EXPLANATION OF AMENDMENT TO SECTION 405 OF THE FEDERAL AVIATION ACT OF 1958.

The effect of this bill is to make the domestic trunk airline system ineligible for subsidy, either for domestic service or for service to points outside the continental limits of the United States, which are essentially integral parts of the system. It would also remove eligibility of a carrier for any route it may hereafter be awarded which precisely parallels, non-stop, a route over 100 miles in length which is operated by another carrier ineligible for subsidy on that route, except during the first two years following the assignment of a local or feeder service carrier to such a route. The eligibilities of local service carriers and other carriers would not be changed.

It was never intended by the Congress or the air carriers that subsidies to trunk line carriers should be permanent. The subsidy was granted for the purpose of assisting the carriers during the period of their infancy. During the period 1939-1957, total subsidies to air carriers was $779,357,000, of which, approximately $190,000,000 went to trunk line carriers. Now the time has come to emphasize the fact that the trunk line carriers have come of age. On July 1, 1957, the last trunk line carrier came off subsidy. This bill will put the American public on notice that the domestic trunk carriers are now competing on their own, without benefit of the unearned subsidies from taxpayers' dollars.

The reasons for the passage of this legislation, however, are not economic alone. The passage of this bill would lead to
decisions more in harmony with the public interest, and to route assignment cases which are decided more on the basis of facts and less on the basis of pressure.

Although the Civil Aeronautics Act provides that certificates for new routes are to be granted by the Board on the basis of public convenience and necessity, there is doubt that the law is always administered in this way. The doubt, moreover, is often greater in the more important cases, for the rewards which are at stake in those cases are so much greater. In some respects the rewards are even greater than those represented by TV channels, and the recent hearings of the House Sub-Committee on Legislative Oversight have shown the intense behind-the-scenes pressures which have been applied to the Federal Communications Commission in attempts to influence decisions.

The potentially greater value of an airline route, compared to a TV channel, lies in the subsidy available with the former. Under the Civil Aeronautics Act, once a carrier is certificated for carriage of mail, the Board fixes its rate of pay for carrying the mail at a high enough level to give the carrier what it "needs" to enable it to serve the needs of commerce, the postal service, and the national defense. The Board has generally held this to mean enough money to make up any losses, and, in addition, to pay the carrier a profit (usually calculated as a return on investment of about 8%).

Thus, once a carrier gets a route, it is pretty well assured of a profit on it—or at least of breaking even. This is after all operating expenses, including, of course, salaries of top officers.
It is thus clear that it is to the interest of the airline managements merely to be in the business, which is almost riskless so far as their own personal security is concerned. Once in the business, it is to the airline managements' interest to build up the size of their route structure; because by so doing they acquire a greater number of local pressure groups throughout the country who will, often uncritically, support the company's aspirations. The more there are of such local interests, the more difficult it becomes for the Civil Aeronautics Board to develop a route structure which is sound and is best designed to serve the national interest. It is also in the interest of the airline managements to have a large, rather than a small, company; first, because subsidy claims in bad times will be larger. Secondly, insofar as they include a claim for operating profit, that profit will presumably be a larger dollar figure than in the case of a small company, since the percentage will be computed on a larger dollar base.

If subsidy is available to a carrier (certificated for the carriage of mail) over any route obtained by Civil Aeronautics Board assignment, there is no business risk faced by a carrier in its route applications. Although there is no absolute guarantee that the Board would grant subsidy, it is almost certain that it would—particularly if the alternative were bankruptcy or wholesale suspension of service to many small points.

Under the proposed legislation, the carriers would merely have to shoulder the normal business responsibility of taking calculated risks in their route applications. They would be forced to make a hard factual analysis of whether they could operate the route profitably. Obviously, if they were sure they could not, there would be no application for the route, and no pressures on the Board to grant it.