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**From** : "Kahn, Alfred" <Alfred.Kahn@NERA.com>

**To** : <airmoab@juno.com>

**Subject** : From Fred Kahn - 1

**Date** : Tue, Dec 19, 2006 12:36 PM

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Fred Kahn has asked me to forward some exchanges he is having with Harold C. Here's #1--the initial letter on which Fred was copied and the response to Mr. Cope. More to follow.

Martha

\*\*\*Please reply directly to [alfred.kahn@nera.com](mailto:alfred.kahn@nera.com). Thank you.\*\*\*

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**From:** Alfred Kahn [mailto:[alfred.kahn@verizon.net](mailto:alfred.kahn@verizon.net)]

**Sent:** Tuesday, December 19, 2006 11:09 AM

**To:** Kahn, Alfred; [zebuone@aol.com](mailto:zebuone@aol.com)

**Cc:** [cwinston@brookiings.edu](mailto:cwinston@brookiings.edu); Dorman, Gary

**Subject:** Re: The following is being sent to the indicated addressees...Hal

Mr. Cope:

**thank you for copying me on your communication to Rep. Oberstar and Sen. Inouye about the present condition of the airline industry. I welcome an objective inquiry. Although I believe there can be no doubt whatever that the flying public has benefited hugely from the competition that deregulation permitted--at the cost of increased congestion and discomfort--the inevitable consequence of the increase in average load factors from the low 50s to the upper 70s induced (and making possible) the sharp increase in price competition (and by low cost competitors) clearly resulting from deregulation.**

I reply to you not to argue the merits-- no one can be entirely happy about the chronic financial ills of the industry--but to point out the major factual error in your narrative:as you correctly point out it was the CAB regulators, with their urging and full support if not the stimulus of the major incumbent airlines that hounded the pioneer non-skeds--whose pioneering competition you justly praise--out of business. AND, closely related, you are almost 100% wrong in saying that the major incumbent airlines who then "agitated Congress and CAB to free themselves from ...."--with the exception of UAA, you are flatly wrong--look at your own quotation of Bob Crandall's characteristic bluntness!

The fact remains that the industry is unquestionably in deplorable financial condition and --as you can see--I would be 'happy if Congress or some other agency undertook an objective inquiry. With thanks for your copying of my communication.

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From: [ZEBUONE@aol.com](mailto:ZEBUONE@aol.com)[SMTP:[ZEBUONE@AOL.COM](mailto:ZEBUONE@AOL.COM)]  
Sent: Monday, December 18, 2006 9:45:01 PM  
To: Kahn, Alfred; [opinions@arizonarepublic.com](mailto:opinions@arizonarepublic.com)  
Subject: The following is being sent to the indicated addressees...Hal  
Auto forwarded by a Rule

Harold D. Cope

Post Office Box 2666

Snowflake, AZ 85937

Phone 480-231-4410

Email <<mailto:zebuone@aol.com>> [zebuone@aol.com](mailto:zebuone@aol.com)

Rep. Oberstar

**Chairman House Transportation Committee**

**2365 Rayburn House Office Building**

**Washington, DC 20515**

**Senator Daniel Inouye**

**Senate Commerce Committee**

**722 Hart Building**

**Washington, DC 20510-1102**

**Cc: Mr. Michael Boyd**

**The Boyd Group, Inc.**

**78 Beaver Brook Canyon Road**

**Evergreen, Colorado 80439**

**Cc: Arizona Republic**

**Professor Kahn**

**Subject: The airline industry is broken and needs to be fixed. Some re-regulation of the industry is mandatory.**

Senator Inouye and US Representative Oberstar:

My daily paper, The Arizona Republic, carried an article entitled "CONGRESS PREPARES FOR HEARINGS ON AIRLINE MERGERS" dated 18 December 2006. Having spent over fifty years in airline management, beginning in 1947, I couldn't help but smile upon learning Congress is belatedly taking an interest in the unwarranted/uncontrolled competition among the airline survivors of the "airline Titanic" a.k.a. "1 Airline Deregulation Act of 1978."

It appears that Congress is belatedly coming to the realization the "mercenary" ambitions currently touted by the uncontrolled "new breed" of airline managers would (1) wipe out jobs, (2) decrease competition, (3) diminish services, (4) drive up ticket prices among other ills facing the industry; would not cure of ills of the industry in the long term. Where have I heard these arguments before? Let me tell you!

Congress with the help of its hired guns, The Civil Aeronautics Board, lobbyists, the Airline Transport Airline Association and the "grandfathered" airlines under the Civil Aeronautics Act of 1938, eliminated a young upstart group of airlines operated by WWII pilots, flying obsolete WWII aircraft obtained from the War Assets Administration. The only sin of these pioneers was they dared to have the effrontery to offer low cost air transportation for first time fliers and the bus travelers.

The "NonSked" airlines originated the \$99 Air Coach fare (not Southwest)

some would have you believe) from the Burbank/Los Angeles coast to New York with passenger stops at Kansas City and Chicago. These dispatches by WWII pilots flying their piston powered aircraft (DC-3's, DC-4's, C-46's, Constellations) was not a serious competitive threat to the scheduled airlines. However the Goliath of the scheduled airline industry, Civil Aeronautics Board, high powered airline lobbyists, and Congress brought their combined mighty force to bear determined to eliminate once and for all this little David, who had the gall to challenge "the anointed ones." The bottom lines of the scheduled airlines was not in jeopardy as the CAB had authority, within its economic rules and regulations, to insure the grandfathered carriers would maintain a degree of profit. This was a territorial battle and not a battle of the bottom line or undue competition.

The ten year battle by Goliath to eliminate David was finally decided by the Supreme Court of the United States. The effort to eliminate the "Non-scheduled threat" by the scheduled airline industry focused on the leader of the Nonscheduled Coach movement - North American Airlines the largest of the Nonscheduled the acknowledged leader in the battle for rights to the nation's airways. The single minded assassination of the fledgling industry by the combined effort of the government and scheduled airline industry succeeded, with a victory for Goliath. Following a decision by the Supreme Court of the United States handed down on April 23, 1957 denying North American Airlines appeal for a stay a lower court CAB order to cease and desist was the nail in the coffin of the Nonscheduleds. The airline Goliath altered the Biblical history books. David was defeated by Goliath instead of visa versa.

The bright future for the scheduled airlines occasioned by the elimination of the Nonscheduleds, based on the "illegitimate" claim of excessive competition was to be short lived. Congress was about to hand the scheduled industry a loaded gun with which to blow out its collective brains. With the Nonscheduleds out of the picture the scheduled airline industry began agitating Congress and the Civil Aeronautics Board to cut them free from the bonds of "airline regulation." They found favorable reception from the then Chairman of the Civil Aeronautics Board- Professor Kahn. The thesis (faulty - as proved

the current industry economic tail spin) put forward by the scheduled industry for freedom from government control was that the airlines knew better than the government what was best for the airline industry. Oh! wrong they were as recent events have proven.

Senator Howard Cannon of Nevada introduced S.2493 on February 6, 1978. It was passed by the Senate and signed by President Carter becoming Law 95-504 on October 24, 1978. The Airline Deregulation Act was the first step of abandonment of the flying public to the whims, greed, and mismanagement of the airline industry. The Act authorized uncontrolled access to routes, fare management, and aircraft acquisitions. In other words, the airline industry was left to its own devices to destroy itself without government intervention – which it set about to accomplish – and has

What a sad ending for both the airlines and the flying public. There were some counts, 165 airline bankruptcy filings from 1979 through 2005 – Continental, Braniff, Pan American, American, Trans World Airlines, United Airways, United Airlines and Delta. How sad! Four years after airline deregulation the industry had amassed a net operating loss of \$421 million (U.S. Centennial of Flight Commission Report). Rampant competitor deregulation has proven to be a disaster for our airline industry and the traveling public. Rising fuel costs, employee and traveler dissatisfaction, uncontrolled route/fleet/facility expansions contributed to the mounting losses that began in 1980 – a mere two years after airline deregulation.

Today we find our airline industry in a sad state of disarray. There are more carriers in bankruptcy than any other time; air traveler dissatisfaction with service is growing; lost/mishandled baggage is approaching the size of Everest; comfortable seating is a thing of the past; box lunches are back in vogue once more since the 1950's; air quality within aircraft cabins has deteriorated in spite of new technological advancements in environmental control and airline deregulation has led to predatory pricing; anti-

competitive behavior; airlines over extending themselves financially; bankruptcies and takeovers.

Not everyone agreed with Professor Kahn on the merits of deregulation and its touted positive effects on the scheduled airline industry. Robert Crandall of American Airlines testifying before Senate in 1977 provided this bit of wisdom, and a prophecy came to pass, about deregulation of the airline industry when he said...

“You f###king eggheads! You don’t know sh###. You can’t deregulate the industry. You’re going to wreck it. You don’t know a goddam thing.” (from the book “Slipping the Surly Bonds – Great Quotations on Flight” by C. English)

How wise Bob Crandall was. It is unfortunate that Professor Kahn and Congress didn’t listen to his words of wisdom. When 9/11 came upon our great country the industry and Congress jumped at the chance to blame the mounting ills of airline deregulation on a group of crazed Muslims throwing billions of dollars at the industry to keep it afloat – which was nothing more than rewarding incompetent airline management. That game missed the mark. The crazies that brought down the industry were egotistical, greedy airline board rooms who mismanaged the industry during deregulation egged on by the lack of responsible oversight by congressional directors and at the urging of aircraft manufacturers and leasing companies. As another who stood up on several occasions at public hearings and argued in opposition to Professor Kahn with regard to his glowing and positive outlook for future of the airlines industry under deregulation it appears that Bob Crandall and I were two wise men whose wise counsel was ignored.

I would hope that you, Senator Inouye and Representative Oberstar, take the time to read this bit of airline history. My hope is that mistakes of the past can be avoided in the future. With the vast and growing petroleum needs of the airline industry uncertain with regard to continued availability and reasonable cost, unwarranted and growing competition, and mounting air traveler dissatisfaction it doesn't take a genius to predict heavy turbulence for the airline industry in the foreseeable future.

Congress should rightfully be concerned about the chaotic state of the national airline industry as it affects the future and continued economic welfare of our great country. The time has come for some form of re-regulation of the airline industry. Congress should rein in the unbridled authority it gave the airline industry to chart its own course. The airline industry, as currently constituted, has without any doubt proven over the last 29 years that it is incapable of managing its affairs in a manner in the best interests of the industry, the traveling public and the needs of our country.

I would strongly suggest there is an immediate need for a rejuvenated independent Civil Aeronautics Board with oversight over the airline industry. Such a Board, answering only to Congress, should be given the authority to hold evidentiary hearings with regard to applications for route changes, acquisitions, competitive needs, fares and service. Such applications have to prove public need and necessity, economic viability, and ability to perform and also take into account the national interests of our country. Only in this manner that our airline industry can once again be set upon a path to recovery.

World conditions demand our airline industry be re-stabilized to a healthy economic and operational status enabling the industry to respond to the needs from our nation for support in the growing needs to fight the unending terrorism and to favorably meet the expectations of the air traveling public in areas of safety, service and reliability. The fable of the airline fish por



attached along with my airline background.

Thank you,

Harold D. Cope

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Thank you for your cooperation.

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From: Alfred Kahn (mailto:alfr@ed.sabotage.org) [mailto:alfr@ed.sabotage.org]  
Sent: Tuesday, December 17, 2008 10:00 AM

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Thank you for your cooperation.

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Cope  
Thank you for copying me on your communication to Rep. Cliff Stearns, looking about the present condition of the airline industry. I welcome an objective inquiry. Although I believe there can be no doubt whatever that the flying public has benefited mightily by the competition that deregulation permitted--at the cost of overcapacity, congestion and discomfort--the inevitable consequences of deregulation (average load factors from the low 50s to the upper 70s, and (and making possible) the sharp increase in price per mile flown by low cost competitors) clearly resulting from deregulation.

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**From** : "Kahn, Alfred" <Alfred.Kahn@NERA.com>  
**To** : <ZEBUONE@aol.com>  
**Subject** : RE: Airline Study Group  
**Date** : Thu, Dec 21, 2006 01:52 PM

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\*\*\*Please reply directly to [alfred.kahn@nera.com](mailto:alfred.kahn@nera.com). Thank you.\*\*\*

Dear Mr. Cope:

I owe you an answer to your inquiry about the possibility of being your guest speaker at the 2008 reunion of the Aviation Pioneers Association.

I certainly would enjoy the opportunity. But you will understand the awkward *NESS* of my making a commitment to travel 6000 or so miles to fulfill a commitment sometime after my 90<sup>th</sup> birthday, when long-distance travel is already very difficult. I will do my very best to stay around, but I can hardly predict that *SUCH* a trip would be less arduous in 2008 than it would have been in 2006.

Sincerely,

*Alfred Kahn*

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**From:** ZEBUONE@aol.com [mailto:ZEBUONE@aol.com]  
**Sent:** Wednesday, December 20, 2006 5:21 PM  
**To:** Kahn, Alfred  
**Subject:** Airline Study Group

Professor Kahn:

Sorry to bother you however my mind won't let go of the AIRLINE STUDY GROUP concept. Most of last night was devoted to thinking about it. Boy! I hate it when my mind won't let go. I have developed some raw/preliminary thoughts which may be used to bring concept into sharper focus. The general

objective of the Airline Study Group would be to assist Congress or other governmental bodies in their efforts to determine the best course of action and actions needed to stabilize the passenger airline industry. The Airline Study Group would, during the course of its undertaking, assess and identify the needs of the airline industry and make recommendations that hopefully would bring about desired changes.

**The following suggested criteria could be used to assist the study group in establishing guidelines to direct the efforts of the Airline Study Group.**

- A. That... a healthy, profitable, stable airline industry is in the national interest of the United States of America.
- B. That... one of the essential responsibilities of the airline industry is to use scarce petroleum supply with utmost prudence.
- C. That... following safety - customer satisfaction, identified/proven need of public utility asset to the nation and the community it serves.
- D. That... duplication of schedules, routes and departure times which are inconsistent with established public convenience and necessity requirements should be reduced to the maximum extent possible.
- E. That... all route and/or equipment expansion must be proven to be in the best interests of the overall health of the airline industry, proven need to establish public convenience and necessity criteria and be in the national interests of the nation.
- F. That... any new entrant authorizations for entry into the national transport system would be dependent upon the positive outcome of evidentiary hearings and the need for such service.
- G. That... what forms of government regulation, if any, of the passenger airline industry is required to meet the established criteria consistent with the needed stabilization of the passenger airline industry.

**Composition of the Airline Study Group (suggested):**

- 1. The group should consist of individuals neutered of any political axes to grind.
- 2. The core group should be small so as not to be unwieldy and cumbersome consisting of five members which the chairman of the group would hold a casting or breaking vote.

3. How the group is to be funded remains uncertain although it would be helpful if funding could be arranged from a source(s) which would leave the group independent of any attached strings...say... a University or Foundation.
4. To keep the groups cost of operation within reason it would be useful if a university or other such identity could be located that would be offer to support the group in its need for research assistance. At one time, if I remember correctly, the University of Michigan had a Transportation School that was very active in airline statistics and research.
5. Membership suggestions... (1) Professor Kahn, Chairman; (2) Fred Smith (FEDX) member; (3) Michael Boyd (The Boyd Group, Inc) member; (4) Davies (Smithsonian) member; and (5) no suggestion as yet.

These are only raw thoughts that have come to mind in the last 24 hours. Obviously finer minds than mine could do wonders to broaden, refine and legalize my suggestions.

Hal