

HISTORY This Week EP 426: The World's First Budget Airline Takes Off

EPISODE TRANSCRIPT

NOTE: This transcript may contain errors.

Sally Helm: HISTORY This Week. May 6, 1949. I'm Sally Helm.

On the runway at Lindbergh Field in San Diego, a little snub-nosed silver airplane sits ready for takeoff. It's a DC-3—it holds 28 passengers, tops. And it's the first plane to fly for a new upstart company called Pacific Southwest Airlines. PSA. It taxis down the runway... and takes off. After a short flight, it successfully touches down in Northern California. Some of these passengers have just gotten their first ever chance to fly.

PSA was started by a military veteran who fought in World War II. And at this time, he is not the only person interested in getting regular people into the sky. Across the ocean in England, engineers are tweaking WWII war planes to create the first passenger jets. Just a few months after that little snub-nosed plane takes off in San Diego, one of those jets makes its first test flight. And that will usher in what is known as the jet age.

Archival: *Welcome aboard the spacious cabin, attractively decorated, air conditioned, but draft free...*

Sally Helm: Jet travel is swanky. By the 1960s, airlines like Pan Am are serving up roast beef, carved fresh in the aisles. They're offering orchids on board, and champagne. And the lucky passengers are dressed to the nines.

Jim Patterson: With their hats and their dresses and, the men were always in suits and ties.

Sally Helm: That's Jim Patterson. An early employee of that little airline in San Diego, PSA.

Jim Patterson: That's what you saw when you went to an airport. People preparing to go on a flight dressed in their Sunday best.

Archival: *Airports resemble international grand hotels...*

Sally Helm: But at PSA, where Jim worked: that was not the vibe. On the day that first plane took off, passengers had bought their tickets in a six by twelve-foot latrine.

Jim Patterson: They had picked up an old Marine Corps toilet building that they had converted to a ticket office. They'd cleaned it all up and painted it and put PSA on it. And so you checked in at this little latrine.

Sally Helm: PSA is not trying to be the world's most glamorous ride. They paint smiley faces on the noses of their planes.

Archival: *Catch our smile, our super smile, PSA...*

Sally Helm: In many ways, PSA was everything the jet age wasn't. And Jim says...that was kind of an advantage.

Jim Patterson: The big guys were always kind of—the customer always regarded them as kind of stodgy. At PSA, if you're gonna fly PSA, it was here we go, we're gonna have a great time. And ironically, PSA was very profitable, while the others sometimes weren't back in those days.

Sally Helm: Little PSA had found a very profitable loophole in the American flight system. And eventually... that entire system would be remade to look a lot more like them.

Today: how we got to the air travel we now know. What's the story behind the world's first budget airline, PSA? And how did it force an entire industry to reimagine itself?

[AD BREAK]

Sally Helm: When Jim Patterson moves from Ohio to San Diego, where Pacific Southwest Airlines is located, he doesn't fly there.

Jim Patterson: No, we, we drove. I had never been on a plane. I had never been to an airport.

Sally Helm: In July of 1960, most Americans have not. So, few people can afford to fly that commercial flights are regularly half empty. That's because the airlines don't have a ton of say in how they do business. The industry is heavily regulated by the federal government.

That had started back in the 1930s, when it was becoming clear that commercial flight would eventually be a big deal. There would be more and more people strapping themselves into giant metal tubes and hurtling through the atmosphere. So, who would keep them safe? The answer was the US government, which set up an agency to oversee safety—and also, to bring order to the industry through regulation. Regulating the airlines became the sole job of something called The Civil Aeronautics Board—or the CAB.

Michael Roach: Its job was to tell the airlines where they could fly.

Sally Helm: Michael Roach used to work on the CAB's legal team. He says the CAB handed out airline routes like cookies.

Michael Roach: The CAB was passing out cookies to its children. It's your turn, take the chocolate chip cookie, or you get the peanut butter cookie.

Sally Helm: But there is a problem.

Sally Helm: Were people happy with the cookies? Like were the airlines like, 'oh, great chocolate chip?'

Michael Roach: No. They hoped that the board would realize which cookie they wanted, but often the board would hand the wrong cookie to the wrong person.

Sally Helm: The CAB might assign an airline to Atlanta, which the airline had no interest in serving. While an airline that wanted Atlanta wouldn't get it. And the CAB's decision-making was opaque. Even to Michael, whose job was to justify its decisions. He told me... that was sometimes pretty tough.

Michael Roach: The staff had no idea why the board had made the decisions it did. Delta Airlines gets this route, United gets that route. We didn't know! So, we had to make it up.

Sally Helm: The CAB also set the prices. They said, *okay airlines. You're gonna tell us your operating expenses. Then we'll tack on a profit margin, and that's how we'll determine what you can charge for a seat.*

It's a sweet deal for airlines. They have a guaranteed profit. And if fuel prices or some other expense goes up, the CAB usually allows them to raise fares. The airlines aren't competing on price, so they try to lure customers with perks like fresh roast beef, which raises overhead even more... and ticket prices.

So that is the general state of play in the summer of 1960, when Jim Patterson joins Pacific Southwest Airlines, a company that has begun to do things differently.

Jim Patterson: When I started there in July the 22nd, 1960, the fares were, for example, San Diego to LA, let's see it was 6.67.

Sally Helm: Or about \$65 today. A way cheaper ticket than you could find anywhere else at the time. Because PSA has found a loophole.

Jim Patterson: We only flew in California. We were at what we called an intrastate airline, which exempted us from the CAB rules.

Sally Helm: *Intra-state.* PSA only flies within the state of California. San Diego up to Oakland. San Francisco down to LA. They have to follow the same safety regulations as everyone else, but other than that, they are out of the CAB's control. Because the CAB *only* regulates airlines with routes that cross state lines. That is everyone except PSA.

So, when it comes to routes within California, PSA can choose any cookie in the jar.

Jim Patterson: We prided ourselves in being able to make decisions, quickly. And if something needed to be changed, we could change it. If you were United, for example, back in those days, if something needed to be changed, they had to get permission from dad, you know?

Sally Helm: Mm-hmm. Yeah. Dad being the CAB.

Jim Patterson: Yeah. And you'd have to prove to them that it made sense and you could do it. You know, they couldn't change the format of a ticket without getting approval.

Sally Helm: So, you guys' kind of get to operate like a little scrappy startup and these other companies are like a big legacy business that has all this sort of regulation and red tape to deal with. Is that how it felt?

Jim Patterson: Well, it was, yes.

Sally Helm: Without all the red tape, PSA is free to try all kinds of cost-cutting strategies. They only use one type of aircraft, which spends less time on the ground and more in the air. Their routes are simple—all direct, no layovers. And because there are no seat assignments, tickets are just receipts. They even let customers pay onboard if they're running late. And their approach to operations is all-hands-on-deck.

Jim Patterson: Back then, wherever you were needed, you jumped in and did it. So, we'd sold tickets, we loaded baggage, one of the most exciting things I did was you know, you've seen the, the person who guides the airplane in with his wands?

Sally Helm: Wow, Jim, they let you do that? That seems like a hard job!

Jim Patterson: It was pretty intimidating because, I remember standing out there on the ramp guiding this Lockheed Electrium in with these big four engines turning like crazy.

Sally Helm: When he wasn't wanding a plane toward its runway, he was cleaning airplane toilets.

Jim Patterson: The toilet was a flipped-up seat, you know, with a five-gallon bucket that was slid under there. So, we had to take those so-called honey buckets, carry 'em down these stairs. And you can imagine what's in them. They don't have a lid on them, and they always kind of jokingly said, if you fall, we're just gonna call the fire department over here and have 'em hose you down.

Sally Helm: Jim says, all of this helped PSA charge lower fares. And the major carriers can't help but notice.

Jim Patterson: Our airplanes are full and theirs aren't. So, we could just drive those other carriers absolutely nuts. They didn't know what to do with PSA.

Sally Helm: Years later, he told me, he met with a former executive from one of the big airlines.

Jim Patterson: And he said, every month when we had our officers meeting the main subject was, how in the world do we deal with PSA? They just didn't know what to do.

Sally Helm: By the end of the 1960s, PSA has posted 15 straight years of profits. A group of businessmen in Texas take note. They're like... *wait. We could do something like this.*

Jim Patterson: They wanted to just take a, a carbon copy of PSA and do the exact same thing down there.

Sally Helm: They name it Southwest Airlines. The same Southwest that's still around.

So that is how things stay until the early 1970s. By then, the country is in the throes of what is now called “The Great Inflation.” The cost of all sorts of goods and services is super high. And Democrats in Congress have made it their mission to solve that. So, Ted Kennedy, a senator from Massachusetts, starts doing some research on the price of plane tickets.

What he finds is baffling to him. Air fares have grown higher and higher on *nearly* every airline. But there are two exceptions: Southwest and PSA. In fact, flying PSA from San Francisco to LA costs *half* as much as flying from DC to Boston on an interstate carrier. Even though that’s the same distance.

Jim Patterson: Senator Kennedy came out and said, ‘why in the world do we exercise all of this crazy rules over the airlines? PSA seems to be doing fine without that.’

Sally Helm: Kennedy is asking, *can we change the rules to make the entire airline industry more like PSA? Get cheaper tickets that regular people could afford?*

He suspects it’ll be difficult—that entrenched interests will put up resistance. He has no idea.

[AD BREAK]

Sally Helm: Winter, 1975. Senator Ted Kennedy is taking on airline deregulation. Even though he does not have jurisdiction over aviation. That’s the job of the Senate Commerce Committee. But Kennedy is able to hold hearings. Hearings that he can use to stir people up and force this issue onto the agenda.

Mary Boies was working on Capitol Hill at the time.

Mary Boies: I was Mary Schumann when I worked on airline deregulation.

Sally Helm: She says, hearings can be very boring. But the ones that Senator Kennedy and his staff cook up... are not.

Mary Boies: They had a day that they called Frozen dog day and they had a hearing on all the dogs that were transported in the holds of airplanes and arrived frozen. And that attracted a lot of press attention. And then while the press was there, the Kennedy staff talked to them about what they really wanted to talk about, which was airline regulatory reform.

Sally Helm: Frozen Dog Day also accomplishes something else: it makes the Commerce Committee look bad. Like it’s been neglecting its job of aviation oversight.

Mary Boies... works with the Commerce committee. She’s a young staffer there, 25 years old, just out of law school. And her boss gives her an assignment. *Find out what you can about this whole airline deregulation thing.*

Mary Boies: And the reason I was assigned to it, as my boss told me, is it isn't going anywhere. So, it'll be a good experience for you.

Sally Helm: How did you feel about that? Were you like, phew, whew, no pressure? Or were you like, wait a second?

Mary Boies: I was partly relieved cause I thought, oh good, I can really just relax, work hard and learn. Another part of me said, 'well, I'm gonna show them cause this is gonna go somewhere.'

Sally Helm: So, Mary starts studying this issue seven days a week.

Mary Boies: I just basically worked all the time.

Sally Helm: She talks to some of those Kennedy staffers. One of them is a Harvard Law School professor named Steven Breyer. A future Supreme Court justice. Another is a lawyer named David Boies.

Mary Boies: Who then became, many years later, my husband.

Sally Helm: [laughs] Amazing.

Mary Boies: And when Steven Breyer or David Boies sits down and explains to you as they did to me what their point of view was, they were extraordinarily persuasive.

Sally Helm: Senator Kennedy's position is simple:

Mary Boies: He came at it from a consumer point of view. His thought was that airline travel was too expensive and the middle class was being cut out for no good reason.

Sally Helm: On the other side are the airlines. Most of them do not support this change.

Mary Boies: Their basic argument was if you changed regulation, there would be ruinous competition. Airlines would go out of business, and they would be unsafe. And so, for the good of the American consumer, we had to continue to regulate the airlines.

Sally Helm: So, the battle lines are drawn.

The Commerce Committee, not to be outdone by frozen dog day, announces that it will hold its own hearings on airline deregulation. Mary has to write a set of questions that senators will ask the leaders of the airlines, and she gets down to work. But then a few days before the hearing, she gets a mysterious delivery at the office.

Mary Boies: An unmarked brown envelope that had inside an opening statement and questions for every single senator on the committee.

Sally Helm: The envelope comes from an airline lobbying group.

Mary Boies: It's fair to say they were softball questions.

Sally Helm: When the hearings begin, some of those questions get asked. Allowing the airlines to defend the status quo. And Mary—she isn't buying it.

Mary Boies: By then, I had come to the view that the airlines ought to be deregulated. The airlines were saying, 'we really need the government to tell us how to run our business.' That doesn't really sound right. And so, when you peel away the layers, you learn that what they're really saying is, we like high fares and planes that are half empty so everybody's happy, everybody's comfortable, and we don't have to compete.

Sally Helm: Of course, that is not what they literally say. They say that this is going to cause bankruptcies. That it just wouldn't work.

But in response to those arguments: one name keeps coming up over and over. PSA.

The Kennedy team has looked at why it's thriving outside the CAB's control.

Mary Boies: They did a whole report on intrastate air transportation, focusing on PSA and Southwest Airlines. So, we use them really as our prototype for how this might work.

Sally Helm: The other airlines argue that PSA and Southwest are exceptions, not the rule. That they fly particularly packed routes, and that's why their planes are full. But nationwide, it would be a different story.

PSA reps get to speak, too. They want deregulation in part so that they can expand. Offer flights to the whole West Coast. But they also believe their deregulated business works. An executive vice president tells Congress: "We offer no meals with filet mignon, no movies, not even peanuts. But we do offer low fares, comfortable seats, simple and frequent service, reliable on-time schedules, and people like it."

Lots of other people speak at the hearings. Travel agents, unions, consumers, many economists. And at the end of it all... Mary Boies is not exactly optimistic. The commerce committee had kind of been pressured into looking at deregulation. They never really wanted to. So, when the chairman in charge says he'll be publicly announcing his recommendation, Mary doesn't think much of it. But she does attend the speech. It's basically her and a bunch of people who support the airlines' point of view.

Mary Boies: I think the consumer people weren't really there cause they decided not to bother.

Sally Helm: They were like, lost cause.

Mary Boies: They knew nothing was gonna happen.

Sally Helm: She shows up at the Aviation Club in Washington.

Mary Boies: We were in a large ballroom seated for lunch, and we all knew he was gonna say, I've had these hearings and I've decided that airline regulation works just fine. And 90% of his speech made us all believe that there wasn't gonna be any change. He got to the last paragraph, and he

said, it just bothers me that the airlines like so much how the federal government is running their business and we need to open it up.

Sally Helm: Wow, Mary. Do you remember what it felt like and what you did?

Mary Boies: I just sat there and watched everybody start to hoot and holler mostly with dismay, because most of the people in the room were from the airlines.

Sally Helm: And literally hoot and holler. Like, did noise pop up in the room?

Mary Boies: Oh, yeah. They all just were shocked.

Sally Helm: It is a huge announcement.

But it's just the first step. Now, someone needs to actually write up a law to deregulate all commercial flight in the United States.

Mary Boies: As I left, I thought, 'Oh no, now what do I do? I'm gonna have to draft some legislation.'

Sally Helm: [laughs] The real work begins.

Mary Boies: So, then I, then I started the real work.

Sally Helm: As Mary and her coworkers begin to draft this law, a new president enters the White House: Jimmy Carter. He looks at the bills in progress and tells his team: get me someone who knows airline deregulation front to back.

Mary Boies: I got a call from the White House staff saying, we want you to come work in the White House.

Sally Helm: To help them figure out deregulation, which is far from decided. There are powerful people in President Carter's orbit who are against it. Including the U.S. secretary of transportation. He wants the airline laws left alone.

So, the president gets everyone into a room to talk it out.

Mary Boies: There was a meeting in the Oval Office to which I was invited at the very last moment.

Sally Helm: How old are you, Mary, at this point?

Mary Boies: I was still 27.

Sally Helm: 27. Wow. Okay.

Sally Helm: Mary walks into the Oval Office and sees that truly all the important players are there.

Mary Boies: The president, the vice president, the head of the Council of Economic Advisors, the head...

Sally Helm: A who's who of White House bigwigs. Mary is the only woman in the room.

Mary Boies: They're all there. And I, you know, sit down, and I thought, 'Oh, this is fine. It'll be fine. I'll be a fly on the wall.'

Sally Helm: People start making their arguments for and against deregulation.

Mary Boies: And then the President turned to my boss Stu Eisenstat and said, 'Stu, over to you. You explain.' And Stu turned to me. And for the first time I learned, I was there to present the argument for deregulation in the Oval Office.

Sally Helm: You learn that in the Oval Office.

Mary Boies: So, I sat there and I saw my career pass in front of my eyes, and I bought a little time by saying, 'Mr. President, there are three principal reasons.' I figured, structure your answer.

Sally Helm: You didn't know what the three were. You were just like, 'let's go with three. It's a classic number.'

Mary Boies: I didn't know at the time. But by then I'd hung around with David Boies long enough to know that's the way you start.

Sally Helm: Mhm.

Mary Boies: You also buy a little time to think about what those three things might be.

Sally Helm: Reason one, she says was easy.

Mary Boies: PSA and Southwest.

Sally Helm: Look how well it worked for them. Reason two: An air cargo carrier that had been deregulated showed similar good results. And three: Mary says, we'll include a special subsidy program to ensure airlines keep servicing small communities.

Mary Boies: There was a fear that airlines needed high fares in order to sustain service to small towns.

Sally Helm: Mary, I'm honestly surprised you remembered the three so well. I feel like if I were in that situation, I would have a blank from the moment that I stand up to the end of it, like, were you afraid? Were you excited? Like—

Mary Boies: You know, people when they're in the middle of a plane that's about to crash, are asked later, 'were you afraid?' And they say, 'I didn't have time to be afraid. I saved that for later. I just focused on what I had to do.'

Sally Helm: Mary's plane does not crash. The transportation secretary can sense the mood shifting. He turns to Carter and says:

Mary Boies: 'Mr. President, if this passes, there may be no air service to Plains, Georgia.'

Sally Helm: The president's hometown.

Mary Boies: And the president said, 'Well, if Plains, Georgia cannot sustain commercial air service, it shouldn't get it.'

Sally Helm: President Carter throws his support behind deregulation. By the next October, he signs the bill into law.

The following year, Mary starts a new job—at the Civil Aeronautics Board.

Sally Helm: What happened, Mary? Like, how did this all play out?

Mary Boies: There were some bumps along the way.

Sally Helm: Implementing deregulation, changing the entire airline industry, is not so easy. Many airlines falter in this new freer market.

Mary Boies: In fact, almost every airline at one point or another went into bankruptcy.

Sally Helm: Over time, the old airlines regroup and reorganize. And there's an explosion of new airlines. Which is one of the things supporters of the policy had hoped for. More competition. But that is followed by an industry-wide contraction. Tons of mergers. Even PSA is acquired. Some of its DNA fragments now exist as part of American Airlines—the largest carrier in the world.

Mary Boies: Early on, I think there were more mergers and acquisitions than we had expected.

Sally Helm: You guys believed that more competition would be better for consumers, it would be better for the industry. And that early bump was like, oh, if there are all these mergers so quickly, it's not as much competition as we thought.

Mary Boies: I think that's right.

Sally Helm: This question of mergers is *still* a big one. Right now, in 2023, the Justice Department is suing to block a merger between JetBlue and Spirit airlines, fearing it would bring "higher fares and fewer choices for tens of millions of travelers."

Mary says, on the whole we've landed in a better place.

Mary Boies: I think the level of competition today in the airline industry is very high and very robust, and I think it serves consumers well. I have seen the work of many economists and they estimate that fares today are almost half what they were inflation adjusted at the time of airline deregulation.

Sally Helm: It's pretty widely agreed that deregulation played a major role in that price drop. But some experts say, *not all of it. Fares were already dropping in the years leading up to deregulation... so other factors were involved.*

That question about what would happen to small communities—it is complicated. Mary says some do have less frequent, affordable service. But she says, the overall goal of deregulation was to democratize air travel. And she thinks they did it.

Mary Boies: Airline deregulation has brought airline travel to the mass of people, and I think that is a very good thing. Families can get together more often. If you have someone who's not well, chances are you can go visit them. You can take vacations. When I go on an airplane today, I see ordinary people like me.

Sally Helm: Of course...crowded planes...everyone packed together...that does have a downside.

Mary Boies: I think there are some areas where the Department of Transportation might have a heavier hand in regulating. Lost baggage, delayed flights, canceled flights. The transportation department has that authority today. And some they regulate and some they don't. But I also acknowledge that the more regulations they are, the higher the ticket prices are gonna be.

Sally Helm: It's not an easy fix.

Mary Boies: A lot of consumers, I think, hate air travel. It's crowded. It's not very comfortable, and I would agree with all of that. It's not perfect. In some ways, it was too successful. The fares are so low that a lot of people are flying and it's very congested. But overall, I think it's worked well, particularly if you consider the alternative.

Sally Helm: You could say that all of us are now flying in the post-PSA era. No filet mignon. Sometimes even no peanuts. But a lot more people can afford a ticket. In 1971, only 49% of Americans had ever flown on a plane. Now, that number is around 90 percent.

[CREDITS]

Sally Helm: Thanks for listening to History This Week. For more moments throughout history that are also worth watching, check your local TV listings to find out what's on the History Channel today. If you

want to get in touch, please shoot us an email at our email address, HistoryThisWeek@History.com, or you can leave us a voicemail: 212-351-0410.

Special thanks to our guests: Mary Boies, former fellow on the Senate Commerce Committee, White House staffer, and general counsel to the Civil Aeronautics Board; Jim Patterson, early PSA employee, and eventually its vice president of operations; and Michael Roach, former lawyer at the Civil Aeronautics Board. Thanks also to Jan Brueckner and Henry Harteveltdt, and all the former PSA employees who shared their memories.

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