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AN ASSESSMENT OF DEREGULATION
AND ITS EFFECT ON THE
INTERNATIONAL AIR TRANSPORTATION
COMMUNITY

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FLIGHT TRANSPORTATION
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"Multiple entry is now the norm for U.S. international air transportation, except in cases in which the bilateral aviation relations between the United States and the foreign country concerned call for a different approach. This basic policy is founded on broad economic considerations which have been thoroughly evaluated in Congress and in the Board's adjudicatory processes. It was recently given explicit Congressional sanction by the International Air Transportation Competition Act. Objectors to multiple entry now have a heavy burden of proof to show that application of the policy would be inconsistent with the public convenience and necessity.

"Bermuda has not met that burden."

That is a quote from pages 3 and 4 of the Civil Aeronautics Board's decision in the United States-Bermuda Show Cause Proceeding, adopted May 13, 1980, and sent to the President on May 20, 1980.

I understand from Professor Cary that most of you ladies and gentlemen are from civil aviation authorities or airlines from outside of the United States. Well, when you go home you will be faced with this U.S. policy as a fait accompli in your dealings with the United States. It is a policy consciously adopted by

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the Administration and the Congress and, rightly or wrongly, it is here. Since you must deal with it, I should like to spend some time this afternoon discussing how it got started, second, taking a look at some of the results to date, and, third, raising some questions which need to be answered.

Since so-called airline deregulation got started and is still being developed in our domestic aviation, you may well ask why should you, in the foreign countries, worry about or follow the machinations of domestic U.S. aeronautical authorities. Professor Cary advises me that is a common question from foreign students in the MIT program.

Well the reason why you have to pay attention was well stated by Claude Taylor, President and Chief Executive Officer of Air Canada and President of IATA, when he spoke to the International Aviation Club in Washington this past May 20. He said:

"No one in aviation can escape the fact that the United States is one of the world's super powers. No one in the airline industry disputes the fact that the United States is the seat of the most powerful economy the world has ever seen, despite your current recession.

"Temporary recessions, momentary setbacks may cloud our understanding of these basic facts from time to time, but we should never deceive ourselves about the underlying realities.

"That is why the world takes U.S. international aviation policies so seriously. It is why the world pays close attention to U.S. domestic policies in fields which impinge on foreign concerns - such as your domestic deregulation policy for commercial aviation.

"As a Canadian I know the impact of your actions is inescapable. As President of a worldwide trade association, I am vividly aware of the importance of your policy and activities in international air transport."

So the answer is if you want to know what is going to happen internationally in air transportation, watch closely what happens in U.S. domestic air transportation. Let me give you some concrete examples.

The first phase of domestic deregulation involved the certification of every carrier which wanted any particular route regardless of the number of applicants. Even before the 1978 amendments to the Federal Aviation Act, the Civil Aeronautics Board threw out some 40 years of experience and history of selecting only that number of carriers for each route that could operate economically. Instead, it suddenly started granting multiple permissive authority to all applicants -- that is, any carrier who applied got the route but did not have to serve if it did not want to.

The quotation I opened my presentation with shows that this has now been carried over as the norm for international route cases as well -- at least from the U.S. side.

Next, on the domestic scene, the Board entered upon what could be called "area" cases such as the Oakland Case, the Birmingham Case, and the Service to Midway Cases. Under that type of approach, the Board would consider and, of course, grant, applications from any and all carriers for service from any point in the United States to the focal city, or airport.

Although that started as a domestic policy, recent press reports indicate that this same approach is under consideration by the Board for service from the United States to Germany and to Paris. The Paris proceeding was to have been considered in a

closed Board meeting the day before yesterday but was taken off at the last minute. If the press reports are accurate, the Board proposes to grant certificates to any applicant for service to the foreign country with a certificate description "point or points in the United States" rather than naming limited U.S. gateways for service as has been done in the past.

Another example, of carry-over of domestic policy to the international arena and one of long standing, is the Board's imposition of Denied Boarding Compensation -- or, DBC -- Rules on the industry. Originally, those so-called consumer protection rules were applicable only to U.S. carriers but subsequently were extended to cover foreign carriers as well. The extension to foreign carriers has engendered no little controversy. Although most if not all foreign carriers did not contest the original application of domestic DBC Rules to them, they and their governments became extremely upset when the Board proposed to apply far more stringent rules and with extra-territorial application. That is, they would apply on flights of the foreign carrier departing its home country and destined for the United States. After the rash of objections filed by foreign carriers and foreign governments, the Board backed down -- on alleged comity grounds -- but imposed severe notice burdens on those foreign carriers which did not comply with the U.S. rules on inbound flights. This was again challenged both in documents filed with the Civil Aeronautics Board and by a group of foreign air carriers who challenged the regulation in the courts. Again, the Board backed down to some extent but the controversy is not

yet settled and the language of the required notice is the subject of yet another and still pending notice of proposed rulemaking.

In this regard, however, it is interesting to note that during one of the Board's sunshine meetings this past February, one of the top staff suggested that DBC Rules are yet another form of unnecessary regulation and should be abolished. The argument was that most carriers for competitive reasons would continue to compensate bumped passengers even if not required to do so by the Civil Aeronautics Board. We are still awaiting a formal proposal.

I should like to digress for a moment to use the DBC case as an example of why foreign carriers and countries should exercise their right to comment on proposed CAB actions despite the feeling by some such carriers that filing comments are a waste of time, money and effort. While the Board is often accused and, I may say with some justification, of bulldozing its ideas through, it is not completely insensitive (at least in the international field) to strong and broad based objections from foreign carriers and foreign countries. The DBC case is one example. Another is the Board's IATA Show Cause Proceeding which appears to be in limbo for a couple of more years.

That case was a proceeding where the Board tentatively determined to disapprove the IATA resolutions as a result of which U.S. carriers would effectively be excluded from traffic conferences and indeed the traffic conferences themselves might well go down the drain because antitrust immunity for fare levels

and service arrangements would be withdrawn. Practically the whole international aviation community got up in arms, not only through IATA, its trade association, but by individual carrier filings and strong representations by foreign governments through the U.S. Department of State. Subsequently, the Board set up three overseas meetings where foreign governments could make oral presentations and the Board got bloodied at every one of them. The long and short of it is that except for the North Atlantic, the IATA Conference system will continue in full force and effect for at least another couple of years at which time the Board has signaled it will take another look. I shall have more to say about the North Atlantic situation later on this afternoon, but suffice it to say, foreign comment did have a positive effect on the Board's approach.

One last example in connection with the efficacy of foreign comment is the Board's pending notice of proposed rulemaking with respect to insurance requirements. Under that proposal, the Board would regulate the level of insurance a U.S. or foreign air carrier must carry and would even require the insurance to be written by a company or group authorized to do business in the United States. The flood of comment from foreign sources on those proposals has been wonderful to behold and I cannot but believe that it will have a positive effect.

But back to deregulation and how the Board's domestic actions are impacting the foreign arena.

The next area is, of course, that of fare regulation or deregulation. Here the Board has been extremely cautious in

allowing upward fare flexibility. More importantly, during this time of double digit inflation and out-of-hand fuel cost increases the Board has been niggardly in approving fare increases. This has been true both in the domestic and international fields and has been, in my view, a function of the Board's unwillingness fully to trust so-called market economics. The Board has been more than willing to allow extreme cut-rate or giveaway schemes, calling it free market competition and advantageous to the consumer. But on the upward side, it has kept a tight lid and has limited fare increases below those proposed as essential by the carriers themselves. In recent weeks, however, the Board has started to lift the lid both domestically and internationally although more so in the domestic area. For example, the Board recently announced a domestic policy that for routes under 200 miles, there is no lid on fare increases. For routes between 200 and 400 miles, an increase of 50 percent above the so-called Standard Industry Fare Level would be o.k. and for routes over 400 miles an increase of 30 percent above the Standard Industry Fare Level would not be challenged.

I would suggest to you that this sudden flexibility on the up side is not so much a belief in market forces as it is a manifestation of the old military "It didn't happen on my watch" syndrome. Recent financial results for U.S. carriers, both domestically and internationally, have been disastrous. For the first quarter of this year, only two trunk carriers, Delta and Eastern, showed an operating profit with all the rest of the trunk industry experiencing massive losses, many in the \$40 to

\$70 million range. For international services, a summary I recently saw showed over \$100 million operating loss. While the first quarter traditionally has been a poor one for the U.S. international carriers, it has never been this bad before. Also, the U.S. Air Transport Association estimates that 1980 will be the worst year ever for U.S. carriers no matter how you look at it.

This must be rather frightening for the deregulators who have been accused of not allowing the carriers to raise their fares sufficient to take account of massive cost increases. Mrs. Bailey, a current member of the Civil Aeronautics Board, recognized this fact in a sunshine meeting in early May and would have allowed extra increases immediately because of the carriers' poor first quarter financial results. And most recently, Mr. Cohen, the present Chairman of the Civil Aeronautics Board, who I understand will be speaking to you next week, told the Aviation Subcommittee of the Senate Commerce Committee:

"During the debate on deregulation, Dr. Kahn and other proponents stated quite bluntly that a number of carriers might not survive under deregulation and would disappear either through merger, voluntary liquidation or bankruptcy. These possibilities are recognized and acceptable risks of doing business in a competitive market. An unacceptable risk would be for a carrier to be forced out of business, not as a result of competition, but because of federal economic regulatory policy."

Mr. Kahn is no longer with the Civil Aeronautics Board so he can disclaim any responsibility for current failures and disruptions in the air transportation industry. But I have at least some suspicion that the sudden recognition by the present Board

of the necessity of deregulating fares when economic operating authority was for all intents and purposes long ago deregulated, is a desire similarly to be able to avoid blame. This is not to say that they are wrong. No, I think they are right because if there is effective freedom of entry and exit from markets, there must be full freedom in the pricing field as well. It is just that it has taken the Board far too long to get to that position.

I think it might be well now to turn to some of the philosophy of deregulation and how and why it got started.

In the early to mid-1970's, a number of academicians started to question the validity of the pervasive regulation of air transportation that existed at that time. Subsequently as a result of real or perceived problems with the way the Civil Aeronautics Board had administered the Act in the early to mid-1970's, some members of Congress as well as in the Ford, and subsequently the Carter Administrations, pushed deregulation theories. Some of the underlying concerns involved a so-called route moratorium -- that is, you couldn't even get a hearing on a new route application;

They involved questionable long term Board approval of capacity control agreements;

They involved stringent control on price competition, including dictation of fare philosophy and setting strict pricing rules supposedly to ensure the entire public was treated the same and fairly; and

They involved complaints as to intolerable administrative delays.

Be that as it may, legislation was introduced into both Houses of Congress and culminated in the Airline Deregulation Act of 1978.

During the period of controversy, the U.S. airlines themselves did not present a common front as to what they considered appropriate legislation to be. United Air Lines, the largest of the U.S. carriers, broke ranks after a while and actively supported and encouraged full deregulation. In my view, United did this thinking it to be in its own best interests. You see, because of its huge size, United had not received major new route authority in the then recent past years. United apparently thought that deregulation was the only way to get into new major markets which it wanted to serve. Some other carriers joined United's approach in varied respects, although many carriers opposed deregulation quite vehemently.

The fight in Congress was a dispute not so much of deregulation, but rather of basic philosophy. It was a dispute as to whether airlines are like the corner grocery store or any other business or whether airlines have a public utility aspect which requires preservation and some amount of regulation. As present Chairman Cohen told both the International Civil Aviation Conference sponsored by Lloyds of London Press in New York on April 30 and the Intitute of Air Transport in Paris on May 21st:

"Airlines are not unique in this respect. Despite what many of us might like to think, they are primarily just another consumer service that should operate in response to commercial realities."

I would only say in answer that even Adam Smith found that common carrier transportation enterprises had a special public

interest place which distinguished them from the run of the mill business enterprise.

But the problem with the deregulation controversy, it seems to me, is that those who are pushing deregulation in the U.S. Government now are basically zealots. I think Michael Styles who is Director of IATA's Washington Office and a former Director of the U.S. Department of State's Aviation Office hit the nail on the head earlier this month in a speech in Japan. He had put forth a compromise position for the Japan-U.S. controversy to focus on real problems which nations have, namely, market share, industrial profitability and employment while at the same time allowing competition in the marketplace to determine the quantity and quality of airline service in all but extreme situations. He was emphatic in suggesting that international aviation is never going to accept the "survival of the fittest" doctrine, which appears to be behind the U.S. aviation policies.

Mr. Styles anticipated that he would be castigated by deregulation proponents who would say that:

"... interpretations of reality such as the one I have just given, are easily-seen-through attempts by the airline industry to preserve the old order of selfish protectionism."

Styles then went on to make what I consider the important point. He said:

"But they are wrong. It is not I who see things as white or black--or in stark competition versus protection terms. It is the theorists who see things this way. The real world is a spectrum of attitudes, goals and policies."

There is the problem. From the standpoint of the deregulation theory, the deregulationists say "if you are not for me

100%, you must be against me and therefore anything you say is protectionism."

It is significant to note that Messrs. Douglas and Miller who are two ardent reformers, in their book Economic Regulation of Domestic Air Transport, Theory and Policy, said at p. 62 that they "do not maintain that economic efficiency is inherently superior to other policy objectives." Rather they said that "the extent to which other policy goals (such as equity, promotion of aviation, national defense) should be considered, we leave for others to determine." It is this balancing that I think has been lost in the domestic area as a concomitant of the corner grocery store approach to air transportation. But it is here where you in the international field have a chance to bring back some rationality. Indeed, the Board's newest member, Mr. Dalley, who incidentally before coming to the Civil Aeronautics Board, was at the U.S. Department of State, has indicated the necessity of negotiating with an accommodation to the views of foreign countries.

So I come back to what I suggested earlier as to the value of submitting comments on proposed CAB regulations, and that is that you should also not be hesitant about presenting your views to the U.S. in connection with bilateral negotiations.

On the other hand, you have to recognize the validity of many of the things deregulationists espouse. Certainly, the old CAB was far too cautious in authorizing new competitive services, both domestically and internationally. Furthermore, most foreign countries have been highly protectionist and encourage pooling

agreements which have resulted in far less service and much higher prices than we had in the United States even prior to deregulation. It may also be true that open skies and open pricing policy may be good for some countries such as those which are trying to develop tourism, but even that is a policy objective separate from open skies. The point I would make, however, is that the increased competitiveness which the deregulationists seek is a good thing so long as it is economic and not destructive. I do question, though, whether complete deregulation in the international field can ever be a reality because of the differing views and economic needs of the many nations involved.

Now let's turn to some of the results to date. The first point is that we do not yet know whether deregulation is working. Not only are all the facts not in, but true deregulation has yet to be tried. I earlier discussed with you the problem of the Board's failure to deregulate fares after route entry and exist were deregulated, but we also have problems of even greater regulation of the small commuter carriers, greater regulation of small community service and certainly massively greater regulation in the so-called consumer protection area. As to this latter, it has intrigued me that if the theory of deregulation is that market forces should govern, why all the new consumer protection regulation?

Many of the deregulation proponents now claim that while many carriers opposed deregulation initially, all carriers now support deregulation, thus supposedly proving that deregulation

is working. What they ignore (or possibly do not appreciate) is the reason why carriers support full deregulation.

From my observations, they support full deregulation now because partial deregulation has been a disaster particularly in light of our present economy, and if route entry is to be open, pricing and operational decisions must also be fully deregulated. The industry has come to believe that no regulation whatsoever is far preferable to the kinds of regulation now being indulged in by the Civil Aeronautics Board. And it is only after full deregulation that we shall be able truly to tell whether deregulation works.

Even the deregulation proponents have to admit that all the answers are not in, but they do claim that results to date overwhelmingly show that deregulation works. But is that really so? James C. Miller, an economist and early proponent of deregulation takes the affirmative side in an article in the March 26 Wall Street Journal entitled "Is Airline Deregulation Working?"

To start with, Miller points to lower fares for the consumer. Well, lower than what? Up until 1977, carriers were in an effective straightjacket in terms of price competition imposed on them by the Board's Domestic Passenger Fare Investigation (DPFI). In that Investigation, some carriers, notably Delta and TWA, had proposed a range-of-reasonableness approach within which fare filings would not be suspended by the Board, but even that limited area of competitiveness had not been adopted. As a matter of fact, the DPFI restrictionism was not abandoned by the Board until September, 1978. So how can they say that when fares

were loosened up on the downside and carriers were allowed to compete with lower fares, the Deregulation Act was the cause? What I like to call "intelligent regulation" would also have allowed that and would have afforded full competitiveness under the old Act. Indeed, most of the price competition under deregulation has taken the form of discount fares, a competitive pricing technique that has existed for years under regulation.-- it is just more drastic now.

Next, Miller -- and he was joined in this argument by both Chairman Cohen in his presentation to the Aviation Subcommittee on May 20th as well as by William Johnson, Assistant Secretary for Policy and International Affairs of the Department of Transportation speaking before the Aero Club in Washington on March 25th -- argues that deregulation is proven to be working positively because recent average fares have risen more slowly than the consumer price index in spite of drastically increased fuel and other costs. But how can they claim that deregulation is the cause of these lower fares when the Board itself has refused to allow the carriers to raise fares as much as the carriers asked for to be able to cover fuel and other cost increases? If you hold fares down by regulation, how can you claim that as a benefit of deregulation? You may want to ask Chairman Cohen that question when he speaks to you next week and I dare say you will see some of the fanciest footwork since a Fred Astaire/Ginger Rogers movie.

Miller then refers to productivity gains. Such gains are unquestioned but it fairly may be asked whether the productivity

gains would not in any event have occurred to meet sharply increasing fuel costs as would higher average daily utilization and higher load factors brought about by a temporary tight new equipment situation. On the other hand, it appears that the tight equipment situation was in part brought about by more open entry by more carriers in more markets. The productivity gain argument, then, I think is questionable for either side of the deregulation proposition.

Profits. Miller and others rely heavily on the strong profit showing in 1978. That is fine to say, but profits plummeted in 1979 -- the first full year of deregulation -- and the figures to date in 1980 are a disaster and have been forecast for the full year 1980 to be the worst ever for the industry. Don't forget, the bragged-about profits of 1978 occurred when the economy was still strong and load factors high because of shortage of equipment and were, for the most part, before the adoption of the '78 Act. Furthermore, 1978 was before the effects of route deregulation had been felt at all.

The deregulationists, of course, explain away the profit turn around. Chairman Cohen in his presentation to the Aviation Subcommittee on May 20th said: "The real spoiler has been the price of fuel." But a spoiler of what? Fuel is one of the many items that make up the cost of air transportation and if air transportation is truly like any business or the corner grocery store, why shouldn't air transportation just compete for fuel based on relative economic value? A concomitant of that must, of course, be the industry's ability to price its service free of

governmental control. Indeed, isn't that the way the free marketplace is supposed to work? And if that be so, how can fuel costs be a spoiler of anything -- except maybe somebody's pet theory?

Service to Small Communities. Miller and others point to increased numbers of departures and frequency of service as a result of deregulation. There has also been a tremendous increase in commuter carrier operations and for many smaller cities, this has indeed been a real boon. But the votes are not all in as to the value of the new service regime as compared to the old insofar as an integrated air transportation system within the United States is concerned. Many smaller cities that used to be served by two or more certificated carriers are now served by only one, or even only by commuters. Furthermore, the use of smaller commuter aircraft severely limits cargo capacity at community airports as recognized in a letter drafted by the Board's staff for the Chairman's signature in commenting on H.R. 6418 and S. 2245. The results of small community service, then, are not an unmixed blessing and further analysis is required.

Airline Labor. The effect on airline labor has been insignificant according to Miller. I think we shall have to wait for a subsequent assessment of this aspect in view of the financial results being experienced by the industry. For example, press reports in the last two days have stated that both United and Continental will be cutting back both service and personnel drastically this fall.

Subsidy. Miller argues that even with the essential service program inaugurated by the 1978 Deregulation Act, the inflation adjusted subsidy bill is now less than before. Here again, I would not want to count on experience to date in view of what is happening to traffic and profits in the industry. Also, the full effect of the cost of the small community service program has not been felt or assessed in light of current economics.

Industry Concentration. Miller says the only merger of any consequence has been the Pan Am/National merger. He may not have considered the North Central/Southern merger to be of any consequence and he may have avoided mentioning the Flying Tiger/Seaboard merger since it was not yet consummated. There also would have been a Western/Continental Airlines combination if the CAB had not artificially stepped in. And the time is just now coming, because of the recession, to see if other mergers will be necessary. I saw just recently that an Investment Analyst has speculated that 6 of the present 10 trunk carriers may not be able to make it. We already have another merger -- the pending acquisition of Airwest by Republic, the name by which the merged North Central and Southern is known. Certainly, there appears to be a tendency towards increased concentration into fewer carriers and this can be expected to become an even more serious problem in view of recent financial results. On the other hand, one must admit that such carriers as Air Florida, Southwest Airlines, PSA, and Midway Airlines are newly federally certificated and are competing well in interstate markets. It is my understanding

that the first three are still financially sound, but Midway has yet to show a profit.

Miller's final two points are the airline network and safety. As to the former, he has "not observed" any deterioration although the votes can hardly be said to be in on that, pending resolution of the current domestic airline financial crisis. As to safety, I agree that there have been no accidents attributable to the effects of deregulation as such. I am, however, personally very nervous about this area because I remember some of the safety problems associated with the non-scheduled airlines in the early to mid-1950's.

Mr. Miller concluded his article as follows:

"The evidence thus far is overwhelmingly on the side of the proponents of deregulation. By 1984, when the CAB is scheduled for extinction, reasoned judgment may be on the other side. But that would happen only if in the meantime the industry experienced failures of disastrous proportions."

I agree with the deregulationists that the full story is not in. I disagree with them that the evidence thus far is overwhelming on the side of the proponents of deregulation and when they say it is, I think they brush over some very, very serious problems. Indeed, I question whether some of the "failures of disastrous proportions" which Mr. Miller apparently does not foresee, may not really be just around the corner.

It bothers me too when the deregulationists say that some of the present problems could not have been foreseen as of the time the deregulation bills were pending in Congress. Certainly, continually rising fuel prices were known because of the actions of

OPEC in the early to mid-1970's, and the possible overall adverse impact on the system was specifically called to the attention of Congress.

In this regard, I would like to read you a section from the testimony of Richard S. Maurer before the Senate Aviation Subcommittee in March of 1977. Mr. Maurer was then Sr. Vice President-General Counsel, Secretary and a Director of Delta Air Lines and is now Vice Chairman of the Board of that company. He said:

"First, as I mentioned earlier, while Delta individually is confident of its ability to prosper in a new regulatory climate, we are part of a national system that could be torn apart by sudden extensive change in the present statute. We think this would result from simultaneous provision for virtually mandatory grant of every route application by a new or a smaller carrier; for growth by existing carriers free of CAB control into new markets of choice; for replacement of dormant authority without examination of economics; for uncritical application of the anti-trust laws to an industry which can best meet many of its service functions on a uniform basis achieved through exemption from those laws; for summary administrative proceedings which would not afford the protections of a public hearing even in such basic areas as certificate modification or revocation; and for a number of other changes as well, as proposed in the two bills now before you. While certain improvements in some of these areas might be beneficial, enactment and implementation of the entire package would suddenly introduce the type of turnover and instability which we think are incompatible with the objectives of a common carrier air transport system, and which could result in concentration of whatever might survive in the hands of only a few carriers approaching, or even exceeding, the present size of United."

Mr. Maurer had earlier stated to the Subcommittee:

"Our concern is not entirely altruistic, however, because Delta is a part of, and impacted by that

system, and we are convinced that after such destruction had been wrought, there would be cries for new and more oppressive forms of regulation, leading toward nationalization."

Having looked at some of the incomplete results we have to date, Mr. Maurer's concerns appear to be valid indeed.

I should like to conclude my prepared remarks with the raising of some questions which need to be answered, particularly before deregulation can be accepted whole-heartedly in the international field.

To start with, I presume when the Board considers deregulation in the international field, it would abolish IATA as a rate-setting organization. It has, as I mentioned earlier, refused to allow U.S. carrier participation in the rate-setting activities of IATA over the North Atlantic. During the recent so-called legislative hearings held by the Board in connection with the IATA show cause order, the suggestion was made that absent the IATA conference machinery, governments would get bogged down in the details of rates and fares. Well, we now have an actual instance of this problem. The United States and the Scandinavian countries were in dispute over certain fare proposals of Northwest Airlines and as a result, the Board withdrew approval of an IATA rate agreement insofar as fuel-related increases would have been allowed between the U.S. and the Scandinavian countries. The Board used the economic pressure of denial of fuel-necessitated fare increases as a weapon to obtain approval of certain Northwest fares which the Board thought ought to be allowed. Without going into details, delegations representing the governments of the U.S. and three Scandinavian governments

met in Washington for ten days this past March. If my understanding is correct, there were ten members of the U.S. delegation plus two technical advisors from the industry and ten members of the Scandinavian delegation plus three technical advisors from their industry. These twenty-five people spent the better part of each of the ten days in reaching an agreement on fares. The agreement involved specific dollar levels for the fares, it involved definitions of season, and detailed conditions for certain fares, including group size, advance reservation requirements, minimum length of stay and the like. You must remember that technical advisors are generally not allowed to attend negotiating sessions, so the government negotiators who were not fare experts had to spend additional time briefing the technical advisors who, in turn, briefed their airline principles, who in turn, fed a response to the technical advisors, who in turn, rebriefed the negotiators, who in turn, went back to negotiating sessions on specific fares. When you consider the total time involved to discuss and determine fare proposals which could far more easily have been worked out by intercarrier negotiations in IATA, you get some idea of the massive waste of government time as well as that of carrier personnel in reaching this agreement.

I think a fair question to ask is whether that was an efficient and reasonable use of resources which can be expected from deregulation in the international field. One answer will, of course, be that if all nations would only join the CAB's approach, it would solve the matter. Such an answer is, I fear,

an oversimplification because other nations have other priorities and requirements than does the United States. And absent the conference machinery of IATA, the problems faced in the U.S.-Scandinavian negotiations may be expected to become commonplace.

Next, before deregulation can be accepted in the international community, a better assessment of how it is working domestically in the United States is essential. When nations, have different economies and different policy goals, a nation's domestic policy cannot be imposed in the international field but must be negotiated. As Mr. Taylor, President of IATA, said in his May 20 speech to the International Aviation Club in Washington:

"Domestic policy deals with a single country and a single, complex but close knit economy in which there is an overriding national interest and in which regional concerns can be harmonized through compromises which do not conflict with the central aim of policy.

"International policy on the other hand cannot ignore vital interests of other nations and these interests must be harmonized with one another through negotiation which gives due weight to everybody's concern: They cannot be harmonized on the basis of a unilateral policy goal which not everybody accepts."

Thus, before you accept the U.S. policy in preference to your own, you are entitled to ask and be given a conclusive answer as to how deregulation works in U.S. domestic air transportation. And, as I noted earlier, a definitive answer is not yet available. There has been deregulation as to service, but there has not been deregulation as to pricing and there has been a drastic increase in regulation in the so-called consumer area. You cannot and will not be able to tell if deregulation works until

they completely deregulate the industry and it goes through at least a full cycle of good and bad times.

The final and most serious question which I think needs to be asked and answered is what is the fallback position if deregulation does not work. You must remember that those who started the deregulation movement are predominantly academicians who having now obtained the reins of power in the government are like children in a candy store trying first this academic theory and then that. As one with formal training in economics -- an historical accident which I try to keep hidden, and my economist friends say I hide it very well indeed -- I can understand wanting to try out various theories many of which can only be proven or disproven by actual experience. My criticism of the current aeronautical breed, however, is that I do not believe they have any fallback position if the deregulation experiment does not work. Indeed, back in 1978, the May 15 Aviation Daily quoted the then Chairman of the Board, Mr. Kahn, as having told a Washington audience:

"If we get the structure of this industry changed, you are going to have one hell of a time getting it back to where it was."

Boy, was he right! But, subsequent to that comment, and while Mr. Kahn was still Chairman of the Board, I raised an issue at an oral argument as to what the Board would do if the theories turned out to be wrong.

Now, Mr. Kahn has always been good with a fast answer. He is a master of supporting his economic theory, and he doesn't duck an argument. But there has been no answer to the question "what if you're wrong."

It may be that Mr. Kahn did not understand the question, or it may be that he was unwilling even to entertain the possibility that an economic theory might be wrong. But it concerns me deeply when government decides to make major changes of the sort involved in deregulation yet has no apparent fallback position in case things don't work out. While somebody may think that is an acceptable risk when you are dealing strictly with internal domestic aviation matters, I do not think it is an acceptable risk in the international field. I think foreign governments must ask and are entitled to a definitive answer -- "What if it doesn't work? Is the U.S. willing to pick up the tab?"

And on that upbeat note, I'll be glad to take any questions or expand on any of the points I earlier made.