

Speech: Airline reform: Improvements possible within our present regulatory structure

Senator Spark M. Matsunaga Papers

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PRESENT REGULATORY STRUCTURE

JUNE 14, 1977

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My position on S. 689, the Cannon-Kennedy Airline Deregulation Bill, is essentially similar to that of my senior Senator from Hawaii. Foremost among my reservations is that the proposed bill does not provide adequate protection to insure that a truly competitive market will be maintained.

Under the bill, as currently written, I believe it would be entirely possible for the larger airlines to (a) cut their fares first---thereby running the smaller airlines out of business---and then, (b) simply increase

their fares after the competition has been eliminated. If we permit this to happen, all concerned, except the few dominant airlines, will be the losers.

Furthermore, we have only to look at the recent experience of the two local air carriers in Hawaii to appreciate the stabilizing effect of the Civil Aeronautics Board's involvement in airline regulation matters.

A few years ago, both airlines---Aloha and Hawaiian---were over-scheduling flights and flying ridiculously empty and therefore unprofitable planes back and forth between the six beautiful major islands which compromise our State. Each airline was attempting to obtain "...a competitive edge..." over the other carrier.

When it became apparent that help was needed, the CAB wisely stepped in and permitted the two carriers to work out an agreement, subsequently approved by the CAB, whereby both airlines adjusted their schedules to bring their passenger load factors up to economic levels. Had the CAB not intervened when it did, the State of Hawaii might now be served by only one non-competitive inter-island carrier.

Mr. President, as indicated earlier, I share all of the many reservations concerning S. 689 which were expressed so convincingly by Senator Inouye in his recent speech. I believe, moreover, that the very real problems which S. 689 attempts to resolve can be more adequately addressed within the present regulatory structure.

I commend Senator Inouye's speech to my colleagues
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PROCEEDINGS AND DEBATES OF THE 95th CONGRESS, FIRST SESSION

Vol. 123

WASHINGTON, TUESDAY, JUNE 14, 1977

No. 102

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I commend Senator INOUE's speech to my colleagues for their reading, and I ask unanimous consent that it be printed in the RECORD.

There being no objection, the speech was ordered to be printed in the RECORD, as follows:

SPEECH BY SENATOR DANIEL K. INOUE BEFORE THE AIRLINE PILOTS ASSOCIATION, ARLINGTON, VA., MAY 11, 1977

I wish to thank Captain O'Donnel and the members of the Airline Pilots Association executive board for the opportunity to share my views on deregulation with you this afternoon.

As the senior Senator of a State which is separated from the mainland by over two thousand miles, and as chairman of the Senate subcommittee responsible for tourism, as well as ranking member on its aviation subcommittee, I am well aware of how important a viable commercial airline system is to the economic and social welfare of our Nation.

I am therefore committed to assuring its continued viability, expansion, and improvement.

The first serious Federal economic regulation of air carriers came with the enactment of the Civil Aeronautics Act of 1938, which established the civil aeronautics authority, whose regulatory functions were subsequently transferred to a civil aeronautics board in 1940.

In 1958, Congress created what is the present C.A.B., and charged it, among things, with the economic regulation of U.S. commercial aviation, including jurisdiction over routes, rates and fares, and certain business practices of the airlines. The board was also empowered to authorize air carriers to provide service between city pair markets (e.g. Chicago to Detroit) by issuing certificates of public convenience and necessity.

Over the years, the level of criticism of C.A.B. regulatory policies has ebbed and flowed.

It is, I believe, accurate to say that this criticism mainly holds that the C.A.B.'s route awards policy is too restrictive; and that its fare policies seek levels which are too high and fail to allow cost-service options to passengers.

In the last two years, criticism of the

C.A.B.'s policies has become increasingly more severe, and resulted in several bills before Congress proposing regulatory reform. The Senate Aviation Subcommittee is currently considering two of them—S. 689, the Cannon-Kennedy bill, and S. 292, the Pearson-Baker bill.

As a Member of the United States Senate and ranking on its Aviation Subcommittee, I believe my responsibility is to ensure adequate commercial air service at the lowest possible air fares consistent with maintaining a healthy U.S. commercial aviation industry.

In evaluating S. 689, which is the principal bill under consideration, I believe therefore it is necessary to consider its potential long range effects on three broad areas of your industry—fares; quality of service; and stability of the industry. To be sure there are other provisions in the bill relating to such important matters as charters, airline agreements, and entry into the cargo industry, but the three broad areas I have mentioned go to the very heart of the bill and it is on their merits S. 689 must stand or fall, in my judgment.

FARES

The proponents of S. 689 maintain that the present C.A.B. regulation which controls entry into airline markets results in higher fares. They contend that the airlines serving a particular market tend to channel their energies into "service competition" rather than "price competition".

That is, they offer greater flight frequencies, more convenient departure times, movies, food, etc. Rather than lower fares.

On the basis of the committee hearing record to date, however, it appears to me that these claims rest more on hypothesis than fact.

How, we might legitimately ask, will deregulation bring down the cost of borrowing money; make Arab oil less expensive; or reduce the price of new equipment.

These and many other items are, of course, part of the overall air industry cost index.

Moreover, under S. 689 as presently drafted, fares could be raised up to 10 percent until December 31, 1979, and up to 20 percent thereafter, without C.A.B. approval.

Many, including the C.A.B., and consumer groups are concerned that carriers would automatically take the increase, especially on monopoly or near monopoly routes.

I understand, however, the sponsors of the bill are re-drafting the provision which permits fare increases without C.A.B. approval.

In this connection, I also do not believe that S. 689 adequately safeguards against the possibility that due to excessive competition, a few of the stronger carriers would ultimately dominate various markets and raise fares to monopoly levels.

In any event, it seems much more likely to me that whether deregulation occurs or not, our normal inflationary spiral will prevent any major price cuts.

Finally, with respect to our present system of price/entry regulation, a study by Robert R. Nathan associates found that "Fares on equidistant routes carrying approximately the same number of passengers are substantially lower in the U.S. than in Western Europe."

QUALITY OF SERVICE

I am also greatly concerned that under S. 689, there may be a deterioration in the domestic airline service we enjoy today.

This deterioration could range from outright abandonment of routes to reduction in frequency of service.

S. 689 makes it much easier to abandon markets which generate little passenger traffic. Under the bill a Federal subsidy program would assure continuation of service to smaller communities which are the most vulnerable in this regard.

At the outset I should note that the exact form of the subsidy program is not yet known. I understand, however, it is in the drafting state, and will be completed shortly.

Even if such a program were able to assure continuation of service to smaller communities—and until I have an opportunity to analyze it I will reserve judgment—there is still a grave danger, in my opinion, that service to medium-sized cities will be seriously curtailed.

I share the concern of your association with respect to most of these medium-sized cities which are tied into the Nation's commercial and vacation centers with convenient one-stop or connecting service on the trunk and regional airline systems.

As the opportunities for entry into major markets become available—and they would under S. 689—carriers in these systems may very likely shift their resources from these one and two stop markets and concentrate on larger non-stop markets where the profit potential is greater.

Finally, while on the subject of service deterioration I would like to say a word about the very real possibility that deregulation might result in a reduction in the frequency of service.

The proponents of deregulation rest their argument against a reduction in frequency of service on the assumption that lower air fares will stimulate so much new traffic that the number of flights in a given market will increase rather than decrease.

Even they, however, must concede that if only small price decreases occur as a result of deregulation such decreases would not be a sufficient stimulus to have much impact on traffic volume.

If, therefore, as I believe, air fares will rise regardless of deregulation, we could look forward to a reduction in the frequency of service.

STABILITY OF THE INDUSTRY

The final effect which I feel must be considered in assessing legislation such as S. 689, relates to stability in the airline industry; and conversely, the threat of instability if S. 689 were enacted.

My concern on this point is twofold.

First, the kind of increased competition which S. 689 would encourage may well induce bankruptcies among the financially weaker air carriers, and thus cause service disruption.

Significantly, eight trunk carriers voiced their concern before the committee that only a few could survive a market free-for-all.

Moreover, given the choice of serving a market and the freedom to raise and lower fares, as S. 689 would do, the integrated airline network developed since the inception of regulation could very well be destroyed.

My second concern stems from the first, and relates to the impact of deregulation on airline industry employees, as well as others.

According to statistics, during the Arab oil embargo in 1973-74 airline employees suffered mass furloughs (10,000 to 12,000), and some of these people are still on layoff.

Your own association testified before my tourism subcommittee on an energy resolution at that time, and I well remember Captain Bonner's testimony that 2,000 pilots were furloughed within a 5 month period.

Some sources maintain that the hardship and tragedy of that period would pale before the consequences of the instability which would occur if S. 689 were enacted.

The subcommittee has testimony that predicts expected layoffs of 50,000 to 70,000 if S. 689 becomes law.

Moreover, I believe even proponents of deregulation would concede that substantial adverse changes in the fortunes of a given airline would cause severe labor dislocation.

Since airline employee practices are characterized by strong seniority benefits, it would be difficult for a laid-off senior em-

ployee to find employment with comparable benefits from another airline.

I note that in its 1975 report on regulatory reform the C.A.B. implicitly concedes this possibility by pointing out that the relative positions of the leading companies have been more stable over time than one would expect without regulation. (C.A.B., regulatory reform, pp. 55 N.1 (1975).)

If S. 689 causes the instability many including myself fear it will, its impact will not only be felt by airline industry employees.

In addition to pilots, flight attendants, dispatchers, mechanics, ticket agents, and clerical workers, others will suffer as well.

Most assuredly there will be a domino effect, and jobs will be lost in such support industries as airports, manufacturers, suppliers, and the multitude of industries which make up the \$100 billion tourism industry.

To me these risks are simply unacceptable. And they are especially so when we are asked to take them on the basis of hypothesis at a time when the unemployment rate is 7%.

CONCLUSION

On the matter of deregulation President Carter has said the Government must be careful to protect "the legitimate interests" of the industry and its employees.

For the reasons I have outlined, I simply do not believe S. 689 does this.

I am aware that certain key provisions are currently being re-drafted, and it is always possible my reservations will be laid to rest.

I do not hold out much hope for this, however, because my misgivings go to the very heart of the bill, and it seems unrealistic to expect that its proponents would change it that significantly.

Although my remarks so far have been mostly negative, I much prefer to think affirmatively and act constructively.

I would therefore like to end my talk on a positive note.

There is room for improvement in your industry, and in the very valuable service it offers.

I believe there should be more responsive administration of existing law. It seems to me that there is a general regulatory lag at the CAB, and that the board could act faster on route cases. In the regulatory process, justice delayed is truly justice denied.

I also believe a case can be made for some degree of pricing flexibility.

I believe we should seriously consider allowing airlines to offer lower fares in individual markets to attract passengers during periods of low traffic demand, and to raise fares with sudden cost increases.

Such flexibility should, of course, have a specific ceiling and floor above and below a base fare level in order to prevent destructive competition or price gouging.

Such pricing flexibility might be one technique which would enable the air carriers to move progressively in the direction of greater reliance on competition to provide ever better and cheaper air service to the American public.

I am therefore committed to improvements within our present regulatory structure, even alterations in it, if demonstrably necessary.

Whatever its shortcomings, however, we have the finest commercial air transportation system in the world. As we proceed to remedy these shortcomings—and remedied they must be—I do not believe we should "throw the baby out with the bathwater."

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Again, I wish to thank you for the opportunity to share my views with you.

ABORTION FUNDING PROHIBITION—1978 FISCAL YEAR LABOR/HEW APPROPRIATIONS ACT

Mr. BARTLETT. Mr. President, as the Senate once again prepares to consider the 1978 fiscal year Labor/HEW Appropriations Act, and the difficult question of abortion funding with taxpayer dollars, I thought the following item might be of interest to my colleagues on the legal status of the so-called Hyde amendment prohibition enacted in last year's fiscal year 1977 measure.

In a letter to several Members of Congress concerned with the current status of the court challenge to 1977 fiscal year prohibition on Government funding of abortion—the so-called Hyde amendment—the attorneys for Senator HELMS and Congressman HYDE, among others, clearly point out no final determination by the U.S. Supreme Court has ever been rendered to date. No Federal court has ever ruled definitively that Congress must fund abortions with Federal tax dollars.

Mr. President, I ask unanimous consent that the text of this letter be printed in the RECORD.

There being no objection, the letter was ordered to be printed in the RECORD, as follows:

BODELL & MAGOVERN, P.C.,
New York, N.Y., May 17, 1977.

Re: James L. Buckley, Jesse A. Helms, Henry J. Hyde, and Isabella M. Pernicone, as Guardian ad litem, Appellants v. Cora McRae, et. al., Appellees, in the Supreme Court of the United States, Docket Number 76-694, filed November 17, 1976.

Hon.
Russell Senate Office Building,
Washington, D.C.

DEAR SENATOR: We are the attorneys of record for Appellants in the above-referenced litigation which challenges the constitutionality of Section 209 of PL 94-439 (90 Stat. 1418, September 30, 1976), the Labor-HEW Appropriations Act for Fiscal Year 1977. Our clients have requested us to inform you that, as of the date of this letter, there has been no final determination of this litigation in the Supreme Court of the United States.

The text of Section 209 of PL 94-439 is the same as the text currently proposed in the FY '78 Labor-HEW Appropriations Bill. It reads as follows:

"None of the funds contained in this Act shall be used to perform abortions except when the life of the mother would be endangered if the fetus were carried to term."

The purpose of this language is plainly stated in the conference report dated September 15, 1976 (House Report No. 94-1555), as follows:

"It is the intent of the conferees to limit the financing of abortion under the Medicaid program to instances where the performance of an abortion is deemed by a physician to be of medical necessity and to prohibit payment for abortion as a method of family planning, or for emotional or social convenience."

There was, at the time of the adoption of Section 209, pending litigation in the Supreme Court of the United States related to the issue of public funding of abortions. On this matter the same conference report stated:

"The Congress is aware that there are three cases related to this issue to be heard by the Supreme Court of the United States this fall, and wishes to make clear that the Congress in its action upon this particular appropriations bill does not intend to pre-

judge any constitutional questions involved in those cases."

The three cases referred to in the conference report were argued before the Supreme Court of the United States on January 11, 1977, and presently await decision by the Court. The case previously referred to by the Court, and presently pending in the fourth case presently pending in the Supreme Court of the United States related to public funding of abortions. It has not yet been argued, and argument before the Court will probably depend upon final determination of the three earlier cases, all of which involve public funding of abortions on the state and local level.

None of the aforementioned cases presently pending in the United States Supreme Court should be considered to affect the authority of Congress in any way until there has been a final determination of the constitutional questions presented in that Court. Acts of Congress are presumptively constitutional and the preliminary injunction against enforcement of Section 209 of PL 94-439, now on appeal before the Supreme Court of the United States, is designed merely to preserve the status quo pending final determination of the constitutional issues by the Court. Obviously, Congress is also entitled to maintain the status quo pending final outcome of this litigation by re-enacting the text of Section 209 of PL 94-439 in the 1978 Appropriations Bill.

Respectively submitted,

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AIRLINE REFORM: IMPROVEMENTS POSSIBLE WITHIN OUR PRESENT REGULATORY STRUCTURE

Mr. MATSUNAGA. Mr. President, on May 11, 1977 Senator DANIEL K. INOUE, my very distinguished and highly respected colleague from Hawaii, delivered a speech before a meeting of the Airline Pilots Association's executive board.

Senator INOUE used the occasion of his speech to outline his views concerning airline deregulation, a topic much discussed in recent weeks here in Washington, and elsewhere throughout the Nation. He provided an insightful assessment of the airline deregulation proposals currently being considered in committee. His sensitive and sensible approach to the examination of the various aspects of the issue is both thoughtful and persuasive.

My position on S. 689, the Cannon-Kennedy airline deregulation bill, is essentially similar to that of my senior Senator from Hawaii. Foremost among my reservations is that the proposed bill does not provide adequate protection to insure that a truly competitive market will be maintained.

Under the bill, as currently written, I believe it would be entirely possible for the larger airlines to cut their fares first—thereby running the smaller airlines out of business—and then, simply increase their fares after the competition has been eliminated. If we permit this to happen, all concerned, except the few dominant airlines, will be the losers.

Furthermore, we have only to look at the recent experience of the two local air carriers in Hawaii to appreciate the stabilizing effect of the Civil Aeronautics

Board's involvement in airline regulation matters.

A few years ago, both airlines—Aloha and Hawaiian—were overscheduling flights and flying ridiculously empty and, therefore, unprofitable planes back and forth between the six beautiful major islands which comprise our State. Each airline was attempting to obtain "a competitive edge" over the other carrier.

When it became apparent that help was needed, the CAB wisely stepped in and permitted the two carriers to work out an agreement, subsequently approved by the CAB, whereby both airlines adjusted their schedules to bring their passenger load factors up to economic levels. Had the CAB not intervened when it did, the State of Hawaii might now be served by only one noncompetitive, inter-island carrier.

Mr. President, as indicated earlier, I share all of the many reservations concerning S. 689 which were expressed so convincingly by Senator INOUE in his recent speech. I believe, moreover, that the very real problems which S. 689 attempts to resolve can be more adequately addressed within the present regulatory structure.

I commend Senator INOUE's speech to my colleagues for their reading, and I ask unanimous consent that it be printed in the RECORD.

There being no objection, the speech was ordered to be printed in the RECORD, as follows:

SPEECH BY SENATOR DANIEL K. INOUE BEFORE THE AIRLINE PILOTS ASSOCIATION, ARLINGTON, VA., MAY 11, 1977

I wish to thank Captain O'Donnel and the members of the Airline Pilots Association executive board for the opportunity to share my views on deregulation with you this afternoon.

As the senior Senator of a State which is separated from the mainland by over two thousand miles, and as chairman of the Senate subcommittee responsible for tourism, as well as ranking member on its aviation subcommittee, I am well aware of how important a viable commercial airline system is to the economic and social welfare of our Nation.

I am therefore committed to assuring its continued viability, expansion, and improvement.

The first serious Federal economic regulation of air carriers came with the enactment of the Civil Aeronautics Act of 1938, which established the civil aeronautics authority, whose regulatory functions were subsequently transferred to a civil aeronautics board in 1940.

In 1958, Congress created what is the present C.A.B., and charged it, among things, with the economic regulation of U.S. commercial aviation, including jurisdiction over routes, rates and fares, and certain business practices of the airlines. The board was also empowered to authorize air carriers to provide service between city pair markets (e.g. Chicago to Detroit) by issuing certificates of public convenience and necessity.

Over the years, the level of criticism of C.A.B. regulatory policies has ebbed and flowed.

It is, I believe, accurate to say that this criticism mainly holds that the C.A.B.'s route awards policy is too restrictive; and that its fare policies seek levels which are too high and fail to allow cost-service options to passengers.

In the last two years, criticism of the

C.A.B.'s policies has become increasingly more severe, and resulted in several bills before Congress proposing regulatory reform. The Senate Aviation Subcommittee is currently considering two of them—S. 689, the Cannon-Kennedy bill, and S. 292, the Pearson-Baker bill.

As a Member of the United States Senate and ranking on its Aviation Subcommittee, I believe my responsibility is to ensure adequate commercial air service at the lowest possible air fares consistent with maintaining a healthy U.S. commercial aviation industry.

In evaluating S. 689, which is the principal bill under consideration, I believe therefore it is necessary to consider its potential long range effects on three broad areas of your industry—fares; quality of service; and stability of the industry. To be sure there are other provisions in the bill relating to such important matters as charters, airline agreements, and entry into the cargo industry, but the three broad areas I have mentioned go to the very heart of the bill and it is on their merits S. 689 must stand or fall, in my judgment.

FARES

The proponents of S. 689 maintain that the present C.A.B. regulation which controls entry into airline markets results in higher fares. They contend that the airlines serving a particular market tend to channel their energies into "service competition" rather than "price competition".

That is, they offer greater flight frequencies, more convenient departure times, movies, food, etc. Rather than lower fares.

On the basis of the committee hearing record to date, however, it appears to me that these claims rest more on hypothesis than fact.

How, we might legitimately ask, will deregulation bring down the cost of borrowing money; make Arab oil less expensive; or reduce the price of new equipment.

These and many other items are, of course, part of the overall air industry cost index.

Moreover, under S. 689 as presently drafted, fares could be raised up to 10 percent until December 31, 1979, and up to 20 percent thereafter, without C.A.B. approval.

Many, including the C.A.B., and consumer groups are concerned that carriers would automatically take the increase, especially on monopoly or near monopoly routes.

I understand, however, the sponsors of the bill are re-drafting the provision which permits fare increases without C.A.B. approval.

In this connection, I also do not believe that S. 689 adequately safeguards against the possibility that due to excessive competition, a few of the stronger carriers would ultimately dominate various markets and raise fares to monopoly levels.

In any event, it seems much more likely to me that whether deregulation occurs or not, our normal inflationary spiral will prevent any major price cuts.

Finally, with respect to our present system of price/entry regulation, a study by Robert R. Nathan associates found that "Fares on equidistant routes carrying approximately the same number of passengers are substantially lower in the U.S. than in Western Europe."

QUALITY OF SERVICE

I am also greatly concerned that under S. 689, there may be a deterioration in the domestic airline service we enjoy today.

This deterioration could range from outright abandonment of routes to reduction in frequency of service.

S. 689 makes it much easier to abandon markets which generate little passenger traffic. Under the bill a Federal subsidy program would assure continuation of service to smaller communities which are the most vulnerable in this regard.

At the outset I should note that the exact form of the subsidy program is not yet known. I understand, however, it is in the drafting state, and will be completed shortly.

Even if such a program were able to assure continuation of service to smaller communities—and until I have an opportunity to analyze it I will reserve judgment—there is still a grave danger, in my opinion, that service to medium-sized cities will be seriously curtailed.

I share the concern of your association with respect to most of these medium-sized cities which are tied into the Nation's commercial and vacation centers with convenient one-stop or connecting service on the trunk and regional airline systems.

As the opportunities for entry into major markets become available—and they would under S. 689—carriers in these systems may very likely shift their resources from these one and two stop markets and concentrate on larger non-stop markets where the profit potential is greater.

Finally, while on the subject of service deterioration I would like to say a word about the very real possibility that deregulation might result in a reduction in the frequency of service.

The proponents of deregulation rest their argument against a reduction in frequency of service on the assumption that lower air fares will stimulate so much new traffic that the number of flights in a given market will increase rather than decrease.

Even they, however, must concede that if only small price decreases occur as a result of deregulation such decreases would not be a sufficient stimulus to have much impact on traffic volume.

If, therefore, as I believe, air fares will rise regardless of deregulation, we could look forward to a reduction in the frequency of service.

STABILITY OF THE INDUSTRY

The final effect which I feel must be considered in assessing legislation such as S. 689, relates to stability in the airline industry; and conversely, the threat of instability if S. 689 were enacted.

My concern on this point is twofold.

First, the kind of increased competition which S. 689 would encourage may well induce bankruptcies among the financially weaker air carriers, and thus cause service disruption.

Significantly, eight trunk carriers voiced their concern before the committee that only a few could survive a market free-for-all.

Moreover, given the choice of serving a market and the freedom to raise and lower fares, as S. 689 would do, the integrated airline network developed since the inception of regulation could very well be destroyed.

My second concern stems from the first, and relates to the impact of deregulation on airline industry employees, as well as others.

According to statistics, during the Arab oil embargo in 1973-74 airline employees suffered mass furloughs (10,000 to 12,000), and some of these people are still on layoff.

Your own association testified before my tourism subcommittee on an energy resolution at that time, and I well remember Captain Bonner's testimony that 2,000 pilots were furloughed within a 5 month period.

Some sources maintain that the hardship and tragedy of that period would pale before the consequences of the instability which would occur if S. 689 were enacted.

The subcommittee has testimony that predicts expected layoffs of 50,000 to 70,000 if S. 689 becomes law.

Moreover, I believe even proponents of deregulation would concede that substantial adverse changes in the fortunes of a given airline would cause severe labor dislocation.

Since airline employee practices are characterized by strong seniority benefits, it would be difficult for a laid-off senior em-

ployee to find employment with comparable benefits from another airline.

I note that in its 1975 report on regulatory reform the C.A.B. implicitly concedes this possibility by pointing out that the relative positions of the leading companies have been more stable over time than one would expect without regulation. (C.A.B., regulatory reform, pp. 55 N.1 (1975).

If S. 689 causes the instability many including myself fear it will, its impact will not only be felt by airline industry employees.

In addition to pilots, flight attendants, dispatchers, mechanics, ticket agents, and clerical workers, others will suffer as well.

Most assuredly there will be a domino effect, and jobs will be lost in such support industries as airports, manufacturers, suppliers, and the multitude of industries which make up the \$100 billion tourism industry.

To me these risks are simply unacceptable. And they are especially so when we are asked to take them on the basis of hypothesis at a time when the unemployment rate is 7%.

CONCLUSION

On the matter of deregulation President Carter has said the Government must be careful to protect "the legitimate interests" of the industry and its employees.

For the reasons I have outlined, I simply do not believe S. 689 does this.

I am aware that certain key provisions are currently being re-drafted, and it is always possible my reservations will be laid to rest.

I do not hold out much hope for this, however, because my misgivings go to the very heart of the bill, and it seems unrealistic to expect that its proponents would change it that significantly.

Although my remarks so far have been mostly negative, I much prefer to think affirmatively and act constructively.

I would therefore like to end my talk on a positive note.

There is room for improvement in your industry, and in the very valuable service it offers.

I believe there should be more responsive administration of existing law. It seems to me that there is a general regulatory lag at the CAB, and that the board could act faster on route cases. In the regulatory process, justice delayed is truly justice denied.

I also believe a case can be made for some degree of pricing flexibility.

I believe we should seriously consider allowing airlines to offer lower fares in individual markets to attract passengers during periods of low traffic demand, and to raise fares with sudden cost increases.

Such flexibility should, of course, have a specific ceiling and floor above and below a base fare level in order to prevent destructive competition or price gouging.

Such pricing flexibility might be one technique which would enable the air carriers to move progressively in the direction of greater reliance on competition to provide ever better and cheaper air service to the American public.

I am therefore committed to improvements within our present regulatory structure, even alterations in it, if demonstrably necessary.

Whatever its shortcomings, however, we have the finest commercial air transportation system in the world. As we proceed to remedy these shortcomings—and remedied they must be—I do not believe we should "throw the baby out with the bathwater."

Again, I wish to thank you for the opportunity to share my views with you.

COMMISSIONER JEROME KURTZ
PROPOSES REFORMS IN IRS
PROCEDURES

Mr. KENNEDY, Mr. President, on
May 24, 1977 in Los Angeles, IRS Com