



July 3, 1958

The White House

Washington

THE CABINET

Agenda

EXECUTIVE SESSION:

8:45 AM, Monday, July 7, 1958

REGULAR SESSION:

8:50 AM, Monday, July 7, 1958

- |   |            |  |
|---|------------|--|
| 1. OPERATION ALERT, 1958 --<br>Summary of the Situation<br>for the Federal Action Phase             | (Oral)     | The Director,<br>Office of Defense<br>and Civilian<br>Mobilization   |
| 2. Proposed Special Message<br>and Legislation Regarding<br>the Issuance and Denial<br>of Passports | CI - 58-57 | The Secretary<br>of State  |
| 3. The Status and Economic<br>Significance of the Airline<br>Equipment Investment<br>Program        | CP - 58-83 | The Special<br>Assistant to the<br>President for<br>Aviation Matters |



Robert Gray  
Secretary to the Cabinet

THE WHITE HOUSE  
WASHINGTON

July 3, 1958

## MEMORANDUM FOR THE PRESIDENT

SUBJECT: Cabinet Agenda for Monday, July 7

The following are the items listed for the Cabinet meeting on Monday:

EXECUTIVE SESSION:

Last Saturday when Governor Hoegh and Gordon Gray discussed with you the "surprise" aspects of OPERATION ALERT, you concurred with their proposals but expressed the wish that each Cabinet Member be secretly alerted that the "surprise" was coming. This five-minute Executive Session will enable you and/or Governor Hoegh to notify the Secretaries. The paper which describes the "surprise" (i. e., the request for personal participation of the Under Secretaries) is attached under Tab 1.

REGULAR SESSION:

1. OPERATION ALERT, 1958 --  
Summary of the Situation for  
the Federal Action Phase



(Governor Hoegh)

This being the last Cabinet meeting prior to the Federal Action Phase of OPERATION ALERT, Governor Hoegh is prepared to give you and the Cabinet a review of the hypothetical situation as it will face the government agencies at the beginning of the Alert on July 14.

2. Proposed Special Message and  
Legislation Regarding the Issuance  
and Denial of Passports

(Secretary Dulles)

Secretary Dulles has transmitted to you a proposed Message to the Congress and a draft bill. With Mr. Morgan's help the message is

being revised and in fact you may have signed it by the time the Cabinet meets on Monday.


Since this matter is of such general interest, however, and has already been the subject of considerable public attention, Secretary Dulles is prepared to review his proposals for the edification of the Cabinet and in order to insure full understanding and support.

3. The Status and Economic Significance  
of the Airline Equipment Investment  
Program

(Mr. Quesada)

The U.S. airlines are facing a serious financing problem in connection with their coming change-over to jet transports. Mr. Quesada has had a study prepared by Dr. Paul W. Cherington of the Harvard University Graduate School of Business Administration. This study will be presented on Monday with the aid of an excellent series of charts.

A separate briefing memorandum by Mr. Quesada is attached under Tab 3.

  
Robert Gray  
Secretary to the Cabinet



THE WHITE HOUSE  
WASHINGTON

July 3, 1958

MEMORANDUM FOR GOVERNOR ADAMS

FROM: Robert Gray *RB*

SUBJECT: Cabinet Agenda for Monday

"The Status and Economic Significance of the Airline Equipment Investment Program" has now shaped up for Cabinet presentation Monday.

Mr. Quesada will brief the President in advance by means of a special memorandum which will be given to the President ahead of time along with his other Cabinet material.

The excellent visual-oral presentation will be given to the Cabinet by Dr. Cherington of Harvard.

The report itself will be distributed under our PRIVILEGED cover-page on a one-copy-to-each-Department basis with the word that this is not an approved or even a recommended Administration document.

The agenda for Monday is attached.

*RB*

EXECUTIVE OFFICE OF THE PRESIDENT  
PRESIDENT'S ADVISORY COMMITTEE ON GOVERNMENT ORGANIZATION

WASHINGTON 25, D. C.

July 7, 1958

## MEMORANDUM FOR THE PRESIDENT

SUBJECT: General Quesada's Letter of July 3, 1958  
Transmitting Report on Economic Difficulties  
in Aviation Industry.

Background

On April 29, 1958, we discussed with you our reorganization proposal for establishment of a Department of Transportation. You were receptive to this approach and indicated that such a reorganization proposal should be developed in time for transmittal to Congress in January 1959.

We also discussed possible interim actions to deal with urgent situations including:

1. A study to develop the facts concerning the threatened financial crisis in jet conversion of commercial aviation.

This study was the basis for the report which General Quesada transmitted to you on July 3, 1958.

2. Creating a staff of over-all transportation experts capable of providing a balanced and impartial evaluation of the inter-related transportation needs of the Nation.

You suggested that your Emergency Fund might be used initially to establish this expert staff, which it was contemplated would be attached temporarily to the Secretary of Commerce, pending later transfer to the Secretary of Transportation. This project has not yet been implemented.

Another interim action to meet an urgent need which developed subsequent to the April 29, 1958 meeting, was:

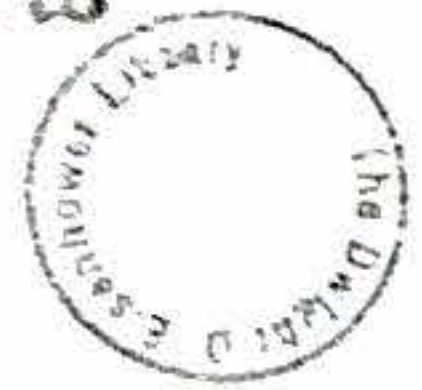


3. Transmittal on June 13, 1958 of your message proposing establishment of a single Federal Aviation Agency (which you approved to meet an immediate situation without prejudice to its later incorporation within an over-all Department of Transportation).

#### Recommendations

This Committee has reviewed General Quesada's letter to you dated July 3, 1958, and the attached report prepared by Professor Paul Cherington, and have the following recommendations:

1. We feel that it would be in the public interest for you to provide copies of the Cherington Report:
  - a. To the Congress for its information.
  - b. To the Civil Aeronautics Board and other departments and agencies directly concerned, for appropriate action.
  - c. To the press.
2. We would urge that your statement transmitting the Cherington Report indicate that studies are now in process looking toward the development by early 1959 of recommendations for the better organization and administration of the Federal Government's responsibilities covering all fields of transportation.
3. We recommend that steps be taken promptly to establish the group of over-all transportation experts, as discussed with you on April 29 and as recommended in General Quesada's letter of July 3, 1958. However, under present circumstances we believe this group should be located in the Executive Office of the President, rather than attached to the Secretary of Commerce, pending ultimate transfer to the Secretary of Transportation.





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It might be advisable to announce your plan to establish this expert group to study and evaluate the Nation's transportation needs and problems as another Executive action to identify and deal with problems such as those identified by the Cherington Report.

4. We recommend that a thorough study of the regulatory process with specific reference to the roles of the several regulatory agencies in transportation, should be undertaken. Because of the quasi-legislative aspect of the regulatory agencies, there might be advantage in establishing for this purpose a Presidential Commission with Congressional membership, similar to the Kestnbaum Commission on Inter-Governmental Relations. This should be fully worked out before any announcement is made.
5. We agree with General Quesada that it would be helpful and appropriate for you to direct the Secretary of Defense to survey the problem concerning the Military Air Transport Service, identified in the Cherington Report.

If you approve these recommendations this Committee is ready to assist the Director of the Bureau of the Budget and General Quesada in developing appropriate implementing actions.

  
Nelson A. Rockefeller  
Chairman



THE WHITE HOUSE  
WASHINGTON

July 3, 1958

The President  
The White House  
Washington, D. C.

Dear Mr. President:

I have the honor to transmit a report concerning the Status and Economic Significance of the Airline Equipment Investment Program. This report was prepared at my request by Dr. Paul W. Cherington, Professor of Business Administration, Graduate School of Business Administration, Harvard University, who is a nationally recognized authority in the field of transportation. The report is designed to set forth an objective analysis of the impact of the airline investment program on the overall national economy. This program represents a major transition of our domestic trunklines and international carriers from piston to jet aircraft. Relative to the national economy, this program is significant. It calls for a net investment of \$2.8 billion by 1962 in aircraft and facilities. The report concludes that:

1. The equipment program is not unreasonably large or unnecessarily accelerated, provided the carriers vigorously develop new travel markets.
2. Several of the carriers may have difficulty in making the necessary financing arrangements to buy needed equipment. Of \$1.4 billion which the carriers must raise from private sources, arrangements for \$750 million are still to be made.
3. Failure of the carriers to succeed in financing any major portion of the equipment program will pose serious problems:
  - (1) for the airlines and the preservation of a sound competitive domestic and international air route system;





The President

July 3, 1958

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- (2) for the aircraft and engine manufacturers and their 5,000 vendors who have invested heavily in the jet transport program;
- (3) for the national economy
  - (a) through loss of some portion of the 120,000 jobs estimated to be directly involved in the program at its peak. In addition, there is a potential loss of indirect employment estimated to be at least a multiple of the direct.
  - (b) through the loss of economic stimulus which this large private investment program would provide;
- (4) for the Government
  - (a) through a possible return of some airlines to subsidy;
  - (b) through pressure on Government (military) to purchase jet transports not delivered to airlines and thereby recover development costs.



The report does not recommend any program of financial assistance to the carriers. It does point out certain steps which might be taken by various Government agencies, within the framework of existing authority, to facilitate the success of the equipment program.

The report also points out that if the carriers are to have an opportunity to finance their equipment program at reasonable cost, the industry must be able to show private lenders and investors a favorable level of earnings. From 1950-1956, airline earnings were relatively good. In 1957, earnings were depressed and in 1958 to date have been still lower. These greatly reduced earnings (losses for many of the carriers) unfortunately occur at the most crucial stage of the financing for the equipment program. The only apparent way in which a reasonable earnings level can be achieved in time to attract adequate financing appears to be through:

The President

July 3, 1958

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1. Elimination or reduction of certain fare discounts now in effect. ✓
2. Increased promotion of air travel during off-peak periods through reduced fares.
3. Increased fares for certain classes of air service.
4. Continued aggressive action on the part of management to improve their operating efficiency.



The report suggests that, while the initiative for developing specific fare changes should be left to the carriers, the Civil Aeronautics Board must examine the carriers' proposals promptly, with full realization of the broad implications of the present equipment program. In this connection the report points out that, since 1949, the carriers have had two small fare increases, the most recent one being in February 1958. Despite these increases, the real cost of domestic air travel (adjusted for changes in the value of the dollar) has declined by 9 percent during this period. A pending CAB proceeding relating to domestic passenger fare levels is not due for decision until March 1959. By that time, the success or failure of major segments of the equipment program may well have been determined.

As indicated, the report confines itself to the present status and economic consequences with respect to the airline equipment program. It makes no recommendations for fundamental changes in the way in which we regulate and foster the economics of air transportation. However, the basic seriousness of the situation described by the report highlights implications of longer range importance, indicating the need for further studies of the economic and regulatory aspects of air transportation.

There is, however, a similar need for studies in the case of other transportation media and the regulatory agencies concerned. The basic problems of the aviation industry are intertwined with similar problems with respect to other forms of transportation.

I understand that your Advisory Committee on Government Organization and the Director of the Bureau of the Budget have discussed with you the need to bring together a group of general transportation experts capable of evaluating the Nation's transportation needs and problems. I would urge that this be done as soon as possible and

The President

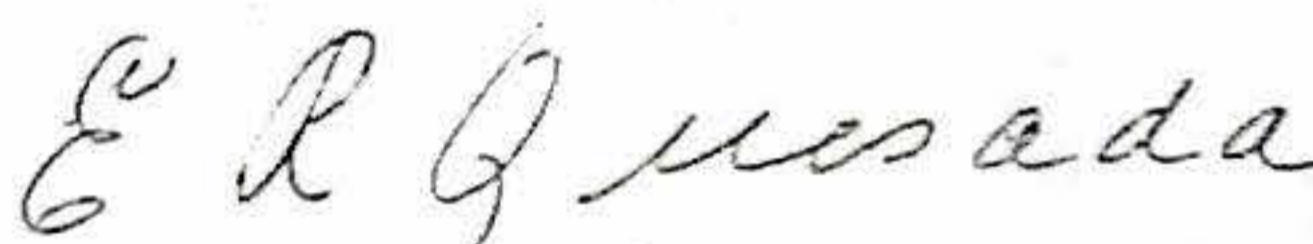
July 3, 1958

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that the further studies needed with respect to aviation be undertaken as part of this broader, overall evaluation.

I recommend, therefore, that this report be transmitted to the Congress for its information and also be directed to the attention of those agencies of Government having action responsibility within the framework of existing authority. I also recommend that this report be made public.

Respectfully yours,



E. R. Quesada

Enclosure



**CABINET PAPER—PRIVILEGED**

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CP - 58-83

July 2, 1958

The White House

Washington

## THE CABINET

The Status and Economic Significance of the  
Airline Equipment and Investment Program

For consideration by the Cabinet, attached is a copy of a Report which has been prepared at the direction of the Special Assistant to the President for Aviation Matters, in cooperation with other interested agencies.

A summary of the problems dealt with in this document and of the conclusions of the Report appears on pages i-iv preceding the full text. The visual oral presentation which will be made at the Cabinet meeting of July 7 also constitutes a summary of the Report's findings and conclusions.

At the coming Cabinet meeting, Mr. Quesada will present for initial Cabinet consideration the various courses of action which the President and the Administration might now take with respect to the Report's findings, as well as the question of the publication of the document itself.

Pending the President's decision, the Report is PRIVILEGED, and is being given LIMITED distribution. Care should be taken by each recipient to protect its privileged status.

Robert Gray  
Secretary to the Cabinet

THE STATUS AND ECONOMIC SIGNIFICANCE OF  
THE AIRLINE EQUIPMENT INVESTMENT PROGRAM

June 30, 1958



A Report by Dr. Paul W. Cherington, Professor of Business Administration, Graduate School of Business Administration, Harvard University, prepared for the President's Special Assistant for Aviation.

June 30, 1958

Dear Mr. President:

I have the honor to transmit a report on the Status and Economic Significance of the Airline Equipment Investment Program.

This report has been made possible through the cooperation of many individuals in the Departments of Commerce and Defense, the Civil Aeronautics Board, the Bureau of the Budget, the President's Committee on Government Organization, and the airline and aircraft manufacturing industries. Their cooperation should not, however, be interpreted as meaning that they necessarily endorse the conclusions of the report.

Respectfully,

E. R. QUESADA



The President

The White House

THE STATUS AND ECONOMIC SIGNIFICANCE OF  
THE AIRLINE EQUIPMENT INVESTMENT PROGRAM

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SUMMARYI. The Problem:

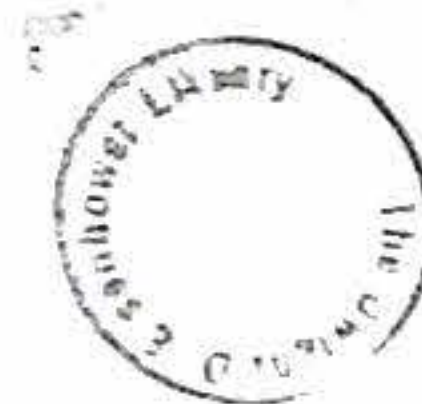
- A. The airlines have embarked on a capital expenditure program which will entail an outlay of \$2.8 billion for equipment and facilities over the next five years, and directly involve from 100,000 to 125,000 jobs annually.
- B. The ability of the airlines to carry through this program is of great concern to:
1. The airlines themselves and the preservation of a sound competitive air route system;
  2. The aircraft, engine, and related manufacturers who have invested heavily in the transport program and who will suffer serious financial losses if the airlines' present and contemplated purchases are not consummated;
  3. The economy as a whole which stands to lose both private investment and employment; and,
  4. The Government which has a direct stake in the maintenance of healthy economic conditions in the airline industry, in the aircraft industry which produces vital weapons, and in the economy generally.
- C. As a result of recent declines in the rate of traffic growth and a substantial deterioration in earnings, investor confidence in air carriers has been reduced to the point where many airlines are encountering considerable difficulties in securing





the necessary financing. It is doubtful that a number of domestic carriers, presently accounting for about 28 percent of the industry traffic volume, will be able to complete necessary financing under anything approaching normal credit conditions. Some cutbacks in orders and contemplated purchases of new aircraft have already occurred.

- D. There is also some doubt that the carriers, even if they do arrange the necessary financing, will be able to utilize economically the equipment which they have ordered, without extensive new marketing efforts.



II. Conclusions:

- A. There are several corrective measures which are within the power of the carriers and various Government agencies to accomplish. These are:
1. Passenger fare adjustments which are immediately necessary to provide improvement in earnings levels and restore the confidence of investors in the airlines' earning capacity;
  2. Direct action by the carriers to study and apply the measures necessary to broaden the traffic base and regain the growth rates experienced during the last decade;
  3. Closer coordination between the carriers, airport and municipal officials, and the Civil Aeronautics Administration in the planning and installation of ground facilities and equipment which are tailored to the requirements of economic and operationally feasible jet services;
  4. Studies by the Civil Aeronautics Board or by the Under Secretary of Commerce for Transportation, to be transmitted formally to the Board, as to the effect of recently certified competition on airline service and costs and as to the appropriateness of the present route pattern for jet operation.
  5. Studies by the Air Coordinating Committee or the Operations Coordinating Board on ways in which the sale of older U.S. commercial aircraft abroad might be facilitated in appropriate cases.
  6. In the event that the question of excise tax policy is reopened, further consideration by the Secretary of the Treasury of the favorable effect on the carriers of repeal or reduction in transportation excise taxes.



THE STATUS AND ECONOMIC SIGNIFICANCE OF  
THE AIRLINE EQUIPMENT INVESTMENT PROGRAM

I. The Problem:

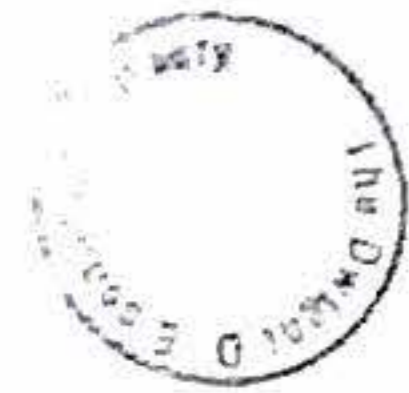
- A. The airlines are engaged in a major investment program for new jet aircraft and related facilities. Total planned airline capital expenditures in conjunction with this program are estimated at \$2.8 billion over the next five years.
- B. The airline investment program is of direct concern to the airlines, and to several aircraft and engine manufacturers and their suppliers, numbering some 5,000 concerns. In addition, it is important to the economy as a major private investment program. It is estimated that the program directly involves an average of 100,000 to 125,000 net additional jobs annually in the economy and indirectly still more.
- C. Recently, doubts have been raised as to whether the carriers will be able to carry through this program successfully. It has been charged that the program is unrealistically large. Conversely, the carriers charge that the Civil Aeronautics Board, through failure to act on requests for higher fares and through the creation of excessive competition, is undermining the economic soundness of the industry and investor confidence which is needed to finance the industry's capital program.
- D. The airline industry has long been the object of Government assistance and regulation, in conjunction with stated national policy to develop a sound air transport system for defense, postal and commercial needs. The aircraft industry has also been heavily dependent on Government business and constitutes for the Government a major source of weapons. Thus, the success or



failure of the present investment program is inevitably of concern to the Government. These factors, together with the benefits which the successful completion of the program, or at least major segments thereof, would give to the economy at the present time, pose two questions:

1. What is the present airline situation and what are the prospects that their proposed investment program can be successfully put into effect?
2. Is there any action which might appropriately be taken by the Government to facilitate the successful completion of the investment program?

NOTE: This report largely focuses on the domestic trunkline and U.S.-Flag international and overseas operations. The 14 carriers which conduct these operations are listed below. <sup>1</sup> / These carriers account for about 95 percent of the commercial revenues of the U.S. airline industry. Other segments of the industry, such as local service lines, cargo carriers, supplemental carriers, etc., tend to have somewhat more specialized problems.



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<sup>1</sup> / American, Braniff, Capital, Continental, Delta, Eastern, National Northeast, Trans-World, Northwest, United, Western, Pan American and Panagra.

II. Background and Economic Setting:

## A. The Growth of Airline Traffic in the Past Decade

1. Over the past 10 years the major U. S. air carriers have carried increasing amounts of mail and cargo traffic, but passenger business has been and continues to be the predominant source of operating revenues. Passenger revenues in 1957 amounted to \$1.3 billion domestically, and \$378 million abroad, accounting for 90 percent of all revenues of the domestic trunkline and over 75 percent of the revenues of international and overseas carriers.
2. Passenger traffic on domestic trunkline has increased fourfold from 6 billion passenger miles in 1948 to 25 billion in 1957. Over the same period, passenger traffic on international and overseas routes increased threefold from 1.9 billion to 5.8 billion passenger miles.
3. In terms of passenger miles, the domestic airlines are now the largest common carriers of intercity passenger traffic. In 1957, nearly 35 percent of common carrier intercity passenger travel was by air.



The growth in traffic and revenues since 1948 partly reflects an expanding volume of coach service which now accounts for 39 percent of the domestic passenger traffic and 65 percent of the international and overseas air travel on U. S. carriers.

5. Despite the impressive revenue and traffic growth the airline "market" remains

limited in terms of the number of individuals who travel. Estimates of the number of different domestic passengers who travel in any one year range from three million to six million persons. It is generally agreed that penetration is limited and that "repeat" travelers account for the bulk of air travel.

5. Airline passenger travel continued to grow in 1957 at the rate of 13.2 percent for domestic trunklines and 12.5 percent for foreign and overseas air carriers. But the rate of traffic growth has declined gradually since late 1955. It fell off more rapidly in the fourth quarter of 1957, and in February, March and April, 1958, traffic was at or below the 1957 levels.

#### B. Fares and Yields.

1. Only two general increases in domestic passenger fares have occurred since 1949. In 1952, \$1 was added to the price of each ticket and in February 1958, fares were increased by 4 percent plus \$1 a ticket, for an overall increase of 6.6 percent. The fare increases over this period added 9 percent to the price of an average ticket. However, in terms of constant dollars, adjusted for interim price level changes, the real cost of the average ticket actually declined by 9 percent. In contrast to the relatively moderate 9 percent increase in the price of air transportation, other transportation costs have risen much more substantially. For example, the cost of automobile ownership and operation rose over 19 percent in actual dollars between 1949 and the end of 1957.

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2. Because of the availability of family plan discounts and the growth of coach service (at an average cost to the passenger, less tax, of 4.3 cents per mile), the domestic airlines have been realizing a progressively lower yield from each passenger mile transported. Average revenues received by the trunklines declined from 5.75 cents per passenger mile in 1948 to 5.25 cents in 1957.
  
3. Internationally, there have been several general increases in the levels of first-class passenger fares, the most recent being an increase averaging 8 percent in the North Atlantic area which became effective April 1, 1958. Transatlantic fares, as exemplified by the first-class New York-London fare, have risen 24 percent. First-class Transpacific fares have been held constant in some cases, and have risen in others. But, while the increases were being put into effect, the international and overseas carriers have introduced and expanded a variety of coach, tourist economy services. For example, there are now available across the North Atlantic the following services and fares, as illustrated by those available between New York and London:

<u>Type</u>	<u>One Way</u>	<u>Round Trip</u>
Deluxe (Sleeper).....	\$ 560	\$ 1,023
Deluxe (Sleeperette).....	485	873
First Class .....	435	783
Tourist.....	315	567
Economy .....	252	454

4. Passenger yields have declined more sharply for international and overseas carriers than for domestic carriers, due to the more rapid and extensive growth of coach, tourist and



other discount services. From an average of 8.0 cents a passenger mile in 1948, yields declined 17.5 percent to 6.6 cents a passenger mile in 1957.

### C. Costs and Profits.

1. While the prices of things that the airlines buy and the wages of their employees have steadily increased over the past years, new aircraft which they have brought into operation have been more efficient. The use of more efficient equipment, coupled with commendable cost controls and the growth of the cheaper coach services, enabled the domestic trunklines to reduce the cost of providing a ton mile of lift from 30.3 cents in 1948 to 26.0 cents in 1955. However, costs have since inched upward to 26.5 cents an available ton mile in 1956, and further to 26.8 cents in 1957.
2. There is a notable difference in the cost experience of the four largest trunklines (Big 4) as compared with the experience of other trunklines. Available ton mile costs of the Big 4 carriers have increased consistently from 1955, but the costs of the other trunkline carriers declined in 1957 after increasing from 1955 to 1956.
3. Available ton mile costs of international and overseas air carriers have been steadily decreasing since 1951, when such costs averaged 44.4 cents, to an average of 35.6 cents an available ton mile in 1957.
4. The link between capacity costs and costs per unit of revenue (cost per available ton mile vs. cost per revenue ton mile) is the load factor -- the extent to which capacity (available ton miles of lift or available seat



miles) is utilized. Since mid-1956, there has been a steady decline in domestic load factors which has continued through the first quarter of 1958. Whereas load factors averaged nearly 65 percent for the fiscal year 1956, in 1957 there were only 61.5 percent. Declining load factors, superimposed on increasing capacity costs, have materially increased the costs involved in handling traffic. Thus, in 1957, the cost per revenue ton mile was 50.8 cents as compared with 48.1 cents in 1956, and 46.8 cents in 1955.

5. From 1950 through 1955, airlines reported net profits were relatively favorable. As a percentage of return on investment, they averaged in excess of 11 percent. As a percentage of gross revenues, they averaged better than 5.5 percent. In 1956, net profits declined only moderately, due to a substantial increase in capital gains from sale of equipment which practically offset a decline in operating income. In 1957, however, net profit declined by over 50 percent to \$26 million, despite the offset of even larger capital gains. Net profits in 1957 amounted to 4.8 percent return on investment and a 1.9 percent margin on sales. During the first quarter of 1958, the decline in net profits continued at a rate which, if it persists, will eliminate all profits by year-end 1958.
6. In contrast to the unfavorable trends of costs and profits which mark the recent experience of the domestic trunklines, the situation for the international and overseas carriers has been generally less disturbing. Costs per available ton mile have declined annually from 1951 through 1957. Load factors have been improving, the ton mile load factor of 66 percent for 1957 being the highest annual load



factor in a decade. The combination of declining capacity costs and improving load factors has resulted in a relatively pronounced reduction in costs per revenue ton mile from 71 cents in 1951 to 57 cents in 1957. Through 1956, cost reductions have more than offset the decline in revenue yields, resulting in relatively stable profit margins averaging about 7.5 percent on invested capital and 4 percent on gross revenues. In 1957 some decline in profitability is evident. Net operating income dropped from \$33 million in 1956 to \$27 million in 1957, and net profit declined moderately from approximately \$21 million to \$19 million.

7. All segments of the industry have repeatedly complained that profits and profit margins have been inadequate. The Civil Aeronautics Board for a number of years has held that an 8 percent return on investment was a reasonable profit for domestic carriers and 10 percent for international carriers due to the special financial risks involved in operating abroad. More recently, the staff of the Board has proposed that a return of 8.9 percent for the four largest trunklines (Big 4) and 9.5 percent for the other trunklines be used for determining the reasonableness of profits. The carriers have taken the position that the staff proposal is insufficient and some have attacked the rate of return as a measure of profit reasonableness on the grounds that appropriate consideration is not given in this measure to the risks of repeated exposures of a narrow investment base to depletion from operating losses. It is contended that this risk is quite substantial in the airline industry which is subject to erratic fluctuations in earnings.



8. Notwithstanding what constitutes an appropriate yardstick and how it should be implemented, all parties seem to agree that the earnings of the domestic trunkline carriers in 1957 and the first quarter of 1958 were inadequate. The reported profits of international and overseas air carriers have been consistently below the standard which has been applied by the Board.
9. It should be emphasized that for the most part the foregoing figures are those reported by the carriers and do not reflect adjustments or disallowances in costs which the Board or its staff feel appropriate for rate-making purposes. In some cases such adjustment and disallowances are substantial. They are, of course, contested by the carriers.
10. In the spring of 1956, the Board initiated a General Passenger Fare Investigation to determine a reasonable level of domestic airline fares. This investigation is still in progress, after suspensions during the summer of 1957 and the spring of 1958. It is now estimated that it will be completed the first half of 1959.

#### D. Competition.

1. Since 1955 the Board, in a series of route cases, has substantially increased the amount of competition between airlines by awarding new competitive routes.
2. In making these awards, the Board has indicated an expressed policy of attempting to strengthen the medium sized carriers vis-a-vis the Big 4, although extensive route grants have been made to the Big 4 as well.



3. In the new route grants made over the past two and a half years, a major change has been effected in the scope of competition among domestic air carriers. Before 1955, nearly 60 percent, or 228 of the 400 most important air travel markets (city pairs) which account for the great bulk of operating revenues, were non-competitive. Today, competitive service has been authorized in 348 (87 percent) of these markets. Prior to 1955, only 38 of the top 400 markets had authorized service from three or more competing carriers. Today, there are 115 markets, or three times as many, with three or more authorized carriers. Moreover, 12 of these, in contrast to one before 1955, have five or more competitive services. The net result of the additional competition which has been authorized is an increase in the average number of carriers per market from about 1.5 before the recent round of route grants to 2.2 today. And, this average is likely to be increased further when decisions are reached in major route cases now pending before the Board.
4. Competition has been expanded most extensively in the 50 heaviest traveled markets which alone account for about 40 percent of total revenues. In these markets the average number of carriers per market has been increased from 2.0 to 3.0. But it has also been extended almost proportionately throughout the lighter travel segments. Before 1955, segments ranking from 51 to 400 in traffic volume averaged about 1.5 carriers per segment. Now, such segments average more than 2.0 carriers per segment, an overall increase of about 40 percent in competitive services which extends to even the lightest



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traffic segments.

5. The extension of competition through new grants to medium-sized trunkline carriers appears to have arrested and reversed a trend to increasing percentage participation of the Big 4 carriers in the domestic passenger markets. However, in several instances, the heavy cost of breaking into these markets has meant that newly certified carriers have experienced substantial losses in their initial operations over the new routes. The increased competition which is, in part, designed to provide the medium-sized carriers with access to greater traffic densities in order to permit them to utilize larger, more efficient aircraft, by the same token imposes on these carriers the need to re-equip themselves with the most modern aircraft in order to compete effectively with their larger competitors.
6. International operations of U.S. carriers have also become more competitive due, in part, to some expansion of the area of competition among U.S. carriers, such as the recent extension of TWA's routes to Manila, thereby enabling TWA and Northwest to provide a second U.S. round-the-world service. Mainly, however, additional competition has been the result of the increasing activities of foreign air carriers operating between the U.S. and points abroad pursuant to bilateral agreements. The number of foreign air carriers operating to and from the U.S. has increased from 22 to 39 since 1949. During this period, U.S. carrier participation in the international market declined from 75 percent to about 62 percent, although the absolute volume of traffic handled by our international carriers increased. Certain of the recently certificated foreign routes



provide at least indirect competition to our domestic trunklines.

#### E. Equipment.

1. In response to traffic growth and competition, the carriers have steadily expanded the capacity of their aircraft fleets over the last ten years. The addition of capacity was fairly gradual during the early 1950's when most carriers were restricted in their operations by equipment shortages. Heavy deliveries of equipment, particularly four-engine equipment since 1954 have added extensively to airline fleet capacity. Orders outstanding for late-model piston aircraft contemplate the delivery of 58 additional units in 1958, after which production of piston transports will presumably come to a halt.
2. Purchases of new aircraft over the past ten years have increased the size of the combined domestic and international air fleets from 954 units at the end of 1947, of which 44 percent were 4-engine aircraft, to 1,803 units at February 1958, of which 62 percent were 4-engine aircraft.
3. In 1955, several manufacturers announced that they were about to embark on the development and construction of turbo-prop and turbo-jet aircraft. All the trunklines and international air carriers have now placed, or plan to place, orders for turbine equipment, reflecting the impossibility of operating competitively inferior aircraft.
4. At the present time (June 1958) announced turbine aircraft on order by year of expected delivery for the twelve trunklines, plus Pan American and Panagra, are as follows:





Type	1958	1959	1960	1961	TOTAL
Boeing 707, etc . . . . .	5	66	35	--	106
DC-8 . . . . .	--	13	72	14	99
CV-880 . . . . .	--	--	43	6	49
Electra . . . . .	14	76	26	--	116
Viscount . . . . .	15	--	--	--	15
Britannia* . . . . .	5	--	--	--	5
<b>TOTAL</b>	<b>39</b>	<b>115</b>	<b>176</b>	<b>20</b>	<b>390</b>

\*Cancellation of these aircraft was announced mid-June, 1958

5. These trunklines and U.S.-Flag international orders are a substantial portion of the total commercial order backlog of five U.S. aircraft manufacturers as indicated by the following:



Company	Total Orders	Trunkline & U.S-Flag International Orders	
		No.	% of Total
Boeing . . . . .	164	106	65
Convair . . . . .	57	49	86
Douglas . . . . .	140	99	71
Fairchild . . . . .	49	--	0
Lockheed . . . . .	<u>143</u>	<u>116</u>	<u>81</u>
<b>TOTAL . . . . .</b>	<b>553</b>	<b>370</b>	<b>67</b>

6. In addition to aircraft on firm order, several carriers have options to purchase additional aircraft and some carriers which have not yet placed firm orders expect to do so. Still other carriers which have already placed orders for some of their equipment needs have indicated that more orders will be placed when a decision is reached on which aircraft to buy. It is estimated that additional orders from these sources might add in excess of 150 aircraft to the number on firm order
7. The straight jets will range in cost from \$4 million to over \$6 million each. The turbo-props will cost between \$2-3 million.
8. The total estimated costs of new aircraft on firm order and contemplated to be ordered by the trunklines, including some piston aircraft to be delivered in 1958, is \$1.9 billion. Nearly 80 percent of these costs are associated with aircraft to be delivered in the next three years.
9. In addition, Pan American and Panagra plan to spend \$293 million on new aircraft before 1961, bringing the total estimated expenditure for domestic and international carriers to \$2.2 billion over the next 5 years and \$1.8 billion over the next three years.

#### F. Capacity and Traffic Forecasts.

1. A feature of the new equipment is its greatly increased capacity and productivity when compared with piston equipment. In most cases, the new aircraft will have substantially increased seating capacity and, of course, they will fly faster. Thus, the transportation which they will generate per hour, day or year, is increased. For example: the DC-8 will produce about three times as many seat miles per day as the DC-7.

2. It is estimated that the new jet equipment either now on order or to be ordered and delivered by 1962 will have (assuming 8 hours utilization) a productivity of close to 61 billion seat miles a year. In addition, there will be delivered, in 1958, piston aircraft with a capacity of nearly 4 billion seat miles a year, for a grand total of 65 billion seat miles for trunkline and international operations.
3. In 1957, the trunklines generated 40 billion seat miles, and the international operators 9 billion, for a total of 49 billion.
4. The capacity of the on-order aircraft is then considerably in excess of that now available. Taking into account capacity added late in 1957, which is not fully reflected in the 1957 seat mile figures and, ignoring for the moment equipment retirement and attrition, these carriers have in sight capacity for approximately 119 billion seat miles by 1962.
5. Of course, extensive retirements can be expected. Some carriers plan to retire all or virtually all of their present piston equipment. Others, however, plan to retain a portion of their piston fleet. On the basis of present plans, it appears that something in the range of one-third to one-half of present piston capacity will be retained through 1962. This would indicate a 1962 total industry capacity of 83-92 billion seat miles.
6. At the 1956 load factor levels of 64 percent, passenger traffic would have to aggregate 53 to 60 billion passenger miles (in contrast to 30 billion in 1957) to utilize 1962 fleet capacity. This would require a rate of growth of from 11 percent to 13 percent per year from 1957 traffic levels.

7. Traffic forecasts, of course, vary widely. The most recent CAA forecast for 1962 is 40 billion passenger miles for domestic traffic and 9 billion passenger miles for international traffic, for a total of 49 billion passenger miles and a growth rate of approximately 10 percent per year. This growth rate is below the 1952-1957 experience but above the most recent experience of zero growth. The concensus of several other forecasts of traffic for 1962, increased to reflect international traffic of 9 billion passenger miles, also indicates a level of traffic at 49 billion passenger miles.
8. With the largest part of the deliveries of aircraft scheduled to occur in the next three years at a rate faster than the traffic buildup, there appears to be little doubt that a temporary surplus of capacity will develop. However, by 1962, surplus capacity could be absorbed if the expected lower operating costs of the new equipments permit profitable operations at lower utilization rates or lower load factors, or a combination of the two. It also is possible that the retirements of piston aircraft can be accelerated and increased, reducing the available capacity.
9. It is clear, in any event, that substantial traffic growth is necessary if the equipment to be acquired is to be justified and profitably operated.

#### G. Financing.

1. In addition to their investment in new equipment which they have ordered, the airlines must have additional amounts of money available for ground equipment and facilities, for increased working capital, for debt retirement and the like. It is estimated that the total amount of funds which the trunkline and international carriers will be required to have

available between now and 1962 is \$4.0 billion. This is over and above the amount of \$200 million invested by others for the use of the carriers in such things as hangers, terminal facilities, and the like.

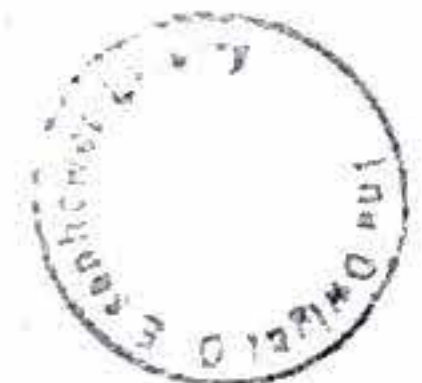
2. Of the total funds which the carriers need, \$1.4 billion is estimated to become available from depreciation, leaving a balance of \$2.6 billion to be met out of:
  - a. Sales of existing equipment;
  - b. Profits, less dividends;
  - c. Miscellaneous sources, such as deferred taxes; and,
  - d. New funds to be borrowed or raised through the sale of equity.
3. Proceeds from the sale of equipment have been estimated at \$300 million, or somewhat in excess of book value at time of sale. This estimate reflects a 20 percent per year decline in aircraft prices as excess aircraft are marketed. At book value (residual value in most cases), the realization would be \$162 million.
4. If the carriers make profits at a rate of return of 9 percent on invested capital, 5-year earnings, after payments of cash dividends at the 1956 annual rates, will amount to \$500 million.
5. Under above estimates of depreciation, proceeds from equipment sales, and earnings, the new capital requirements for the industry amount to \$1.4 billion for the 1958-62 period.
6. Of this amount, arrangements have been made as of April 1958 for approximately one-half. The remaining \$760 million, by year in which required, is as follows:

Year	Financing Required but not Arranged (Millions)
1958 .....	87.4
1959 .....	180.6
1960 .....	312.8
1961 .....	41.5
1962 .....	8.0
Undetermined# .....	133.3

\*Data for Pan American and Panagra did not permit an annual distribution.

7. Under the assumptions made, the amounts required by each carrier, listed in descending order of magnitude, are shown below. Several of the carriers indicate that, if anything, the assumptions are too favorable and that, in fact, their requirements will be larger than the amounts shown.

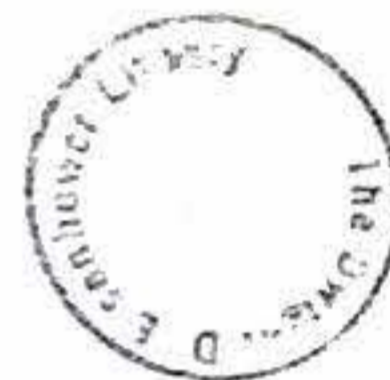
Carrier	Financing Required but not Arranged (Millions)
TWA .....	\$ 313.3
Pan American .....	115.3
Northwest .....	63.5
Capital .....	53.5
National .....	47.5
American .....	31.9
Delta .....	28.8
Northeast .....	26.3
Eastern .....	22.6
Panagra .....	18.0
Continental .....	17.8*
Western .....	17.2
United .....	8.0
Braniff .....	--
Total .....	\$ <u>763.7</u>



\*In mid-June 1958, this carrier sold 5 3/4 percent convertible subordinated debentures which yielded it approximately \$12 million of the required amount here indicated.

8. The carriers have typically followed a pattern of long-term financing, mainly through loans from insurance companies, supplemented by shorter-term loans from banks to cover requirements not met by the long-term financing. Some equity financing was undertaken in 1956 and early 1957, when conditions in the equity market and carrier earnings were more favorable. None has been undertaken thereafter.
9. In contrast to the Big 4, the medium-sized trunklines have had limited success in arranging long-term loans. Moreover, a recent and as yet unpublished study of the Harvard Business School indicates that, beyond two loans presently under negotiation (covering only a part of the financing needs of the carriers involved), it is doubtful whether under recent earnings conditions any further long-term funds will be available to medium-sized carriers, except in limited amounts, at relatively high interest rates of 6 percent, and under highly restrictive covenants.
10. To the extent that bank loans can be arranged, the insistence of the banks on loans of relative short terms (no longer than 10 years and generally less), will impose onerous repayment requirements on the carriers, if they turn to this type of financing. Additionally, the financing requirements are so large in relation to present capitalization that the debt ratios (already high for most of the carriers) will exceed the limits considered prudent or acceptable by financial institutions. Thus it seems clear that equity financing will be required in most cases as a condition precedent to the granting of bank loans.
11. The equity market is not favorable for the issuance of common stock for most of the medium-sized carriers. The marketing of additional stock

by any carrier whose stock is selling below book would involve a substantial loss in equity on the part of the present stockholders. Until earnings are sufficiently improved to restore the confidence of the equity market in airline securities, it is questionable whether the present stockholders will authorize further issuances of stock.





III. The Airline Equipment Program, the Aircraft Industry, and the Economy:

- A. In addition to the airlines, major segments of the aircraft industry have an important stake in the success of the jet equipment program.
1. Commercial transport orders from all sources, including foreign carriers, held by five airframe manufacturers, total over \$2 billion. Engines and accessories for these aircraft, having a value of over \$500 million, are also involved.
  2. Despite the substantial orders which they have received, none of the manufacturers has as yet sold enough aircraft to cover its break-even point -- the number of aircraft required to pay for development, engineering and tooling expenses.
  3. The airframe, engine and accessory manufacturers, have already made extensive investments in designing, engineering, tooling and production facilities. This sum may be roughly estimated at \$650 million to date. This figure may be expected to increase materially before deliveries commence.
  4. Current employment directly associated with the transport programs of the airframe, engine and accessory manufacturers and of their subcontractors is estimated at 80-90 thousand people. This number should rise to approximately 120 thousand when peak production is reached.
  5. It is virtually impossible to estimate the total impact on the economy of the equipment program. Obviously, the investment and employment figures given above, which can be directly identified with the program, should be increased appreciably in order to arrive at an appraisal of the total impact.



IV. Analysis of the Present and Prospective Situation:

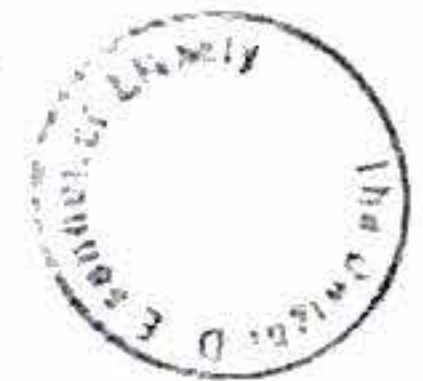
A. The foregoing background and economic material indicates that the present economic situation of the airlines is unsatisfactory and is deteriorating. Prospectively, the situation is at least potentially serious for:

1. The airline industry, as a whole, through loss of public and investor confidence.
2. Particular carriers, through inability to carry through on competitive equipment programs.
3. The airframe and engine industries and their suppliers, through order cutbacks, stretchouts, and failure of new orders to materialize.
4. The economy, through loss of private investment and employment.
5. The Government, because of the traditional dependence of both the airline and aircraft industries on Government orders and assistance.

B. In large measure, the present situation is a result of events taking place simultaneously. The recession has cut deeply into traffic growth. Simultaneously, many carriers are inaugurating new services over new competitive routes. Both of these events have depressed load factors and earnings at a time when many of the carriers are attempting to make arrangements for financing their equipment programs, and when virtually all the other carriers must maintain earnings if they are not to be in at least technical default under existing loan agreements. It seems probable that, at current earning levels, several of the carriers which have not yet financed will be unable to carry through their equipment programs. Indeed, although not yet announced, some order cutbacks and cancellations have already taken place. More can be expected if the present situation continues. If the situation deteriorates further, several other companies which have financing will be unable to meet the provisions of their loan agreements as to liquidity.

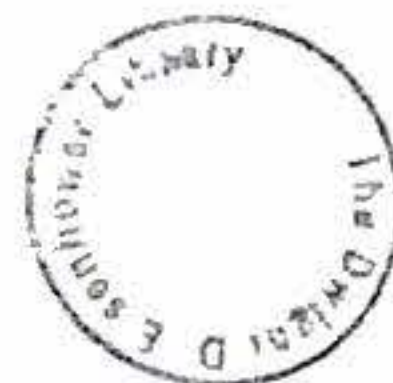


- C. The present and prospective situation has passed the point where it can be dismissed as simply the routine public relations efforts of the industry to arouse public and official interest in the carriers' problems.
- D. If the carriers which must still finance are to have any chance of making satisfactory arrangements, and if existing arrangements are to stand, an immediate objective must be a return of the industry, if possible, to a satisfactory level of earnings. This is the immediate problem confronting the industry.
- E. Immediate Earnings Prospects: The need for a favorable record of earnings in the near-term as an aid to the carriers in working out and preserving financing plans is perhaps too obvious to require extensive comment. It may be said that when added to all the other uncertainties of reequipping, the current depressed and falling level of airline earnings means that investors either tend to ignore all but the largest and soundest (financially) of the carriers, or to insist on onerous terms and conditions.
1. The Civil Aeronautics Board has taken the perfectly reasonable position that it would tend to look at earnings over a fairly long period of time and would neither insist on reductions in fares, nor permit increases in fares in the face of short-run trends in earnings. Although it is difficult to disagree with this general policy, its application clearly requires a recognition of the financial problems of the carriers during a period of major transition.
  2. The facts heretofore presented indicate that certain of the present airline industry trends have been in progress for at least 18 months and perhaps longer. It was presumably in partial recognition of this fact that the CAB, in February 1958, permitted the carriers to increase fare levels by 6.6 percent.
  3. Assuming that the CAB is in agreement with the need for a prompt return of the industry to a more favorable level of earnings, it is by no means certain that this could be achieved at the present



time through further fare increases.

4. But further recognition by the Board of the need for improved earnings in addition to the fare relief afforded in February would, at least, have a favorable effect on the investment community.
5. The majority of the carriers appear to favor a flat across-the-board fare increase in the order of 10 to 12 percent as the shortest means of returning them to a more satisfactory earnings position. These carriers hold that the impact which such an increase would have on traffic would be minor. A minority of the carriers apparently do not favor a flat percentage increase but might favor various changes in fare structure which would tend to increase revenues (such as the removal of the round-trip discount). It is not known whether these carriers would "hold out" against a flat 10 to 12 percent increase.
6. Most of the carriers allege that the 6.6 percent increase in early February had no adverse effect on traffic and that the current failure of traffic to grow above 1957 levels can be attributed entirely to the recession and, more recently, to two mid-air collisions. Because a high proportion of first-class air travel is business travel, it seems probable that some increase in first-class fares would leave the carriers in a better revenue (and earnings) position. Furthermore, some increase in day-coach fares would seem to be justified, reflecting the recently improved day-coach service standards.
7. Virtually all the carriers argue that a reduction or repeal of the transportation tax on passengers would assist them in placing into effect higher fares. This subject is discussed further below.



8. It seems probable that in the short-run, a combination of structural and level fare changes offers the best prospect of returning the carriers to a more favorable earnings level. This should not, for reasons discussed below, necessarily set the long-run pattern for fares. The precise method of effecting a short-run increase in revenues should be left up to the carriers.
9. The Board and its staff have taken the position that a major factor in the carriers' current difficulties is the carriers' failure to control load factors, through cut-backs in capacity. In highly competitive situations, complete load factor control by an individual carrier cannot be achieved. On the other hand, there appear to be instances where the carriers have added capacity despite stable or even declining traffic volume. A continuation of this practice would clearly vitiate any benefits to be derived from fare relief.
10. There does not appear to be anything in the General Passenger Fare Investigation which would prevent the Board from recognizing the requirement of the carriers for an immediate improvement in earnings, at least up to the level found reasonable by the Board's Bureau Counsel (8.9 percent and 9.45 percent). Increases or changes in fares could be made temporary pending the completion of that case.
11. Recent earnings of the international carriers, with some exceptions in Latin America, have remained relatively steady. In Latin America there appears to have been a sharp drop in business travel outbound from the United States in recent months. The expected heavy summer international traffic is, of course, vulnerable to political unrest abroad.



F. Economic Feasibility of Equipment Program:

In addition to the need for immediate action to return the industry to a better level of earnings, the material presented in foregoing sections indicates the need to examine the economic feasibility of the industry's present and prospective equipment program.

1. To fill the now on-order and to be ordered capacity will require a substantial expansion and broadening of the air travel market. A growth of 11 to 13 percent per year is needed.
2. Failure to achieve this growth will result in:
  - a. Under-utilization of equipment to the point where capacity costs are affected.
  - b. Reduced load factors which will raise unit traffic costs.
3. Discussions with the individual carriers revealed that only a small minority had well-developed plans for the development of specific traffic markets. The majority appear to place reliance on the historic growth trends which applied through 1957 and which averaged 13 percent over the past three years.
4. At present, traffic growth has stopped completely. Although the recession must be charged with a major portion of the blame for this stoppage, there are reasons for believing that the carriers may find it difficult to get back on and maintain a 11-13 percent growth pattern. This is certainly the case if the only marketing action which the carriers contemplate is price increases.
5. Domestically, much of the past growth appears to have been diverted from railroads. There is little first-class rail traffic remaining (4-5 billion passenger miles) and much of the remaining rail coach traffic is short-haul (under 100 miles).



6. It appears that new airline traffic will, in part, have to be diverted from automobiles and in part be newly generated travel. Because of the high fixed cost of automobile ownership, auto traffic may well prove hard to divert. Newly generated traffic will require changed personal expenditure patterns which are typically slow in taking place.
  7. On the other hand, there are several favorable factors which will tend to boost traffic at least under more normal economic conditions than those which prevail today, such as: the markedly greater speed and comfort of the new aircraft; the growing acceptance of air transport; the growing population and the economy.
  8. On balance, it must be concluded that, while the equipment program cannot be described as unreasonable, there is at least room for doubt that the necessary traffic to make the enlarged capacity sound from an economic point of view can be generated. Greater credibility could be given to the carriers' traffic forecasts if they could identify the new classes or types of customers whom they expect to provide the almost doubled volume of traffic. It seems certain that such traffic increases will be forthcoming only with extensive efforts by the carriers in the form of researching new markets and developing programs to serve them. Considerable work and experimentation is called for by the carriers to price their new volume in a realistic manner.
- G. Possible Government Action to Assist Traffic Growth:

Discussions with the carriers indicate two areas in which they believe that the Government could assist the airlines in building traffic over the next five years and in the shorter run.

1. Repeal of the Transportation Tax: The carriers argue that if the transportation tax of 10 percent on domestic passenger fares were repealed or reduced, such action would permit them to increase passenger fares up to the level of the reduction, or 10 percent, without forcing the traveler to pay an additional amount for his transportation.
  - a. So far as the airlines are concerned, their share of the passenger transportation tax amounted to slightly more than \$100 million in Fiscal Year 1958. The total tax on all passengers by all forms of transportation amounted to \$230 million.
  - b. It would be unrealistic to consider the transportation tax on passengers apart from the tax on property which amounted to \$487 million, plus \$40 million received for the movement of oil by pipeline.
  - c. Furthermore, a repeal or reduction of these excises would almost certainly involve extensive pressure to take similar action with respect to the excises on automobiles, trucks, parts, etc., which amount to approximately \$1.5 billion annually.
  - d. It is apparent that the problem of the airline passenger transportation excise has fiscal ramifications of much broader significance than the airline problem alone.
  - e. Apart from the loss of revenue to the Government, it can be said that repeal in these taxes has considerable merit. The original purpose of the tax was in part to discourage wartime passenger travel. Its repeal or reduction would undoubtedly assist the carriers.





- f. In light of the broad fiscal implications of these excises and further, in light of the Administration's recently announced position on all excise taxes, a specific recommendation on the airline passenger tax is inappropriate. Should the policy question be reopened, however, the Secretary of the Treasury might wish to consider the assistance which repeal or reduction would provide to the airlines.
2. MATS Traffic: Several of the international carriers stated that in their view major assistance could be given by the Government to a buildup in airline traffic through a diversion of additional passenger and cargo traffic now carried by MATS to commercial carriers.
- a. The question of the proper size and composition of MATS traffic is an extremely complicated one. Essentially, the controversy between the carriers and the Air Force may be described as follows:
- (1) The Air Force alleges that MATS is primarily a force-in-being under military control which will be needed, literally at a moment's notice, to deploy our forces overseas under tight security. They argue that in peacetime, this force must be trained to perform its emergency mission and exercised in such a manner that a considerable volume of transport capacity is necessarily created which, in the interest of economy, should be utilized by the Government. No civilian force, the Air Force argues, could perform this mission completely since it would not be under military control and discipline. The Air Force alleges that the rapid growth of MATS over the past few years (approximately a three-fold increase in the 1951-57 period, and a 50 percent increase since Fiscal Year 1954) is a reflection of greater wartime lift

requirements imposed by the Joint Chiefs of Staff in order to meet the war plans. These plans and the planning factors used to compute airlift requirements in support thereof are, of course, classified. The Air Force also points out that, especially in Fiscal Year 1956-57-58, it has given the commercial carriers a considerable and growing volume of the passenger traffic under MATS control. The Air Force further states that the airlines, through the Civil Reserve Air Fleet (CRAF) will be useful primarily in providing lift in the period after D plus 48 hours.

- (2) The carriers allege that they have a considerable quantity of "ready" lift available for immediate emergency use. They point out that much of the MATS fleet will be widely dispersed throughout the world at any particular time, and hence will not be "ready". They further allege that their crews will be willing and able to operate wartime emergency missions. They also argue that if MATS is, in fact, conducting a training operation, with peacetime transportation capacity simply a by-product, there are cheaper and more effective ways of conducting such training. The carriers desire additional Government passenger and cargo traffic, some to be assigned to regular commercial flights and some to charter flights.
- (3) It is impossible to appraise the merits of these conflicting contentions without extensive analysis of classified material.
- b. This issue is now being fought out between the carriers and the Air Force in the halls of Congress.

- c. Even the carriers would probably be unwilling to see action taken which would jeopardize the readiness capability of the Air Force. On the other hand, denied the opportunity to examine the classified basis for the Air Force contentions and suspicious of the validity of those contentions, they are seeking relief from what they regard as a large and growing Government airline, through legislative access.
- d. It would appear that the Air Force unjustifiably discounts the national defense potential for immediate readiness of the airline industry, because it is not under direct military control.
- e. This is a controversy which, it would appear, should be resolved, if at all possible, at the level of the Department of Defense.

#### H. Financing Feasibility:

1. Without identifying the carriers, it can be stated that three trunkline carriers almost certainly cannot now finance, to the extent that their current programs require, under normal credit conditions. These three carriers comprise about 20 percent of the domestic industry.
2. Some concern must also be expressed as to the ability of two other trunklines to finance to the extent that their announced programs would dictate. These carriers comprise another 8 percent of the domestic industry.
3. Thus, some 28 percent of the domestic industry must be described as in a precarious position so far as new financing is concerned.
4. Only three, or perhaps four, carriers can be said to have substantially completed their financing arrangements.

5. The remaining trunklines (3-4) and the international carriers should be able to make satisfactory arrangements to finance, although for some of these, the cost in terms of interest rates and conditions will be heavy. One carrier in this category which is currently in the market is experiencing great difficulty in borrowing long-term money at a rate below 6 percent.
6. As already indicated, a prolonged depression in airline earnings would undoubtedly mean that certain of the carriers which have already financed or seem able to do so would not be able to draw down the full amounts of their loans.
7. One of the major difficulties which the carriers face in financing is the fact that in the present market, it is either impossible or at least extremely costly to raise equity money. Although the carriers may be criticized for not having foreseen the need for new equity money and arranged for it during the favorable markets of 1955-1956, such criticism does not assist in a solution to the present problem. Again, a return of the industry to a more satisfactory level of earnings promises to be the only way in which some of the airlines can expect to raise new equity funds over the next few years.
8. Of the total amount of additional funds which must be raised in order to finance the equipment program (\$760 million), approximately \$500 million is required by the carriers concerning which there is at least doubt as to their financing capability. \*
9. Failure to raise all or a major portion of these funds would presumably result in:
  - a. Order cancellations or cutbacks, having a serious impact on certain of the manufacturers.
  - b. Impairment of the competitive ability of those

\*These requirement figures are as of April 1958.

carriers forced to cancel or cut back, thereby seriously upsetting the attempts of the CAB over the past few years to create opportunities for greater competitive parity among carriers.

I. Government Action to Assist Financing:

In view of the difficulties which are apt to confront major segments of the industry in financing their equipment, the question arises as to whether there is any action which the Government can appropriately take to facilitate such financing.



1. **Guaranteed Loans:** There was passed by the current session of Congress and signed into law, an Act which permits the Government to guarantee up to 90 percent of the value of private loans to local service and territorial carriers for the purchase of equipment - both new and used. The maximum loan under this law is \$5 million. Somewhat similar assistance has been proposed for the railroad industry. One way of assisting the larger carriers would be to amend this Act to extend its provisions to trunklines and U. S. -Flag international carriers. To be of any material assistance to such carriers, an upper limit well in excess of \$5 million would also be required. To a major degree such an extension would, in essence, constitute a form of direct, albeit contingent, subsidy to these carriers. Until the carriers have been given a reasonable opportunity to return to an improved level of earnings and until they have exhausted every avenue of conventional private financing, it is not believed that the Guaranteed Loan Act should be extended to the trunkline and international carriers. This conclusion however, should be reexamined at the end of 1958 in the light of experience on the financing problem accrued in the next six months.
2. **Guaranteed Loans to Local Service Carriers for Second-Hand Equipment Purchases:** Certain of the trunklines appear to be under the misapprehension that Guaranteed Loan Act precludes, or is being administered to preclude, the purchase by local service carriers of

of second-hand equipment released by the trunklines. They argue that, in part, their financing problem is directly related to their ability to dispose of older aircraft at favorable prices, including to local service carriers. In fact, the Act permits, and in appropriate circumstances the Board's staff will approve, loan guarantees for second-hand aircraft. Indeed, at least one loan of this sort is now pending. Presumably the Board will realistically administer the provisions of the Act in connection with second-hand aircraft so as to facilitate the movement of aircraft, in appropriate cases, from trunkline service to local service.

3. Loans and Assistance for the Export of Second-Hand Aircraft: A considerable market for second-hand aircraft, especially of the smaller type, appears to exist abroad. This is particularly true of relatively underdeveloped countries which do not have operations justifying and which could not afford new turbine aircraft. Any financing assistance which Federal Government or international agencies could furnish to such countries or their carriers would serve a dual purpose. In the first instance, it would provide assistance to our carriers in the disposal program. More important, it would get appropriate American aircraft operating on the routes of these countries, in lieu of the aircraft of unfriendly nations. It is understood, however, that the agencies such as the Export-Import Bank and the Development Loan Fund are extremely reluctant to make loans to foreign countries for the purchase of second-hand aircraft. It is believed that either the Air Coordinating Committee or the Operations Coordination Board would be appropriate avenues by which policies involved in this problem might be raised and examined in greater detail with the agencies concerned. Presumably the Department of State should assume coordinating responsibility for action to be taken.

4. Depreciation: Until very recently, the carriers followed varying policies with respect to depreciation on their equipment. While most carriers adhere to a depreciation policy on aircraft of a 7-year life and a 10 percent residual, certain of them used, for CAB and public reporting purposes, a shorter life. Because of the relative scarcity of airline equipment down to 1957, aircraft which were sold second-hand by the carriers yield a return to the carriers well above the book value. This resulted in substantial capital gains for the carriers. In the face of the probability that piston aircraft would rapidly lose public acceptance after the jets were introduced into service and in view of the probability that prices of second-hand aircraft would drop sharply, several of the carriers applied a shorter life to piston aircraft delivered in the last few years. In 1956, the CAB proposed a rule which would have made mandatory, for reporting and rate purposes, a life of 7 years and 15 percent residual for all piston aircraft, except where a waiver was requested and granted. The carriers took exception both to the rate, at least as applied to late piston aircraft, but more particularly to the concept that the Board had authority to prescribe depreciation policy for the carriers, an area which the carriers felt was a matter for management judgment. This latter issue was appealed to the courts. On June 20, 1958, the U. S. Court of Appeals held that the Board was without power, unless specifically provided by the Congress, to prescribe depreciation rates and charges, except in connection with rate-making cases. Apart from the jurisdictional question, the carriers argued that to increase the life for depreciation on the piston aircraft now being delivered is not only unrealistic in the light of the used aircraft market, but will deprive them of cash throw-off in the next few years and will subject them to the possibility of capital losses should it be necessary to retire these aircraft on a declining second-hand market prior to the expiration of the 7-year period. That the market for used

aircraft, particularly large four-engine aircraft, has deteriorated is clear. In light of these facts, the CAB will presumably reexamine, in conjunction with its general passenger fare investigation, its required life of 7 years and 15 percent residual, with respect to recently delivered piston aircraft.

J. Other Cost and Financial Problems.

A number of other problems that promise to be troublesome over the next few years have been raised for consideration during the course of this survey. These may be briefly summarized as follows:

1. Airport and Ground Facility Expenses: Although the carriers themselves are confronted with a substantial investment program in the transition to jet aircraft, still further funds will be invested in ground facilities by local governments, airport authorities and the like. These agencies will be dependent on, and undoubtedly will insist on, higher rentals and user charges in order to make these facilities self-liquidating. In a few instances, the carriers indicate they believe some ground facilities are being planned and built that exceed actual needs. They desire to be consulted by both Federal and local officials on realistic airline requirements. In any event, the carriers point out that in this area, their expenses are apt to increase sharply in the next few years, both absolutely and as a proportion of total revenues. They urge that full recognition must be given to this problem when the matter of fares is being considered.
2. Ground Problems Associated with Jet Aircraft Operation: Some of the carriers expressed concern that there was a lack of adequate coordination and cooperation among individual carriers and between carriers and airport and municipal officials on a variety of problems that seemed certain to be associated with the ground operations of jet aircraft. Such problems ranged from the



noise problem to the joint-use of expensive ground handling equipment. This problem is one which should be left to carrier initiative.

3. User Charges: Virtually all of the carriers pointed out the high cost to them of the proposal to have charges for the use of air navigation, traffic control, and landing aids, based on a gradually increasing gas tax. The proposal calls for a step-up in the present 2 cents a gallon tax to 6 1/2 cents in 1962. Assuming that jet fuel is taxable, one estimate of the cost to the domestic carriers is \$167 million a year. This compares with a total cost of \$24.8 million in 1957. The principle of user charges is a correct one. Its application, however, is beyond the scope of the present study because an appraisal of actual rates is highly complex. Presumably the Department of Commerce and other agencies will carefully consider the impact of such charges on the carriers. Presumably also, the CAB will permit the carriers to reflect in their fares the net additional cost of these charges, after off-setting savings derived from the improved air navigation and traffic control system now under development.



#### K. Routes and Competition.

1. The Civil Aeronautics Act charges the Board, among other things, with both the development of air transportation and the creation of sound economic conditions within the industry. Often these objectives are conflicting since the services which the travelers and communities desire are not always economically justified. The problem of establishing a route structure which will achieve both objectives is a difficult one and is complicated by the fact that the Board, under the Act, has no effective control over scheduling of services. Such limited powers as the Board has in this area derive from its authority to require "adequacy" of services under standards which are, however, dimly defined. The current policy of

the Board, as it appears from a line of cases over the past three and one-half years, has the apparent objectives of strengthening the medium-sized carriers by providing them with access to the more important travel markets through paralleling route grants and, further, the improving of service through a very substantial increase in the numbers of competitive authorizations.

2. The degree of success which the Board has achieved through its current route policy is difficult to appraise since operating experience under the new route grants is limited. On the positive side, it is notable that in 1957 the proportionate share of the medium-sized carriers in the domestic travel market increased, reversing a six-year trend. Also, it is significant that capacity units costs of the medium-sized carriers have been trending downward, in contrast to an upturn in the unit costs experienced by the larger carriers. On the negative side, the large increase in competitive services is attributed by the industry as an important contributing factor to the declines in load factors over the last year and one-half. Also, the operating losses suffered by some of the beneficiaries of the strengthening policy make it uncertain that the desired results are being achieved. However, the limited experience precludes the formation of any definite conclusions on this score.
3. Recently a growing concern has been voiced in the industry, among investors, and even among some segments of the Board's staff, concerning the soundness of current route policies. It is contended that the establishment of new layers of competitive services, as where three, four or more carriers are authorized to provide duplicating services, is diluting the traffic densities available to each carrier at a time when traffic densities must be preserved and increased in order to permit economic operations with the higher capacity equipment to be delivered soon. It is also contended that the Board has been reaching its route grant determinations without full consideration of the



special factors which affect the economics of jet operations. It does not appear that the Board or its staff has undertaken a comprehensive study of the compatibility of the present route structure with the economic requirements which will be imposed by the jets. Indeed, no references appear in recent Board decisions to indicate that consideration has been given to the special problems of jet operations and gives substance to these allegations. In the circumstances, there is an obvious need for thorough study of the relations between the economics of jet operation and the route structure. If resources are not now available to the Board for such a study, it would be desirable that arrangements be undertaken to make the required resources available, as for example by the Under Secretary of Commerce for Transportation. Pending the completion of the study, it might further be desirable to delay initiation of any major route proceedings.

L. Impact on the Manufacturers and the Economy:

The difficulties in financing present and additional orders described in preceding sections will, of course, have a serious effect on the program of the aircraft industry and on economy.

1. As the competitive race for aircraft sales tightens, in the effort of each manufacturer to approach his break-even point, increasing pressure is being brought on the manufacturers to give more favorable terms to the airlines. Thus, several of the manufacturers have recently agreed to take in trade certain older aircraft for new aircraft. This, in effect, transfers the surplus aircraft disposition problem from the airlines to the manufacturers along with any risk that the old aircraft cannot be sold at the trade-in price.
2. Several of the manufacturers have indicated that pressure for more favorable terms - reduced down-payments and pre-payments, credit assistance and the like - is increasing. Because of the fact that most contracts contain a

"most favored company" clause (providing that the purchaser will receive at least as favorable terms as any subsequent purchaser) the cost of these more favorable terms promises to be high, perhaps as high as \$100 million per company in actual or contingent commitments. Although potentially expensive, these requests for more favorable terms are difficult to turn down because of competitive conditions.

3. In the few order cut-back cases which have thus far occurred, the manufacturers have not found it competitively feasible to impose anything approaching the full cancellation penalty on the carriers.
4. At the outset of their programs many of the manufacturers were able to finance portions of their design and engineering expense from the down-payments or pre-payments of the carriers. As the manufacturing phase is entered with its heavy cash outlays, the investment of all of the manufacturers has now exceeded, and in some cases by a considerable amount, these payments. Until delivery, the manufacturers will increasingly be forced to invest their own cash resources in the transport program. At its peak such investment promises to exceed \$1 billion.
5. The manufacturers complain that this demand on their cash resources coincides with a cut-back in pre-payments and progress payments being made by the Government under various directives initiated in the fall of 1957. Quite aside from the cash demands of the transport program, the cut-back in Government progress payments creates a substantial requirement for added working capital for most companies. The combination of these two demands places the manufacturers, they allege, in a serious working capital squeeze. They see the only solution to the problem to be increased borrowing to the amount of several hundred million dollars for the air-frame industry as a whole. For some of the companies, borrowing in the required amounts may prove difficult.
6. Failure of the industry to make additional aircraft sales, or the cancellation of a portion of the existing orders without compensating replacement orders would

impose severe losses on all of the airframe manufacturers. To some extent these losses would be absorbed through tax reductions, but the impact on the company's earnings and surplus would nevertheless be severe. In varying degrees the same thing may be said of the impact on engine and accessory manufacturers, and other vendors and subcontractors.

7. In terms of employment, failure to receive new orders, now expected, or a cutback from the level of orders already sold would mean curtailment of the planned work-force in the fairly near future. One manufacturer indicates that failure to increase his orders will result in a reduction of planned work force by 25 percent by year end. A reduction in orders to 80 percent of volume would reduce this manufacturer's planned work force by over 50 percent.
8. It seems probable that in the face of a static or declining level of commercial orders, the manufacturers will intensify their existing efforts to have the Government buy these transports or modifications thereof. In some instances, such sales are already in process of negotiation. A further deterioration in the airlines ability to finance might well lead to strong pressure on the Government to salvage the situation for the manufacturers.



ACTIONS BY GOVERNMENT  
TO FACILITATE JET PROGRAM

1. Permission by CAB to carriers to make reasonable, temporary fare adjustments.
2. Closer coordination between Federal, local and carrier officials in planning ground facilities.
3. Re-examination of timing and impact of user charges.
4. Study by CAB of compatibility of present route structure and degree of competition with jet operation.
5. Studies by ACC and OCB on ways to facilitate sale of older transports abroad in appropriate circumstances.
6. If tax policy question re-opened, consideration of repeal or reduction of passenger transportation excise tax.



## ALTERNATIVE COURSES OF ACTION

1. Do nothing.
2. Release the report as a report of the Special Assistant.
3. President transmit report to Executive agencies concerned, requesting action where appropriate, and to CAB and Congress for information.
4. White House announce study program in the following areas:
  - a. Examination of basic aviation (or all transportation) regulatory and economic legislation, leading to legislative proposals to Congress for needed changes.
  - b. A review in depth of the conceptual basis, the procedures and the staffing of the transportation and utility regulatory agencies.
5. President request Secretary of Defense to review and resolve MATS - Airline controversy.



MINUTES OF CABINET MEETING

July 7, 1958  
8:45 A. M. -- 10:25 A. M.

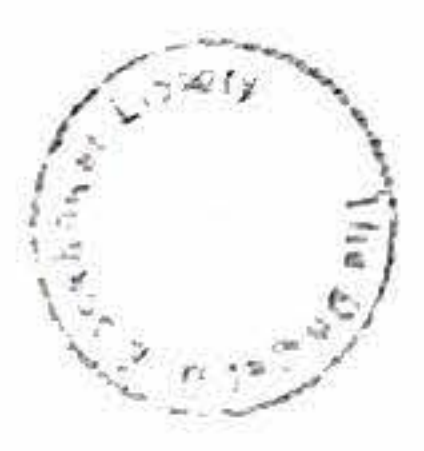
The following were present:

EXECUTIVE SESSION

REGULAR SESSION

President Eisenhower

- Vice President Nixon
- Sec. Anderson
- Sec. McElroy
- Atty Gen Rogers
- Sec. Benson
- Sec. Mitchell
- Sec. Weeks
- Sec. Folsom
  
- Amb. Lodge
  
- Gov. Adams
- Gen. Persons



- Under Sec. of State Herter  
(for Sec. Dulles)
- Deputy PMG Sessions  
(for Mr. Summerfield)
- Under Sec. Interior Chilson  
(for Sec. Seaton)
- Mr. Merriam
- Gov. Hoegh
- Dr. Saulnier
- Dr. Paul Cherington, in part
- Mr. Gordon Bennett, in part
  
- Dr. Killian
- Mr. Randall
- Gen. Goodpaster
- Capt. Aurand, in part
- Mr. Jack Anderson
- Mr. Siciliano
- Dr. Hauge, in part
- Mrs. Wheaton
- Mr. Harlow, in part
- Gen. Quesada, in part
- Mr. Robert Gray
- Mr. Patterson
- Mr. Minnich

Operation Alert 1958 - Gov. Hoegh brought the Cabinet up to date on this Exercise, setting forth some of the results of analysis of resources within the United States following the attack presumed to have occurred two weeks ago. He referred to the "play" scheduled for July 16 and 18, and again requested the full cooperation and support of all the departments and agencies.

The President asked about the radiation effects that might be expected from the exposure of cattle, hogs, etc., to fallout. Gov. Hoegh said that no effect would show in the butchered product, or in corn or other processed foods, so long as these foods did not have the irradiated material within them.



Cabinet Minutes, July 7, 1958 - page 2

Passport Legislation - (CI 58-57) - Mr. Herter informed the President that Sec. Dulles would be discussing with him the special message to the Congress on the need for this legislation. He stressed the importance of being able to control those individuals whose actions (not ideas) are harmful to the United States. He noted that the Supreme Court might disallow even this bill as being unconstitutional but that would not be determined for two or three years.

The President developed the fact that the Government has a responsibility to safeguard an individual who has been issued a passport, then asked if there might be various types of passports which would thus relieve the Government in certain cases from having to bear this responsibility for people intent upon causing the Government trouble.

Mr. Rogers pointed out that the Supreme Court did not declare the control of passports to be a violation of the Constitution; rather, that the practice of refusing to issue a passport violated an existing law, hence the Administration was moving to change the governing law. However, the Supreme Court might subsequently find, as Mr. Herter had suggested, that the act of changing the particular law was unconstitutional.

Mr. Rogers requested an opportunity to have a final look at the proposed Presidential message to see that it was entirely consistent with the draft legislation that would be forwarded.

Airlines Investment and Modernization Problems - (CP 58-83) - General Quesada told how he had foreseen several months ago that the airlines might not be able to carry out, because of financial difficulties, the major investment programs already scheduled with the result that the Government would be saddled with a serious liability in view of its current programs. Consequently, he had asked Dr. Paul Cherington of the School of Business Administration of Harvard University to develop a report on the problem. Dr. Cherington reviewed relatively briefly the situation of the airlines with regard to new equipment programs, trends in load factors, limitations imposed by CAB rate regulations, etc. His chief point was that the Government at this time should have a thorough understanding of the airlines' problems, even though no immediate action program was being recommended. Dr. Cherington summarized much of the material in the written report distributed to the Cabinet members. He went over the six actions set forth in the summary conclusions that the Government might take to be helpful.

With regard to the report, Dr. Cherington outlined alternative courses of action including: (1) take no action; (2) simply release the report; (3) ask the agencies to review the report and govern their actions appropriately; (4) make a White House announcement of a study to be initiated on basic legislation pertaining to the aviation industry or to all transportation, and also on the conceptual basis of the regulatory agencies (whether their function was to be purely judicial or to include policy-making); and (5) to press for settlement of the MATS-Airlines controversy.

Cabinet Minutes, July 7, 1958 - page 3



Regarding the last, Sec. McElroy pointed out that the effort was already under way to settle the controversy but that he would welcome any supplementary word from the President. The President noted the dilemma that would result if MATS were to be abolished and at about that time the Government would have to buy up the jet airliners produced for companies that could not pay for them.

In response to a comment of the President's on the demagoguery that often occurs whenever a small airline is involved, Gen. Quesada went on to state that the CAB staff still seems to be governed by the philosophy of the early years of aviation when monopoly was a principal feature and a great need for development existed. Dr. Cherington responded affirmatively to the President's question as to whether the airlines had not overreached themselves and might not have to suffer some temporary jars and dislocation if a reasonable plan and objective is to be laid out and accomplished.

It was noted several times throughout the discussion that the CAB had been dragging its feet on rate adjustments which might permit the airlines to set more realistic rates on peak traffic and more attractive rates on off-hours traffic, thus increasing the load factor and the fiscal soundness of the airlines.

Sec. Mitchell emphasized repeatedly the possible undesirability of a glamorized release of this report since it would create unfounded expectations of governmental programs to cure every last difficulty. Mr. Lodge thought the report might have a depressing economic effect but he was reassured that the information in it was already known by all who had an active interest in the subject. Mr. Merriam feared that announcement of a study on the conceptual basis of the regulatory agencies might jeopardize the preliminary studies that the Rockefeller Committee was on the verge of undertaking prior to opening up a joint study.

After extended discussion of how the report should be handled, Gov. Adams suggested that it be reviewed further by Dr. Cherington and Gen. Quesada with a view to making certain changes in the light of the Cabinet discussion, that it then be considered again by the Cabinet with a view to its being issued as a report from Dr. Cherington to Gen. Quesada. The Governor, as also Gen. Quesada, emphasized the need for a show of public interest and a greater governmental awareness, particularly in the CAB, regarding the urgency of the airline problems.

Sec. Weeks noted that MATS was the biggest airline in the world and subsequently urged that the comment on user charges be reviewed since it seemed to deviate markedly from Administration policy. Gen. Quesada replied that the decision was already made to remove the paragraphs that would cast any doubt on the desirability of user charges.

The President concluded the discussion by directing Gen. Quesada to work further with Dr. Cherington, then discuss it again with the President prior to a later review by the Cabinet.

Copies to:

Mrs. Whitman (2) ✓  
Mr. Gray  
Mr. Minnich

*LAM*  
L. A. Minnich, Jr.

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The White House

RA - 58-110

July 28, 1958

Washington

## THE CABINET

Record of Action

The following is the action taken on the items presented at the regular session of the Cabinet on Monday, July 7, 1958:

1. OPERATION ALERT, 1958  
Summary of the Situation for  
the Federal Action Phase

## ACTION:

In the light of the status report given by the Director of the Office of Defense and Civilian Mobilization, the President again emphasized that the attainment of the objectives of the Exercise will depend on the full cooperation of all the Cabinet Members and Agency Heads.

2. Proposed Special Message and  
Legislation Regarding the Issuance  
and Denial of Passports

[Information Item Only]



3. The Status and Economic  
Significance of the Airline  
Equipment Investment Program

CP - 58-83

## ACTION:

The Special Assistant for Aviation Matters will:

- a) review the Report (CP - 58-83) in the light of the initial Cabinet discussion,
- b) discuss with the President the most feasible alternative courses of action with respect to such conclusions as this review may suggest,
- c) discuss with the President the most appropriate method of making information in the Report available to the public, and
- d) then, as suggested by the President, again raise the subject and the recommendations thereon for Cabinet consideration.

Robert Gray  
Secretary to the Cabinet

Approved by the  
President  
July 28, 1958

FOR RELEASE AT 12:00 NOON, E.D.T., AUGUST 5, 1958

James C. Hagerty, Press Secretary to the President

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THE WHITE HOUSE

THE WHITE HOUSE TODAY MADE PUBLIC  
THE FOLLOWING LETTER FROM THE  
PRESIDENT TO THE HONORABLE RICHARD  
M. NIXON, PRESIDENT OF THE SENATE,  
AND THE HONORABLE SAM RAYBURN,  
SPEAKER OF THE HOUSE OF REPRESENT-  
TIVES

Dear Mr. President:

Dear Mr. Speaker:

I am enclosing for the information of the appropriate Committees of the Senate (House of Representatives) a report which was recently prepared for my Special Assistant, Mr. E. R. Quesada, concerning the status and economic significance of the current equipment investment program of the major air carriers which, in turn, affects the broader aviation industry. This report sets forth, in some detail, the present status of the major air carriers and discusses their ability to implement their investment program of approximately \$4 billion by 1962 in aircraft and equipment. This program is of such a size as to hold some significance to the national economy over the next few years.

I am today also transmitting the report to the appropriate agencies of government for their information and such action as they may deem appropriate within the framework of existing authority.

Sincerely,

DWIGHT D. EISENHOWER

The Honorable Richard M. Nixon  
President of the Senate  
Washington, D. C.

The Honorable Sam Rayburn  
Speaker of the House of Representatives  
Washington, D. C.

more