of a business or vocation, in commerce between, respectively, a place in the United States and any place outside thereof, whether such commerce moves wholly by aircraft or partly by aircraft and partly by other forms of transportation.[1]

ORGANIZATION OF THE STUDY

The remainder of the study will review the development of the present policy of regulated competition as it emerged from the Civil Aeronautics Act of 1938 and the interpretation of that Act by the Civil Aeronautics Board. Attention will be given to proposed legislation which would change the present policy from competition to consolidation. Recent decisions by the Civil

---

[1] 52 Statutes, pp. 977-979.

Aeronautics Board regarding the certification of American carriers for international routes give a clear picture of the policy now followed by the United States. Some of the difficulties and problems faced by the Board in its economic decisions will help show why the problem is important and the reasons for following the policy of regulated competition. In some cases certificates were not granted to more than one carrier to operate over a route when the Board felt traffic potentials did not justify sharing the service.

Extended treatment is given to the arguments for and against the proposed legislation by leading authorities. It is interesting to note how the supporters and opponents were grouped and remained so grouped during the various hearings before Congressional Committees.

An evaluation of these arguments is included together with discussion of some possible alternatives to competition or a single chosen carrier.

Finally a brief conclusion is attempted based upon the arguments and points gathered from the study.

CHAPTER II

THE EMERGENCE OF THE PROBLEM

UNITED STATES INTERNATIONAL AIR POLICY PRIOR TO THE CIVIL AERONAUTICS ACT OF 1938

The development of air transportation in the United States hinges around the growth of air mail and the utilization of aircraft by the Army and Navy. World War I gave the infant aviation industry an opportunity for expansion and development of new designs and methods of construction which otherwise would have taken many years to achieve.

Immediately after the war many of the surplus aircraft were sold to numerous demobilized Army and Navy pilots. Through their efforts, flying was translated from war terms to terms of public participation, and the public began to realize that this new mode of travel could become a form of transportation and a part of the normal daily routine. Accompanying this rapid expansion of aviation, without any type of government regulation, were many accidents. Anyone who had the price of a plane could attempt to fly it. There was no federal regulation of air transportation until 1926, and it was not until 1928 that the Bureau of Air Commerce in the Department of Commerce began to enforce standards of safety.[1]

The Post Office Department had displayed an interest in the possibilities of air transportation of the mail as early as 1911. Attempts made to secure appropriations from Congress met with no success until 1916 when an experimental appropriation was granted. On may 15, 1918, air mail service between Washington, D. C. and New York was begun with Army planes and personnel and

---

[1] John H. Frederick, Commercial Air Transportation, pp. 4.

on August 12, 1918, the Post Office Department took over operations with its own equipment and personnel.[2]

The first period of expansion encountered numerous difficulties ranging from ill-adapted planes to little or no weather knowledge. Appropriations were small and difficulty was experienced in keeping within the budgetary limits. The history of the development of the air mail and especially night flying is a colorful and dramatic one.

By 1925, the development of air operations had reached the point where the government felt that the operation of air mail transportation by private operators was desirable. The Air Mail Act of February 2, 1925 provided for the service to be performed by private carriers under contract.

With the rapid expansion of aviation and the growing public interest came the need for some type of regulation and coordination. Several committees of Congress investigating the aviation industry reported that a program of legislation was needed to promote civil air transportation as well as to formulate a plan to cover development for military and naval aviation.

The answer was the Air Commerce Act of 1926 with an objective to stabilize civil or commercial aviation so as to attract adequate capital and to provide it with the assistance and legal basis necessary for its development.[3] The Act provided more aid to civil aviation than regulation of the new industry.

Due to the little knowledge and seemingly unlikelihood of distance international flight, little was said in the Act regarding it. The Act provided for the exclusion of foreign aircraft from the air space of the

---

[2] Ibid. pp. 7.

[3] 44 Statutes, pp. 568.

United States except by permission fo the Secretary of State for military aircraft and the Secretary of Commerce for non-military foreign aircraft.

The flight across the Atlantic by Charles A. Lindbergh in 1927 and several other spectacular flights increased the public's interest in flying and aroused the world to the possibilities of international flight.

Air transport services to foreign countries began to develop. Pan American World Airways, the world's largest commercial air transport enterprise, began services in 1927. Special legislation authorizing contracts and payments for the carriage of mail to, between, from and in foreign countries as well as to, from and between United States possessions and territories was approved in 1928 and 1929.[4] This legislation, known as the Foreign Air Mail Act, remained in effect until the enactment of the Civil Aeronautics Act of 1938. The mail rates were not to exceed $2.00 per mile for a stated base plane load, plus $1.00 per pound per 1,000 miles for mail transportation in excess of the base load. These mail contracts were to be awarded by competitive bidding. A number of contracts, mostly for 10-year terms, were made with Pan American Airways, Pan American-Grace Airways and Canadian Colonial Airways.[5]

Air mail transportation contracts were suddenly cancelled by the government in 1934 because of alleged collusion between the mail carriers and post office officials of the outgoing administration and because of other abuses. The Army flew the mail for several months on a restricted bases. During this period the Army experienced a large number of accidents due largely to the inexperience of its personnel.

---

[4] 45 Statutes, pp. 248 and 45 Statutes, pp. 1449.

[5] O. J. Lissitzyn, International Air Transport and National Policy, pp. 143.

A new act was passed entitled the Air Mail Act of 1934. It provided for new mail contracts issued under competitive bidding with a 40 cent per mile limit. Also various restrictions were placed upon the carriers with a separation of aviation manufacturers and transport companies.[6] Holding companies were also broken up.

The control of the industry was divided among three departments of the Government. The Post Office Department awarded the air mail contracts and enforced air mail regulations. The Interstate Commerce Commission was to set the rates of mail pay and was directed to review rates periodically. The Bureau of Air Commerce in the Department of Commerce regulated the safety side of air transportation and was responsible for airway maintenance and development. Competitive conditions, as evident by the provision in a few instances of non-mail service in a territory served by an airline holding a mail contract and by practices in connection with passenger fares, caused considerable difficulty and eventually played a part in bringing about a more comprehensive form of regulation. Competitive bidding for air mail contracts became ridiculous, some bids being as low as 0.0008 mills per mile on competitive routes with, of course, the expectation of later asking for, and in all probability receiving an increase after the route had been established.[7]

Prior to the granting of a certificate of convenience and necessity to American Export Airlines by the Civil Aeronautics Board in 1940, the United States had been represented in the international air carrier field by the Pan American system, now called Pan American World Airways Corporation.

---

[6] John H. Frederick. Op. cit., pp. 16-17.

[7] Ibid, p. 17.

Pan American had pioneered the many foreign routes on its schedule in both the Atlantic and the Pacific trade routes, the Carribean, South American, and Alaskan.[8]

There had, however, been other American airlines in the field before and up to 1931. New York, Rio, and Buenos Aires lines; Pickwick Airway, Inc. and Safety Airways, were gradually eliminated because it appeared to be the policy, as shown by the evidence which follows, of the United States to favor Pan American Airways and its affiliates through the issuance of air mail contracts.[9]

In a letter to Captain Thomas Doe of Eastern Air Transport, Inc., in 1931, Postmaster General Brown advised domestic air carriers to stay out of the foreign field and Pan American to stay out of the domestic field.[10]

Pan American was the first to enter the scene on the trans-Atlantic route. It entered into an agreement with Imperial Airway, a British air carrier, whereby other air carriers were excluded from this field of operation. By an agreement of April 3, 1937, Pan American secured a 15-year monopoly for landing rights in Portugal which excluded all other American countries.[11]

These routes carried great potentials for commercial air carriers in the international field. The probability of these routes supporting more than one American air line was evident. It was the fear that one company might monopolize these routes that led to the United States Policy of inter-

---

[8] For further information consult C. A. B. Decisions.

[9] C. J. Lissitzyn. Op. cit., p. 242.

[10] Ibid. p. 242.

[11] Ibid. p. 244.

governmental agreements or negotiations for trans-Atlantic operating privileges. Negotiations with Great Britain in 1935 included sufficient general allowances to permit the United States to transfer operating permits from Pan American or Imperial to other lines if they saw fit.[12]

The need, both domestically and internationally, for a definite national air policy was great. Control over domestic carriers was divided among three departments and did not permit the coordination of regulation necessary for a sound system. Prior to the Civil Aeronautics Act of 1938, control of the international aspects of civil aviation was largely vested in the Interdepartmental Committee on Civil International Aviation, composed of assistant secretaries of certain of the executive departments. As shown, the international field was represented by one carrier which seemingly had a favored position in regard to air mail contracts. It was evident that there was a definite need for a centralized authority with definite regulatory powers and full responsibility for the control of civil aviation both domestically and internationally. Such a need was provided for by the Civil Aeronautics Act of 1938.

THE DECLARATION OF POLICY BY THE CIVIL AERONAUTICS ACT OF 1938

The Civil Aeronautics Act of 1938 represents the latest legislation by Congress applicable to air transportation. While much background for this study was found in the hearings of Congressional committees upon the question and upon proposed laws and amendments to the Act, it is necessary for the bases to be the Act, as it is still the effective law for air carriers.

What has been and is now the policy of the Civil Aeronautics Board in

---

[12] Edward P. Warner. "Atlantic Airways, Foreign Affairs. XVI, (April, 1938), 481.

regard to international air transportation? That policy is found in the Act of 1938 itself. Section 2 of the Act is a declaration of policy in regard to Air Transportation of the United States. Such a statement of that policy is deemed advisable here so that a clear view of why and wherein both statements of the question find substantial grounds for their cases. Section 2 of the Civil Aeronautics Act of 1938 states:

> In the exercise and performance of its powers and duties under this act, the Authority shall consider the following, among other things, as being in the public interest, and in accordance with the public convenience and necessity:
>
> (a) The encouragement and development of an air transportation system properly adapted to the present and future needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the national defense;
>
> (b) The regulation of air transportation in such manner as to recognize and preserve the inherent advantages of, assure the highest degree of safety in, and foster sound economic conditions in, such transportation, and to improve the relationship between, and coordinate transportation by, air carriers;
>
> (c) The promotion of adequate, economical, and efficient service by air carriers at reasonable charges, without unjust discrimination, undue preferences or advantages, or unfair or destructive competitive practices;
>
> (d) Competition to the extent necessary to assure the sound development of an air transportation system properly adapted to the needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the national defense.[13]

Other Sections of the Act that might lend some light upon the policy as adopted and administered by the Board are Sections 301 and 408.

Section 301 states that, "The administrator is empowered and directed to encourage and foster the development of air commerce in the United States and abroad."[14]

---

[13] 52 Statutes, p. 980.

[14] Ibid. p. 985.

Section 408 states that:

> It is unlawful for air carriers to formulate a consolidation, merger, purchase, lease, operating contract, or acquisition of control, unless approved by order of the CAA Authority. Should some person seek a form of consolidation, such form must be filed with the Authority and the Authority (duties performed by the Board since 1940) shall hold a public hearing on the application. If, after the public hearing, the Authority ascertains that such a consolidation will be consistent with the public interest, it shall by order approve such consolidation provided the plan of consolidation would not result in creating a monopoly or monopolies and thereby restrain competition or jeopardize another air carrier not a party to the consolidation. The Authority has the power to issue cease, and desist orders for cases of discriminatory competition.[15]

INTERPRETATION BY THE CIVIL AERONAUTICS BOARD WITH RESPECT TO INTERNATIONAL AIR TRANSPORTATION

The interpretation that the Civil Aeronautics Board has placed upon the above quoted sections of the CAA Act of 1938 might well be said to have its origin in regard to international or overseas routes of air carriers with the decision by the Board on the application by American Export Airlines for a certificate of public convenience and necessity to engage in overseas transportation between the United States and various points in Europe. This application was decided upon by the Board and concluded July 12, 1940.[16] In brief, the decision was that competition was to be desired, as being in the public interest, among the international air carriers, provided that the applicant for competing routes was able to meet the qualification as stated in the Act. The Board, by order of July 12, 1940, and approved by President Roosevelt on July 15, 1940, issued a temporary certificate to American Export

---

[15] Ibid., pp. 1001-1002.

[16] Civil Aeronautics Board. Decisions of the Civil Aeronautics Board, II, (1940), 16.

Airlines, authorizing service to Lisbon, Portugal.[17] This represented the first entry of an airline besides Pan American into the trans-Atlantic field. It is proper to examine the facts and the opinion of the Board in this case in order to establish the background for this study.

THE AMERICAN EXPORT AIRLINES TRANS-ATLANTIC CASE

The Application. The application by American Export Airlines was filed with the CAB on May 9, 1939, and amendments filed on October 20 and November 10, 1939.[18] In brief, the application requested a certificate of public convenience and necessity, authorizing it to engage in air transportation between the United States and terminal points in France, England, Ireland, Italy, Spain, and Portugal. It is important to note that the original filing of application was prior to the outbreak of hostilities in Europe and that the last amendment was filed after the enactment of the Neutrality Act on November 4, 1939.[19] Therefore, the routes terminating in England, France, and Ireland were eliminated; and upon the entry of Italy into the war on June 10, 1940, the President declared an additional combat area that included the southern Atlantic coast of Spain, which made flights to Italy and Spain impossible.

Section 2 of the Neutrality Act of 1939 provided, "Whenever the President shall have issued a proclamation under the authority of Section 1, it shall thereafter be unlawful for any American vessel to carry any passengers or any articles or materials to any state named in such proclamation."[20]

---

[17] 2 C. A. B., pp. 52-53.

[18] 2 C. A. B., 16, (1940)

[19] Ibid, p. 18.

[20] Ibid, p. 20.

This development left Lisbon, Portugal as the only possible terminal point in Europe. American Export Airlines, however, felt that the Neutrality Act of 1939 did not change the fundamental request for a permit to conduct flight operations between the United States and Europe. Basing its reasoning upon Section 2 of the C. A. Act of 1938, which states that one of the factors that the Board must use in consideration for certificates was the encouragement and development of an air-transportation service properly adapted to the present and future needs of the foreign and domestic commerce of the United States, the American Export Airlines argued that its application was based on the futurity of the above factor and therefore should be decided in light of the requirements that would be necessary when that portion of Europe banded by the Neutrality Act was again restored to peace. The Board held that there was no basis of record to support a finding as to the requirements of the public convenience and necessity under unpredictable future conditions, and therefore dismissed that part of the application pertaining to the parts of Europe under the band of the Neutrality Act, but stated that the Applicant still had the right to have its application reconsidered when the legal barriers to those countries were removed.[21]

What the American Export Airlines was really seeking was the inauguration of a second United States trans-Atlantic air transportation service over the general North Atlantic trade route, rather than service between any particular terminals. This was strongly opposed by Pan American Airways System.

At the time of the hearing, 1939 through 1940, before the Civil Aeronautics Board, Pan American was the only United States air carrier

---

[21] Ibid, p. 21.

conducting trans-Atlantic service.[22] It was then operating a twice-weekly flight schedule, using Boeing type 314 flying boats, from New York and Lisbon via Bermuda and Horta. The certificate of public convenience granted to Pan American also designated service to France and England, but such operations had been restricted since October 1939.

Pan American's request to intervene in the hearings was granted by the Board on October 27, 1939. Pan American Airways contended that the Board should examine carefully the economic advisability of authorizing more than one United States air carrier to conduct air services across the Atlantic. It contended that if additional flights were deemed necessary, it should be permitted to expand its schedule which it stated that it could do at a lower cost than could a new company entering the business.[23]

The Importance of the North Atlantic Route. Information presented to the Board by Pan American, concerning the importance of the North Atlantic Routes, contained such pertinent facts as that from 1931 to 1938, inclusive, the total United States imports from and exports to Europe by sea and air had been approximately 58 percent greater in value than the total United States imports from and exports to all countries in North America and over 52 percent greater in value that the total from and to Asia and Oceania.[24] Between 1919 and 1938, from 51 percent to 65 percent of the United States citizens traveling overseas were destined for Europe and the Mediterranean

---

[22] Ibid. p. 19.

[23] Ibid. p. 29.

[24] 2 C. A. B., p. 24.

area. In 1936, 1937, and 1938, the volume of United States first-class trans-Atlantic mail east-bound was 2,517,605, 2,715,950, and 2,794,302 pounds respectively, and in 1938 such mail was over 5 times the weight of mail dispatched by sea to trans-Pacific ports and eight times the weight of mail dispatched to South American ports.[25] This, however, was not all air mail.

Pan American stated that during the period from 1930 to 1937 that an average of more than 3,500 passengers per year have traveled in each direction between the United States and Belfast, Ireland, alone.[26]

The Board held that total traffic, however, carried between the points concerned, in this case the two continents, must form the basis for the decision as to the public convenience and necessity of the service proposed. The applicant, as has been pointed out, based its estimates for the need of additional service between the United States and Europe upon the traffic between these two continents rather than traffic between any particular country or place. American Export Airlines estimated that 2.25% of the first-class passengers between Europe and the United States would travel by air and used this basis to estimate that under normal conditions trans-Atlantic air passengers would total 4,500 by 1941. A comparison of this estimate with the total of trans-Atlantic passenger traffic between New York and Europe alone, for the year 1946, which was 87, 477, would seem to indicate that the estimate was conservative.[27] A further comparison of these figures with the actual 1947 passenger total of American owned airlines in inter-

---

[25] Ibid, p. 25.

[26] 7 C. A. B., p. 137.

[27] Overseas Air Transportation, Hearings before Committee on Interstate and Foreign Commerce, House of Representatives, 80th Congress, First Session, pp. 199-200.

national flight, which was 1,348,172, would indicate that the estimate was conservative.[28]

Using as the basis for estimation the fact that approximately 8% of the letter mail to Latin America was carried by air and also 8.62% of the United States domestic first-class mail was air mail, the applicant (American Export Airlines) estimated that 8% of the average volume of first-class trans-Atlantic mail eastbound, which was 3,000,000 pounds from 1930 to 1938, inclusive, would move by air to Europe by 1941 under normal conditions.[29] Further estimating that the westbound volume would be 70.7% of the eastbound volume, or 169,680 pounds, the applicant would then offer a total of 409,680 pounds of first-class mail going by air to and from Europe by 1941. In a similar manner, the amount of air express was estimated to total 142,800 pounds. The applicant then assumed that the conditions at this time in Europe would lead to a larger percentage of a small volume of traffic that would flow by air. With this in mind, the applicant then presented its estimate for traffic based upon the prevailing conditions for the year 1941. They were: passengers, 2,250; express, 142,800 pounds; eastbound mail, 225,000 pounds; westbound mail, 101,800 pounds. These figures were based on the assumption that potential air traffic will comprise 4.5% of the normal volume of first-class and cabin passengers reduced by 75%, 10% of the normal volume of eastbound first-class mail reduced by 40%. Owing to the lack of any reasonable basis for comparison, no attempt was made to estimate

---

[28] Frederic Graham. "International Airlines Now Criss-Cross the Globe", New York Times Magazine, (March 14, 1948), p. 11.

[29] 28. A. B., p. 26.

the effect of war conditions on express traffic, the normal volume was restated.[30]

Both Pan American and American Export agreed that the records indicated that additional facilities were needed to augment the two weekly schedules then operated by Pan American, and all indications were that the volume would increase. Each desired the extension of the additional services to be limited to itself with the exclusion of the other.

The Fundamental Issue. To the Board it was apparent that the fundamental issue was whether a second United States air carrier should be authorized to provide additional air transportation service over the North Atlantic trade route or whether all such additional United States air service should be reserved for Pan American.[31] To answer this question the Board turned to the Civil Aeronautics Act of 1938 and the economic regulations embodied therein. The Act had removed the threat of uneconomic and destructive competition in that field by providing that no air carrier may engage in air transportation without first receiving a certificate of public convenience and necessity.

Pan American contended that when Congress imposed this requirement upon the air transportation field, it expected the C. A. B. to be guided by the principles which underlie similar requirements in other Federal statutes as interpreted by the administrative bodies and the courts. They based this reasoning upon the definition of public convenience and necessity by the Interstate Commerce Commission in the Pan-American Bus Lines Case of 1936.

---

[30] 2 C. A. B., p. 28.

[31] 2 C. A. B., p. 29.

The definition as quoted was:

> The question, in substance, is whether the new operation or services will serve a useful public purpose, responsive to a public demand or need; whether this purpose can and will be served as well by existing lines or carriers; and whether it can be served by applicant with the new operation or service proposed without endangering or impairing the operation of existing carriers contrary to the public interest.[32]

Therefore, argued Pan American, the Board could not, without violating established principles governing the regulation of transportation enterprises, authorize the service proposed by American Export Airlines, because such service would duplicate that of Pan American Airways, which stood ready to furnish whatever additional service the public interest required.[33] American Export Airlines replied that because of dissimilar tests and standards prescribed by other government statutes regarding transportation enterprises, as compared with the tests and standards embodied in Section 2 of the Civil Aeronautics Act of 1938, decisions under other statutes could not furnish controlling facts for the establishment of a precedent or interpretation. It also admitted that the extent of competition as outlined by the Section 2 of the Act of 1938 was within the discretion of the Board, but it further contended that Section 2 required that there be some competition in both foreign and domestic air transportation.[34]

It was the opinion of the Board, however, that competition was not mandatory under Section 2 of the Act. Such had been the Board's decision in the case of "Acquisition of Western Airlines by United Airlines."

---

[32] Interstate Commerce Commission, Reports, Motor Carrier Cases, I, (1936), 190-203.

[33] 2 C. A. B., p. 30.

[34] Ibid, p. 31.

> Reference to both the legislative history and to the text of the Act demonstrates the Congressional intent to safeguard an industry of vital importance to the commercial and defense interest of the nation against the evils of unrestrained competition on the one hand, and the consequences of monopolistic control on the other.[35]

The cases, the, must be decided according to the particular facts which would justify or condemn competition under the circumstances that would be outlined in them. It could then be surmised that cases might arise in which the Board would decide that unrestricted competition would not be to the public interest and, therefore, permit a form of monopoly to exist.

It is an object of this paper to determine whether such situations have been so decided or if the Board has maintained an interpretation for some type of competition in all cases up to the present.

The economic regulations of air carriers in foreign air transportation are limited in comparision with the regulations of domestic carriers. The Board's power to regulate rates, fares, and charges of air carriers does not extend to operations in foreign air transportation. Therefore, economic regulation can not be relied upon to take the place of the stimulus of competition upon the advancements of technique and services of the air carriers. Competition invites rivalry and comparisons as to equipment costs, personnel efficiency, managerial efficiency, methods of operation, solicitation of traffic, services offered, advertisement outlays, and passenger, mail, and express rates. The C. A. B. reasoned that all of these, combined with the benefits derived from the improvements resulting from advancements in the industry, would be accelerated by competition between United States air carriers.

---

[35] Civil Aeronautics Authority, Decisions of the Civil Aeronautics Authority, I (1940), 479.

In the American Export Airlines trans-Atlantic Case, Pan American contended that competition from foreign carriers was a certainty and that such competition would satisfy the requirements of Section 2 of the Act of 1938, in so far as that section might require competition. The Board felt that competition by foreign air carriers would not have the same beneficial effects which competition by United States air carriers would have. Fundamental differences in background and technique between United States and foreign-flag air carriers might tend to distinguish their respective services by essentially noncompetitive basic characteristics, rather than by those differences of degree which stimulate progress through competition.[36] It seemed apparent that additional services and improvements in methods and equipment would have more immediate and direct effect when the competition was in existence between the United States air carriers; at least the effects would be more directly to the public interest of the United States. One of the strongest arguments in support of this fact was that it would be of greater benefit to our national defense. The experience and training that was derived from such flights over the North Atlantic Route and the information relative to air operating conditions, aerological matters, and facilities proved of immense importance to the war effort. No matter how many foreign carriers furnish competition to our one airline, their research and development have little or no availability for the national defense of this country. Competition by various United States air carriers would induce the use of different types of equipment, make use of the facilities of a greater number of our manufacturers, and train a larger group of men, thereby affording the War and Navy Departments with valuable data. It would mean the training of additional American supervisory-operations personnel and would provide an

---

[36] 2 C. A. B., p. 32.

incentive to the development of new and different operating techniques.

The Decision. It must be remembered that at the time of this decision by the Civil Aeronautics Board, Pan American Airways and its affiliated companies enjoyed a practical monopoly over the transoceanic air transportation conducted by United States air carriers. The Board concluded that the continuation of an exclusive monopoly of trans-Atlantic American flag air transportation was not in the public interest, particularly since it had no control over the passenger or express rates to be charged or over the standards of service to be rendered, as is customarily provided in the case of a publicly protected monopoly.[37]

In reaching this decision, the Board reiterated the general principles of public utility regulation.

> It is true that where a territory is served by a utility which (1) has pioneered in the field, (2) is rendering efficient service, (3) is fulfilling adequately the duty which, as a public utility, it owes to the public, and (4) the territory is so generally served that it may be said to have reached the point of saturation as regard the particular service which the utility furnishes, the trend today is to protect the utility within such field; but when any one of these conditions is lacking, the public convenience may often be served by allowing competition to enter the field.[38]

The facts, as presented in this case, indicated that the territory to be served had unlimited possibilities. This theory has generally been followed by the Interstate Commerce Commission in dealing with similar cases. It was well illustrated in the case of Santa Fe Trail Stages, Inc., Common Carrier Application (No. MC-3067) decided in 1940; in which the commission stated:

---

[37] 2 C. A. B., p. 34.

[38] 2 C. A. B., p. 34.

> It must be accepted that an additional service may be required in the public interest even though an existing operator is supplying in quantum what appears to be a sufficient service, where there is lacking any worthy competitor of such operator in its own field and where the available business is ample to support another operation.[39]

Therefore, after careful consideration, the Board was of the opinion that the inauguration of a second trans-Atlantic service by a properly qualified United States air carrier was in the public interest.

Thus it can be seen that the Civil Aeronautics Board has interpreted the Civil Aeronautics Act of 1938 as permitting and desiring that competition be the keynote for international air transportation routes. This decision permitted entry for the first time of a competing air carrier in the trans-Atlantic trade route. This case is important because it served as the basis and background for future considerations and acted as a guide to the attitude of the United States in regard to the international air commerce field.

Opposition by Pan American. However, this was not the end of the American Export Airlines Case. It has been shown that the Civil Aeronautics Board had approved a certificate of public convenience and necessity for two routes of American Export. Since the decisions of the Civil Aeronautics Board are subject to judicial review, the action by the Board was not a final solution to the problem.

Pan American petitioned the United States Circuit of Appeals for a review of the decision of the Board. In court, Pan American contended that the Board erred in finding the new service warranted by the public convenience and necessity. This the court did not pass upon. The court pointed out that the President's power of approval of certificates for international services rendered judicial review of the case futile, since the President could act

---

[39] As quoted in 2 C. A. B., pp. 34-35.

on confidential information, and held that it had no power to review the case on the merits.[40] The court pointed to the events in Europe and the war's destruction of shipping and stated that the need for additional air service was inevitable and felt that the evidence did not warrant a new hearing by the Board.

Failing to receive aid or satisfaction by its appeal to the Court, Pan American turned to the blocking of the necessary Congressional appropriations for mail payments to American Export Lines. In this they were successful. Through 1940 and 1941, Pan American and its interests repeatedly engaged in pressure tactics and lobbying to block any appropriation bills for this purpose. The battle between the two powerful groups involved extensive lobbying, as well as prolonged hearings and debates in committees and on the floors of both houses.[41]

The contention at that time among many members of Congress and the Executive Department of the Government and leaders in the air transportation field was that the time was not ripe for a major decision in regard to the question of competition or monopoly. The opponents of a second competing trans-Atlantic service stated their views in a similar manner as a report of the House Committee on Appropriations:

> The more companies the United States puts into foreign air operation on a heavily subsidized basis the greater toll it will have to pay for maintaining a supremacy or holding its own. Distasteful as monopoly may be under ordinary conditions, the fact remains that our foreign air operation is a monopoly--instituted, grown up, and encouraged by the Government with that knowledge and developed into a successful and useful arm of our foreign trade. Under existing conditions the committee feels a second carrier in the trans-Atlantic trade would not strengthen the position of our foreign

---

[40] O. J. Lissitzyn, op. cit., p. 248.

[41] Ibid., p. 248.

> air operations and would greatly increase the burden on the Treasury of the United States and is not willing to recommend the additional appropriation on the basis of the facts presented.[42]

This extra expense that was stressed by the opponents of American Export Airlines, was estimated to be less than one million dollars a year and in consideration of the huge appropriation at this time for national defense, within which this might well have been included, it represented such a small amount as to be almost beyond consideration as a major issue. It would seem, therefore, that the various governmental authorities who helped to shape the air transport policy were guided by the practical rather than the theoretical consideration. Competition has been neither abolished nor permitted to run wild; it is regulated.

There then remain only two ways in which the policy now followed by the United States in regard to international air transportation may be altered or changed. One is for the Board to interpret Section 2 and Section 408 of the Act so as to justify the establishment of a consolidated air carrier as being more in the public interest and properly adapted to the future of our national defense. The other is for the passage of a legislative act amending the Act of 1938, or a new act entirely, so that the policy of the United States would be that of a consolidated American Flag Airline. Such considerations have been of both public and Congressional interest during the past few years and it is from this source of Congressional hearings and opinions that much information was presented as to both aspects of the question. From an analysis of the facts as presented in behalf of the two cases a conclusion will be drawn.

---

[42] House Report No. 60 to accompany H. R. 3205, p. 33.

RECENT CIVIL AERONAUTIC BOARD DECISIONS PERTAINING TO INTERNATIONAL AIR TRANSPORTATION

The previous section has shown that the Board had in its first important case decided that competition was the proper interpretation of the Civil Aeronautics Act of 1938. An examination of selected recent decisions of the Civil Aeronautics Board will show the considerations used in deciding the choice of air carriers and the amount and degree of competition. The development of the policy of regulated competition is revealed in these decisions.

The cases examined in this section are by no means the only ones that are applicable to the subject, but they were selected as the ones most important to the shaping of policy and the ones that involved the greatest number of carriers. These selected cases are those dealing with the establishment of international air carrier route patterns for the North Atlantic, Latin American, South Atlantic, South African; North, Central, and South Pacific, and the Caribbean and Central American trade areas.

The North Atlantic Route Case. The first case to be considered is the Northeast Airlines, Et Al., North Atlantic Route Case, decided by the Board on June 1, 1945.[43] It was the first proceeding of applications for international routes since the outbreak of the war. This proceeding involved the establishment of the postwar air service pattern for United States air carriers across the North Atlantic, between the United States and Europe, and extending through the Middle East into India. The applicants were Northeast Airlines, Inc.; American Export Airlines, Inc.; American Airlines, Inc.; Pennsylvania-Central Airlines Corp.; Transcontinental & Western Air, Inc.; U. S. Midnight Sun Air Line, Inc.; Trans-Oceanic Air Lines, Inc.; Pan American Airways, Inc.;

---

[43] Civil Aeronautics Board, Economic Decisions of the Civil Aeronautics Board, VI, (1945), 319.

Moore-McCormack Lines, Inc.; National Airlines, Inc.; and U. S. Airships, Inc.[44]

The Board, in its opening remarks, stated the growing importance and acceptance of air transportation by the nations of the world, especially after the developments made by the war. The future of foreign air transportation could not be estimated with accuracy, but the Board was confident that it could look forward to a sound development. They said:

> We have no intention of encouraging a waste of public money or private investments. On the other hand, we do not believe that we should take an ultra-conservative or over-cautious course in dealing with the future of this industry. We believe that our country and the world as a whole will benefit immensely by the widespread, rapid growth of international air transportation. Our action in this proceeding is motivated by that basic expectation and is not dwarfed by concern over minor questions which cannot now be resolved.
>
> The pattern of United States Air transportation across the North Atlantic involved in the present proceeding must, in accordance with the Civil Aeronautics Act, be one best adapted to the present and future needs of the foreign and domestic commerce of the United States, of the Postal Service, and of the national defense. This pattern must not be limited by the prospects of the immediate future but must reflect the long-range future for air service.[45]

This proceeding again presented the question whether the development of a sound air transportation system, properly adapted to the national needs, (as outlined in the Civil Aeronautics Act) required that more than one air carrier should be certified for the proposed service across the North Atlantic. The Board had answered that question in the affirmative in their decision in the American Export Airlines case, which was the topic of the previous discussion.[46] Then there remained the question whether domestic air carriers

---

[44] 6 C. A. B., p. 320.

[45] 6 C. A. B., p. 322.

[46] 2 C. A. B., p. 16.

should be considered as air carriers qualified to render the proposed international services, and if so which of the applicants were to be so certificated.

Pan American, in its brief before the Board, contended that the Board should re-examine the conclusions of the American Export Airlines Case. It asserted that the foreign competition, that was only an inchoate threat at the time of the Export case, had developed into a certainty; and that it could be expected to increase in volume with the close of the war.

Pan American argued that if the United States international air transportation was to be developed to its maximum potential a policy of low cost mass transportation using extremely large, high-speed aircraft was required. In connection with this argument, it proposed that with the use of two types of planes, designated as types 9 and 10, with accommodations for 79 and 119 passengers; the rates for trans-Atlantic operations would average 4 cents per mile.[47] Such rates and use of aircraft of that capacity, said Pan American, could not be utilized if the available traffic was to be divided among several United States air carriers.

This plan, if accepted, would constitute an abandonment of the policy of regulated competition for a policy of monopoly in the international field. This change in policy was not acceptable to the Board. The Board felt that the objective of a reduction in travel costs could be reached through regulated competition between United States international air carriers rather than relying upon a world-wide monopoly. "The stimulus imparted to energetic management under a sound competitive system would ensure the establishment of a fare level for international service which would result in maximum development

---

[47] 6 C. A. B., p. 324.

of the traffic potential.[48]

The extent of savings by the use of large aircraft and the possibility of continued savings as they became increasingly larger is a question upon which there is considerable difference of opinion.

The Board pointed out that the use of larger aircraft had a certain handicap in that it would require a sacrifice in flexibility of operation and in frequency of schedules. The high cost of operation of such large aircraft would necessitate a corresponding offset by mass passenger traffic; and where such passenger traffic did not materialize, the service offered would suffer. If the service was deemed essential, the cost of such operation to the government through the medium of air mail subsidies would be unnecessarily large.

In answer to Pan American's exhibit in regard to foreign competition, the Board stated that such foreign competition was not an adequate reason for the changing of the present statutory policy of the United States. It said:

> The greatest gain from competition, whether actual or potential, is the stimulus to devise and experiment with new operating techniques and new equipment, to develop new means of acquiring and promoting business, including the rendering of better service to the customer and to the country, and to afford the Government comparative yardsticks by which the performance of United States operators can be measured. No matter how many foreign competitors may be in the field their research and development will not be fully available to our industry. The technical advancement of aircraft that may be stimulated by competition, together with progressive and competitive engineering and research associated therewith, will contribute to the peacetime advancement and maintenance of the aircraft manufacturing industry.[49]

The economic and political significance of the United States international

---

[48] 6 C. A. B., p. 325.

[49] 6 C. A. B., p. 325.

air carriers and their possible future expansion was another phase of the reasoning that the Board followed in deciding against the certification of only one international air carrier. Such a decision in favor of only one company in international air transportation would place that company in a position of power which might enable it to interfere with public policies which were unacceptable to the management.[50]

In summary the Board stated that no effective substitute for healthy competition as a stimulus to progress and efficiency could be found in monopoly.

> The stimulus to an imaginative management that results from the competitive efforts of business rivals to secure patronage and trade cannot be matched as a motivating force for the public welfare even by the private profit incentive, for the latter might be satisfied with moderate traffic at high rates while public welfare would require mass transportation at lower fares and charges. It is our conclusion, therefore, that United States' participation in international air service in the European area should not be restricted to one company.[51]

Pan American also contended that international service should retain a separate identity from domestic service. It pointed out that if the domestic carriers were allowed to operate in the international field that this would give them a serious competitive advantage over Pan American because these domestic carriers were also permitted to operate in the major traffic centers of the United States. It argued that if the domestic carriers were to be permitted to engage in international air traffic Pan American should be allowed to operate in the major traffic centers of the United States.

The Board felt that the granting of certificates to qualified domestic air carriers would permit the United States to capitalize upon the experience

---

[50] 6 C. A. B., p. 326.

[51] 6 C. A. B., p. 326.

of the domestic airlines in their operations for the Army Air Transport Command and the Naval Air Transport Service during the War. It also acknowledged the possible competitive advantage of the domestic carriers over Pan American and ordered that Pan American's certificate be amended to allow it to operate in some of the major traffic centers in the country.[52]

The estimates of revenue and costs introduced by the various applicants represented a variety of statistical approaches and assumptions. Some carriers related assumed traffic volumes to costs predicted on the use of existing types of aircraft and others relied heavily upon the low pay load cost forecasted for certain large capacity transport aircraft. The rates estimated by the latter were much lower than rates estimated from a base of existing equipment. Estimates of passenger capacity ranged from an existing capacity of 40 to 50 persons to well over 100 persons for types in blueprint. Estimates of plane-mile revenues ranged from $1.20 a mile to $3.25 per mile. Corresponding plane-mile cost estimates ranged from $1.20 to $2.65.[53] Each of the applicants contended that the service which it proposed could be conducted without Government subsidy. While the Board carefully considered these estimates, it said:

> While we give thoughtful consideration to all estimates of record, we cannot place great reliance upon detailed station-to-station forecasts of future traffic to be exchanged between the United States and trans-Atlantic areas, identified as to specific periods of time either by year or by number of years which shall have elapsed after the close of the war. Much less can we accept, without strong reservations, estimates or revenues and costs predicated upon such forecasts since they are subject to their own added speculative hazards.[54]

---

[52] 6 C. A. B., p. 355.

[53] 6 C. A. B., p. 333.

[54] 6 C. A. B., p. 333.

The Board, having reiterated its decision made in the American Export Airlines Case, decided that there should be more than one carrier operating over the North Atlantic trade route. It had divided the Northern area into three route patterns. The Northern Route between the terminal points in the United States, through Newfoundland, Labrador, Greenland, Iceland, Eire, Scotland; London, England; Holland, Denmark, Norway, Sweden; Berlin, Germany; Poland, Finland; Leningrad and Moscow, U. S. S. R. The Central Route between terminals in the United States, Newfoundland, Eire; London, England; Brussels, Belgium; Czechoslovakia, Austria, Hungary, Rumania, Turkey, Iran, and India. The Southern Route with two branches, one through Newfoundland, Eire, France, Switzerland, Italy, Greece, Egypt, Palestine, Iraq, Saudi Arabia, and India; and the other through Newfoundland, Portugal, Spain, Italy, Algeria, Tunisia, Libya, and Egypt.[55] The remaining problem was to designate the air carriers to operate these routes.

At the time of this proceeding, Pan American was conducting services between the United States and Lisbon, Portugal, and between the United States and London. Its history dated back to 1927 when its first international air service was inaugurated between Key West, Florida, and Havana, Cuba. Since that time it has extended its service to all major areas in the world and its achievements in the field of international air transportation have been noteworthy. The Board felt that it was in the public interest to utilize the experience and organization of this United States pioneer and selected Pan American to engage in operations between the terminal point of London, England, the intermediate points of Belgium, portion of Germany south of the 50th parallel, Czechoslovakia, Austria, Hungary, Yugoslavia,

---

[55] Ibid, pp. 337-338.

Rumania, Bulgaria, Turkey, Lebanon, Iraq, Iran, Afghanistan, and intermediate and terminal points within the portion of India north of the 20th parallel.[56]

The two remaining routes would allow the selected carriers to operate over one of the most important international trade routes in the world and would be competing with Pan American over a portion of their routes, but more directly the competition would be with foreign air carriers. This being the situation, the Board emphasized the necessity that the additional United States air carriers selected be strong in organization, experience, financial position, and executive ability. After due consideration, the Board concluded that American Export Airlines and TWA were in a better position economically to develop international traffic than the other applicants.

American Export Airlines had been granted a temporary certificate to conduct services between the United States and Lisbon, Portugal, and it had performed considerable experimental and developmental work before and after receiving the certificate, yet it had conducted no commercial service over this route.[57] However, American Export was granted a temporary certificate to operate between the United States and Foynes, Erie, and since 1942 it had conducted services over this route.[58] Also it had provided services between the United States and various points in Europe under contract with the armed services. It had developed and trained an extensive organization

---

[56] 6 C. A. B., p. 351.

[57] 2 C. A. B., p. 19.

[58] 3 C. A. B., p. 294.

of about 1,700 persons, and in the course of its commercial and war contract operations through July, 1944, it carried 9,900 passengers; about 1,500,000 pounds of U. S. Mail; 64,000 pounds of foreign mail, and 2,500,000 pounds of cargo.[59]

The Board, upon consideration of the record, granted American Export Airlines a certificate to engage in foreign air transportation between the United States, Newfoundland, Labrador, Greenland, Iceland, Eire, Northern Ireland, Netherlands, Denmark, Norway, Sweden, Finland, portion of Germany north of 50th parallel, Poland, and terminal point of Moscow, USSR. It also authorized a second route between the United States, Newfoundland, Labrador, Greenland, Iceland, Eire, Scotland, England, Holland, Denmark, Norway, Sweden; Berlin, Germany; Warsaw, Poland, Finland, Leningrad, USSR; and terminal point of Moscow, USSR.[60]

TWA had also engaged in extensive international operations under special contracts with the armed services. It had developed and trained a large staff whose experience and knowledge would be of value in commercial trans-Atlantic service. TWA had been a pioneer in the use of new types of aircraft and in the domestic operation of long-range four-engine airplanes. In connection with its proposed international service it had entered upon an extensive program of study and planning and had submitted a sound program for the operation of a succesaful international route. The Board felt that TWA presented the qualifications necessary for selection as the third carrier to operate over the North Atlantic route. It therefore authorized Transcontinental & Western Airlines, Inc., to engage in foreign air transportation between

---

[59] 6 C. A. B., p. 343.

[60] Ibid, p. 354.

the United States, Newfoundland, Eire, France, Switzerland, Italy, Greece, Egypt, Palestine, Trans-Jordan, Iraq, Saudi Arabia, and that portion of India south of the 20 parallel. It also authorized a route from the United States through Newfoundland, Portugal, Spain, Italy, Algeria, Tunisia, Libya, and Egypt.[61]

The Hawaiian Case. The next case selected is the proceeding of Hawaiian Airlines, Ltd., Et At., Hawaiian Case decided by the Board on May 17, 1946.[62] This decision covered the applications of Hawaiian Airlines, Matson Navigation Company, Northwest Airlines, Western Air Lines, United Air Lines, and the Ryan School of Aeronautics for certificates of public convenience and necessity authorizing air transportation between the United States and Honolulu, T. H.

Pan American, which had been operating over a route through Hawaii to the Orient since 1936 was given leave to intervene.[63] This operation had been only a part of the service Pan American was offering to the Orient and therefore gave no opportunity for local traffic between the Hawaiian Island and the United States. In August, 1941, Pan American instituted local service between the Mainland and Hawaii and with the Jap attack on Pearl Harbor, December 7, 1941, all of Pan American's trans-Pacific operations were suspended.[64]

Some of the evidence submitted to the Board to show the economic progress

---

[61] 6 C. A. B., p. 352

[62] 7 C. A. B., p. 83.

[63] Ibid, p. 84.

[64] Ibid, p. 89.

of the Hawaiian Island were: postal receipts increased from $79,896 in 1900 to $1,363,341 in 1940, telephones in service increased from 26,693 in 1936 to 51,264 in 1942, bank deposits increased from $4,662,131 in 1901 to $309,876,000 in 1943, retail sales were $120,680,000 and wholesales were $97,045,000 in 1939. 42.7% of the population was gainfully employed in 1940, and the internal revenue taxes collected in Hawaii in the fiscal year ended June 30, 1943, amounted to $76,482,000.[65] In this connection, the value of Hawaii to national defense cannot be over-estimated.

The records of air traffic between the Mainland and Hawaii show that passenger traffic increased from 53 in 1936 to 963 in 1941. This is significant since there was only limited service at that time and the fare one way--$360, later reduced to $278, was beyond the reach of the average traveler.[66]

In estimates presented to the Board by the various applicants for a certificate to operate between the Mainland and Hawaii, the total number of one-way passengers ranged from an estimate of 32,000 by Western to 96,560 by Pan American for the first postwar year.[67]

Hawaiian Airlines estimated that a capital investment of $3,100,000 would be necessary for purchasing of equipment and working capital and that a deficit of $155,000 before income taxes would be incurred during the first years of their operations between Los Angeles, San Francisco, and Honolulu. It also estimated that the revenue for the first year of operation would include $94,000 for the carriage of an estimated 125,000 pounds of mail at

---

[65] 7 C. A. B., p. 86.

[66] Ibid, p. 89.

[67] Ibid, p. 90.

a rate of 0.3 mill per pound mile.[68]

Matson Navigation Company had proposed operations over two different routes; one route between Los Angeles and San Francisco and Honolulu and the other route between Honolulu and Portland and Seattle. It concluded that the cost of air operations between Hawaii and Californai during the first year would be $5,053,288 and between Hawaii and the Pacific North west $701,256. Emphasizing the fact that it did not seek a subsidy for carrying the mail, Matson stated that a total of 27,623 passengers at a fare of $168 would be required to support the service to California and that 4,038 passengers at a fare of $165 would be required to support the service to the Pacific Northwest.[69]

Northwest Airlines proposed air operations from Seattle and Portland to Honolulu with a service of six round trips a week. It estimated total revenues of $2,093,912 (exclusive of mail revenue), or $1.31 per mile, while total operating expenses were estimated at $2,619,942, or $1.65 per mile, leaving a loss before mail pay of $526,030, or 33.1 cents per mile. Revenues from the transportation of passengers accounted for $1,906,445, or $1.20 per revenue mile, of the estimated revenues, based upon an estimate of 9,485 passengers during the first year at a fare of $200.[70]

Western proposed to operate between Los Angeles, San Francisco, and Honolulu. It estimated commercial operating revenues for the first year of operation at $2,357,730, or $1.25 per revenue mile, and operating expenses at $2,428,000, or $1.28 per mile, leaving a net loss before mail pay of $62,270

---

[68] Ibid, p. 91.

[69] Ibid, p. 95.

[70] Ibid, p. 96.

or a little over 3 cents per revenue mile. Included were passenger revenues of $1,866,000 based on a rate of 5 cents per passenger mile, or $135 for the trip, express revenues of $203,575, and deferred freight revenue of $254,000 annually.[71]

United Air Lines proposed the operation of two round-trip schedules daily between California and Hawaii. It estimated the total operating revenues for the first year as $2,790,378, or 97.4 cents per revenue mile, and total operating expenses at $2,567,069, or 89.9 cents per revenue mile, leaving a net operating income of $214,309, or 7.4 cents per mile. Mail revenues were estimated at $108,678, or 3.8 cents per mile. The estimates included passenger revenues of $2,623,750, or 91.6 cents per revenue mile based on an estimated total of 20,446 passengers using its service. It also pointed out that it was a transcontinental air carrier serving 65 cities in the United States and could therefore feed traffic from the East as well as the West.[72]

Ryan School of Aeronautics proposed operation from Los Angeles to Honolulu and estimated a second year's operations revenues of $2,805,292, of which $89,291 represented mail payments and expenses of $2,590,029, leaving a net operating income of $215,563.[73]

Pan American, which planned to resume service between California and Hawaii again offered its plan for low cost and large aircraft to encourage mass transportation. It maintained that with the use of type 10 aircraft that the cost per available ton-mile would be 9.4 cents as compared with 13.5 cents for a DC-6. It maintained that with the use of these aircraft it

---

[71] 7 C. A. B., p. 97.

[72] Ibid, pp. 98-99.

[73] Ibid, p. 100.

could offer a round-trip fare of $172.80, or 3.5 cents per mile, as compared with the fares of 5 or 6 cents per mile proposed by other applicants. Using this as a base, it further estimated that from 18 months to 2 years that a volume of 96,500 passengers per year could be expected and that with the rate of 3.5 cents per mile and 24 cents for cargo it would show an operating profit of $1,260,604 before mail pay. Pan American contended, as it had done in the North Atlantic Route Case,[74] that the predicted volume of traffic could not be attained unless it operated the only American air service and that competing air service by foreign carriers would furnish the necessary competition required by the Civil Aeronautics Act.[75]

The Board in its conclusions and statement of selection of a carrier said, "The primary question in this proceeding is whether there should be additional and competitive air transportation service between the Mainland and Hawaii."[76]

The contention had been made by some of the applicants that the service provided in the past by Pan American was inadequate and that the public had no assurance its proposed large-scale service would be at the lowest possible rate unless competition was permitted. The Board, in answer to this argument, stated that the records did not show that Pan American was negligent in its efforts to keep pace with the traffic demands and that the failure or inability of an existing carrier to render adequate service was not a justification for competition.[77] However, the Board again gave its position in regard to the

---

[74] 6 C. A. B., p. 319.

[75] 7 C. A. B., p. 102.

[76] Ibid, p. 102.

[77] Ibid, p. 103.

question of competition, "Competition invites comparison as to equipment, costs, personnel, methods of operation, solicitation of traffic, all of which tend to assure the development of an air transportation system, as contemplated by the Act."[78]

The Board felt that the potential traffic justified only one additional carrier to compete with Pan American, and since it would only be certified to operate between the Mainland and Hawaii and would be competing with well-developed surface transportation, it was essential that the selected carrier possess the ability to operate on a sound economical basis. Such competition to be authorized when required by public interest must be sound competition which would not cause a deterioration in service to the public or impede the development of an adequate system of air transportation.

After considering the advantages and the arguments offered by the applicants, the Board concluded that United Air Lines would be the best carrier for the certificate. In supporting its conclusion, the Board pointed out the facts that 70 per cent of registrants at leading Hawaiian hotels were from cities served by United, as compared with 35 per cent from cities served by Western; that 66% of Hawaii's Mainland purchases were made in cities served by United as compared with 40% in cities served by Western; and that 70% of Mainland firms having branch offices in Hawaii were located in cities served by United in comparison with 25% in cities served by Western.[79] The fact that United could offer a single-carrier service which could not be offered by Pan American was recognized by the Board but it felt that this competitive advantage would be offset by the probability that United's transcontinental

---

[78] Ibid, p. 104.

[79] 7 C. A. B., p. 109.

competitors would tend to favor Pan American in routing Hawaiian passengers originating on their systems. United was then authorized to engage in air transportation between the terminal point of Honolulu, T. H., and San Francisco, California.[80]

Additional Services to Latin America. On May 17, 1946, the CAB issued a decision involving applications for authority to establish new and additional air transportation services between the United States and points in Mexico, Central America, South America, and the Caribbean area. Applications in this proceeding were filed by the following: American Airlines, American Export Airline, (American Overseas Airlines), Braniff Airways, Chicago and Southern Airlines, Pan American Airways, Pan American-Grace Airways, Waterman Steamship Corporation, and Western Airlines.[81]

Pan American and its affiliated company, Pan American-Grace Airways were at that time authorized to operate extensively in Latin American, the principal traffic centers in South America, Mexico, Central America, the Canal Zone, and the Caribbean. Pan American opposed the other applications on the following grounds:

> (1) that the airline which has pioneered a route or territory should be permitted to continue long-standing plans to develop that route or territory to the point of efficient utilization of its facilities.
>
> (2) that the public interest requires a coordination of the express services on the different routes and also a coordination of local feeder services with these express services.
>
> (3) that the public is interested in the economies which are possible through the utilization of large high-speed aircraft which could not be efficiently utilized if the traffic must be shared by

---

[80] Ibid, pp. 129-130.

[81] 6 C. A. B., p. 859.

two or more American-flag operators.

(4) that increasing foreign-flag competition will supply all the competition required by the public interest.[82]

Pan American proposed the use of several large capacity aircraft which it said would reduce the direct flying costs per passenger mile to 2.13 cents and this would permit it to reduce fare range to 3½ to 5 cents per passenger mile. It also proposed to inaugurate class rates constructed on the distance principle and thereby to effect a reduction in the "average air cargo rate" from 80 cents to approximately 25 cents per ton-mile.[83]

The other applicants emphasized the need for strong competition because they asserted that as a result of the complete monopoly of Pan American and its affiliate the development of air transportation service had lagged behind that developed by domestic carriers in the United States.

Pan American arguments for preserving its position as the sole United States carrier in Latin American area are largely economic and are similar to those it had previously advanced in other cases. Mainly they were, rate reductions to enlarge the market for air-transportation services; larger planes and more frequent services to reduce unit costs; and reliance upon foreign-flag competition to provide the competition required to insure efficient operations, technological progress, and reasonable rates.

In answer to these arguments, the Board said:

> The specific considerations urged by Pan American fail to support a finding that it should remain the sole United States carrier to Latin America. The advantages of using larger planes can be over-emphasized, particularly if the use of larger equipment involves a sacrifice in flexibility of operations and frequency of service, two of the important inherent advantages of air transportation.

---

[82] 6 C. A. B., p. 861.

[83] Ibid, p. 862.

> Only as the market developed to assure satisfactory load factors, does the use of the larger planes offer economies which can be passed on to the traveling public. Large-scale operations with any type of plane frequently offer important potential economies, both in direct unit operating costs and in unit overhead costs. However, the best assurance that these potential economies will be achieved in operation and that they will redound to the advantage of the public lies in the presence of actual or potential competition.[84]

After due consideration of a large collection of traffic data and trade relations statistics between the United States and the Latin and South American areas, the Board granted certificates to American Airlines, Braniff Airways, Chicago and Southern Colonial Airlines, National Airlines, Western Air Lines, Eastern Air Lines, and additional service was granted to Pan American and Pan American-Grace Airways.[85]

The Pacific Case. Another important case selected for examination was the Northwest Airlines, Inc., Et Al., Pacific Case, decided by the Board on June 20, 1946.[86] This proceeding involved proposals for the establishment of extensive new and additional air transportation services between the United States and the Orient, between the United States and Australia, and between the United States and Alaska. Applications were filed by Alaska Airlines, Pacific Northern Airlines, Hawaiian Airlines, Northwest Airlines, Pan American Airways, Pennsylvania-Central Airlines Corporation, Transcontinental & Western Air, United Air Lines, Western Air Lines, and U. S. Airships.[87]

At the time of this hearing, Pan American was the only United States

---

[84] Ibid, pp. 864-865.

[85] 6 C. A. B., pp. 921-924.

[86] 7 C. A. B., p. 209.

[87] Ibid, p. 211.

carrier authorized to operate across the Pacific. It was authorized to operate between the United States, China, and New Zealand, and it also operated between Seattle and Fairbanks and Nome, Alaska.

Since the shortest route between the United States and the Orient follows a great circle route which runs through the Aleutian Island Chain into northern Japan, the proceeding involved establishment of service between the United States and Alaska.

Estimates of the number of passengers to be carried between the United States and the Orient and between the United States and Alaska were submitted by the various applicants. Pan American estimated a total of 68,264 passengers annually across the Pacific of which it believed that American carriers' share would be 24,102, of which 17,955 would go via the North Pacific route and 6,147 via the Central Pacific route. It also estimated an operating profit of $932,955 before mail pay. Northwest estimated that it would carry 7,280 passengers each way during the first year of operation and with a 5 cent passenger rate it anticipated that it would need $180,481 in mail pay to break even. TWA estimated a traffic of 35,391 passengers to Asia to be carried by American carriers of which it would carry 15,032, and anticipated a net loss of $580,627 a year before mail pay. PCA estimated total air traffic for the first year at 24,915 of which 50% would originate in area served by it and anticipated an operating loss of $1,590,499 per year before mail pay.[88]

In view of the tremendous saving in time and the fact that the passenger fare by air would be approximately the same as first-class steamship fare and in view of the substantial traffic potential indicated by estimates and

---

[88] Ibid, pp. 216-217.

historical records, it appeared that an increasing number of passengers per year could be expected to utilize the proposed air services.

Pan American, again, as in previous cases examined, contended that it should be the sole United States air carrier allowed to operate across the Pacific. It repeated the arguments presented before which was a general program for postwar operations to the Orient, designed to utilize high-speed low-cost service in order to develop mass transportation throughout the area.

The Board stated that the conclusions reached in the North Atlantic Route Case, authorizing more than one carrier to operate in the international field and permitting domestic carriers to participate, were equally applicable in this case.[89]

The Board, citing the records, indicated that most of the traffic originating east of the Mississippi River and destined for Alaska and the Orient came from the area served by Northwest Airlines and coupled with the experience that it has acquired through operations in the Northern areas, authorized Northwest to engage in air transportation over the Northern Pacific route to the Orient.[90]

The Board also granted Pan American the route through the Central Pacific, extension of its services to Australia, and a connection from Manila to Calcutta. It granted TWA an extension of its route from Calcutta to Shanghai and authorized some additional services in Alaska.[91]

The South Atlantic Case. The last case to be briefly reviewed is the

---

89 7 C. A. B., p. 226.

90 Ibid. pp. 237-238.

91 Ibid. pp. 238-239.

American Overseas Airlines, Inc., Et Al., South Atlantic Routes, decided by the Board on August 13, 1946.[92] This proceeding involved the establishment of new and additional international air service between the United States and Africa. The applicants were: American Overseas Airlines, American South African Line, Pan American Airways, Pennsylvania-Central Airlines Corp., Seas Shipping Company, and U. N. Airships.

The Board, in summarizing, pointed out that estimations of prospective passengers for such a service varied from 1400 to 10,000 and it felt that 4,000 passengers per year was a reasonable expectation but that such a number would fall short of furnishing enough revenue to maintain the service. It estimated that the amount of government assistance might exceed $1,000,000 per year but this cost when compared to prewar years of commerce which amounted to $150,000,000 of exports and $96,000,000 of imports was not excessive in view of the large possibilities for increased commerce between the United States and Africa.[93]

In view of the fact that Pan American had been conducting air service between the United States and along the East coast of South America and the feeling of the Board that the new routes authorized would not support more than one carrier and that carrier should be in a sound economical status, the decision was to certify Pan American to engage in air transportation between the United States and Africa over two routes, one from New York through the Azores and down the West Coast of Africa to Capetown, South Africa; the other from Natal, Brazil across to Ascension Island and terminating at Johannesburg, South Africa.

---

92 Ibid, p. 285.

93 7 C. A. B., p. 303.

The Criteria Used by the Board in Its Decisions. After an examination of these cases dealing with the establishment of international air transportation routes and the designation of American carriers for each route, it would be well to summarize the criteria used in such decisions by the Civil Aeronautic Board. They have been reviewed in the proceedings of several cases. They are:

1. The basic criterion is the creation of an air transportation system which will be adequate to the present and the future needs of the foreign and domestic commerce of the United States, the postal service, and the national defense. The future requirements of the foreign and domestic commerce are as important as those of the immediate present, for we are buildign an air transportation system for the future.

2. The inherent advantages of air transportation must, under our mandate from the Congress, be preserved and enhanced. Among the inherent advantages which are important in the decisions are the ability to provide rapid and direct service between cities separated by great distances where travel and communication by surface carriers have characteristically been handicapped; the ability to disregard surface barriers; the ability to provide a flexible service responsive to the changing volume and direction of travel; the ability to provide transportation over long distances without the necessity of investments which are directly proportional to the length of the route over which the service is performed, and the ability to provide additional vehicles operating over the same route, whether under one management or under several, without the hazards of congestion, delay, and accident which beset carriers whose operations are confined to highways or tracks of limited capacity.

3. The establishment and preservation of competition to the extent necessary to insure the sound development of an air transportation properly adapted to the needs of the threefold national interests described in the Act's declaration of policy is also a fundamental guide to our determination.

4. The applicant's ability to develop the service must be adequately demonstrated before a certificate can be granted. The applicant must have adequate capital or possess means to raise capital economically, it must have access to technical know-how to operate aircraft, it must be familiar with the problems involved in providing common-carrier transportation, and the management must be capable of assuring an economical and efficient operation. In all new route cases much attention is devoted to the comparative costs which the applicants expect to incur in the development of the new service. Of course, it is essential to an economically sound enterprise that costs be kept at the lowest minimum consonant with adequate and efficient service. However, immediate costs are not necessarily controlling, as in that event that factor

might conflict with other important statutory objectives.

> 5. The quality of the service supplied to the public and the convenience of the service to the public also guide the Board's decision. Wherever it is possible and in harmony with the other criteria of judgment, it is desirable to provide through services rather than a series of local services.[95]

It has been the purpose in this brief examination of recent Board decisions regarding international air carriers to determine the attitude of the Board in regard to the question of whether competition was to be allowed among American air carriers authorized to operate over these routes. As has been pointed out, in every case where the question was competition, the Board has ruled in line with its decisions of the American Export Airlines Case of 1940 and the North Atlantic Route Case of 1945. Each time the Board ruled that the Act definitely required that competition be allowed where the Board deemed it in the public interest. The interpretation has not changed. The Board's Policy remains to the present, (1948), one of providing for regulated competition.

---

[95] 7 C. A. B., pp. 47-49.

CHAPTER III

LEGISLATIVE PROPOSALS FOR CONSOLIDATION

The previous chapters have pointed out that the policy followed by the Civil Aeronautics Board in administering the Civil Aeronautics Act of 1938 in regard to United States International Air Carriers has been one of regulated competition. At the same time, it was clear that in each one of the hearings involving the question of competition versus a single "chosen instrument" the Board was opposed on its stand. Mainly, the opposition centered around Pan American Airways, Corp., which had been for many years the sole representative of the United States in most of the international routes. Pan American proposed the operation of international air transportation services with a single carrier in the field. It offered statistical data based on a proposed plan for the use of large, high-speed aircraft which would generate an increased demand for mass traffic facilities. Pan American said that economies from large-scale operations could not be realized if more than one international air carrier were allowed to participate in foreign service.

In the early development of United States international air transportation, it appeared to be the policy of the Government, through the administration by the Post Office Department of foreign air mail contracts, that PAA was to be favored over potential competitors.

> In 1931 Postmaster General Brown advised the domestic air carriers to stay out of the foreign field and Pan American to stay out of the domestic field----This policy of excluding domestic air carriers from Pan American's field was reaffirmed in 1937 when the Post Office Department refused to permit Braniff Airlines to establish a service to Mexico City, even though Braniff had a Mexican concession.[1]

---

[1] International Air Transport Policy, Letter from the Attorney General of the United States, p. 29, House Document No. 142, 79th Congress, 1st Session, February 28, 1945.

This policy was not, however, followed in all international area. Several companies operated on the routes between the United States and Canada.[2] The attitude of the Post Office Department in 1937 was indicated in the hearings on H. R. 7370 (concerning foreign air mail contracts) when Mr. Crowley repudiated on behalf of the Department any suggestion that the Post Office was in favor of a monopoly of American flag trans-Atlantic air services.[3]

After the passage of the Civil Aeronautics Act of 1938, the policy in regard to international air transportation was given a more definite interpretation. As has been shown by a consideration of CAB decisions in Chapter II, no distinction was made between domestic carriers and international carriers and domestic carriers were deemed qualified to operate in the international field. As pointed out in Chapter I under section 2 (d) of the act, competition was authorized by Congress and the extent of competition was left to the discretion of the Civil Aeronautics Board. Such interpretation was regulated competition where it was essential to the public convenience and necessity of foreign and domestic commerce of the United States.

In the analysis of the American Export Airlines Case in Chapter II, it was stated that although the CAB had authorized the certificates for the international operation of that airline, Congress failed to approve the necessary appropriations for mail payments.

> It is not clear precisely why these funds were never voted, for there were a number of semi-extraneous issues injected into the discussions which may have been influential. Pan American has viewed

---

[2] For further information see CAB Decisions in regard to U. S., Canadian Routes.

[3] Foreign Air Mail. Hearings before a Subcommittee of the House Committee on the Post Office and Post Roads on H. R. 7370, 75th Congress, 1st Session, 1937, p. 24.

this incident as a legislative mandate for the continuance of a single American line in foreign flight, while the opponents of the chosen instrument tend to attribute the Congressional decision to the lobbying techniques of Mr. Trippe's Washington staff.[4]

The lines had become fairly well drawn by 1942 with the policy as portrayed by the CAB decisions and the ability of Pan American to maintain its status in the international field.

During the war, an interdepartmental committee under Assistant Secretary of State Adolf A. Berle considered postwar United States' international civil aviation policy. This group favored regulated competition between American-flag operators.[5] The committee's report was submitted to the President, but was never approved or issued.[6] However, it was known in 1943 that President Roosevelt favored private carrier operation of routes where such operations proved profitable and government operation only on restricted routes where operations would be at a loss but the routes were necessary for national defense and communications.[7]

Continued failure to persuade the CAB to abandon its policy of regulated competition for one of consolidation has given rise in recent years to legislative proposals which would accomplish that reversal of policy.

THE BEGINNING OF THE LEGISLATIVE PROPOSALS

Early Bills. The first proposed legislation embodying the chosen instrument plan was introduced in the United States Senate in 1943 and

---

[4] Walter H. Wager, "The Single Chosen Instrument." Aereports, I, (August, 1947), p. 6.

[5] "Airline Issue", Business Week, (April 1, 1944), pp. 19-20.

[6] Walter H. Wager, op. cit., p. 6.

[7] "Air Policy Please", Business Week, (October 9, 1943), pp. 18-20.

known as S. 246.[8] In view of the more critical matters in regard to the war, this bill did not attract a great deal of attention.

A somewhat more important bill and the one to be remembered as the predecessor to many more acts of its type to be introduced was S. 1790, introduced by Senator Pat McCarran of Nevada at the 2nd Session of the 78th Congress in 1944. S. 1790 was rather broad in scope and the question of consolidation was only one of the many aviation issues covered. At that time, the CAB made the following report to the Senate Committee on Interstate and Foreign Commerce:

> The existing national policy, as set out in the Civil Aeronautics Act, is one of regulated limited competition. . . By this policy, Congress has deliberately sought to avoid the economic anarchism of unrestrained competition on one hand the evil effects of a protected monopoly on the other. We believe that the public interest requires the operation of more than one United States international air carrier. A monopoly in United States international air transportation would place upon a small group of private individuals responsibility for the handling of many matters having a tremendous national public importance. The vast extent of our probable future operations, their economic and political significance in the affairs of the Nation, would place a monopoly, assure by national policy of remaining as such, in a position of power which might enable it to defeat public policies unacceptable to the management. The presence of more than one United States company in international operations should provide a broader and more intensive development of equipment, facilities, and services in that field than would be possible through one company.[9]

Senate Bill 326. In January of 1945, S. 326 was offered to the 1st Session of the 79th Congress. This bill was simply analyzed in a letter from Acting Attorney General Charles Fahy to Senate Commerce Committee Chairman Bailey on March 31, 1945. The bill was strongly supported by

---

[8] Walter H. Wager, op. cit., p. 6.

[9] Report of the CAB to Chairman Bailey, Hearings by the Senate Committee on Interstate and Foreign Commerce on S. 1790, 78th Congress, 2nd Session, 1944.

Mr. Juan Trippe, President of Pan American Airways. Some of the important facts were:

The Consolidated Corporation would have two classes of stock. The class A stock would be issued in the amount of $200,000,000 and would be held by air carriers holding certificates issued by the Civil Aeronautics Authority authorizing foreign air transportation or interstate air transportation. Each eligible air carrier would be entitled to subscribe to this stock in the amount of at least $5,000,000 or in such larger amount which, proportionate to the whole amount of such stock, is not greater than the proportion which the gross operating revenue of such carrier for the calendar year 1943 bears to the total gross operating revenue of all eligible air carriers. No carrier would be allowed to own stock in excess of the amount of $50,000,000. The Class A stock would be entitled to cumulative dividends of 6 per cent per annum, but in no case would a dividend of more than 8 per cent be payable. This stock is the only stock that carries voting power.

The class B stock of the corporation is to be issued in payment for assets purchased by the corporation from holders of class A stock. Each holder of class A stock must agree without reservation to assign to the corporation all physical properties, equipment, operating facilities licenses, franchises, leases, good will, or other valuable rights owned by it and used in foreign air transportation to the full extent required by the corporation and to accept in payment therefor class B stock of the corporation.

The management of the corporation is to vested in a board of directors consisting of 1 member designated by each holder of class A stock and 10 additional members elected annually by the holders of class A stock.

Although the corporation would be privately controlled and managed, it would receive governmental assistance and would be authorized to call upon any department or agency of the Government for cooperation or assistance other than direct financial assistance. The Secretary of the Treasury would be authorized to purchase obligations of the corporation. Such obligations might amount to three times the amount of the issued capital stock including class A and class B shares, notes, debentures, bonds, or other obligations. If the Civil Aeronautics Authority orders an extension of service by the corporation, it is authorized to make payments so as most effectively to promote the public interest.

The bill contains a provision that no air carrier except All-American Flag Lines, Incorporated, shall be authorized by any certificate covering operations in foreign air transportation, to transport United States mail. The bill would limit the operation of the corporation to foreign

air transportation.[10]

It has been estimated that under the proposed S. 326 bill that Pan American Airways would control 25 per cent of the class A stock; American Airlines, 12½ per cent; United Airlines, 11 per cent; Transcontinental and Western Air, between 7 and 8 per cent; Eastern Airlines, between 6 and 7 per cent; and the remaining 15 carriers about 2½ per cent each.[11]

Hearings on S. 326 were held for twelve days and testimony was heard by the Subcommittee on Aviation of the Senate Committee on Interstate and Foreign Commerce. Several witnesses appeared in person and additional opinions were submitted in writing. The hearings were held on March 19, 22, 26,27, April 2, 3, 5, 6, 7, 10, May 2 and 4. A brief summary of some of the opinions voiced during these hearings follows.

Attorney General Francis Biddle had this to say, " . . . it is clear that the giant monopoly in international air transport, which would be enacted by the passage of this bill, would by its very nature invite agreements with foreign air lines containing restrictive revisions characteristic of international cartel agreements in other industries."[12] His position and that of the Justice Department was even more clearly stated in the report on "Internation Air Transport Policy" which the Attorney General had submitted to Congress on February 28, 1945. He stated:

---

[10] Letter of Charles Fahy in Hearings before Subcommittee on Aviation, Committee on Commerce, U. S. Senate, 79th Congress, 1st Session on S. 326, pp. 10-11.

[11] Walter H. Wager, op. cit., p. 9.

[12] Hearings on S. 326, p. 526.

> Competing lines are impelled to conduct their operations with maximum efficiency, both with respect to costs and to regularity and adequacy of service . . . competition is said to be the most successful builder of traffic; with the larger volume of traffic, unit costs decline and rates can be lowered . . . competition guarantees the development and prompt application of technical improvements . . . competition performs a double function--first, of protecting shippers and travelers directly by assuring low rates and good service, and second, of providing the government with a yardstick by which it may determine the amount and the form of public aid that should be estended to the international air carriers.[13]

The Commerce Department also filed a negative report stating:

> The important thing is that more than one group of American managerial and technical brains be permitted to operate independently in the international air-transport field. This can best be accomplished under our existing policy of regulated competition as laid down in the Civil Aeronautics Act of 1938.[14]

Assistant Secretary of State W. L. Clayton commented:

> It is of the utmost importance to observe that in every instance that single-instrument company has been government owned or so much government controlled as to have all the qualities of government ownership, with the minor exceptions of Switzerland, Norway and Denmark . . . any air line assured of a monopoly of international air transport under the American flag would sooner or later conform to this pattern. The exclusive right to carry on a certain business constitutes monopoly; whether or not the ownership is vested in one or many stockholders. I believe that monopoly should be confined to those cases where it is unavoidable. I believe that we should inaugurate operations over routes as soon as possible and that we should do so in accordance with the present law and not through changing law so as to provide a single company.[15]

Speaking on behalf of the War Department, Secretary of War Henry L. Stimson wrote:

> Indeed it is the opinion of the War Department that multiple United States ownership and operation, if reasonably regulated, will not only make for maximum expansion of our foreign air transport system but will also tend to produce stronger, more efficient, and agressive operations

---

[13] House Document 142, 79th Congress, 1st Session, pp. 29-31.

[14] Hearings on S. 326, p. 13.

[15] Ibid., p. 189.

generally and thus better equip our carriers to maintain the over-all competitive position of the country.[16]

Captain C. K. Wildman appeared before the Committee on behalf of the Navy Department and said:

> The Navy Department does not believe that it would be wise or desirable from the American point of view to entrust the entire development of our world-wide air commerce to one privately owned corporation which would have operations in many countries of the world and in all areas of the world. The concentration of power and influence in foreign affairs which would be vested in such a private corporation would, in the opinion of the Navy Department, be inconsistent with the national interest and would not promote the maximum development of our air transport system.[17]

On April 2nd, Civil Aeronautics Board Chairman, Welch Pogue, gave four reasons why the CAB opposed the consolidated carrier idea. He said,

> (1) It would place too much influence over matters of national interest in the hands of private citizens.
>
> (2) The company might be big but not efficient, as the problems may be too numerous for one management.
>
> (3) It would endanger private ownership of air transport.
>
> (4) Competition is more likely to develop a dynamic U. S. aviation industry.[18]

On June 21 the Subcommittee rejected the bill with a vote of 7 to 2. The bill then went to the full Committee and on July 6th it split 10 to 10 and refused to report it out to the floor.

Senator McCarran then introduced a new chosen instrument bill on December the third. This bill differed from S. 326 in that:

---

[16] Ibid, p. 9.

[17] Ibid, p. 283.

[18] Ibid, p. 214.

(1) The CAB was charged with devising the form of the airline and providing for the participation of shipping and railroad interests.

(2) There were three series of common stock. Some 20 percent each of the carriers shares would go to domestic airlines, class I railroads and water carriers. The remaining 40 percent would be in the company treasury.[19]

This seemed to be the essence of the efforts of the 79th Congress as far as a bill relating to an international consolidated U. S. air carrier. Senator Pat McCarran, author of the bill, told the Senate Commerce Committee on June 20, 1946, that he would not press for hearings on the bill during that session. The bill then became dead with the 79th Congress, January 3, 1947.[20]

CURRENT LEGISLATIVE PROPOSALS

The All-American Flag Line Act of 1947. It was, however, only a short time after the opening of the 80th Congress that the issue again became the center of much controversy. On January 13, 1947, Senator McCarran introduced a bill entitled the "All American Flag Line Act of 1947," known as S. 197. It was, in general, very similar to the bill that the Senator had introduced to the 79th Congress on December 3, 1945. In the House a bill known as H. R. 1698 was introduced by Representative King. This bill was identical with S. 197. Both bills were to create the All-American Flag Line, Incorporated and to assure the United States world leadership in the field of air transportation. H. R. 1698 stated:

---

[19] Walter H. Wager, On. cit., p. 24.

[20] Ibid, p. 24.

[21] Overseas Air Transportation, Hearings before the Committee on Interstate and Foreign Commerce, House of Representatives, 80th Congress, 1st Session, H. R., 1698, p. 25.

> The national interest of the United States requires preservation of its present leadership in the field of air commerce and air transportation, as essential alike to the maintenance of its position in the family of nations, to its national security, and to its avowed mission of peace, friendship, and commerce with all governments and with all peoples; and that this objective can be achieved by and through complete coordination and integration of the international air transportation of the United States, under private ownership and management but with careful regulation and close supervision by the appropriate Government agency.
>
> . . . for the purpose of avoiding destructive rivalries between American companies abroad and of presenting a united American front against the competition of foreign countries, the international air transportation of the United States should be consolidated into a single community company, to be formed under a plan approved or prescribed by the Civil Aeronautics Board, and which shall operate as a public utility in the national interest under regulation by the Board.[21]

The Four House of Representatives' Bills and Senate Bill 987. The attack really took form on March 27, 1947. On that date Chairman Wolverton of the House Committee on Interstate and Foreign Commerce introduced H. R. 2827, Representative Hinshaw introduced H. R. 2828, Representative Harris introduced H. R. 2829, and Representative Howell introduced H. R. 2830.[22] On the same day, Senator Brewster, Chairman of the Aviation Subcommittee of the Senate Committee on Interstate and Foreign Commerce, put in the hopper S. 987 for himself, Senator White, Senator McCarren, and Senator McMahon.[23]

All of these bills introduced were to amend the Civil Aeronautics Act of 1938, as amended, to provide for the merger and the consolidation of international air carriers of the United States.[24] With the exception of

---

[21] Overseas Air Transportation, Hearings before the Committee on Interstate and Foreign Commerce, House of Representatives, 80th Congress, 1st Session, H. R., 1698, p. 25.

[22] Hearings on H. R. 2827, 2828, 2829, 2830, p. 1.

[23] Consolidation of International Air Carriers, Hearings before a Subcommittee of the Committee of Interstate and Foreign Commerce, United States Senate, 80th Congress, 1st Session, S. 987, p. 1.

[24] Ibid, p. 1.

several lines in Section 1203 (e)[25] which are not present in the House bills, S. 987 is identical with H. R. 2827, 2828, 2829, and 2830. All the lower chamber statutes are worded precisely alike.[26]

In order to make possible a clear understanding of the issue and before turning to an analysis of the arguments both for and against, it is necessary to briefly summarize the contents of these current bills.

Under Sec. 1201 of S. 987, the term "international air carrier" means any air carrier the major portion of whose traffic and revenues from common carrier business is derived from international air carrier which acquires or operates properties and facilities unified and integrated by consolidation or merger pursuant to this title.[27] For the meaning of the term "consolidation or merger" the bills under Sec. 1201 (6) stated:

> The term consolidation or merger includes the legal consolidation or merger of two or more corporations and the acquisition by a corporation through purchase, lease, or in any other manner, of the whole or any part of the purchase, lease, or in any other manner, of the whole or any part of the property, securities, facilities, services, or business of any other corporation or corporations, or of the control thereof, in exchange for its own securities or otherwise.[28]

In regard to a declaration of public interest the bills had this to say:

---

[25] Section 1203 (e) "Nothing in this title shall in anywise affect the right of the United States by appropriate legislation to require modifications or changes with respect to the consolidated carrier or to require the consolidated carrier to divest itself of its property in whole or in part and in such event shall have no rights other than to fair compensation for its property. Hearings on S. 987, p. 5.

[26] Hearings on S. 987 and Hearings on H. R. 2827, 2828, 2829, 2830.

[27] Hearings S. 987, p. 1.

[28] Hearings S. 987, p. 2, Hearings H. R. 2827, p. 38.

> . . . in order to foster the development and encourage the maintenance of such a system of international air transportation, it is necessary to avoid destructive rivalries between American companies abroad and to present a united American front against the competition of foreign air monopolies. It is, therefore, declared to be the policy of the United States that its international air transportation should be consolidated into a single company, to be formed under a plan approved or prescribed by the Board, which shall operate in the national interest under private ownership and management as a public utility under regulation by the Board.[29]

Sec. 1203 provided that one or more international air carriers or domestic air carriers engaged in international air transportation may file a plan of consolidation or merger with the CAB and also provided for hearings on such proposed plans and if no such plan was filed, the CAB should issue a proposed plan. Such a proposed plan for consolidation must include such things as, a statement that the consolidated carrier will acquire, by issuance of an appropriate amount of its ordinary common stock, all the assets, or all of the outstanding stock, of all international air carriers; all of the real estate and ground equipment located outside the United States; any stocks, notes, or other securities of indebtedness; flight equipment owned and used in internation air transportation; statement as to proposed initial capitalization; form of charter of the consolidated carrier; provisions for the offer for subscription of shares in three series, 25 per cent to domestic air carriers, 20 per cent to common carriers by water and 10 per cent to class I railroads; fair and equitable provisions to assure the continued employment of all citizens of the United States who were employed by air carriers engaged in international air transportation; an agreement that the consolidated carrier will observe the terms of all collective-

---

[29] Hearings S. 987, p. 2 and Hearings by House Committee on bills relative to Overseas Air Transportation, pp. 38-39.

bargaining agreements in effect; an agreement that the carrier will render air transportation service between the United States and any country over 5 million in population in the world designated by the Board; a filing of rates, fares, and charges for services which shall not be higher than or lower than a reasonable maximum or minimum rate determined by the Board; an agreement that the consolidated carrier will enter into through-traffic arrangements with domestic carriers; and provisions for the operation by the government in times of war and insuring that the consolidated carrier shall be at all times a citizen of the United States.[30]

The bills also provide for the amendment of the Internal Revenue Code, providing that no gain or loss shall be recognized as to property transferred by a corporation to the company or upon the relinquishment or extinguishment of stock or securities in a corporation pursuant to such consolidation. The value of property transferred by a merger shall remain the same as it would have been in the hands of the corporation from which it was acquired, increased in the amount of gain recognized to the corporation whose property was so acquired.[31]

Section 1204 of the bills governing the ownership of stock, stated:

> It shall be unlawful for any person, partnership, association, or corporation to buy, acquire, hold, or control directly or indirectly, an amount of the common stock of the consolidated carrier which shall exceed 3 per centum of the proposed initial common stock capitalization or the amount of common stock actually outstanding, whichever shall be higher.[32]

---

[30] Hearing S. 987, pp. 2-6 and Hearings by House on bills relative to Overseas Air Transportation, pp. 39-42.

[31] Digest of Public General Bills, 80th Congress, 1st Session, No. 2., p. 59.

[32] Hearing S. 987, p. 6.

It further stated that if any carrier received more than 3 per cent it must dispose of it within six months.

The bills had provision for the establishment of a "Policy Committee" as a part of the executive branch of the government and composed of designated members of the cabinet and the chairman of the CAB. The CAB was required to consult with and secure the approval of the Policy Committee before ordering the extension of new routes and services or the suspension of them.[33]

The bills prohibited the consolidated carrier from acquiring directly or indirectly any interest in a domestic air carrier, or consolidate with such a carrier or merge its properties, or any part thereof, with those of such a carrier.[34]

Two of the most important features of these bills are Sec. 1209 and Sec. 1210. Sec. 1209 provided for a construction-differential subsidy based on the difference in construction costs of flight equipment in the United States and a fair and reasonable estimate of costs for the construction of such flight equipment under similar conditions and specifications in foreign aircraft plants. It also provided for the purchase by the Board of obsolete or inadequate flight equipment from the consolidated carrier at a fair valuation which would not exceed the cost plus the actual cost of reconditioning less reasonable and proper depreciation.[35]

Section 1210 provided for an operating-differential subsidy. Upon an examination of the routes over which the consolidated carriers are subjected

---

[33] Hearing S.987, Sec. 1205, p. 6.

[34] Hearing S.987, Sec. 1206 (b), p. 7.

[35] Ibid, pp. 8-9.

to competition by foreign air carriers of such a character as to require necessary aid to effectuate the policy of these bills, the Board shall authorize the payment of an operating-differential subsidy which shall equal "the excess of the fair and reasonable cost of wages, materials, insurance, and any other items of expense in which the consolidated carrier is at a disadvantage in competition with one or more foreign-flag air carriers."[36]

This section also provided for a recapture clause:

> If at the end of any 10 year period the net profit of the consolidated carrier (without regard to capital gains and capital losses) after deduction of appropriate depreciation and amortization charges has averaged more than 10 per centum per annum upon the capital investment of the consolidated carrier . . . the consolidated carrier shall pay to the Board an amount equal to one-half of such profit in excess of 10 per centum per annum, provided that the amount of profit so recaptured in respect of any period shall not in any case exceed the amount of the operating-differential subsidy payments made to the consolidated carrier for such period. . .[37]

If the profits of the consolidated carrier in any year exceeded 10 per cent upon the capital investment, the excess profits had to be deposited in a special reserve fund from which reimbursement could be made to the general fund in any year when the net income was less than 10 per cent of the capital investment.[38]

In cases in which the consolidated carrier informed the Board that operation of additional routes or continued operations of established routes would not provide a reasonable return and the Board deemed it necessary for this operation, an additional amount would be authorized as fair compensation

---

[36] Hearings S. 987, p. 9.

[37] Ibid, p. 9.

[38] Ibid, p. 10.

to the consolidated carrier for such operation. Also, if in the case of any particular route or service the Board shall find that the governmental aid was inadequate to offset the effect of governmental aid paid to foreign-flag competitors, it may grant additional aid in the amounts it deemed to be necessary.[39] Such grants authorized in the above cases were not to exceed $25,000,000.

In order to prevent the acquisition of interest in foreign air carriers by United States domestic air carriers, the bills provided:

> It shall be unlawful for any domestic air carrier . . . or any person controlling such an air carrier or any other common carrier to purchase, lease, contract to operate the properties or any substantial part thereof, or acquire control in any manner whatsoever, of any foreign air carrier or any person engaged in any phase of aeronautics otherwise than as an air carrier in any foreign country.[40]

The Hearings. Extensive hearings on these bills were held by both Houses of the United States Congress. Hearings on H. R. 2827, 2828, 2829, and 2830 were held before the Committee on Interstate and Foreign Commerce of the House of Representatives, 80th Congress, 1st Session from April 22, 1947 to May 16, 1947. Hearings on S. 987 were held by a Subcommittee of the Committee on Interstate and Foreign Commerce of the United States Senate, 80th Congress, 1st Session from May 19, 1947, to June 5, 1947. The House hearings consumed 20 days and 43 witnesses were heard. The Senate hearings were for 12 days and 22 witnesses appeared with 6 submitting written state ments.

---

[39] Hearing S. 987, pp. 10-11, Sec. 1211 and 1212.

[40] Hearing S. 987, p. 12 and Hearings by House Committee on bills relative to Overseas Air Transportation, p. 48.

CHAPTER IV

COMPETITION VERSUS CONSOLIDATION

The purpose of this chapter is to show briefly some of the most important and most common arguments for a change in the present policy of regulated competition to one similar to that which has been outlined by the previous analysis of proposed legislation. At the same time, treatment will be given to the arguments and reasons for favoring the present policy as interpreted by the CAB in administration of the Civil Aeronautics Act of 1938 and opposing the enactment of these proposed bills.

For the sake of brevity, and because much of the reasoning presented in the hearings on the first bills proposing a consolidated carrier was similar in theme to that offered in the hearings before both the Senate and House Committees in 1947, the arguments presented in this chapter are mainly derived from the more recent hearings.

The Hearings of the House and Senate in 1947 were largely identical and in most cases those before the Senate subcommittee were a repetition of those heard earlier before the House Committee. The majority of the references are taken from the Senate Hearings as they represented the latest information presented in regard to these bills. Support was given to both sides of the issues by many prominent men in the field of aviation, air transport, industry, government, labor, and research consultants.

EFFECT OF PROPOSED POLICY CHANGE ON UNITED STATES INTERNATIONAL RELATIONS

One of the primary grounds for disagreement was that dealing with the effect of such a proposed change in air policy upon the U. S. international relations. For many years prior to the war, the United States permitted agreements for landing privileges to be made by company-to-government

negotiations. Under such an arrangement, Pan American was able to secure approximately 62 such agreements and the Government had negotiated approximately 2 or 3 bilateral treaties.[1] Often such company-to-government agreements stipulated that Pan American was to be the only U. S. air carrier allowed landing rights. An example of such an agreement was the one that Pan American negotiated with Portugal, concluded April 3, 1937, which gave it a 15-year monopoly as against other American operators for landing rights.[2] Such types of agreements were terminated by the Government in October of 1942.[3] Since that time, the policy of bilateral negotiations for landing rights has been followed by the State Department. Mr. Garrison Norton, Assistant Secretary of State and Chairman of the Air Coordinating Committee, in testimony before the House and Senate Committee stated:

> The unification of our international civil air transport into a single line by congressional action will substantially affect our foreign relations. The Department believes that such action will be construed by other governments as evidence of the acceptance by this country of principles of nationalized industry and as the transformation of civil aviation into a weapon of aggressive foreign policy.
>
> The present world-wide system of several private American air-transport lines is a strong showing to the world of the vitality of the American principle of free enterprise and competition, under reasonable regulation. It is believed that the action proposed by this bill would rightly or wrongly be viewed as evidence of aroused governmental activity in this field and probably of "imperialistic" activity.[4]

In a letter addressed to Congressman Wolverton, Dean Acheson, Assistant Secretary of State, had this to say in regard to the effect of the bills upon

---

[1] Hearings on S. 987, pp. 712-719.

[2] O. J. Lissitzyn, Op. cit., p. 386.

[3] Hearings on S. 987, p. 719.

[4] Ibid, pp. 710-711.

foreign countries:

> More over, in a number of respects the proposed bill would be detrimental to the conduct of foreign relations of this Government. Section 8 (g) forbids the ownership of securities or stock of the All-American Flag Line by citizens or subjects of foreign governments. The present law permits up to 25 percent ownership by foreign nationals of the sotck of American air carriers. There is a danger that the proposed change would influence foreign countries to apply the same policy of exclusion of foreign capital, resulting in the expropriation of United States capital presently active in foreign air lines, and the end of freedom of United States citizens to invest in foreign air lines to the extent now enjoyed.[5]

Secretary of State, George C. Marshall, made various similar comments in a letter addressed to Senator White of May 6, 1947. He said:

> History points out that a first step toward nationalization of industry is generally followed by other steps in the same direction. In regard to the proposed line, it is feared that a business entity which is made a mandatory Government controlled monopoly will tend to come more and more under Government management, and finally under Government ownership. Whether or not the latter state occurs, the legalized monopoly will surely be tempted to enter into international undertakings tending toward the cartelization of air traffic. The Department is opposed to international cartels in any form, as being an improper economic restraint upon business enterprise; and in the instant case it is clear that the cartelization of aviation would be prejudicial to the national security.[6]

AIR POWER AND NATIONAL SECURITY

The war had pointed out the importance of air power both for national security and commercial potentialities. Air power not only included the necessary military components but also relied heavily upon scientific research in aerodynamics, power plants, aerology, radio, aircraft-manufacturing, and operations. One of the major questions that confronted Congress and the United States was how the U. S. position in world air power could be maintained and the extent of subsidization, education, and the cost to the taxpayers.

---

[5] Hearings, H. R. 1698, pp. 36-37.

[6] Hearings on S. 987, p. 805.

The question also presented was what form should the international air policy follow in order to maintain a healthy position in world air power. Whether a chosen instrument or competing lines could furnish maximum training, data, and experience was a problem of vital importance to the War and Navy Departments. On March 19, 1945, Secretary of War, Henry L. Stimson wrote:

> Long-range commercial aircraft and other equipment and facilities necessary to conduct safe and efficient foreign civil air transport operations are similar to the equipment and facilities necessary to conduct the long-range operations of military aircraft and air transport. As commercial monopoly is generally characterized by standardization of equipment, facilities and techniques and, in the aviation field, would likely tend toward procurement from a single supplier, whereas competition is likely to produce just the opposite result, the War Department believes that a policy which fosters regulated competition, rather than monopoly, is manifestly best designed to stimulate the desired technical advancement and lend maximum support to our peacetime aircraft industry, provided such a policy is at all feasible in the light of known or likely foreign competition.[7]

In response to a request for information in regard to S. 987, Secretary of War, Robert Patterson wrote:

> One of the basic essentials of air power is the existence of a strong and progressive United States civil air-transport system, both domestic and foreign, together with its personnel, aircraft, air bases, and airway facilities, readily adaptable to military requirements.
>
> The War Department believes that from the standpoint of national security there are no factors which would indicate a present necessity for changing the existing policy of regulated limited competition between United States civil air carriers in the international field to a policy designed to eliminate competition and provide for the establishment of a consolidated or single United States air carrier to fly all of our international routes.[8]

Although the Navy Department had utilized Pan American under contracts during the war, Secretary of the Navy James Forrestal had this to say in a

---

[7] Hearings on S. 326, p. 9.

[8] Hearings on S. 987, p. 809.

letter dated June 17, 1947, with regard to S. 987:

> The Navy Department considers that the existing policy of regulated, limited competition, as provided for in section 2 of the Civil Aeronautics Act of 1938, as amended, should be continued. Experience to date in both the economic and foreign-relations field warrants the continuance of competition between United States air lines in the international field. It is considered that the stimulus to progress provided by competition should be maintained unless and until such competition in the future should prove to jeopardize the ability of United States flag air carriers to compete with foreign air carriers.[9]

What both the War and Navy Departments seemed to fear was the inability of a single consolidated carrier to keep abreast or ahead of the technological advancements in air transportation. There seemed to be little likelihood that such development that might be made by foreign companies or countries would be readily available to the United States. With the international situation such as it was, the ability of a sovereign state to obtain some technical advancement or some results of research would put that state in a very stragetic position in regard to power politics. These Departments, along with the State Department, felt that the maintaining of competitive companies in the international field would be of essential importance in keeping the United States in a prominent position with respect to air power and at the same time this competition would extend down to the aircraft mamufacturing industries and to the research laboratories.

ADVANTAGES AND DISADVANTAGES OF A CONSOLIDATED INTERNATIONAL AIR CARRIER

As to the advantages and disadvantages of a consolidated international air carrier in relation to the system of regulated competitive air carriers, much was said by both sides. In Chapter II it was pointed out that Pan American, in its briefs before the CAB was contimually pressing for recognition

---

[9] Ibid, p. 804.

of the advantages of large-scale operations conducted with the use of large, high-speed aircraft. It argued that the ability to gain the economies from the utilization of such equipment could not be obtained by the dividing of the international field. While the CAB recognized the possibilities of reduced costs under such a plan of operation, it also pointed out that the use of larger capacity aircraft would be detrimental to the flexibility of schedules and frequency of service. One of the current disadvantages of air travel over that of other carriers is the lack of great flexibility of service and frequency of schedules.[10]

Mr. Alvin B. Barber, Manager, Transportation and Communication Department of the United States Chamber of Commerce, made a lengthy statement in regard to the establishment of a monopoly in the international air service. He said:

> The chamber sees no necessity for monopoly of American international air services. Sometimes a monopoly may be necessary because of the inherent nature of a business such as telephone and electric service, but this certainly does not apply to air transportation.
>
> A monopoly provides no gages for comparison of efficiency in operation and makes it difficult to weed out the unfit. It constitutes a closed market for ideas and ability.
>
> . . . An over-all monopoly would not have the incentive for intensive development of each route that individual companies would have. Even separate routes are in competition in many ways. They serve competitive markets and they compete for that substantial share of public travel which has a choice of routes, including the tourist trade. All experience in transportation, both domestic and international, shows that this type of competition provides a strong stimulus to aggressive improvement of service to the public.[11]

One of the main arguments presented in favor of a monopoly was the

---

[10] Truman C. Bigham, Transportation Principles and Problems, p. 95.

[11] Hearings on S. 987, p. 67.

strength of a single powerful carrier and the elimination of much duplication of services waste, and expense of competing carriers. Mr. Juan Trippe, President of Pan American, pointed out the requirements under the Civil Aeronautics Act that carriers must be certified for international routes but such certification did not, of itself, permit the beginning of operations. In order for a carrier to conduct international flights, landing rights must be secured for operation within a foreign country. He defended the old system of company-to-government agreements because they were much more satisfactory and because they reduced interruptions and a waste of time. He cited, as a case in point, the certificate Pan American possessed to operate through the Balkan states and their inability to conduct such operations because landing right privileges had been withheld. The point that he desired to make was:

> The point that I wish to make is that these interruptions to certificated routes, some of which have carried on for years, subject one carrier to substantial additional costs, whereas competing American-flag carriers may not have to meet such costs. Therefore, the yardstick or formula method of attempting to demonstrate largely falls down.[12]

In regard to the waste of competing American companies abroad, he said:

> The competitive international route pattern flown by the American companies is costly and inefficient compared to their foreign-flag competitors. Separate competitive traffic offices and administrative and sales personnel are required in foreign countries. Separate inventories, spare engines, and reserve flight equipment are required. The unified foreign-flag competition is confronted with none of this duplication, and thereby able to do a better job at far less expense.
>
> In considering the wastes of American-flag competition abroad, it should be realized that this competition is by no means confined to the countries where two or more American-flag carriers have been authorized to operate. Although Pan American does not operate to

---

[12] Ibid, p. 129.

> Scandinavia, we maintain a sales organization there. Their business is to take Scandinavian traffic away from American Overseas Airlines and route it by a Scandinavian carrier to London and thence over Pan American to the United States.[13]

It had been stated by Mr. James Landis, Chairman of the CAB, that the approximate ratio of ground costs to flight cost was 55-45.[14] As Mr. Trippe had pointed out, there was a possibility for economies through the consolidation of certain ground services and functions. However, it would be impossible under a competitive system to eliminate all such cost through more consolidation. In answer to such an argument showing the duplication of services, Mr. C. R. Smith, Chairman of the Board of American Airlines, pointed out that such attempts for the use of common facilities in foreign fields by competing companies had been started and he felt that it could be extended even further to such things as joint terminals, interchange of parts, and common maintenance and service crews.[15]

Any single carrier operating in the international field would, of necessity, require a large organization. The question arose as to the problems that would face the management of such a vast enterprise and the degree of efficiency that could be expected. Mr. John E. Slater, Chairman of the Board of American Overseas Airlines, proposed three particular characteristics of a chosen instrument for consideration. He stated:

> The first is the problem of management. . . I say that there is no single management in the world competent to administer effectively so vast an enterprise, covering, as it would, more than 170,000 route miles to or through more than 100 countries and colonies, and involving all the obvious complications of frequent dealings with the governments thereof.

---

[13] Hearings on H. R. 2827, p. 416.

[14] Hearings on S. 987, p. 565.

[15] Ibid, p. 501.

> . . . The second characteristic to which I refer is the deadening effect on the all-important aircraft manufacturing industry . . . The aircraft manufacturing industry would be placed at the mercy of the chosen instrument. The history of American aircraft development proves to me that any such concentration of procurement would cost us our leadership in the transport aircraft field. . . . The third characteristic of the proposed monopoly requiring particular attention is its inevitable trend toward Government ownership. The bills would create a privately owned corporation, apparently entitled to guaranteed 10 percent return on the entire investment, including borrowed capital. It calls for seven different kinds of Government subsidy. It is to be entitled to profits, but bailed out of every conceivable risk and loss by the United States Government. No one need by a crystal gazer to know that the period of life of the chosen instrument as a privately owned corporation will be short. . .[16]

A very good summary was presented by Mr. James Landis, Chairman of the CAB, as to the advantages of competition and disadvantages of monopoly. He divided his arguments under seven headings. They were:

(1) Removal of competitive incentives. By establishing monopoly the bill would remove the competitive incentives which alone can guarantee efficient, competent and progressive management in the operation of our international air services.

(2) Effect on efficiency. Regulation cannot dispense with competition. In the absence of competing and comparable operations, the regulatory agency has no yardstick by which to measure objectively the extent to which a management fails to achieve competitive standards; without competition, regulation is incapable of guaranteeing true economy and efficiency in operations.

(3) Benefits of many managements and disadvantages of single company. The active direction of competing firms by many managements will insure a more vigorous and healthy, a more efficient and economical development of international air commerce than can possibly come under monopoly conditions. Our international air system is too vast and our international operations too complex to be within the capacity of any single management, however able the individuals composing that management.

(4) Promotion of markets. The promotion of the potential market for air services requires the competitive efforts of more than one American carrier and will never be adequately developed by a single company.

(5) Traffic potentials. During the 8 years from 1931 to 1938, inclusive, total travel by United States citizens, native-born and

---

[16] Ibid, p. 520.

naturalized, between the United States and overseas countries yielded average transportation revenues of approximately $75,000,000 per year.

(6) Wastes of Monopoly. The wastes of monopoly are found in the neglect of new and more efficient techniques, in the acceptance of the inevitability of present costs, in the unnecessary multiplication of functions and personnel, and in a generally obsolete and lethargic organization.

(7) Danger of concentrating power in one company. The chosen-instrument air line would be a most dangerous instrument of international policy for it would prove to be more powerful than the Board, perhaps more powerful than the Government itself.[17]

FOREIGN COMPETITION

The argument that was contested the most and upon which a variety of opinions were offered was the possibilities of foreign competition. In fact Mr. Trippe rested his case on the fact that foreign competition would become so strong by 1950 that if the United States continued to follow a policy of competing international air lines it would lose its supremacy in the field. He offered for consideration the estimation that by 1950 the travel market in international flight would be 1,548,000,000 passenger miles.[18] He pointed out that nearly all of the important trading nations in the world, other than the United States, had adopted the policy of organizing their international air transport operations into single monopolies, some state owned, some privately owned, but all supported diplomatically abroad and financed at home by their respective governments.

The British System. Perhaps because it was thought that Great Britain would be the most dangerous of foreign competitors, or because it was felt

---

[17] Ibid, pp. 571-577.

[18] Walter H. Wager, op. cit., p. 19.

that the British operations would present a better comparison with the United States system that much statistical data and comparative facts were offered in regard to its international system. Traditionally Great Britain has been a great international competitor and it offered the possibilities for more rapid development of the international field than some of the other foreign countries. Mr. Trippe continually referred to the British system as presenting a type of competition that could not be met by the continued operation of several American air carriers in foreign service. He stated that capital and credit for the British international system had been authorized up to approximately $320,000,000 and additional subsidies authorized up to $40,000,000 annually for a period of 10 years.[19] It was interesting to note that establishment of British Overseas Airways Corporation, a Government corporation, was begun under the Conservative Government. This new company was launched on April 1, 1940. However, before BOAC could begin normal commercial operation, widespread criticism of monopoly in British international aviation forced a modification of the chosen instrument doctrine. Following extensive debate, both inside and outside the Government, a White Paper on International Air Transpost, presented to parliament on March 13, 1945, announced a new plan for the organization of the international air services.[20] BOAC was designated as the air line to operate the Commonwealth, Atlantic, and Far Eastern services. A second corporation composed of railway companies, short-sea shipping lines, travel agencies, and BOAC was announced for the development of European and internal services. Another new company, British South American Airlines, organized

---

[19] Hearing on S. 987, p. 110.

[20] Hearings on H. R. 2827, pp. 1237.

by the British shipping lines with some BOAC participation, was designated to operate the services to South America. Under the Civil Aviation Act of 1946, BSAA and BEA, as well as BOAC have become government corporations.[21]

In this connection, Mr. Gerald B. Brophy, General Counsel, for TWA, pointed out in the Senate Hearings some of the reasons why the British altered their policy from BOAC as a single chosen instrument to one under which three separate companies were organized. He quoted from the White Paper presented by the Minister of Civil Aviation to Parliament in December 1945, in support of the bill which became the Civil Aviation Act of 1946. It said:

> In the present state of development His Majesty's Government do not propose to entrust the operation of all services to a single corporation. In reaching this conclusion they are influenced by the following considerations:
>
> (i) The need for flexibility in meeting current conditions of international competition;
>
> (ii) The necessity in the development of a new industry of this nature for encouraging different methods of approach to the techniques of air-line operation and of avoiding placing sole responsibility into the hands of one managerial group.
>
> (iii) The creation of a pool of knowledge and experience to meet the needs of the rapid expansion of air travel which is to be anticipated.[22]

It must be remembered that these three British corporations are government owned. Yet, even though the major policy and broad range of the activities of the Corporations are vested in the Minister of Civil Aviation and he makes all appointments to the Boards, the White paper states, ". . . the Corporations should have the maximum freedom in the operation and management of the air

---

[21] Ibid, p. 1237.

[22] Ministry of Civil Aviation, British Air Services, Presented by the Minister of Civil Aviation to Parliament by command of His Majesty December 1945, p. 3.

services assigned to them."[23] The British system was a system of government corporations operating under a zoning or regional monopoly plan.

Foreign Wage Levels. In order to support his arguments that foreign competitors were or soon would be in a position of considerable advantage over American carriers, Mr. Trippe presented facts showing that foreign countries enjoyed wage levels substantially lower than the American companies. In a chart that was accepted as an exhibit in both hearings, entitled "U. S. and Foreign General Level of Wages", (Average Hourly Rates of Earnings-1938), he endeavored to compare the wage scale of the United States with major foreign countries. The chart showed that the United States' average hourly earnings for 1938 was 64 cents, as compared with 32½ cents for New Zealand, 32½ cents for Great Britain, 30 cents for France, and on down to 1 cent for China, and a question mark for Russia.[24] Another chart showing a comparison of annual wages paid by Pan America, British Overseas Airways Corp., and Royal Dutch Airlines (in U. S. dollars) was submitted. It revealed that PAA was paying Master first pilots an annual wage of $12,720, as compared with $6,254 for BOAC and $3,146 for KLM. This relationship extended down the line in similar fashion to ordinary cleaners where PAA was paying an annual wage of $1,680 compared with $1,033 for BOAC and $876 for KLM.[25]

On this subject Mr. Trippe said:

> An American flag carrier with labor rates at least twice as high as its foreign competitor and with labor costs 50 per cent of total costs would have to have a quarter of its costs offset by a subsidy in order to compete on equal terms, other factors, including labor

---

[23] Ibid, Sec. 15, p. 4.

[24] Hearings on S. 987, p. 120.

[25] Ibid, p. 122.

> efficiency and flight equipment, being equal. In addition, if the United States international air system is to remain in private ownership, it will have to earn over the years an appropriate return on capital invested in order to maintain its credit. Competitive government-owned foreign flag monopolies have no such obligation.[26]

It should be pointed out here that although the above statement seemed to offer support to government ownership, Mr. Trippe was not so inclined. He was supporting a consolidated company under divided private ownership.

Mr. William A. Patterson, President of United Air Lines, testified that in his opinion the United States should not underestimate the effectiveness or the ability of foreign competitors. While he did not support these bills as proposed, he was much in favor of consolidation over competition. He proposed the dividing of the international field among one or more chosen instruments.[27]

In reply to Mr. Trippe's presentation in regard to wage levels comparisons, Mr. Brophy, of TWA, contended that the productivity and the efficiency of American labor would more than offset any differential in wages. Using statistics developed by the War Production Board dated July 15, 1944, he said:

> These show that American Labor is over twice as productive as British labor. In fact, adopting the United States as a base of 100, that study found that production per employee in the United Kingdom was 44 while production per man-hour was only 26. Consequently, if it took 1 man-hour to produce a given unit in the United States, it would take 2.78 man-hours in the United Kingdom.[28]

He also countered with this argument:

> However, I believe we should recognize that in air-line operations abroad, American carriers must use a considerable amount of foreign labor and foreign air lines operating to the United States must use certain American labor. The relative costs and efficiencies will,

---

[26] Hearing on H. R. 2827, p. 413.

[27] Hearings on S. 987, pp. 16,34.

[28] Ibid, p. 259.

therefore, tend to balance out, under a chosen instrument or under regulated competition.

This is not speculation. It exists right now in TWA. As of the end of April, we had 3,882 employees engaged both in the United States and abroad in our international operations. Of these, 2,348 were U. S. citizens and 1,534 were citizens of other countries, so that 39½ per cent of the personnel in our international operations are foreign nationals.

. . . I would like to say this, that of those 1,543 foreign nationals, 95 percent of them were on the foreign scale. So that is what I mean when I say that in an international operation, relative costs and efficiencies of that sort will tend to balance out.[29]

Mr. Croil Hunter, President, Northwest Airlines, said in regard to this question of foreign wage comparisons, "Does this legislation propose or assume that the consolidated company will employ less labor or cheaper labor than the several independent companies would employ? If not, what advantages has the consolidated company in offsetting any foreign labor differential?"[30]

Mr. John Slater of American Overseas Airlines presented a chart of 1938 General Wage Cost Per Unit of Production. An analysis of this chart showed that the United States was low with a wage cost per unit of production of 63 cents as compared with 64 cents for Canada, 75 cents for Russia, 76 cents for Germany, and 91 cents for the United Kingdom.[31] He said:

Considering all factors, the American international air lines have provided as good or better service than the foreign-flag system, at equal or completely comparable costs. We hope with better organization, improved methods, and greater labor productivity to continue doing so.[32]

---

[29] Ibid, p. 256.

[30] Hearings on H. R. 2827, p. 1124.

[31] Hearings on S. 987, p. 462.

[32] Ibid, p. 465.

British Jet Power Production. Another point in favor of the British that Mr. Trippe felt would cause added disadvantage to American competitors was the fact that the British were approximately 2 years ahead of American industry in development of the jet power plant. He had requested that Mr. Philip B. Taylor, Aeronautical Engineer, be allowed to testify on this subject. Mr. Taylor had recently conducted a survey of the aircraft industry in the United States, England, and the European continent. He concluded:

> It is my opinion, from direct and intimate contact with engineering developments in England and the United States, that the British may be able to develop within a period possibly as short as 3 years commercial trasport aircraft, to be sold in quantity, which will operate with safety, at higher speed, with greater comfort, and at lower cost than contemporary airplanes available in the United States, considering present rate of progress in both countries.[33]

Mr. Landis, in his testimony, presented for consideration in regard to the question of aircraft production in the United Kingdom, a report from the United States Civil Air Attache in London. The report pointed out many of the difficulties that were causing considerable delay and dissatisfaction among the British in regard to aircraft production and the inefficiency of many of the aircraft turned out. It emphasized the fact that the British had not had any experience comparable to that of the United States in designing and producing civil air transport aircraft or engines. One of the problems faced was the inability to construct a proper airframe to be used with the new turbo-jet power plants. Reports on that type of aircraft produced along with conventional type of aircraft showed an inadequacy of performance and operation costs and characteristics below that of comparable American aircraft.[34]

---

[33] Ibid, p. 791.

[34] Ibid, pp. 581-583.

Prospects of Increasing Foreign Competition. While it was emphasized by both sides that foreign competition would increase during the next few years, the conclusions drawn from such a statement varied. During 1946 and the early part of 1947, many of the foreign competitors were only beginning to conduct operations over international routes. Mr. Trippe stated that during the first 6 months of 1946 the American trans-Atlantic air lines carried 94 per cent of the business, and that their share for the second half of the year dropped under 77 per cent. He offered a chart for exhibit showing that the number of passengers per plane between the United States and London for a 30-day period, ending April 13, 1947, were, British system 21½ passengers per plane, Pan American 17½ passengers per plane and American Overseas 11½ passengers per plane.[35]

Mr. Charles A. Rheinstrom, Aviation Consultant, had much to say on the question of increased foreign competition and the traffic potential. He pointed out certain advantages that foreign carriers possessed over American carriers. Such things as, much of the equipment used by foreign carriers was American built and identical with that used on the same routes by the Americans; better service was offered because the Europeans were typically better servants; in foreign countries with single instruments, all coordinating types of transportation, including travel bureaus, would support the sale of air traffic to that nation's international air line; and the fact that some of the American domestic lines either had operating agreements with foreign international carriers or would favor foreign carriers over American in the routing of traffic, were examples. He stated that during 1946, the foreign air lines flew only 681 flights, or 18.5 per cent of the trans-Atlantic

---

[35] Ibid, p. 167.

flights by all airlines for that year. They carried 17,503 passengers on those flights which was 16.6 per cent of the total.[36]

Mr. Rheinstrom estimated that two-thirds of all of the non-mail traffic to and from the United States would be sold in the United States and one-third sold in foreign countries. He pointed out that under a single carrier system that the American carrier could expect two-thirds of that portion sold in the United States and one-third of that portion sold in foreign countries. This ratio would give the American carrier five-ninths of the total air traffic.[37] To make his point clear, he assumed that by 1950 non-mail revenues of all air lines from traffic to and from the United States would total $540,000,000. With a consolidated carrier the United States, obtaining five-ninths of the total, would receive $300,000,000. However, he believed that if the United States operated with several carriers, the reverse would be true. His point was that, by consolidating, the United States could derive a gain of $60,000,000 in non-mail revenue. He further estimated that the additional traffic would increase costs 10 per cent which would leave an actual gain of $54,000,000.[38] He also said:

> I can conceive that the increase of $54,000,000 from a greater share of the non-mail business as outlined, added to the subsidy necessary if the low-cost foreign operators cut rates below American costs, but which would be prevented by their loss of revenue to a unified company, would bring the annual saving possible within the next few years by one-company operation to as much as $100,000,000 for the taxpayers of the United States.[39]

Mr. Landis of the CAB made a direct reply to Mr. Rheinstrom's conclusions. He felt that $540,000,000 was not a reasonable figure for 1950. Basing his

---

36 Ibid. p. 326.

37 Ibid. p. 327.

38 Ibid. pp. 336-338.

39 Ibid. p. 341.

reasoning on the fact that in December of 1946 the revenue was only $12,000,000 and if all months approximated December, that would mean only $144,000,000 for a year. He also emphasized the fact that surface transportation was still drastically limited by lack of ships and this would be greatly improved by 1950. Historically some 80 per cent of travel interchanged between the United States and foreign countries had its source in the United States and with a round trip air fare 10 per cent less than one-way fares, Mr. Landis felt United States carriers would have preferential access to about 80 per cent of the potential traffic market, in contrast to the four-ninths estimated by Mr. Rheinstrom.[40]

Mr. Tom E. Braniff, of Braniff Airways, presented some statistics in regard to the reduction in percentage of trans-Atlantic air passengers carried by United States lines, during 1946. He said:

> The record should show that most of the foreign carriers did not start their trans-Atlantic service until the late spring of 1946, and hence, of course, carried little of the total traffic. The record should also show that the 76 per cent represented 51,606 passengers carried during the last half of the year, while the earlier 95 per cent figure represented only 35,871.[41]

COMPARATIVE COSTS

Not much was presented in the way of comparative costs of American operators and foreign operators. Mr. Slater of American Overseas Airlines did, however, have a few comparative costs. He said, "For the last 6 months of 1946, our operating costs per revenue-mile flown was $3.57. Air France shows the same operating cost of $3.57, while BOAC's comparable cost was

---

[40] Ibid, p. 575.

[41] Hearings on H. R. 2827, p. 1188.

$5.53."[42] He also presented figures on costs per revenue-mile flown anticipated for the full year beginning with July 1, 1947. They were, American Overseas, $2.72; Air France, $3.46; and BOAC, $3.10.[43]

Mr. Landis declated that the ability to obtain comparative cost data on foreign carriers was very unreliable. He said, "We expect those will develop fairly shortly because they will be needed for the rate making, not only our rate-making machinery, but the rate-making machinery of the International Air Transportation Association."[44] Senator Brewster said that the question of exchange of costs was discussed at the Chicago Convention of Provisional International Civil Aviation Organization in 1944 and that an agreement was reached whereby each country would file such data with the PICAO.[45]

In regard to whether the expansion of a carrier brought with it a reduction in costs, Mr. Landis pointed out the following cost relationships between the domestic carriers. He explained that the reported costs of the largest carriers have commonly been higher than the reported costs of several carriers of medium size and that the lowest-cost carriers had never been the largest carriers.

> The four largest carriers were American, United, TWA, and Eastern. Only Eastern Maintained a position among the low-cost carriers throughout the period. American, United, and TWA during 1945 and 1946 ranked among the high-cost carriers; American eighth, United ninth, and TWA eleventh. Braniff and Delta, medium-sized carriers, were consistently low-cost operators.[46]

---

[42] Hearings on S. 987, p. 464.

[43] Ibid, p. 465.

[44] Ibid, p. 592.

[45] Ibid, p. 593.

[46] Hearings on S. 987, p. 577.

FINANCIAL REVERSES OF AMERICAN CARRIERS

Another point that Mr. Trippe stressed in his testimony for the chosen instrument was the financial reverses suffered by American companies in international operation. Such financial reverses not only placed the carriers in a poor position to seek additional credit but also brought about serious financial difficulties for Constellations, DC-6's, Republic Rainbows and Martin 202. Mr. Trippe reported that TWA had a loss of $14,000,000 in 1946; Chicago & Southern was meeting financial difficulties in its operations between New Orleans and Havana, American Overseas carried a substantial loss for 1946; and that Pan American would require approximately $22,000,000 in mail pay to maintain its credit position.[47]

Mr. Brophy, answering the charge of financial reverses for TWA, pointed out that 1946 was a year of transition from wartime to peacetime economy and that practically all of the domestic air lines had large losses during that year. He went into detail in regard to TWA losses, saying that the major portion of its loss was a result of domestic operations and that in June TWA showed a profit of about $560,000. On July 11, all of TWA's Constellations were grounded by the CAA, which greatly curtailed its international service and since TWA was the only domestic carrier that was using Constellations in domestic service, it had a direct effect upon total operations. Then, on October 21, the entire TWA system was closed down because of the pilots' strike, which lasted until the 16th of November. He, Mr. Brophy, said, "In effect, TWA was either out of business or carrying on a skeleton operation during the last 6 months of 1946 instead of carrying through in a profitable operation." He also applied this occurance to a

---

[47] Hearings on H. R. 2822, pp. 414, 415.

possible chosen instrument, saying, ". . . a private chosen instrument does not guarantee against pilot strikes or any other kind of strikes, and if we had had a chosen instrument during October and November of 1946, United States air-lines operations throughout the world would have ceased.[48]

Mr. Landis, reporting on the credit standing of international carriers, gave some important facts and figures. He said, "Recent financing has demonstrated that most of the international carriers are in a position to secure capital as needed for development of their international services.[49] Some of the examples given to support that statement were:

> In June 1946 American Airlines sold $40,000,000 of preferred stock and a like amount of sinking fund debentures. In August, National obtained more than $3,500,000 by the sale of common stock, and American Oversea raised more than $12,500,000 by the sale of common stock, about 69 per cent of which was taken by American Airlines. In September Pan American arranged a $40,000,000 revolving credit with a group of New York banks. In October Northwest raised about $5,000,000 by the sale of common stock and arranged for a $10,000,000 bank credit. At the end of April Northwest completed arrangements for an $18,000,000 bank credit, canceling the earlier agreement, and in addition sold $9,875,000 of convertible preferred stock. In December Eastern arranged for a revolving bank credit of $20,000,000. In February Braniff arranged for a $10,000,000 credit to be drawn upon during 1947. In February United made provision for $49,500,000 by selling nearly $9,500,000 of convertible preferred stock, arranging a $28,000,000 bank credit agreement, and selling $12,000,000 of debentures. . . . The investment market generally has reflected optimism with respect to air services; it has reflected a willingness on the part of investors to commit new capital to air-line enterprises.[50]

THE QUESTION OF CONTROL OF THE CONSOLIDATED CARRIER

It had been contended by the opponents of these bills that if the proposed legislation was passed that Pan American would have the controlling

---

[48] Hearings on S. 987, pp. 271-272.

[49] Ibid, p. 550.

[50] Ibid, p. 550.

interest in the consolidated carrier. Mr. Trippe repeatedly denied any such possibility, pointing out that the bill definitely provided that no person or group of persons were permitted to own over 3 per cent of the outstanding stock. He also commented that under the proposed plan that Pan American Airways would go out of business because of the provision that all international air carriers were to sell their assets to the unified company. In an analysis of the proposed legislation in the previous chapter it was shown where the unified carrier would have two types of stock. 55 per cent was to be divided among domestic carriers, water carriers, and railroads while the remaining 45 per cent was to be used in payment for the assets of international carriers. Therefore, three international air carriers would, upon passage, go out of business. They were Pan American, Pan American Grace Airways, and American Overseas Airlines. Since Pan American was, by far, the largest of these companies and also owned 50 per cent of the stock of Pan American Grace, it seemed quite definite that it would obtain the largest share of the original 45 per cent. These shares received by the international carriers in exchange for their assets were to be distributed among the stockholders of the various companies. Since the bill provided that no one individual or group of individuals could buy, acquire, hold, or own over 3 per cent of the total stock and that if any carrier received more than 3 per cent that it would have 6 months to dispose of all above the permissible 3 per cent.[51] Mr. Trippe said that Pan American had approximately 35,000 stockholders and that he knew of no one stockholder that owned more than 1½ per cent of stock. With the above provision, it would have been impossible for any interest to own over 3 per cent of the stock. The bill

---

[51] Hearings on S. 987, Section 1204, p. 6.

provided that the CAB would approve the composition of the first board of directors of the unified company. To summarize his stand, Mr. Trippe said,

> . . . the provision in the bill that requires that the Civil Aeronautics Board approve the make-up of the first board of directors, to my mind completely safeguards any company or group of companies or group of stockholders. . . or their stockholders, from getting control of this board, because the policy of the proposed bill is obvious, that no single interest or group of interests shall control. And obviously the Civil Aeronautics Board will not approve the make-up of a new board of directors, which will select the new management, except on a basis that is contemplated by Congress.[52]

Mr. Brophy, speaking for TWA, endeavored to point out a weakness in Mr. Trippe's argument. He emphasized the fact that at the start Pan American would obtain the largest portion of the 45 per cent of stock and that it was not mandatory that it be reduced to the 3 per cent for a period of 6 months. He said this would:

> . . . guarantee the period of initial domination which subsequent diversification of stock interest will perpetuate. Pan American would get over 35 per cent of the stock for its assets and would thus be in effective control of the initial board of directors for 6 months. With Pan American-Grace, it would control about 40 per cent of the 45 per cent set aside as ordinary shares. If all of the carriers shares are not subscribed for, the 40 per cent interest naturally becomes proportionately increased.[53]

Another issue that Mr. Brophy presented was the doubt that domestic carriers, water carriers, and railroads would subscribe to the 55 per cent of stock of the unified company that was termed "carrier shares." Even if such subscription was entirely sold, he felt that the company could result in nothing but confusion because of the impossibility of reconciling the difficulties, not only among the three types of carriers involved, but among

---

[52] Hearings on H. R. 2827, pp. 582-583.

[53] Hearings on S. 987, p. 283.

the carriers of each particular group, and the fact that such shares were restricted as to transferability.[54]

Mr. Croil Hunter, testifying on the stock participation, said:

> . . . I know of no air line, with the exception of Pan American, nor of any railroad or steamship company that would be interested in purchasing a 3 per cent or any per cent interest in the company. . . and I can say for Northwest we would go to every court in the land before we would be forced to accept stock in the company in exchange for our hard-earned assets allocated to our foreign operation. . . . That would leave the public to purchase the unsold shares, and I cannot think of any sound argument that could be used to induce them to do so.[55]

Mr. John Slater made it clear that he had no doubts about Pan American's reasons for supporting the proposed change in policy. He said, "It is the experience of us all that 30 per cent of the voting stock of a corporation normally constitutes effective working control; and that a management, once established, is not readily dispossessed by minority stockholders. It is inevitable that this proposed "shotgun wedding" would result in the firm establishment of United States international air transport in Pan American hands."[56]

Mr. James Landis endeavored to suggest to the Committees some of the possible loopholes which would make it possible for a group to control the single carrier. He commented:

> It is estimated that Pan American Airways or its owners, the Pan American Corp., would receive approximately 77 per cent of the "ordinary common stock", American Overseas or its stockholders 17 per cent, and Panagra or its stockholders 6 per cent. During the 6-month's period following the formation of the consolidated carrier, Pan American would hold the largest single block of common stock,

---

[54] Ibid., p. 287.

[55] Ibid., p. 385.

[56] Ibid., p. 525.

> about 35 per cent of the total, and could control the company during its formative period. There is nothing in the bill which would prevent the distribution of this 35 per cent share at the end of the six-month period in such a manner that Pan American's present directors or management would, as a group, retain control of this large block of stock and through it control of the consolidated carrier. . . The proposed legislation contains no provisions to regulate the distribution of future shares of the company, except the 3 per cent limitation in section 1204 and the requirement that 55 per cent of new issues shall be "carrier shares" to be offered in the same manner as the original "carrier shares." The distribution of the other 45 per cent of new stock issues would be without regulation.[57]

Mr. Trippe had something to say in regard to whether domestic carriers would subscribe to the 55 per cent "carriers' share." He said:

> . . . . They will do so for a number of reasons. In the first place, they will consider these shares a sound investment--sounder in the long run than any investment they may have in separate competitive overseas operation. Secondly, certain domestic air lines will think it good business to take up their proportion of these shares. . . No one of them will want to have its competitor in the position of being an important stockholder in the consolidated carrier, and itself be branded as not joining. It is, therefore, our sincere belief that when the time for subscription closes, you would find very nearly a hundred per cent response from among those able to participate.[58]

THE SUBSIDY PLAN

A point upon which there was hearty disagreement was the question of the subsidy plan under the proposed bills. The subsidy arrangement was very similar to that of the Merchant Marine Act. In general, it provided for a construction differential subsidy, an operating differential subsidy, payments for national interest services, and a special and extraordinary grant when and if required to meet subsidies of other foreign nations.[59]

Under the Civil Aeronautics Act of 1938, Section 306 (b) provided in

---

[57] Ibid, pp. 634-635.

[58] Ibid, p. 190.

[59] Hearings on S. 987, Sections 1209, 1210, 1211, 1212, pp. 8-11.

effect that the Civil Aeronautics Board must authorize mail pay to cover losses and a reasonable return on investment, provided only that the Board is satisfied that the carrier has exercised honest, economic, and efficient management.[60]

Mr. Landis presented the idea that under the proposed plan for subsidization all competitive incentives would be removed. To him costs would be made almost meaningless by the provisions of the bills and the profit motive would be destroyed. "By protecting the consolidated company from all cost disadvantages, by protecting it against all risks, the management is relieved of all responsibility, save the responsibility of calling on the Public Treasury for the benefit of its stockholders."[61] He proceeded in detail to analyze all forms of subsidies permitted by the bills.

> First, there is the "construction-cost differential." . . . Our aircraft industry, now the largest, most progressive, and most efficient in the world, with virtually all the world buying its aircraft, does not appear to require any such assistance. . . . the Board will pay the manufacturer, or the carrier. . . the excess of the cost of the flight equipment. . . over the fair and reasonable estimate of cost. . . of the construction. . . in foreign aircraft plants. . . Further, at the request of the carrier, the Board is instructed to advance to the carrier interest charge of 3½ per cent per year. . . In addition, if the carrier proposes to acquire new flight equipment to replace equipment which it deems obsolete or inadequate, the Board is authorized in its discretion to buy such replaced flight equipment at a fair and reasonable valuation. . . Thus, the company and its stockholders are relieved of all risks relating to investment in flight equipment; the Government bears the costs and the losses.
>
> Second, there is the "operating-differential subsidy." . . . to be paid with respect to those routes and services which are subject to competition by foreign-flag air carriers of such a character as to require the payment of an operating-differential subsidy.
>
> Two very significant facts should be noted. Each route is treated on a segregated basis; the carrier is not asked to offset the profits

---

[60] 52 Statutes, p. 998.

[61] Hearings on H. R. 2827, p. 1225.

on one route or service against the losses on another. The carrier is to be given the benefit of various higher specific costs, but the Board is not instructed to offset those higher specific costs against other costs which may be lower.

Third, there is what is called the countervailing subsidy. . . additional aid will be provided if, in the case of any particular route or service, the Board shall find that the governmental aid is in any way inadequate to offset the effect of governmental aid paid to foreign-flag competitors. This seems to be intended as a warning to other governments that it will do them no good to give financial assistance to their carriers, because we intend to raise their every payment.

Fourth, provision is made for reasonable compensation for the carriage of the mail, payment to be at the same rate provided for payment by the United States for similar transportation to foreign air carriers in any international treaty or otherwise at a rate to be fixed by the Board.

Fifth, if the Board requires the carrier to establish any routes or services or if it refuses to permit the abandonment of any route or services, the carrier may advise the Board that the route or service will not provide a reasonable return, computed on an additional costs basis upon the additional investment required for the operation. If it persists in requiring the operation, the Board is required to establish the additional amount to be paid the carrier as fair compensation and to make grants to the carrier for capital investments in ground facilities. . . the carrier is virtually guaranteed its return on the specific operation. . .

. . . The net effect of these financial aid provisions is to relieve management of all responsibility for conducting an efficient operation. The Government provides most of the capital and protects against all competition. The carrier can operate almost without regard to its success in keeping costs low and in attracting patronage.[62]

As was expected, Mr. Trippe did not agree with Mr. Landis in regard to the outcomes of the subsidies. He explained that the bills separated mail pay from other forms of financial aid and relieved the Post Office Department of a burden which he felt was not appealing to them. The bills, as he interpreted them, provided a means whereby the government through the CAB could determine the amount of subsidy needed and specify the definite amount or if deemed unnecessary it could grant no subsidy at all, which he

---

[62] Ibid, pp. 1226-1228.

thought was not possible under the provisions of the Civil Aeronautics Act of 1938. He also commented strongly upon the need of the construction-differential subsidy, pointing again to the British development of the jet power plant and the lower wage cost of foreign countries. The operating-differential subsidy was necessary to offset the differential between American wage levels and foreign wage levels and the subsidies granted to the single instrument of the foreign governments. He justified the national interest subsidy by stating that certain routes were deemed essential to national defense and that the operation of such routes could only be conducted at a loss and he felt that the maintenance of such service ought to be shouldered by all taxpayers and not placed upon one particular group.[63] As to the difficulty in administering such provisions, he said:

> There is, however, nothing mysterious or unusual about them.
>
> The Maritime Commission has been able to apply the very similar provisions of the Merchant Marine Act without any serious difficulty so far as I am aware. The Board's task should be easier rather than harder. For the Board, through the International Civil Air Organization at Montreal, should have much better information as to wage costs of foreign-flag air lines than the Maritime Commission has ever enjoyed with respect to foreign-flag shipping lines.[64]

In regard to the mail rate to be paid under the new bills, Mr. Brophy of TWA illustrated that the rate would raise from a temporary rate being paid then of 75 cents a ton-mile to $2.86 per ton-mile because it provided that the rate must be equal to that which the United States was paying according to any existing treaty agreements. The agreements under the Universal Postal Union of which the United States was a party provided for this rate

---

[63] Hearings on S. 987, pp. 198-200.

[64] Hearings on S. 987, p. 201.

payment for air mail.[65]

Mr. Norton, Assistant Secretary of State, had this to say about the subsidy provisions:

> This bill establishes subsidy for monopoly. The Merchant Marine Act established a subsidy for a highly competitive industry with many operators, a great number of which do not claim the subsidy. That the subsidization of a monopoly is a much more extreme step than the subsidization of competitive enterprise is apparent.
>
> Many of the safeguards of the Merchant Marine Act do not appear in the bill; for example, limits on salaries, control of accounting practices, a ban on operations through subsidiaries, purchase of equipment on competitive-bid basis. Although certain subsidization of the air-transport industry and the aviation industry is at present necessary, the Department does not favor subsidy which constitutes unfair competition between the air carriers of the various nations.[66]

THE POSITION OF LABOR

The position of labor on the issue involved in these hearings was divided. Those favoring the bills were, the International Association of Machinists, the Brotherhood of Railroad Trainmen, and the Brotherhood of Locomotive Engineers. Those opposed were, the Air Line Pilot's Association, the United Automobile-Workers-Aircraft section, CIO; and the Air Line Mechanics Association International.[67]

The Air Line Pilots Association's president, Mr. David Behncke, voiced the opposition of his organization in a letter to Senator Brewster, dated June 12, 1947. In opposing the proposed S. 987 he stated that his association would rather go along with the time-tried American competitive methods of doing business and that they were firmly convinced that the foreign air

---

[65] Ibid, p. 289.

[66] Ibid, pp. 724-725.

[67] Walter H. Wager, op. cit., pp. 22, 37.

policy should continue to be one of properly controlled competition rather than any single instrument or any other form of monopolistic idea. In regard to the argument that the foreign wage levels were below the American standards, he felt that the monopoly would not be able to eliminate such a disparity in that it would be subject to the same differentials. "What a monopolistic company can be depended upon to do is to drive down the wage levels of American workers not because of any desire to help our country's international air-line transport development, but to increase the profits of their enterprise."[68] He also felt that the monopoly would try to overcome the differential by hammering the American wage down to the level of the foreign pilots. Mr. Behncke, offered another consideration in regard to employment opportunity under a single instrument. He said:

> If a monopolistic plan is adopted. . . it should not be forgotten that there will then be just one company for which a pilot or a mechanic or a steward or a stewardess or a ticket agent or any other airline employee can work if he desires to earn his living in over-ocean international air-line transportation. There will be no opportunity for an employee engaged in this vast field, wherein the employment possibilities are tremendous, to improve his lot by changing his employment or by collective bargaining.[69]

Speaking for the UAW-CIO, Mr. Irving Richter said that competition in the aircraft manufacturing field had produced many high quality aircraft over that possible with a single company. He claimed that competition among United companies in the international air transport would mean more business, more planes, and more jobs in American aircraft manufacturing plants. In reference to the election of a representative of employees of the merged system, he said, "A new election under the merged system would

---

[68] Hearings on S. 987, p. 794.

[69] Ibid, p. 794.

not only cause confusion and great expense, but would also place the existing units at a great disadvantage."[70]

H. W. Brown, President of the International Association of Machinists gave a detailed statement of the position of his organization on the issue involved and supported the bills with his offered amendments. He commented:

> We are concerned, directly and indirectly with jobs. . . The rapidly growing strength of the foreign-flag lines, now that they are recuperating from the effects of the war, spells a significant downward trend in the proportion of international air traffic carried under the American flag. If the American flag lines must compete with each other and at the same time try to stand up against these low-wage foreign lines, I believe American labor is going to be badly hurt—not just in the international air-line field, but in the airplane factories and related industries.[71]

Mr. Hartman Barber appeared for the Brotherhood of Railway and Steamship Clerks, Freight Handlers, Express and Station Employees. He was very concerned over the impact of low foreign wages on the American economy. He felt that by consolidation American carriers would increase their load factor from 50 per cent to 60 per cent, which would approximate savings of at least $50,000,000 per year, a sum which he estimated would offset the substantial labor differentials against the American carrier.[72]

Mr. Donald W. Hornbeck appeared for the Brotherhood of Railroad Trainmen and the Brotherhood of Locomotive Engineers and followed much the same argument that had been presented by other labor organizations. He felt that the competition by foreign carriers operating at lower wage costs and great subsidies would force either American wages down or the loss of traffic by the American carriers which would reduce the jobs of American workers.

---

[70] Ibid, pp. 787-789.

[71] Ibid, p. 49.

[72] Hearings on S. 987, p. 689.

He said:

> The only other way to handle this wage differential is to pay increasingly large subsidies, which are likely to reach high levels that the future Congresses will sooner or later simply think the game isn't worth the candle. At that point, American jobs in the international air transport field will be lost and our national security will be put in jeopardy. The right way to do it is to give a unified American-flag line the traffic advantages and other strength to which it is naturally entitled as an American enterprise.[73]

Each labor organization that supported the bill denied that it was supporting the creation of a monopoly, basing their stand on the fact that a single chosen instrument would be in direct competition with foreign carriers and that it should be regarded as a public utility. Mr. Hornbeck even pointed out that there was a great difference between a monopoly at home and monopoly abroad.

THE AIR CARGO POTENTIAL

Another point that was not given much consideration except by one witness in both the House and Senate Hearings was the possibility of more cargo being carried by air. Lt. Condr. L. P. Marvin, jr. of the United States Naval Reserve, had conducted a research study on the potentialities of international air cargo on a commercial basis. He appeared before both Hearings and gave some valuable data on the possibilities of development of the air cargo field. Much of the previous testimony had been in regard to passenger traffic and mail loads. He started with an attack on the basic assumption at the heart of the argument for consolidating United States international air lines into one monopoly which was that there would be a future traffic shortage. This assumption, he said, was incorrect because there was a large potential in international air cargo which had hardly been

---

[73] Ibid. p. 706.

tapped by the "passenger-minded air lines" and which indicated that there was much more business to be had than the air lines seemed to expect. For an example he quoted from one of his studies entitled "Air Import Potential".

> . . . by a careful commodity-by-commodity study, a potential from China to the United States of America of 3,000,000 pounds a year of air cargo was arrived at (bringing in $2,600,000 a year in air-line revenues), whereas PAA estimated to the Government that only 152,000 pounds a year would be available on the same route at the same rates and argued against certifying another carrier.
>
> It is noteworthy that the 3,000,000 pounds of air cargo equals 13,333 air passengers, more than the total future passenger estimates made by the air lines on that same route.[74]

In his conclusions he said:

> The new business open to existing United States air lines from cargo would much more than offset any losses of passengers to foreign air lines, and would thus make consolidating our international air lines unnecessary. If existing air lines don't develop the cargo business, CAB should be able to certify some new air lines which will, but such a move would be impossible if S. 987 passes.[75]

THE CONSTITUTIONAL QUESTION OF THE PROPOSED BILLS

The constitutionality of the proposed legislation was attacked by the opponents and some pointed to the possibility of future nationalization. The bills provided that if the plan approved by the Board was not carried out within the period fixed by the Board that the Board could apply to a court for enforcement.[76] Such an act was attacked as depriving international carriers of property without due process of law. Mr. Brophy for TWA stated that the bills would destroy existing companies, wipe out certificates of convenience and necessity on the faith of which large expenditures have been

---

[74] Hearings on S. 987, p. 542.

[75] Ibid, p. 542.

[76] Hearings on S. 987, Sec. 1203 (f), p. 5.

made, fail to provide for full compensation for the loss and damage wrought, and force the victim to take stock which nobody but the dominating influence in the chosen instrument would want.[77]

Mr. Trippe said in relation to the question of constitutionality:

> I am told that the question of the constitutionality of compulsory consolidation was considered by the Congress at the time of enactment of the Transportation Act of 1920 and that eminent legal authorities were of the opinion that compulsory consolidation of railroads was within the powers of Congress under the commerce clause and did not infringe the provisions of the fifth amendment as to due process.[78]

In answer to Mr. Trippe's statement, Mr. Slater of American Overseas Airlines had this to say:

> For many years my firm and I have been closely associated with railroad problems as consultants and advisors. Certainly the Transportation Act contains no provision for forced consolidation. It provided for study by the Interstate Commerce Commission of zone consolidations. It is my uninformed opinion that the Congress did not then consider forced consolidation constitutional. For what my opinion is worth, I don't believe it is constitutional today.[79]

Senator McCarran, one of the authors of S. 987, said this in regard to the constitutionality:

> The constitutionality of this bill has been challenged, mainly on the ground that it would be unconstitutional to compel our existing international air carriers to sell their assets to the consolidated carrier. My own opinion is that the Gold Clause case, and the line of decisions from which it stems, clearly support the right of the Congress, by law, to compel the sale of assets of existing corporations, where this is done to serve the national interest. Clearly no confiscation is involved. The Congress recently passed the Portal-to-Portal Act of 1947, which actually went much further than this bill proposes to go, because the Portal-to-Portal Act took property rights from thousands and thousands of employees without any compensation whatsoever.[80]

---

[77] Hearings on S. 987, p. 293.

[78] Ibid, p. 183.

[79] Ibid, p. 552.

[80] Ibid, p. 816.

Mr. Tom Braniff made these remarks about the possibility of future government ownership:

> From a private monopoly operating under Government subsidy and direction, it is not a long step to virtual Government control and eventual Government ownership. As the monopoly departs from competitive commercial practices and becomes more and more dependent on the Government, the interests of its private stockholders and of the Government become less sympathetic, and transfer of ownership to the Government becomes a natural, almost inevitable final result.[81]

This by no means represents all of the arguments and considerations that were presented at the Hearings but it is a cross section of the main economic problems that would arise from a change in policy and their defense and opposition. Many of the arguments seemed to sidetrack the main issue involved and turned the hearings into a battle between carriers and personalities. It seems apparent that the opposition has remained much the same in all hearings on this type of legislation, likewise the supporters have reiterated much that was given in earlier hearings. Pro or con the lines are well drawn and do not appear at the present to be weakening on either side.

---

[81] Ibid., p. 416.

CHAPTER V

EVALUATION OF THE ARGUMENTS

SUMMARY

In the previous chapters of this study attempt has been made to analyze the policy of the United States in regard to international air transportation. Starting with the Civil Aeronautics Act of 1938, in which the policy of competition was definitely stated, the policy of regulated competition was developed and the application of such a policy by the Civil Aeronautics Board was noted. Chapter I dealt with the importance of the problem and the statement of purpose and definition of terms. In 1940 where was awarded to American Export Airlines a temporary certificate of convenience and necessity to conduct international air operations across the Atlantic. This marked the first entry of another air carrier besides Pan American into the trans-Atlantic field and contained a definite statement of policy by the CAB. The statement of policy was that regulated competition would prevail in the international field. Pan American vigorously protested the decision of the Board in that case and appealed to the United States Circuit Court of Appeals. The court held that the CAB operated as an assistant to the President in the matter and that the President's power of approval of the certificates for international services rendered judicial review futile.[1]

It was Pan American's contention that the additional service desired could be obtained by extending its schedule and by so doing the costs of the added service would be lower than if a new company were permitted to begin operations. The CAB felt that the entry of another competing carrier was essential enough to the public interest to justify the additional costs.

---

[1] Pan American Airways Co. vs. Civil Aeronautics Board et al., 121 Fed. (2) 810 (1941).

As was pointed out in the aftermath of this decision, Congress failed to authorize the necessary appropriations for mail payments; therefore, American Export Airlines was unable to commence operations at that time. It was not until 1942 that American Export Airlines was able to commence operations with a temporary certificate to operate between New York and Foynes, Eire.[2]

Of the recent decisions by the CAB on applications by domestic carriers for international routes the most important was the North Atlantic Route Case, decided by the Board on June 1, 1945. It marked the beginning of applications for international routes by domestic carriers prior to the close of the war. During the war many of these applicants had operated international schedules under contract to the Army and Navy. In fact, both branches of the service were dependent upon such operations. Valuable experience and operation know-how were acquired and the CAB felt that it was essential that such experience should be allowed a chance to aid the international expansion of air commerce. These domestic airlines, such as TWA, American, United, Eastern, Braniff, Western, and many others, had proved that international operations could be conducted with efficiency and safety.

Pan American contended that it had been the governmental policy to restrict domestic carriers to the domestic field and to restrict the international carriers to the international field.[3] While no such restriction was found in the statutes or executive orders, it probably appeared on the surface to be a fact since Pan American for a number of years had enjoyed a monopoly in foreign air commerce, but had not engaged in domestic air transportation. This assumption probably arose from the fact that the first

---

[2] 3 C. A. B., 294 (1941).

[3] 6 C. A. B., 319, (1945).

intercontinental air transportation was conducted with seaplanes and such operations naturally terminated at costal seaports.

As these cases pointed out, the CAB decided that domestic carriers were capable; and that it was in the public interest that they be allowed to operate in the international field. Also, it was a policy of the Board to decide each case as nearly as possible upon the merits presented. Competition was not granted for the sake of competition alone. In fact, some of the routes were given to just one carrier. Where the economic data in regard to traffic and estimated traffic and mail loads seemed to warrant additional services, such were granted. The Board had divided the North Atlantic routes into patterns which closely resembled a zoning system and on many of the routes competition was not direct except for a segment of over-ocean flight. More exactly, the competition was of an indirect nature, competing for similar foreign regions with travel over different areas before reaching similar destinations. For example, American Overseas (old American Export Airlines) was certified to operate to Northern Germany above the 50th parallel, while Pan American was to operate south of the 50th parallel.[4] The point was that the CAB continued to regard regulated competition as the governing factor in deciding whether there should be more than one international air carrier and at the same time endeavored to permit only as many carriers for each route as the traffic seemed to justify.

In each one of the above considered cases, the CAB was opposed by Pan American with the contention that international operations could be conducted at less expense by one large operator using large, high-speed aircraft.

After analyzing the Civil Aeronautics Act of 1938 and examining the

---

[4] 6 C. A. B., 354-357, (1945).

interpretation that had been followed by the CAB in the administration of the Act, it was apparent that a change in policy could only be brought about in one of two ways. One would be for the CAB to so interpret Section 408 of the Act as to justify a consolidation of international air carriers into one single carrier as being in the public interest. The other is for the act to be amended so that the policy would call for a consolidated or chosen instrument to conduct United States foreign air commerce. Chapter III was a short analysis of the trend along the line of the latter as exemplified by proposed legislation before Congress.

A brief historical resume of the legislation was given which ended with the several bills which were in committee before the 80th Congress in 1947. A careful analysis of these bills was given in order to point out some of the changes and provisions that characterized them. It was clear from the persistent introduction of such legislation for the past few years that its supporters were not to be denied. This gave the other side of the issue, competition or consolidation, firm backing and intelligent reasoning. Extensive hearings have been held by both the House and Senate Committees on Interstate and Foreign Commerce in which the opponents and supporters of the legislation were given a chance to air their views. Many prominent men from the aircraft industry, air transport industry, government, shipping industry, labor organizations, aeronautical engineering field, and research consultants, and public officials, were heard. A majority spoke with authority and definite convictions in regard to the issues involved, while some only offered certain amendments beneficial to their represented interests. It was probably the best array of authority, without the presence of transportation economists, that could be assembled in the United States.

Chapter IV dealt with some of the arguments presented by supporters

and opponents in these Hearings. Concentration was placed on the Hearings in 1947 in order to convey the latest possible information. It was noted that all of the Hearings were lengthy and contained some arguments not deemed applicable to this study. Also, much of the testimony tended to bring in personalities and to result in a battle between opposing airlines. Attempt was made to present clearly both sides on main issues and to cite arguments with counter-arguments.

THE SUPPORTERS AND THE OPPONENTS

Mr. Trippe of Pan American led the fight for these bills, obtaining some support from Mr. Patterson of United Air Lines, Mr. Vidal of Northeast Airlines, United States Lines, International Association of Machinists, Mississippi Shipping Company, Brotherhood of Railroad Trainmen, Brotherhood of Locomotive Engineers, and aviation consultant, Charles A. Rheinstrom. It was known that Senator Brewster of Maine and Senator McCarran of Nevada were very much in support of the "chosen instrument" bills.

The opposition centered around the major domestic and international air lines, the Executive branch of the Government, and certain labor organizations. The State Department, Commerce Department, War Department, Navy Department, the Civil Aeronautics Board, and the Post Office Department were all opposed. Mr. Brophy of TWA, Mr. Slater of ACA, Mr. Smith of American, Mr. Hunter of Northwest, Mr. Braniff of Braniff, Mr. Putnman of Chicago & Southern, and Mr. O'Grady of Pacific Northern, all spoke out in opposition for the airlines. Also opposing were the United States Chamber of Commerce, the Waterman Steamship Corp., the Sea-Air Committee, the Air Line Pilots Association, the UAW-CIO, and the National Airline Navigators Association.

A study of the testimony presented in these hearings showed that the lines were well drawn and that the fight was not over. Information at the time was somewhat limited due to the war and the necessary delay and cost of reconversion to a peace-time economy during 1946 and early 1947. As of this date the bills have not been passed.

In attempting to arrive at a decision in regard to the basic issues involved, it is necessary to analyze the advantages thought possible under each policy and, by comparing similar facts and data, to draw a conclusion. Since the United States has never operated entirely under an announced policy of a single chosen instrument in international air commerce, much of the comparative facts found in this study were derived from foreign operations. Due to the dissimilarity of the American economy and philosophy from that of foreign nations, it is doubtful whether much reliance can be placed upon a conclusion based entirely upon such a comparison. During the Hearings before the Congressional committees, much information was given on foreign systems, especially the British system. The British, by tradition, are international competitors, and because they are in a relatively better economic position than many of the other foreign nations, probably excluding the USSR, they were given considerable treatment. The supporters of a single chosen instrument felt that foreign competitors, such as the British which operated under a government monopoly and with large subsidies, would capture the largest share of the international trade if the United States contimued to allow several American carriers to compete with each other. The argument that the British were at least 2 years ahead of the United States in regard to jet power plant development was overdone, since their adaption of such a power plant to a necessary airframe has not been successful and their production of conventional aircraft has not proved efficient in comparison

to those produced by American manufacturers. What is important in aircraft operation is the relationship between the flight costs and the total revenues. If the cost of larger power-plants can not be offset by increased capacity and possible pay-load factors, then the development of power plants alone will be of little significance. The American industry also is developing the jet power plant, and at present is far ahead of other countries in the construction and operation of conventional aircraft.

USAGE OF THE TERM "MONOPOLY"

An important point in regard to competition by foreigners is whether a single American carrier operating in the international field can rightly be called a monopoly. A monopoly is generally characterized by a situation in which the supply of an economic good or service is controlled by a single seller, or a group of sellers acting as one.[5] In the international air transport field in which the United States might be represented by a chosen instrument, it would be improper to say that such a single carrier had a monopoly in the field. It would still be permissible for an individual to choose a carrier other than one of the United States, as foreign countries are permitted to operate to and from its shores. The term was used consistently during the Hearings and the opponents stressed that the passage of the legislation would be the promotion of a monopoly. The supporters continually pointed out that competition would prevail since foreign air carriers were able to operate between the United States and foreign destinations. However, it must be realized that the adoption of a single chosen instrument would constitute the creation of a monopoly as far as similar United States carriers were concerned. The bills definitely stated that the chosen instrument was

---

[5] Ralph H. Blodgett, Principle of Economics, p. 202.

to be the only air carrier certified to conduct foreign air commerce. The operations were to be conducted under a single management although the composition of the consolidation would be divided among a large number of American transportation interests.

Mr. William Burden, Assistant Secretary of Commerce, expressed many of the aspects of the single chosen carrier in a discussion over the proper use of the term "monopoly". He said,

> It is also said that it would not be a monopoly because it would not have a monopoly of all international flying since it would be competing with foreign air lines.
>
> These arguments overlook the basic fact that the consolidated carrier would have a statutory monopoly of the entire United States activity in international flying. A single organization would be established by law as sole operator of one of our vital industries.
>
> All operating decisions in the new and rapidly developing field of international flying would be taken by a single management without the spur of competition or even comparison of performance with other United States groups in the same field.
>
> There would be a monopoly of the employment market, too. Any American wishing to make a career of international air transport would have to work for this single company. If the management did not like his ideas, there would never be a chance of their being tried out in practice unless he went to work for a foreign line.[6]

TECHNOLOGICAL ADVANCEMENTS AND ACCOMPLISHMENTS UNDER COMPETITION

In a comparison of the two ideas, competition or consolidation, it is important to note some of the accomplishments and technological advancements in air transportation occurred under a competitive policy. Of course, total credit for many of the improvements can not be entirely attributed to a competitive system but a larger portion of the credit might rightly fall there.

---

[6] Hearings on S. 987, p. 354.

Since 1938, the domestic air transport system has been under the general supervision of the CAB. As a whole, the policy of regulated competition as practiced by the CAB in relation to domestic air commerce has proved successful. In fact, during the Hearings no supporter or opponent suggested a change of policy in regard to the domestic field; and several references were made to the success of the policy in that field. As shown earlier, the policy of regulated competition in the international field was slower developing and can be said to have its origin with the American Export Airlines Case. As pointed out American Export did not commence operations until 1942, and then only under contract with the Navy. In reality the policy of several carriers in international operations did not begin until 1947, and in fact a few have not begun yet. Therefore the system of regulated competition in the international field is comparatively new and untried.

Some of the important facts that point out the growth of air services under a regulated competitive policy are:

(1) Certificated route-miles in international service increased from 49,000 in 1940 to 130,000 in 1946, and to 178,974 in 1947.

(2) Revenue plane-miles operated increased from 710,000 in June 1940 to over 5,000,000 in June 1946 and was estimated to reach 9,000,000 by June of 1948 for international air carriers.

(3) Available seat-miles for international air carriers increased from 13,760,000 seat-miles to over 119,400,000 seat miles in 1946 and increased 152 percent from 1946 to 1947. The increase due to larger aircraft.

(4) Revenue-passenger-miles increased from 109,000,000 in 1940 to 662,000,000 in 1946 and a further increase of 106 percent from 1946 to 1947.

(5) Revenue passengers carried for all certified United States carriers totaled 278,000 in 1940 with international carriers reporting 4 percent. In 1946 it had increased to 1,234,000 with international carriers

carrying 7 percent of the total.[7]

In May of 1947, United States international air carriers were flying a total of 45 round trips per week over the Atlantic as compared with 16 round trips per week for the foreign airlines.[8] In addition to the increase in service rendered, many engineering improvements characterized the period since 1938. Such things as the controllable pitch propeller, de-icing equipment, larger types of commercial transports such as the Boeing Stratocruiser, improved materials of high strength-weight ratio, increased horsepower power plants, increased speed, development of instrument flight, radar, radio navigation, night flight, increased pay load capacity, increased possible operating altitude, developing of the fast feathering propellers and the reversible pitch propellers, development of Ground Controlled Approach, and high frequency communications. While many of these developments are directly attributed to Army and Navy research or outgrowths of the war, many are the direct cause of competition. For example, instrument flight was unknown and considered dangerous until the growth of commercial aviation, and the desire for a more reliable schedule caused much research and instrument training. Such things as Ground Controlled Approach, which makes use of radar control to permit almost blind landings, will be great aids in the future to make air transport schedules more reliable and flexible.

Mr. Burden, in his testimony before the Senate Aviation Subcommittee, stated that prior to the certification of United Air Lines to operate between San Francisco and Hawaii that the passenger fare had been $195 and

---

[7] Statistics taken from James M. Landis' statement in Hearings on S. 987, p. 615, and Annual Report of Civil Aeronautics Board 1947, pp. 9, 10.

[8] Hearings on S. 987, p. 436.

when United came in with a fare of $135, Pan American immediately countered with a round-trip fare of $135 plus $135 less 10 per cent. Also in comparing the operations of Pan American in Latin America where it was unopposed by other American operations, with the competitive domestic situation, he said:

> Average passenger fare, which had not been reduced appreciably over a 7 to 8 year period, were twice as high as on our domestic lines—10.5 cents as compared to 5.2 Safety on a miles-flown-per-fatal-accident basis in the 1936-1940 period was less than half as good as for our domestic operations. The direct flying costs for DC-3's in 1940 were 71 cents per revenue plane-mile or over twice as high as those for domestic carriers in the same type of airplane.[9]

FAVORABLE ASPECTS OF COMPETITION

Improved Standards. In air transport, as in other brances of business, competition may be expected to produce improved standards. From American experience in both the domestic field and the young international field, the competition among carriers for routes seems to have resulted in better standards of service. Greater frequency of service is now being offered than in years previous. One great advantage that competition has over a single carrier is that when new improvements are introduced and adopted by one carrier, the passengers will demand its adoption by competing carriers. If only one carrier were operating in the field, such improvements might be delayed. In an industry in which speed is the prime selling point, any improvement that will cause speed in flight or over-all speed to increase will be of immediate concern where there are several competing lines, even though the competition is not directly over the same route.

Benefit to Aircraft Manufacturers. Another important argument in favor

---

[9] Ibid, p. 361.

of several American-flag air services in long-distance international traffic is that it would provide a wider outlet for the American producers of large, long-range aircraft and encourage competition among them. As was pointed out in previous discussion, almost all of the long-range aircraft used in international transportation, both by American and foreign carriers, is American-made. The experience of the British in aircraft development had not been favorable according to a report of the United States Civil Air Attache in 1947.[10] A competitive system would provide opportunity for comparisons as to costs and operation characteristics of different types of aircraft which would be of extreme value not only to the carriers but to the manufacturers. It seems reasonable that there would be no easier way to lose air supremacy than to have a single carrier operating in the international field and buying from only one manufacturer of aircraft.

Opportunity for Comparisons. The type of operations in the domestic field and the international field are too unlike to give reliable comparisons. Comparisons with foreign carriers are also of little value because of the differences in national standards, safety requirements, working conditions, ground facilities, traffic potential, and especially the difficulty in obtaining reliable and detailed information. Mr. Landis pointed out some of the difficulties in obtaining cost data from foreign carriers even though all were supposed to submit such data to the International Civil Aviation Organization. One of the difficulties in analyzing whether the operations of Pan American in the international field, before the entry of other American carriers, were reasonably free from waste and extravagance was the unreliability of comparisons with domestic carriers and the little or no data from

---

[10] Ibid, pp. 581, 583.

competing foreign carriers. Some of the comparisons did not favor Pan American operations.

The existence of several competing companies would provide a check upon the practices of each of them. Competitors would be likely to keep a sharp watch on each other. Information of a public concern would be more available. Competing lines would give the CAB a yardstick in determining justified costs for mail rates. Without several companies to offer some comparative facts, the CAB could not determine the amount of mail payment that would be necessary under honest and efficient management to give a fair return on investment.

Military and Political Points of View. From the military and political points of view, the existence of additional American-flag carriers on international routes would have great benefit in the training of personnel and the development of operation procedure. The experience gained by operations internationally is of strategic importance and it proved valuable during the last war. Operation data and aircraft performance statistics are valuable to an air-minded defense. The proved ability for aircraft to supply armed forces successfully was the result of the operations of the Army Air Transport Command and the Naval Air Transport Service. Both of these branches relied heavily upon commercially-trained and experienced pilots and managers for their nucleus.

Breakdown in Service. One great argument in favor of several American companies operating over the same route or serving approximately the same area is that there is little possibility that all services could be disrupted at the same time. In the case of a single carrier, a pilots' strike or some similar incident would cause a loss of service entirely. Such a possible

disruption of entire foreign air commerce could, in certain circumstances, prove extremely serious to the United States. An example of that possibility was given by Mr. Brophy of TWA, which experienced a pilots' strike in 1946 that greatly curtailed its service.

Management. It was stated in previous chapters that a single company representing the United States in the international field would of necessity be large and that large corporations would not be conducive for efficient management. Since international air transport is dependent upon bilateral agreements between governments and has been regarded as an instrument of national policy, it could, under single operation, become so large and powerful that it would be detrimental to the United States in conducting its foreign relations.

Mr. Trippe expressed the doubt that nay group or individual could gain control of the management of a consolidated carrier since the bills provided that no individual or no group could own over 3 percent of the ordinary stock. It seems quite possible that managerial control could be obtained without large holdings of stock. The history of some of the large American corporations points out the fact that more and more control is placed in the management rather than residing in the stockholders.[11] Often management owns a very small percentage of stock. Mr. Trippe said that he knew of no one that held over 4 percent of stock in Pan American. However, since the provisions of the bill were that any person or carrier that received over 3 percent of ordinary stock would have 6 months to dispose of it. A board of directors was to be approved by the CAB and to be representative of the stock

---

[11] Gardiner C. Means, "The Separation of Ownership and Control in American Industry," The Quarterly Journal of Economics, XLVI (November, 1931), 72.

ownership. Since it would be possible for Pan American at the start to have a large holding received in payment for its international assets, it would therefore have ample representation on the board. The Board's choice of management might place men of Pan American training and support in initial control. A management once in control is rather hard to be dislodged. Such a situation could defeat the original idea that ownership of the single chosen instrument would be divided among air carriers, railroads, and water carriers and possible public holdings.

In the Hearings, much was said by the supporters of a single chosen instrument about the agreements and possible agreements that United States carriers would enter into with foreign carriers. A case cited was an agreement between United Air Lines and Air France for a reciprocal 10 percent commission for traffic routed over lines of both parties. The CAB has authority to approve or disapprove such type of agreements. Mr. Landis expressed the belief that the Board has sufficient power to regulate such agreements between United States carriers and foreign carriers and that it would endeavor to do so in order to ascertain that the methods of competition would be fair and nondiscriminatory. Of course, a verbal agreement could exist and as such would be rather hard to control or difficult to challenge.

Attempted Consolidation of the Railroads. Perhaps a close analogy of the attempt for consolidation of a transportation carrier would be the case of the railroads. The Transportation Act of 1920 provided that the Interstate Commerce Commission adopt a plan for consolidation fo the railroads. However, the Act did not provide that the carriers were required to consolidate, as did the proposed bills for consolidation of the international carriers. The task imposed upon the Commission was a difficult one but the Commission

published a tentative plan in 1921 and a so-called final one in 1929 which was, however, modified in 1930 and 1932. The Commission recommended that it be relieved of the obligation of drawing up such a plan that was done by the Transportation Act of 1940.[13]

DISADVANTAGES OF REGULATED COMPETITION

Lack of Regulatory Power over International Air Commerce by CAB. Although a policy of regulated competition seems to have proved rather successful, there are several disadvantages of such a policy as it is now administered. Chief among these disadvantages is the lack of sufficient regulatory power on the part of the CAB over international air commerce. The Act of 1938 limited the power of the CAB to fix rates for international air commerce. In regard to overseas air transportation, which meant air transportation between the United States and a territory or possession thereof, the Board's power was limited to fixing maximum and minimum rates.[14]

In regard to foreign air transportation performed by American-flag or other carriers, the Board was restricted to the eliminating of rates that were "unjustly discriminatory, or unduly preferential, or unduly prejudicial" and the division of joint rates that had proved to be unjust or unreasonable.[15] The Board has felt for some time that legislation was necessary in order to provide a more workable regulation over international carriers. In this respect, the Board, in its Annual Report to the Congress for 1947, said:

---

[13] Information in regard to the plan for consolidation of the railroads was taken from Truman C. Bigham, Transportation Principles and Problems, pp. 178, 179, 509.

[14] 52 Statutes, Sec. 1002 (d) p. 1018.

[15] 52 Statutes, Sec. 1002 (f), (h), p. 1019.

> Attention is again invited to the discrepancy in the Board's powers with respect to rates for interstate and overseas air transportation on the one hand and foreign air transportation on the other. The Board has in previous report recommended the enactment of remedial legislation which would give it the same power to fix passenger and cargo rates in foreign air transportation as it now has in domestic air transportation, ... The Board again, on February 20, 1947, submitted to the Senate and the House of Representatives a draft of a proposed bill for this purpose which was thereafter introduced in the House as H. R. 2757 and referred to the Committee on Interstate and Foreign commerce. It is recommended that early consideration be given this bill in the next session of Congress.[16]

Flexibility in Administration. One of the drawbacks in the regulated competitive policy is the lack of flexibility in administration. Governmental procedure, circumscribed by the legal safeguards essential in a democracy, tends to be slow and cumbersome. Especially in international air commerce where the carriers must secure a permit to operate from the CAB and also must wait upon a decision of that Board for such things as mail rates, routing of operations, frequency of schedule, and acquisition of interest in other carriers both domestic and foreign, is the delay and necessary legal representation costly. However, the Civil Aeronautics Act provided the CAB with rather broad powers to exempt air carriers from its own regulations and under certain circumstances from many of the provisions of the Act itself if it "finds that the enforcement of this title or such provision, or such rule, regulation, term, condition, or limitation is or would be an undue burden on such air carrier. . . by reason of the limited extent of, or unusual circumstances affecting, the operations of such air carriers. . . and is not in the public interest."[17]

---

[16] Civil Aeronautics Board, Annual Report of the Civil Aeronautics Board, 1947, p. 29.

[17] 52 Statutes, Sec. 416 (b), p. 1005.

Possible Undesirable Effect on Foreign Relations. There is always the possibility that competition in international traffic between American-flag carriers may have undesirable effects on the position and prestige of the United States of foreign countries. There are many matters of day-to-day relations with the local authorities in foreign countries, and the local press, in which undue rivalry between several American air transport companies could become embarrassing. Moreover, foreign governments might play off the American companies against each other, forcing them to accept terms unfavorable to American interests and probably increasing costs of operations which would hope to be covered by increased mail pay. The policy of bilateral agreements favored by the United States over the old company-to-government agreements should eliminate a large percentage of such possibilities. The United States is a member of the International Civil Aviation Organization which endeavors to promote standard rules and agreements among the nations of the world in regard to aviation. It seems reasonable to say that there would be less likelihood that competing American international carriers could not embarrass the United States government in foreign countries than could a single powerful carrier. It has often been remarked that Pan American maintained its own State Department in Latin American, when it was the exclusive American carrier serving that area. In fact, some reference was made to agreements between Pan American and Latin American countries that caused considerable concern by the State, War, and Navy Departments during the last war.

Regulation in itself is not a complete substitute for competition. Regulation tends to be negative rather than positive and restrictive rather than stimulating. As pointed out previously, the full reliance upon regula-

tion for efficient international operations would be greatly handicapped and of doubtful effectiveness because of the lack of comparative data and the limited power of the CAB over international rates and services. Mr. Lissitzyn, in his book International Air Transport and National Policy, said:

> It is to be remembered that the Interstate Commerce Commission exercised control over the railroad industry for over fifty years but its passenger service, equipment and facilities showed little improvement until the rail carriers were faced with competition from the motor carriers. . . These advancements and necessary reforms were due to competition and not regulation.[18]

THE COST ELEMENT

One of the essential bases for the comparison of the two ideas for international air carrier operation is the cost element. Aviation costs have been hard to divide into strictly constant and variable costs.

In regard to the influence of decreasing costs in air transportation, John H. Frederick had this to say:

> The costs of operation in air transportation, per unit of traffic transported, tend to decrease, within certain limits, as the volume of traffic increases. Each successive passenger and unit of mail or cargo traffic, added to the normal volume of traffic, costs relatively less to transport, up to the point where additional equipment has to be used, because fixed charges and many of the costs of operation do not increase directly with the volume of traffic transported. The extent to which the costs remain fixed in air transportation is undetermined.[19]

Generally speaking, aviation costs have been divided into ground costs and flight costs. Ground costs are by no means entirely constant. Flight costs, of course, vary with the number and length of flights. There has been much discussion in regard to whether the aviation industry has a large part of its costs constant. Mr. Landis estimated that in international operations

---

[18] O. J. Lissitzyn, op. cit., p. 277.

[19] John H. Frederick, op. cit., p. 415.

the relationship was about 55-45, that is 55 per cent ground costs and 45 per cent flight costs. According to the opponents of competition, transportation is a business characterized by the presence of a large portion of fixed costs, which do not increase in any substantial manner with an increase in the amount of service performed.[20] This has, however, been met with growing opposition. K. T. Healy, in his book The Economics of Transportation in America, stated an analysis of costs under modern conditions seemed to indicate that fixed costs were not nearly as important as older theories would lead one to believe.[21] He asserted that recent studies had shown that five-sixths of the railroad costs varied with the density of traffic and that during hard times ways were found to reduce the supposedly fixed costs in proportion to density.[22] He also said:

> Throughout all of this discussion it should be kept constantly in mind that costs, whether they be simple or joint, are essentially flexible. Under monopoly conditions in large management-run organizations they tend to be higher because there is not the pressure present under ordinary conditions, to find the cheapest way of doing things. Under competitive conditions, on the other hand, costs will tend to be lower because of the active struggle between contestants which can do more than anything else to make management find ways of increasing the efficiency and effectiveness of their organization and facilities.[23]

O. J. Lissitzyn said:

> The general conclusion that may be drawn is that while overhead costs are not relatively so high in air transport as in railroad transport, they are nevertheless significant. They are sufficiently high to make the operation of a single route by one carrier more economical in the short run than its operation by two competing carriers. It is only in the long run that competition may be of economic benefit

---

[20] O. J. Lissitzyn, op. cit., p. 264.

[21] K. T. Healy, The Economics of Transportation in America, p. 286.

[22] Ibid, pp. 196-198.

[23] Ibid, p. 286.

to the air transport interests by spurring them on to greater progress.[24]

Pan American had continually offered in behalf of consolidation or a single carrier the fact that substantial savings in costs and reduced rates would be possible with the utilization of large, high-speed aircraft and the carriage of an increased volume of traffic. If the aviation industry were characterized by a large percentage of constant costs, then economies could be gained by increased flight and volume of traffic. However, there is considerable difference of opinion on this question. As just shown, there is some doubt as to the portion of transportation costs that remains fixed.

John H. Frederick, in his book Commercial Air Transportation, quoted William Patterson, President of United Air Lines as saying that as air operating costs constitute a substantial proportion of total costs, increased volumes of traffic should not carry much weight among the possibilities for cost reduction. Dr. Frederick said:

> Such cost reductions are much more likely to be effected through more efficient aircraft design and more economical ground handling that in traffic volume increases which in some forms of transport would tend to lower unit costs by spreading overhead expenses over a larger amount of business.[25]

There still remains little knowledge as to the exact limitations on the size of aircraft and the economies that could be derived from increased size. Dr. Frederick said, "It is not known yet what practical limitations must be placed on the size of aircraft, or at what point the economics of cost turn to dis-economies."[26] It is entirely possible that planes could become so large that the weight of fuel necessary for operation would exceed the weight

---

[24] O. J. Lissitzyn, op. cit., pp. 269-270.

[25] John H. Frederick, Commercial Air Transportation, pp. 399-400.

[26] Ibid, p. 400.

of possible pay load.

In aviation, the term "operating ratio" expresses the ratio of "expense per plane-mile flown" to "revenue per plane-mile flown" and has been considered one of the best measures of the efficiency of operations. As larger planes are placed in operation, the expense per plane-mile flown increases and if the pay load factor also increases then operating expenses will probably decrease, but the exact proportion is not known yet. However, a serious problem is presented in regard to larger capacity aircraft. The problem is the necessity for an increase in passengers with an increase in capacity in order to keep the load factor from declining. Another important concept is "passenger load-factor" which is the ratio of the average number of revenue and non-revenue passengers flown to the average number of seat-miles flown. If larger aircraft were used by a single carrier and the passenger load-factor did not more than offset the increased operating costs then the use of such large aircraft would not produce the hoped-for economies. Also larger aircraft with increased operating costs per plane-mile over displaced equipment might effect the frequency of schedule and flexibility of service. If certain schedules were met with a reduced passenger capacity per schedule, the use of larger aircraft would greatly increase the costs and rates would tend to be higher. Also efficient operations could not be conducted under a system of requiring a minimum pay load for each flight. Foreign competitors of a single instrument operating under such a handicap would, without doubt, capture a sizable volume of the international traffic. It seems reasonable to expect that the CAB, with proper regulatory authority, could determine the necessities of utilization of larger aircraft and the traffic potential for international routes and allot enough carriers as justified when the economies of larger aircraft operation are more certain and reliable.

From an examination of the operations and traffic of American-flag international air carriers for the year 1947, it would seem that there are still available economies possible with the equipment now in use. The Annual Report of the Civil Aeronautics Board for 1947 stated:

> Revenue miles flown by our international carriers increased 59 per cent in 1947 over 1946, while available seat-miles increased 152 per cent, the greater increase in the latter figure reflected a swing to larger aircraft.
>
> Revenue passenger-miles increased 106 per cent, but the greater increase in seat-miles caused a drop in the revenue passenger-load factor from 78 per cent in 1946 to 63 per cent in 1947.
>
> Operating revenues of the international carriers, excluding revenues from the carriage of United States and foreign mails, amounted to 138 million dollars in 1947, representing an increase of 82 per cent over the 76 million of such revenues earned in 1946.
>
> . . . . . .
>
> Operating expenses of these carriers increased from 88 million dollars in 1946 to 180 million in 1947. . . This increased loss is attributed entirely to the aforementioned reductions in the revenue passenger-load factor and the yield per revenue passenger-mile, inasmuch as the operating costs per seat-mile, representing the unit cost of the capacity operated, decreased from 9.8 cents in 1946 to 7.9 cents in 1947.[27]

The loss figure of 180 million dollars for 1947 is not entirely accurate, since the final mail revenue figures have not been determined and applications for an increased mail payment were before the Board at the time of the report. This would reduce the loss some if granted, however operating revenues did include mail payment under a temporary rate. Here is an example of reduced operating costs but increased losses because the passenger-load factor did not keep pace with the increased costs of larger aircraft. It might be argued that a single chosen instrument would not have had a reduction in passenger-

---

[27] Civil Aeronautics Board, Annual Report of the Civil Aeronautics Board, 1947, pp. 9-10.

load factor and that a loss would not have been sustained. However, until the traffic potential seems to definitely justify the use of larger and larger aircraft, their utilization should be approached with caution. It does not seem reasonable to argue that a single chosen instrument can alone secure the economies of larger aircraft since such economies are largely dependent upon the passenger-load factor which would be as much a problem to it as to competing lines. Also, since there seems to be much uncertainty over the economies to be derived from larger capacity aircraft and expansion of schedules, the change to a single carrier should be thoroughly examined, because under the proposed legislation, once a single carrier policy is adopted, there is little or no chance of returning to regulated competition without a severe cost to the public and loss of prestige in the field of international air transportation. If once adopted and if the economies of larger plane utilization and expanded operations did not prove to decrease, then the subsidies necessary for continued operation would become enormous.

COMPETITION AS TO QUALITY OF SERVICE RATHER THAN RATES

It must be pointed out that much of the competition over international routes is competition as to quality of service rather than competition of rates. In fact, in a majority of the international routes flown where there is duplication of carriers operating, the rates are fixed by an agreement between the carriers concerned. An excellent example of this type of rate agreements is the one prevailing over the North Atlantic. In 1947 the rate across the North Atlantic from New York to London, England was $325 for all carriers both American and foreign. This rate was set by agreement of the operators through a rate-conference of the members of the International Air Traffic Association. The conference of international operators agreed upon a

rate such as the $325 for the Atlantic route. Mr. Slater of American Overseas Airlines in testimony before the Senate Committee said that generally all operators agreed to set the rate by the costs of the low cost carrier. However, in 1945 Pan American announced a fare reduction to $275 which was immediately challenged by the British. The British said that if Pan American desired to operate at that rate it could only conduct two trips into England. The two trips were guaranteed by a bilateral agreement. What the British contended was that it could not be proved that the rate of $275 was a reasonable rate based upon the costs of the lowest cost carrier. In fact, they said that if it could so be proved that they would agree to it. Other American carriers were told the same thing, that if they adhered to the $275 fare that no landings were to be permitted in England. Mr. Slater also said that upon a consideration of costs the $275 rate was not justified. Mr. James Landis of the CAB said, "that in the history of the International Air Traffic Association today, . . . it has been the American operator who is always pressing to reduce the rate."[28]

THE SUBSIDY PROBLEM

While much was said in the Hearings by the opponents and the supporters regarding the question of subsidies, it is hard to give any definite conclusion as to whether they can eventually be reduced or whether they will become increasingly necessary in the face of foreign competitors with government ownership and backing.

Mr. Slater of American Overseas Airlines, Mr. Hunter of Northwest, Mr. Brophy of TWA, and Mr. Braniff of Braniff all expressed the belief that

---

[28] Hearings on S. 987, p. 596.

international air transportation could look forward in the future to operation without subsidy and with a mail pay based upon the costs for carrying the mail. Mr. Trippe was not so confident, pointing out that American airlines with higher wage costs than foreign airlines could not compete. However, for the immediate future, the aviation industry, both transport and manufacturing, is faced with the high costs of research, initial development of new aircraft, extended operations; and because of the tenseness of the international situation, it will need substantial public assistance. Therefore for the immediate future a subsidy of some kind seems to be necessary. At present a subsidy is obtained through the payment for the carriage of mail by the Government. The large air group authorization for the Air Force will have a tremendous effect upon the aircraft manufacturing industry and will probably reduce somewhat the burden upon the air carriers.

The United States has attempted to follow the deficit-covering principle in its aid to air transportation. The CAB is empowered to consider the welfare of the whole system and the national defense in its decisions in setting the rate for mail pay. For example, the route granted to Pan American running from South American across to South Africa was certified with the clear understanding that a subsidy in the form of mail pay would be necessary but that the public interest and national defense justified such a service. For deficit covering to be efficient and not just a guarantee for a profitable operation, it must be coupled with control over the operations and expansion of the system. Such control is given to the CAB in the necessity for a carrier both domestic and foreign to be granted a certificate of convenience and necessity before conducting operations. Deficit covering means a return on investment but not excess profits or a guarantee of a certain rate of return. Some variation in profits is essential to provide an incentive

for further development and investment.

The effect of government assistance or subsidies upon competing American international air carriers could possibly go two ways. One is that the companies might be reckless in rate-cutting or installing extravagant luxuries and ignoring wastes, in the expectation that the government will eventually cover all their losses with higher mail payments. Such a tendency could be and is eliminated by the investigating powers of the CAB. It could fix mail payments at levels which would cause the companies to lose money, perhaps not enough to drive them out of business, but enough to make them conscious of their reckless practices. The second effect could be just the opposite. Companies, secure in the knowledge that they would be supported by the government and that none could drive the others out of business, might fail to compete effectively as to standards of service and rates. Such would depend upon the companies being satisfied with a moderate profit. Competition could be stimulated by the Board's fixing of mail payments at a level too low to produce satisfactory profits without further effort. However, if competition was thereby stimulated and additional profits were made, the Board should carefully consider the advisability of decreasing mail payments. It would seem improper to immediately reduce mail payments.

Mr. Carleton Putnam, President of Chicago & Southern Air Lines, presented a very interesting analysis of the operation of the United States policy of subsidy through mail payments. He said:

> In the foreign field, as I have said, no estimate has been made of the element of subsidy contained through the years in the mail payments to overseas carriers, nor has an allocation been attempted of the costs of this service to the Post Office over and above the direct payments to such carriers. However, we do have the following facts on the foreign situation: For the years 1928 through 1946 total mail payments to our foreign air carriers were $134,756,743. Total receipts by the Post Office for the same period were $265,316,093, not including 1928 or 1943 for which years the figures are not available

but for which we might conservatively add $20,000,000.

> If for the purpose of arriving at a round figure on the element of subsidy to overseas carriers, we assume that the ratio between total payments and subsidy payments found to exist for the domestic carriers also applies to the overseas carriers, then the subsidy to the overseas carriers would amount to less than $24,000,000. And as to how well the overseas carriers have done in providing accruals back to the Government, I leave it to the committee to judge how much of the excess of $150,000,000 of receipts over payments to such carriers should be allocated to post office costs. Certainly not all of it.[29]

ALTERNATIVE POLICIES

What are some of the alternatives to a policy of regulated competition? The first and opposing policy has already been discussed, that of a single chosen carrier designated to operate in the international field without competition from American air carriers but with competition from foreign carriers.

A second possible alternative is to permit two or more enterprises to operate seemingly without competition, either in entirely different directions, or in the handling of non-competitive types of traffic such as passengers for one and freight for the other. This policy closely resembles what is termed a "regional monopoly" wherein carriers are permitted to operate within certain definite restricted territories. While such a policy would have advantages for comparative data over that of a single carrier, it would not furnish the real significant comparative costs and standard of service statistics of more direct competition. It should be pointed out that while the CAB does not adhere to such a plan, many of its decisions regarding route patterns embodies the advantages of such a policy. It has divided certain European areas among different carriers in order not to enhance the economic position of either by allowing unrestricted competition in regions where the traffic potential

---

[29] Hearings on S. 987, p. 780.

does not justify it.

A possible alternative to direct competition over the same route would be competition on alternative routes serving the same regions. This type of competition is very similar to a proposed regional monopoly set up and differs in that the regions and area concerned are in closer approximity and competition can be more direct. The CAB has also followed somewhat the same idea in many of its route decisions. Europe is served from routes going north and a route going south by the way of the Azores, and Lisbon, Portugal. The same thing is in effect in the Pacific. Two routes serve the Far East, one running through the Central Pacific by way of the Hawaiian Island and the other through the Northern Pacific by way of Alaska, the Aleutian Islands, and Japan. Such competition possesses most of the advantages, and eliminates or reduces many of the disadvantages, of a duplication of services over the same route. As has been stated before, the CAB only permits duplication of flights and services over the same route when, in its judgment, the traffic and the public interest deem it necessary.

CHAPTER VI

CONCLUSIONS

Air power, commercial as well as military, is an instrument of national policy. Air power has become the theme of national defense and security. Air power is essential to maintain world leadership. Air commerce, especially international air commerce, is rapidly expanding and opening up new fields for trade and business.

The United States for many years has been the leader in air transportation. Aircraft manufactured by American industries have been utilized by almost all of the nations of the world. Operating costs have been the lowest and flying characteristics have been the best, when compared with foreign-built aircraft. Many of the foreign operators of international routes are using, almost entirely, airplanes made in the United States. The development of such an industry has been conducted under competitive conditions. The large costs of research and testing of experimental models have been borne both by the Army and Navy and civilian airlines.

Regulated competition has been the policy with respect to domestic aviation since the Civil Aeronautics Act of 1938. Prior to the passage of the Act of 1938, many of the air carriers sought a responsible policy of regulation. They probably realized that the history of railroad transportation had demonstrated that the absence of regulation led to evils from which not only the public but those in the industry itself would suffer. While regulation can and does often have some disadvantages, the history of the CAB in its economic decisions is a very impressive record. While it must never be assumed that any one Act or policy of regulation is perfect and need not be changed, it is also important that regulated competition be given a fair

trial and serious thought precede a change. The policy of regulated competition has been functioning for a relatively short period of time in the domestic field and an even shorter time in the international field. Too hasty a change in that policy does not seem advisable at this time, especially in the light of the opposition voiced by the Government and leading impartial authorities. The critical international situation demands an aggressive and expanding utilization of air power. It is believed that such needs in the way of experience and training of personnel can best be fostered by permitting several carriers to operate in the international field. Competition is an incentive to the improvement of equipment and operating technique, which is important to any business, but especially important to a young enterprise such as international air transport.

The concept of the problem, as voiced by the supporters of the proposed legislation, seems to be that a united front of American international air carriers is required in order for the United States to maintain its position of world leadership. The fear of foreign competition by carriers either government owned or government controlled obtaining the largest share of international traffic was the main reason offered. If competition is a stimulant to better and more efficient service, then increased foreign competition should be welcomed. It is doubtful if any foreign country operating at exceedingly high costs, covered by government subsidies, can afford to continue such operation long. The United States has continually competed in many lines with foreign countries with lower wage levels and standards, and done so successfully. American ability to achieve high productivity and decreasing costs through the utilization of mass production techniques has gained it the competitive advantage of lower unit costs. At present there seems no reason why such competition would not be successful in regard to

international aviation. What guarantee does a single carrier have that it would continue to hold a larger share of the total traffic than the combined totals of competing carriers? It must be remembered that for a profitable foreign trade, both from the economic and political stand points, the United States can not carry the entire international traffic to and from its shores.

There are, however, some needed changes in order to make regulation for international air carriers more effective. As pointed out previously, the chief one is additional regulatory power for the CAB. At present the powers in regard to international carriers are limited.

The question of subsidies is always a hard question to answer. The point here is that there is no reason to believe that subsidies would be less for a single consolidated carrier than for competing carriers. In fact the wording of the proposed bills would lead one to believe that they would be higher.

As emphasized before the CAB does not authorize competition over routes where, in their opinion, the traffic potential does not warrant it. Several of the international routes are operated by one American air carrier. This policy seems to be justified and appropriate.

Cost analysis does not seem to support the definite conclusion that a single carrier would operate at a lower cost than several carriers. It was a point of Mr. Landis of the CAB that the largest carriers operating in domestic air transportation were not the low cost carriers. Also the economies of larger and high-speed aircraft are uncertain and would definitely depend upon maintaining a high pay load for each flight. It is the hope of the aviation industry that larger capacity aircraft of new designs and higher speeds will operate at proportionally lower costs. Costs in aviation are definitely hard to divide into constant and variable and the point where large

operations will prove costly is not known. A single American flag-line which would of necessity be a gigantic enterprise, might exceed the point where economies from expanded operation could be realized. An interesting point in this regard was the studies made by Mr. Slater of American Overseas Airlines and Mr. Smith of American Airlines of the possibilities of savings to be derived from a coordination of services and ground operations in common points, especially in foreign countries. In fact they offered some examples of such coordination that had been begun with the elimination of much unnecessary duplication of services and maintenance.

Another important fact shown in the study was that the opposition to the proposed change centered around the Departments of the Government and many leading authorities in the air transport industry. This opposition did not vary from the beginning of agitation for a policy change and at present remains the same. The support has come mostly from Pan American with some following by labor and members of the House and the Senate. Testimony from leading authorities and men familiar with the problem, as well as from the regulatory authority, the CAB in opposition is a strong argument in favor of the present policy.

Statistics offered by both sides may not be as reliable as could be hoped. Many of the statistics given were based upon either prewar years or the closing years of the war and the early post war years. It is doubtful whether they would present a clear picture of what could be expected under normal operations. An economy under war conditions and periods of reconversion does not offer typical data for careful analysis. Whether data compiled under a so-called normal operating period will change the picture a great deal is not known. In this respect it is probably better to follow an established policy until more reliable data and facts can be compiled.

In all fairness to Pan American and its President Mr. Trippe, it must be pointed out that it had established a world network of operations and had experienced financial success during the period in which it was the sole American carrier in the international field. As a pioneer in aviation and in international aviation, where the obstacles to success are greatest, it deserves much credit.

A point that was overlooked by many of the opponents, as well as the supporters, was the possibility of developing air cargo. The studies of Lt. Comdr. Marvin indicated that herein lay a probable solution to any possible loss of passenger traffic to foreign competitors. It had been estimated that the United States originated around 80 percent of foreign traffic to foreign countries and it is hard to believe that air cargo potential, both to and from this country, would not also be a large percentage. It is also hard to believe that such being the case the foreign competitors will be able to secure five-ninths of the foreign air traffic, as was estimated they would do by Mr. Charles Rheinstrom.

Aviation has another problem that is not faced by other carriers. That problem is the psychological factor in flying. Many people are still afraid to fly and many who do fly are susceptible to air sickness. The traffic potential in the future of air transportation will depend to a great extent upon the selling of the safety of flight to the average citizen. The many accidents of the past year and one-half have made the job even greater. However the advancements being made day by day in the field of instrument flight and safer aircraft operation will soon make a cancelled flight a rarity.

The question has often been asked as to why Mr. Trippe is an ardent supporter of a consolidated carrier. Naturally, any answers without personal confirmation would be pure speculation. However, Mr. Walter H. Mager in his

article entitled, "The Single Chosen Instrument," relates some of the many theories that have been advanced. There are those, who recommend the consolidation, that declare that Mr. Trippe is a very able and patriotic citizen who sincerely believes that therein lies the sole hope of salvation for United States international civil air transport.[30] Those who oppose suspect that he may be looking for a substantial profit in the process, pointing out that the stock distribution at the outset would give Pan American control and disposal could be in such a way as to reserve domination for Mr. Trippe and associates.[31] Also, another suggestion was that Pan American stock was not too strong and that the stockholders might "get out from under" by swapping it for all-American Flag Line securities with a higher rate of return and value.[32] Senator McCarran, himself an ardent supporter of the single carrier, seemed to feel that the purpose of such legislation was to insure continued American international air transportation for the sake of national prestige, national defense, and that it would cost less in the way of subsidies to the national economy.

These recent statistics in relation to the international air transport field were found in the "United Nations World" of May, 1948. They are: In 1947 United States Airlines flew 5 per cent less of world's scheduled air miles than in 1946; the United States' share had dropped from 64 percent to 59 percent; the 1947 operations show an increase of only 9 percent in air miles over 1946, while foreign lines made a 35 percent gain. In regard to

---

[30] Walter H. Wager, op. cit., p. 34.

[31] Ibid, p. 34.

[32] Ibid, p. 34.

losses, it said: in 1947 TWA lost $8 million compared to a 1946 loss of $14 million; American Overseas Airlines made a profit of $785,000 in 1946 and a loss of $1.7 million for 1947; Pan American made a profit of $2.9 million in 1947; Air France made only 90 per cent of expenses; Irish Aer Lingus had a $500,000 in 1947; and British Overseas Air Corporation lost $32 million in 1946 and was in the red for 1947, using a number of uneconomical types of aircraft.[33] Whether these statistics portray any significant thing in regard to the question is doubtful. The American losses were at the temporary mail rate of 75 cents per ton-mile and applications are before the CAB for an adjustment, so such losses may or may not be significant. A reduction in percentage of schedule miles flown can easily be accounted for by the large increase of scheduled miles now flown by foreign carriers and the fact that many foreign carriers were just beginning operation in 1947.

Whether this study portrays a trend in the American economic system or the necessity of a changed policy in order to meet foreign competition is not definitely answered. The future holds many of the keys necessary for a definite answer. The conclusion for the study is that regulated competition is, for the present, the best policy to promote the national defense, to encourage the sound development of international air transportation, to promote an adequate, economical, and efficient service; and is in accord with the declaration of policy of the Civil Aeronautics Act of 1938.

It is significant to note that the Government and many prominent leaders in labor, industry, and air commerce are in opposition to a change in policy. The scores are not in. The statistics represent such a few years of inter-

---

33 United Nations World, "Aviation Business Curve Tends to Level Off", II, (May, 1948), 54.

national operation that an interpretation based solely upon them as pointing to a necessary consolidation does not seem justified. The national interest to which international air operations are so important must not be overlooked. One thing is sure, the issue is not dead, the battle is not over, and perhaps future information will throw an entirely different light on the question. Conditions and factors are continually changing and to say that regulated competition is the final answer would be to ignore the dynamics of economics.

A SELECTED BIBLIOGRAPHY

BOOKS

Bigham, Truman C. Transportation Principles and Problems. New York: McGraw-Hill Book Company, Inc., 1947.

Blodgett, Ralph H. Principles of Economics. (Revised Edition) New York: Rinehart and Company, Inc., 1946.

Frederick, John H. Commercial Air Transportation. Chicago: Richard D. Irwin, Inc., 1942.

_____ _____. Commercial Air Transportation. (Revised Edition) Chicago: Richard D. Irwin, Inc., 1947.

Healy, K. T. The Economics of Transportation in America. New York: The Ronald Press Company, Inc., 1940.

Johnson, Emory R., G. G. Huebner, and G. L. Wilson. Transportation, Economic Principles and Practices. New York: D. Appleton-Century Company, Inc., 1940.

Lissitzyn, Oliver J. International Air Transport and National Policy. New York: Council on Foreign Relations, 1942.

Railroad Committee for the Study of Transportation. Transportation in America. Washington, D. C.: Association of American Railroads, 1947.

Starr, Edward A. The Tools of the Traffic Man. Dallas: The Transportation Press, 1948.

DOCUMENTS

Civil Aeronautics Authority. Decisions of the Civil Aeronautics Authority, I Washington, D. C.: Government Printing Office, 1941.

Civil Aeronautics Board. Decisions of the Civil Aeronautics Board, II, Washington, D. C.: Government Printing Office, 1943.

_____. Economic Decisions of the Civil Aeronautics Board, III, Washington, D. C.: Government Printing Office, 1945.

_____. Economic Decisions of the Civil Aeronautics Board, VI, Washington, D. C.: Government Printing Office, 1945.

_____. Economic Decisions of the Civil Aeronautics Board, VII, Washington, D. C.: Government Printing Office, 1946-1947.

Civil Aeronautics Board. Annual Report of the Civil Aeronautics Board 1946. Washington, D. C.: Government Printing Office, 1946.

_____. Annual Report of the Civil Aeronautics Board 1947. Washington, D. C.: Government Printing Office, 1947.

Congress. (69th) "The Air Commerce Act." United States Statutes at Large, XLIV, Washington, D. C.: Government Printing Office, 1925-1927.

_____. (70th) "The Foreign Air Mail Act." United States Statutes at Large, XLV, Washington, D. C.: Government Printing Office, 1927-1929.

_____. (75th) House. Foreign Air Mail. Hearings before a Subcommittee of the House Committee on the Post Office and Post Roads on H. R. 7370, Washington, D. C.: Government Printing Office, 1937.

_____. (75th) "The Civil Aeronautics Act." United States Statutes at Large, LII, Washington, D. C.: Government Printing Office, 1938.

_____. (77th) House. House Report No. 60 to Accompany H. R. 3205. Washington, D. C.: Government Printing Office, 1941.

_____. (78th) Senate. Report of the Civil Aeronautics Board to Chairman Bailey. Hearings by the Senate Committee on Interstate and Foreign Commerce on S. 1790. Washington, D. C.: Government Printing Office, 1944.

_____. (79th) Senate. Hearings on S. 326. Hearings before the Senate Committee on Interstate and Foreign Commerce. Washington, D. C.: Government Printing Office, 1945.

_____. (79th) Senate. Hearings on S. 326. Letter of Charles Fahy in Hearings before Subcommittee on Aviation, Committee on Commerce. Washington, D. C.: Government Printing Office, 1945.

_____. (79th) House. International Air Transportation Policy. House Document No. 142. Washington, D. C.: Government Printing Office, 1945.

_____. (80th) Digest of Public General Bills, II, Washington, D. C.: Government Printing Office, 1947.

_____. (80th) Senate. Consolidation of International Air Carriers. Hearings before a Subcommittee of the Committee on Interstate and Foreign Commerce on S. 987. Washington, D. C.: Government Printing Office, 1947.

_____. (80th) Senate. National Aviation Policy. Report of the Congressional Aviation Policy Board, Congress of the United States. Washington, D. C.: Government Printing Office, 1948.

_____. (80th) House. Overseas Air Transportation by a Consolidated Air Carrier. Hearings before the Committee on Interstate and Foreign Commerce. Washington, D. C.: Government Printing Office, 1947.

Interstate Commerce Commission. Reports, Motor Carrier Cases, I. Washington, D. C.: Government Printing Office, 1936.

Ministry of Civil Aviation. British Air Services. Presented by the Minister of Civil Aviation to Parliament by Command of His Majesty, London, England: His Majesty's Stationery Office, 1945.

United States Circuit Court of Appeals. Pan American Airways Company v. Civil Aeronautics Board et al. 121 Fed. (2) 1941, 810.

PERIODICALS

Business Week. "Postwar Airlines", (February 27, 1943) 19-20.

_____. "Airways Opening", (March 27, 1943) 32-34.

_____. "Air Dissension", (July 24, 1943) 26.

_____. "Air Policy Please", (October 9, 1943) 18-20.

_____. "American Export Airlines", (February 19, 1944) 46.

_____. "Airline Issue", (April 1, 1944) 19-20.

_____. "Air Routes Split", (January 27, 1945) 18.

_____. "No Monopoly in Ocean Airlines", (July 14, 1945) 15-17.

Graham, Frederick. "International Airlines Now Criss-cross the Globe". New York Times Magazine, (March 14, 1948) 11.

Healy, K. T. "Workable Competition in Air Transportation." American Economic Review, XXXV (May, 1945) 229-242.

Means, Gardiner C. "Separation of Ownership and Control in American Industry." The Quarterly Journal of Economics. XLVI (November, 1931) 72.

United Nations World. "Aviation Business Curve Tends to Level Off." II, (May, 1948), 54.

Wager, Walter H. "The Single Chosen Instrument." Aereports, I (August, 1947) 1-39.

Warner, Edward P. "Atlantic Airways." Foreign Affairs. XVI (April, 1938) 481.

Wright, Quincy. "International Regulation of the Air." American Economic Review, XXXV (May, 1945) 243-252.

APPENDIX

Exhibit 25

INTERNATIONAL AIR ROUTES OF UNITED STATES FLAG CARRIERS

AS OF JANUARY 20, 1947

(U. S. S. R.)*

(U. S. S. R.)*

CANADA

MEXICO

AUSTRALIA

NEW ZEALAND

ARGENTINA

CHILE

PERU

ECUADOR

COLOMBIA

VENEZUELA

BRITISH GUIANA

FRENCH GUIANA

SURINAM

BRAZIL

BOLIVIA

PARAGUAY

URUGUAY

CHINA

MANCHURIA

JAPAN (M)

KOREA (M)

INDO-CHINA

INDIA

BURMA

SIAM

PHILIPPINES

JAVA

FIJI IS.

NEW CALEDONIA

DENMARK

NETH

BELGIUM

U.K.

IRELAND

GERMANY (POL.)*

CZECHOSLOVAKIA

AUSTRIA (HUNG.)* (M)

(RUM.)* (M)

SWITZ

SPAIN

FRANCE

PORTUGAL

TUNISIA

ITALY (M)

GREECE

TURKEY

SYRIA

IRAN (P)

IRAQ

PALESTINE

EGYPT

LIBYA

ALGERIA

SAUDI ARABIA

FRENCH WEST AFRICA

LIBERIA

GOLD COAST

BELGIAN CONGO

ANGOLA

(SOUTH-WEST AFRICA)*

UNION OF SOUTH AFRICA

BAHAMAS

CUBA

DOM. REP.

JAMAICA

HAITI

NETH. W. INDIES

TRINIDAD

BR. ST. JOHNS

FR. ST. LUCIA*

BR.

EL SALVADOR

HONDURAS

NICARAGUA

COSTA RICA

PANAMA

GUATEMALA

OPERATING RIGHTS

- ● BILATERAL AGREEMENT
- ◉ INTERNATIONAL AIR TRANSPORT AGREEMENT (5TH FREEDOM)
- ○ CARRIER FRANCHISE
- (M) OCCUPIED COUNTRY. PERMISSION FROM MILITARY AUTHORITIES
- (P) PROVISIONAL UNILATERAL AGREEMENT PERMITTING SERVICE BY U.S. AIRLINE
- ()* NO RIGHTS

LEGEND

- ROUTE OPERATING
- ROUTE NOT OPERATING
- * SERVED BY TEMPORARY EXEMPTION
- * POINT NOT PRESENTLY SERVED

AVAILABLE TO PAN AMERICAN AND TRANSCONTINENTAL & WESTERN AIR

- AAL - AMERICAN AIRLINES, INC.
- AOA - AMERICAN OVERSEAS AIRLINES, INC.
- BNF - BRANIFF AIRWAYS, INC.
- CBS - CHICAGO AND SOUTHERN AIR LINES, INC.
- COL - COLONIAL AIRLINES, INC.
- EAL - EASTERN AIR LINES, INC.
- NAL - NATIONAL AIRLINES, INC.
- NEA - NORTHEAST AIRLINES, INC.
- NWA - NORTHWEST AIRLINES, INC.
- PAA - PAN AMERICAN AIRWAYS, INC.
- PANAGRA - PAN AMERICAN-GRACE AIRWAYS, INC.
- TWA - TRANSCONTINENTAL & WESTERN AIR, INC.
- UAL - UNITED AIR LINES, INC.
- WAL - WESTERN AIR LINES, INC.

NOTES: THE CERTIFICATES FOR THE NORTH ATLANTIC ROUTES OF UNITED STATES FLAG CARRIERS PROVIDE GENERALLY FOR SERVICE TO SPECIFIED AREAS RATHER THAN TO SPECIFIC POINTS.

ROUTES SHOWN ON THIS MAP DO NOT NECESSARILY CONFORM TO AIR TRACKS OF ACTUAL OPERATION.

ONLY THE LAST STOP IN THE UNITED STATES IS SHOWN ON THOSE ROUTES WHICH CROSS THE BORDERS BETWEEN THE UNITED STATES AND CANADA.

ROUTES BETWEEN THE UNITED STATES AND ITS TERRITORIES AND POSSESSIONS ARE INCLUDED.

CIVIL AERONAUTICS BOARD
ECONOMIC BUREAU
ANALYSES DIVISION

MAY 13, 1947: U.S. RIGHTS ADDED BY FOREIGN AIR TRANSPORT DIVISION

Typist: Mary Wallace Spohn