DEVELOPMENT OF NATIONAL POLICY OF FINANCIAL AID TO
THE AMERICAN MERCHANT MARINE
1936 - 1955

By
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A DISSERTATION

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CHAPTER I

INTRODUCTION

Although considered a "new" nation, the United States has a long and rich heritage as a seafaring nation. In 1607 the first seagoing vessel was built in what is now the state of Maine. It later sailed successfully to England. The United States developed, built, and sailed the famous "clipper" ships, the fastest commercial sailing vessels ever to sail the ocean. Again, the United States built the first steamboat and made the first complete steam-propelled transoceanic crossing. These are only a few of the accomplishments. A complete list of accomplishments, if such were possible, would be very long.

Along with this maritime tradition is another and perhaps even richer American tradition, namely, an economy and government based on a free private enterprise system. Normally one does not associate public financial aid with a free private enterprise system. Yet, the United States Government does furnish public financial aid to many private enterprises in its
economy. Ship subsidy is a part of such aid. It is the right, and one might say the duty, of every citizen to question public financial aid to private enterprises in order to determine whether such aid is necessary and proper.

The scope of public financial aid is broad and offers many interesting and challenging facets for study. In this study, however, attention is centered on the development of ship subsidies, one aspect of the larger problem.

As an integral part of the study of the development of the national policy of financial aid to the American Merchant Marine, certain issues should be examined. Each issue will, in turn, lead to the next issue. It would seem logical first to determine why there are ship subsidies. If ship subsidies are found to be essential to an American Merchant Marine, then why have an American Merchant Marine? If an American Merchant Marine is found to be necessary and desirable, then what method of furnishing public aid is the most practicable and economical? Is the present method as it has developed superior to former methods? To be more specific, the purpose of the dissertation is to study the development
of the national policy of financial aid to the American Merchant Marine and determine if the present method, the Merchant Marine Act of 1936, is basically a sound law.

This act, with many amendments but no fundamental changes, has been in effect for two decades, and it is upon its provisions that the American Merchant Marine relies today for its chief support. Table 1 shows the extent of participation of the entire privately-owned American flag fleet in the subsidy program as provided under the provisions of the Merchant Marine Act of 1936, as amended. This participation has ranged from 11.2 per cent in 1937 to 27.5 per cent in 1954. The first temporary operating-differential subsidies became effective on July 1, 1937, and by January 1, 1941, permanent contracts had been entered into with twelve operators. As war became imminent, subsidies were reduced to a nominal one per cent of wages. In 1942 all operating subsidy payments were suspended until January 1, 1947, when they were renewed for ten of the original twelve operators. On January 1, 1948, the two remaining ones became effective. Since that time five additional contracts have been approved and one terminated, leaving
Table 1

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<th>No. of Subsidized Vessels</th>
<th>No. of Subsidized Voyages</th>
<th>Number of Trade Services Routes Involved</th>
<th>Per cent of Active Seagoing Fleet Subsidized</th>
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<td>16</td>
<td>138</td>
<td>368</td>
<td>22</td>
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<td>1938</td>
<td>16</td>
<td>170</td>
<td>770</td>
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<tr>
<td>1939</td>
<td>11</td>
<td>156</td>
<td>783</td>
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<td>1942</td>
<td>12</td>
<td>49</td>
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<td>1943-46*</td>
<td>9</td>
<td>158</td>
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<td>1947</td>
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<td>1249</td>
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<td>1279</td>
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<td>273</td>
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<td>1953</td>
<td>16</td>
<td>281</td>
<td>1457</td>
<td>27</td>
<td>27.5</td>
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* Subsidized operations suspended during period March 31, 1942 through December 31, 1946.

** During period of Neutrality Act trade routes and services were combined, interrupted, and cancelled.

sixteen now in effect.¹

It is with this subsidized segment of the American Merchant Marine that this study is primarily concerned, since it is alleged that it would not exist without subsidies. The unsubsidized balance of the American Merchant Marine is important, but it consists largely of private industrial cargo carriers, tankers, and tramp vessels, which by themselves would not make up a well-balanced American merchant fleet.

To a large extent, the data in this study is derived from Congressional hearings, official government documents, and laws. The historical, inductive, and analytical methods are employed in the study of this data. In some cases these methods are combined. An attempt has been made to keep technical terms to a minimum; however, a glossary of shipping terms has been included in the appendix.

This study takes the following form: Chapter II will take up the question: Why have an American Merchant Marine? It will deal with some of the factors that are favorable to the continued maintenance of an American

Merchant Marine, as well as its inability to compete without subsidy with foreign-flag merchant marines.

Chapter III will give the historical background and trace the development of public aid to the American Merchant Marine up to the time of the passage of the Merchant Marine Act of 1936. This Chapter will cover the three distinct policies used by the government in its relationship with the American Merchant Marine prior to the enactment of Merchant Marine Act of 1936.

Chapter IV will cover the Merchant Marine Act of 1936, its purpose, and its administration. The Chapter will also take up the World War II period and the immediate postwar years.

Foreign-flag competition is one of the all important factors to be considered in evaluating the American Merchant Marine. This aspect of the problem will be analyzed in Chapter V.

In 1954 the Butler-Tollefson Act, sometimes called the 50-50 law, is of a controversial nature and caused several Congressional hearings to be held. The proponents and the opponents views on this legislation will be given in Chapter VI.

The problem or replacing the ageing fleet, the financial position of the ship operators, the cost of
the maritime program to the government, and current activities in the maritime field are evaluated in Chapter VII.

Chapter VIII contains the summary and conclusions of the study.
CHAPTER II

WHY HAVE AN AMERICAN MERCHANT MARINE?

The United States has several factors which are favorable to the development and maintenance of an American Merchant Marine. Its borders are on both the Atlantic and Pacific Oceans as well as on the Gulf of Mexico. No nation possesses such an extensive coastline in so high a state of development as the United States. There are approximately 7,000 miles of coastline, much of it deep water with many great natural harbors. There are 60 ports, most of which can handle large vessels and are, for the most part, ice-free.¹

The United States also occupies a strategic position in relation to the world trade routes; it leads all the nations of the world in international trade. Even though the United States exceeds the other nations in this field, the importance of foreign trade

to the national economy is sometimes not given the attention it warrants. This is due probably to the position which foreign trade occupies percentagewise to the gross national product.

In 1953 the export of goods and services amounted to 5.8 per cent and that of imports 4.5 per cent of the gross national product. These figures take on a new meaning when compared with some of the other components of the gross national product. Nonfarm residential construction was only 3.2 per cent and that of other new construction 3.7 per cent. Both of these percentages are overshadowed by the foreign trade percentages. The foreign trade percentages also compare favorably with business expenditures for capital equipment, which represented 6.7 per cent, and that of consumer purchases of durable goods, which were 8.1 per cent. These components of the gross national product are generally considered an important factor in the proper functioning of the economy.²

The export markets are of central importance for some of the major agricultural products. As former

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Secretary of Commerce Sawyer said, "For some individual industries exports provide a much more important market than is the case for the country as a whole. This is particularly true of agriculture. During the years 1949 to 1951, exports of cotton amounted to 37 per cent of production, of wheat 35 per cent, and of tobacco 26 per cent.\(^3\) In 1953 the United States also exported 56 per cent of its rice, 22 per cent of its tobacco, 61 per cent of its inedible tallow, and 17.5 per cent of its lard.\(^4\) If sea coast, harbors, and foreign trade were the only determining factors, the United States would probably be the leading maritime nation of the world.

Unfortunately for the American Merchant Marine, the sea coast, harbors, and foreign trade are not the determining factors. If left to fend for itself, there is every likelihood that the American Merchant Marine would disappear from the sea. This brings up the question: Why have an American Merchant Marine? It does not appear to be a sound economic proposition for the


\(^4\) *Foreign Commerce Weekly*, *op. cit.*., p. 31.
government to support the American Merchant Marine
through financial aid, if foreign countries can perform
ocean shipping more cheaply. It would seem to be more
feasible for the United States to devote its time and
energy to other endeavors. This is far too simple an
answer to the question and does not present the whole
picture. One cannot take a natural or ideal situation,
and with that as a basis, argue on purely economic
grounds. By so doing a conclusion may be reached which
is the logical result of the premises, but at the same
time may in no way be a practical solution. The eco-

nomic conditions affecting the American Merchant Marine
are not natural. This was succinctly stated in one of
the early United States Maritime Commission's reports. 5

... Unfortunately, so far as
shipping is concerned, the United
States has developed as a protection-

ist country. Domestic industries,
including those which supply ma-
terials for the building and operation
of ships, have been shielded by tariffs
and thus enabled to maintain a price
level above those of other countries.
The merits and demerits of protection-

ism have no place in this discussion.
The result with regard to shipping,
however, has been that the American
shipowner is forced to produce accord-
ing to the American standard of living
and to sell meanwhile in the unpro-
tected international market.

5. "Economic Survey of the American Merchant
Marine," United States Maritime Commission, Government
However, it might be pointed out that there are many American industries which use protected materials and pay high wages, yet are able to undersell the world. In nearly every case, these industries are well adapted to the mass-production technique. However, the building and operation of ships is still a craft industry, and there has been little success in using the technique of mass-production.

Ship construction does not lend itself to mass-production for several reasons. The market does not exist in sufficient volume to justify this procedure. The construction of a ship is a long-term operation on a few, large, expensive, complicated, tailormade units. It is constructed partly ashore and partly afloat using a large number of highly specialized workers. Its size and weight alone make moving it on a production line impractical.6

So far, this discussion has not answered the question: Why have an American Merchant Marine? It is not a question whether the United States needs shipping, but rather whether it will be foreign ships or American ships that will carry a substantial portion of American

6. Ibid., p. 54.
foreign commerce. The proponents of an American Merchant Marine usually set up two broad general justifications, viz, the national economy and the national defense. Sometimes a third classification, the national prestige, is also used as justification for an American Merchant Marine. It is closely related to the two broad classifications of the national economy and national defense.

The recent events of the world have placed the United States in a role of leadership for the free world. It is felt by many that the very presence of American-flag ships in the ports of the world lends prestige to the United States and thus enhances the position of leadership. In this role of leadership the United States has undertaken definite commitments for the maintenance of peace. These commitments require ships—not just any ships but ships subject to the control of the United States. Without ships, the attempts on the part of the United States to participate in collective security as a leader might be ineffective. A nation so weak upon the seas that it can carry but a small part of its own commerce and must be dependent upon others to carry its troops and materials of war in
an emergency, could have only limited influence in world affairs.7

An example of how the American Merchant Marine, or rather, the lack of it affected national prestige was the case of the Great White Fleet. In 1907, the United States in an obvious attempt to build up its prestige put the Navy on exhibition by sending 16 battleships around the world. The gesture lost much of its force because of the fact that the mighty battleships would have been helpless had they not been serviced by a stream of tenders flying the flags of various foreign nations.8

The effects of the two main alleged justifications, the national economy and the national defense, on the Nation are largely interrelated. It requires a strong national economy to support a strong national defense. Without a strong national defense the national economy would probably not remain free for very long. Even though the two are interrelated and cannot very well be

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separated in actual practice, it is more feasible to
look at each separately for the purpose of this study.

A. National Economy

The principal arguments advanced in behalf of an
American Merchant Marine, so far as they concern the
national economy, are these:
1. Promotes foreign trade
2. Provides continuity of service
3. Provides higher quality of service
4. Effects on balance of payments
5. Protects against exorbitant rates
6. Prevents discrimination
7. Promotes domestic trade.

The principal argument against an American Merchant
Marine, of course, is the subsidies necessary for its
survival. From an economic point of view, subsidies
tend to misdirect capital and labor into uneconomic
channels. Of the arguments listed above, some appear
to have sufficient validity to be a partial offset
against the objections of subsidies.
1. Promotes Foreign Trade

A report made by a committee representing fifteen of the subsidized American steamship lines stated that in the four-year period, 1950-53, these lines spent in excess of $48 million to promote and develop trade and travel. An additional $14.5 million was spent in advertising. These lines also maintained offices in every state and in every major marketing area of the world, and their ships flew the American flag in ports all over the globe. There is an old adage that "trade follows the flag." There may be some truth to this saying. History shows that most world powers were maritime powers with large overseas trade. With a decline in overseas trade, there was a paralleled decline in world power status.

From a purely selfish point of view, the subsidized American lines are interested in developing United States' exports and imports on the routes upon which they operate because it is that trade upon which they depend for survival. It is a natural consequence of this

type of operation that the subsidized American lines will do everything possible to develop that trade. It might be pointed out that foreign-flag lines have a selfish point of view, too, and are interested in developing United States trade in which they participate. However, the foreign-flag lines serving American ports operate throughout the world and are not dependent on trade between the country of their flags and the United States.

An example illustrating the above point was given by Mr. Solon B. Turman, President, Lykes Bros. Steamship Co., Inc., New Orleans, Louisiana, before a subcommittee of the Senate's Interstate and Foreign Commerce Committee. Mr. Turman stated that his company pioneered a service from the gulf to South and East Africa. Prior to that time, there were foreign ships in that service, but they never loaded homeward to the gulf from South and East Africa. They loaded outward, went into the Red Sea, and around-the-world service, Mr. Turman went on to say:

> When we entered into this trade, we had made a very careful economic survey of the possibilities. It has been amazing to see the volume of commodities

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which has developed after we got going and checked the prospective buyers in this country.

I can give a good example by speaking of the shift of the sisal business into New Orleans, which is one of the greatest import centers of sisal in the world.

Prior to that time, there was practically none that came into New Orleans. We introduced coffee from east Africa, which is a very desirable type of coffee for blending purposes. I could name you any number of commodities, including ore.

A somewhat similar situation to that Mr. Turman has described exists between Europe and the east coast of the United States. If on a triangle trade route, the foreign-flag ship will leave Europe with cargo for the United States and South America. After he has discharged that part of his cargo destined to the United States, the foreign-flag ship operator can only be interested in promoting enough cargo for that which has been discharged. The American-flag ship operator, on the other hand, depends virtually 100 per cent on the carrying of cargo to and from the United States. 11 No foreign-flag ship operator can have the interest in

American business that the American-flag ship operator has.

Through the American Merchant Marine the American business man may find a valuable contact with his foreign market or source of material, actual or potential. In the same hearing previously mentioned, a representative of 14 manufacturers who export such products as truck shovels, transit concrete mixers, dump bodies, hoists, drilling equipment, oil equipment, and other diverse products, which include orthodontic and prosthetic dental material, stated that his company considered the American Merchant Marines as partners in the development of its export trade which was mutually beneficial. The American Merchant Marine offices throughout the world provide many valuable trade leads and general information about the market. He further stated that the American Merchant Marine has very good salesmen and is a great help to all active exporters.12

There does appear to be some basis for the claim that an American Merchant Marine promotes foreign trade.

Whether this actual or potential stimulation of foreign trade offsets the cost of the subsidy program would be indeed difficult to measure. The remaining arguments listed as having a favorable effect on the national economy are largely a continuation of the discussion on foreign trade.

2. Provides Continuity of Service

A principal advantage of an American Merchant Marine is that it provides a measure of insurance against possible interruption of service. Several times in the past, when the United States was almost wholly dependent on foreign-flag ships, they were withdrawn to be placed in other service considered more essential by the countries whose flags they flew.

The Boer War is an example of this situation. In that war, which did not involve the United States, the British withdrew their ships from normal trade to supply their troops in South Africa. This action deprived the United States of a considerable part of the foreign fleet which customarily served its trade. 13

Again, before the United States became involved, in World War I foreign-flag ships were withdrawn to do essential work for countries who were already involved or switched to other operations made lucrative because of the withdrawal of a sizable amount of shipping from the normal channels of trade. Freight piled up in American ports for lack of ships, until late in 1915 the congestion in New York, Philadelphia, and other centers made it necessary to establish railroad embargoes reaching far into the interior.\(^{14}\) In August, 1913, the United States had exported 257,172 bales of cotton. One year later, in August, 1914, there were only 21,219 bales exported. The price of cotton fell from $62.50 a bale in July, 1914, to $36.25 in December, 1914.\(^{15}\) The agricultural states of the Cotton Belt were thrown into a condition of distress. The "buy-a-bale" movement took on the aspect of a charity drive. Businesses of all kinds were affected, directly or indirectly.\(^{16}\)


Another example of foreign-flag ships being assigned to more essential service in the interest of the country whose flag they flew was the British coal strike in 1926. This strike occurred at a time when crops of the United States were ready to move into foreign trade.

The next disruption of shipping services came with the start of World War II. To some extent, the same thing happened that had occurred in 1914. Foreign-flag ships disappeared from American ports, except to carry lend-lease cargo home. What shipping was left was the American Merchant Marine. And there was not nearly enough of that. Fortunately, the Merchant Marine Act of 1936 provided the nucleus for expansion.

The foregoing discussion on withdrawal of foreign-flag ships from American foreign trade was on a major scale, but if the United States depended on foreign-flag ships for the major portion of its foreign commerce, minor interruptions could have repercussions. Foreign trade calls for future planning and outlay of capital, and if there is any question in the businessman's mind regarding the regularity of service his plans

18. Ibid.
would have to be adjusted accordingly. With an American Merchant Marine dedicated to certain trade routes, he is at least assured of a minimum of service.

3. Provides Higher Quality of Service

Until the adoption of an over-all national policy toward development of an American Merchant Marine by Congress, shipping services abroad, with the possible exception of those to European ports, were slow and infrequent. In many cases, there were no direct services and our goods had to be transshipped, with all the consequent delays involved in that type of service.

An outstanding example of the improvement in the quality of service to replace formerly slow, indirect foreign-flag service is the Farrell Lines. Prior to the establishment of direct service from North Atlantic ports to South Africa in 1925 by the Farrell Lines—with the exception of a once-a-month foreign flag direct service—exports from the east coast of the United States to South Africa and imports from South Africa had to move through a transshipment point in England, leaving American ports on either an American-flag line or a foreign-flag line for Southampton, where they were transshipped
to the British Union Castle line for Capetown.

The trip took approximately 6 weeks. Now, with a sailing every 5 days by 2 American-flag direct services—the American-flag Robin Line having later entered the trade—the complete trip from New York to Capetown takes only 17 days. The fact that there is sufficient business now to support two regular American-flag services, in addition to a somewhat stepped-up frequency by the foreign-flag service, might be considered as evidence that the replacement of poor quality of service by a higher type quality of service gives an impetus to trade.19

4. Effects on Balance of Payment

One of the strongest arguments used against the American Merchant Marine is based on the theory of comparative advantage or comparative cost. The theory was developed more than a century ago by David Ricardo, John Stewart Mill, and other English followers of Adam Smith. Stated in its simplest form, it means that each country should produce those products or services in

19. Ibid., p. 541.
which it has a relative cost advantage. By so doing, each country will receive the maximum benefit. 20

The United States is going contrary to this doctrine when it subsidizes its merchant marine to offset its relative cost disadvantage. This subsidization prevents foreign nations from earning dollar credits in shipping that they would have received, and supposedly reduces their imports accordingly.

The above was pointed out in a report made by the Commission on Foreign Economic Policy of the United States of America. This Commission, also known as the Randall Committee, made a study which included the imbalance in the balance of payment of international trade. The imbalance is often referred to as the "dollar gap." The report estimated that about $500 million per year might be added to the world earnings of dollars if the United States gave up its merchant marine. 21

It is implied, or one is led to believe, that every dollar earned by foreign shipowners means the closing of


the dollar gap by one dollar. A look at the statistics for the past ten years (1946-1955) shows that Americans paid foreign ship owners in freight and fare receipts a total of $3,947 million. Out of this total, however, the foreign ship owners paid $2,600 million in port expenditures to the United States. These port expenditures of $2,600 million represent such payments as the cost of American stevedores and the purchase of bunker fuel, which is lower priced in the United States than in foreign countries.

In comparing the foreign ship operators' dollar earnings with their dollar cost, it can be seen that two-thirds of their dollar earnings for the ten-year period went as port expenditures in American ports. In the United States ocean shipping account of the international balance of payment, the port expenditures of foreign ship operators is a receipt. Thus, on every dollar of their freight and fare earnings for the past ten years, the dollar gap was closed only by 33 cents.

Another objection to the theory of comparative advantage as stated in its simplest form is that it presupposes full employment of resources. The history of the United States reveals many periods of less than full employment of its resources. The withdrawing of American-flag ships from foreign trade may add these resources to an already idle pool of resources. This increased unemployment may even cut down on imports, causing both the United States and the foreign countries to suffer.

Another criticism is that foreign dollar credits are reduced when the American business man uses American-flag ships. This comment is looking at foreign trade as a stream of limited flow, dependent upon some fixed volume of available foreign exchange. This reasoning overlooks the very basic fact that foreign trade is a two-way traffic: that it involves imports as well as exports; that the foreign exchange through which money settlements are made is the result, not the source, of such trade, and that the extent to which producers of materials and goods throughout the world find it advantageous to exchange such goods and are willing and able to do so is the prime factor that determines the volume of international trade.23

Trade is not static. Activity breeds activity in industry and in commerce, and it may well be that a dollar wisely spent in American ships will accumulate many dollars in volume of trade; that instead of subtracting from exports, it will stimulate the exchange of goods and thus tend to increase imports and exports together.

5. Protects Against Exorbitant Rates

Shipping rates are, for the most part, set by steamship conferences. Steamship conferences have been in existence at least since 1868, when the North Atlantic Steam Traffic Conference was organized in New York by Sir Samuel Cunard. These steamship conferences are established on nearly every important route in the world. There are slightly over 100 conferences covering the various foreign trades of the United States.

The conferences are not subject to government regulation, but there is government supervision to prevent abuses. The United States has no jurisdiction over foreign-to-foreign conferences, but section 14 (a) of the Shipping Act of 1916 provides that if any such

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conferences refuse to admit United States-flag carriers on equal terms and conditions with foreign-flag members, then those foreign-flag members may be denied entry of their vessels into United States ports.25

Without an American Merchant Marine, the American business man would not be represented on these rate-making conferences. The nationalistic character of many foreign-flag lines might cause them to set rates which would be beneficial to their own country and detrimental to Americans. It is probably true that the American-flag line desires as high a rate as it can get, but it must consider a rate at which goods will move.

In the words of Donald G. Ward, Director of Transportation, Mathieson Chemical Corporation: 26

I have appeared at innumerable conference meetings. I would hazard the guess that in the past 12 months, we have had at least 75 applications up before conference lines for an


adjustment in rates in order to meet foreign competition, I mean, foreign producers of our goods. But, predominantly, the fact of whether we sold in the foreign countries or not, ocean freight rates were that particular factor. I might say that, generally speaking, wherever the conference lines could do so, the American-flag lines have gotten into those conferences, that they have fought for rates from United States ports which would permit American commerce to move. It is a very complex thing. Sometimes it takes months to negotiate. But I have yet failed to see an American line who did not make an effort to protect American business.

Harry J. Carroll, who is director of traffic of the Goodyear Tire and Rubber Company, stated that during World War I, when the American Merchant Marine amounted to very little, the freight rates on rubber jumped from about $20.00 a ton to $127.50 per ton and is now back to $35.00 a ton.27

In mentioning World War I freight rates, it might be well to note that shipping rates charged by the British and neutral shipowners to American shippers increased up to 700 per cent, even before the United States engaged in the munitions trade. After the war became a full scale one, shipping rate increases of 2,000 per

27. Ibid., p. 561.
cent were common. The average rate on general cargo increased 1,117 per cent.28

6. Prevents Discrimination

In 1937 a study was completed by the United States Maritime Commission in accordance with the provisions of the Merchant Marine Act, 1936. This study dealt with many of the problems affecting the ocean-going shipping industry, including the one on discrimination against American goods on the part of foreign lines. The report revealed that there was little in the record to substantiate the charge of discrimination, but went on to say: "However, the trend toward nationalized shipping may increase the potentialities of discrimination in the future—a consideration that should not be ignored. In any event, the existence of a domestic-flag fleet gives us a weapon to be used if and when discrimination occurs."29

In 1946 a Postwar Planning Committee set up by the United States Maritime Commission reported that there

28. Ibid., p. 401.

was little evidence of any settled policy of discrimination against American goods by foreign lines. The Committee also reported that the domestic-flag fleet could be used as a weapon if necessary.30

7. Promotes Domestic Trade

Few people realize the extent of the effect of the shipping industry on domestic trade. The shipping industry includes the shipyards, the ships, and the personnel required to operate both ships and the shipyards. Even a superficial look at the data will show the enormity of domestic business generated directly and indirectly by the shipping industry.

The industries that supply shipbuilding material or equipment are those making steel, propelling machinery, electrical apparatus, Diesel engines, boilers, auxiliary and deck machinery, pumps, lifeboats and their equipment, copper and brass products, iron and steel castings, galley and pantry equipment, fire-fighting equipment, plumbing fixtures, navigating instruments, heating units, interior decorations, furniture, woodwork,

special paints and varnishes, canvas and deck coverings, safety devices, and radio and other instruments. Table 2 shows that the producers of these materials or equipment are well distributed throughout the United States. Each of these producers supplying such commodities makes a demand on other industries for the products it uses in the manufacture of such materials and equipment.31

When the liner America was being constructed, at least 275 business organizations in the United States received orders for material and supplies. Transportation charges on these materials and supplies were estimated to amount to 4-1/2 to 5 per cent of the ship's cost.32

The Commissary Superintendent of a major American line reported recently that on each of his ship's voyages 2,400 bars of face soap, 200 bars of hand soap, 1,200 bars of laundry soap, and 210 packages of soap powder are used. These use figures are for a large freighter making three long voyages a year.33


32. Ibid., pp. 751-52.

## Table 2
Materials or Equipment Furnished for Shipbuilding by the Various States

<table>
<thead>
<tr>
<th>State</th>
<th>Materials or Equipment Furnished</th>
</tr>
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<tbody>
<tr>
<td>Alabama</td>
<td>Iron ore, Limestone, Coal, Coke, Pig iron, Steel, Cotton, Yellow pine</td>
</tr>
<tr>
<td>Connecticut</td>
<td>Hardware, Cutlery, Silverware, Chain, Pipe fittings, Clocks and gauges, Brass products, Lighting fixtures, Tools</td>
</tr>
<tr>
<td>Arizona</td>
<td>Copper ore, Silver, Lead, Zinc, Leather, Wool</td>
</tr>
<tr>
<td>Delaware</td>
<td>Steel, Iron castings, Machinery, Anchors, Clay products</td>
</tr>
<tr>
<td>Arkansas</td>
<td>Ash lumber, Yellow pine, Cotton, Petroleum, Bauxite</td>
</tr>
<tr>
<td>California</td>
<td>Steel, Machinery, Hard and soft woods, Petroleum, Red lead, Insulating paper, Glassware, Asbestos, Wool, Cement</td>
</tr>
<tr>
<td>Idaho</td>
<td>Lead, Silver, Zinc, Manganese, Lumber</td>
</tr>
<tr>
<td>Georgia</td>
<td>Cotton, Yellow pine, Turpentine, Canvas</td>
</tr>
<tr>
<td>Illinois</td>
<td>Iron ore, Limestone, Coal, Coke, Petroleum, products</td>
</tr>
<tr>
<td>Louisiana</td>
<td>Yellow pine, Cypress, Oak, Cotton, Petroleum, Rope, Gum</td>
</tr>
<tr>
<td>Maine</td>
<td>Hardware, Valves, Paints, Electric motors</td>
</tr>
<tr>
<td>Iowa</td>
<td>Coal, Clay products, Firebrick, Cement, Gypsum, Furniture</td>
</tr>
<tr>
<td>Kansas</td>
<td>Zinc, Petroleum, Leather, Glass, products</td>
</tr>
<tr>
<td>Kentucky</td>
<td>Hardwoods, Coal, Petroleum, Firebrick, Leather, Hemp</td>
</tr>
<tr>
<td>Louisiana</td>
<td>Yellow pine, Cypress, Oak, Cotton, Petroleum, Rope, Gum</td>
</tr>
<tr>
<td>MAINE</td>
<td>MINNESOTA</td>
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<td>---------------</td>
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</tr>
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<td>Lumber</td>
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<td>Clay products</td>
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<td>Winches</td>
<td>Flax</td>
</tr>
<tr>
<td>Windlasses</td>
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<th>NEW JERSEY</th>
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Table 2 (Continued)
Table 2 (Continued)

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<th>WEST VIRGINIA</th>
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<td>Oils</td>
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<td>Steel castings</td>
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<tr>
<td>Lumber</td>
<td>Machinery</td>
<td></td>
</tr>
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the figures to the entire American Merchant Marine and it becomes apparent that the soap industry has a stake in the American Merchant Marine.

Table 3 shows that in terms of cash expended, an American passenger liner of 15,000 gross tons consumes in one year some $1,500 worth of flashlight batteries and $30,000 worth of towels, sheets, tablecloths, coats and aprons. It costs $32,000 to buy the cleaners and soap for a vessel of this type for a year. Dishes and glassware cost another $18,000 annually.34

It is estimated that the liner United States spent $18,175,000 in the domestic market her first full year in operation. The Independence offers another illustration of how the operating expenses of American ships contribute to the national economy. This ship in 100 voyages across the Atlantic Ocean served 4.5 million meals. Poultry and meat amounted to 2,696,000 lbs., flour, sugar and butter was 888,000 lbs., and eggs used amounted to 265,000 dozens. In a 3-1/2 year period over $26,000,000 was spent in the American domestic market.35

34. Ibid., p. 10.

Table 3

The Cost of Items Used in a Year Aboard A 15,000 Ton U. S. Passenger Ship

<table>
<thead>
<tr>
<th>Item</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mattresses</td>
<td>$3,400.00</td>
</tr>
<tr>
<td>Silverware</td>
<td>10,000.00</td>
</tr>
<tr>
<td>Cleanser and Soaps (disinfectants)</td>
<td>32,000.00</td>
</tr>
<tr>
<td>Brooms and Brushes</td>
<td>12,000.00</td>
</tr>
<tr>
<td>Dishes and Glassware</td>
<td>18,000.00</td>
</tr>
<tr>
<td>Pots and Pans</td>
<td>10,000.00</td>
</tr>
<tr>
<td>Towels</td>
<td></td>
</tr>
<tr>
<td>Sheets</td>
<td></td>
</tr>
<tr>
<td>Table Cloths</td>
<td>30,000.00</td>
</tr>
<tr>
<td>Coats</td>
<td></td>
</tr>
<tr>
<td>Aprons</td>
<td></td>
</tr>
<tr>
<td>Recreation Material</td>
<td>26,000.00</td>
</tr>
<tr>
<td>Bulbs (electric)</td>
<td>8,000.00</td>
</tr>
<tr>
<td>Stationery and Paper Products</td>
<td>8,000.00</td>
</tr>
<tr>
<td>Rags</td>
<td>7,000.00</td>
</tr>
<tr>
<td>Abrasives (sand paper, emery, etc.)</td>
<td>7,000.00</td>
</tr>
<tr>
<td>Batteries (for flashlights)</td>
<td>1,500.00</td>
</tr>
</tbody>
</table>

These benefits would be lost to the national economy if there were no American Merchant Marine. They would not be replaced by foreign-flag ship purchases. Foreign-flag ships coming to United States ports spend as little as possible, postponing every expenditure that is not absolutely an emergency until they return home.36 On the other hand, the American-flag ships are required by the Merchant Marine Act of 1936 to make their purchases on the American market.

No mention has been made of the amount of employment that stems from American-flag shipping. In October, 1953, the Ocean Shipping Panel to the Transportation Council for the Department of Commerce released a study entitled "Analysis of Construction and Operating Subsidies Under the Merchant Marine Act of 1936." This study presented a table showing the amount of disbursements of the subsidized lines in 1950 and the employment resulting from these disbursements.

Table 4 is a reproduction of that table.37 This table shows that 95,500 people were employed as a


<table>
<thead>
<tr>
<th></th>
<th>Amount of Disbursements of Subsidized Lines in 1950</th>
<th>Number Employed Direct and Indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct Employment:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic salaries and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>wages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Administrative</td>
<td>$20,475,000</td>
<td>7,100</td>
</tr>
<tr>
<td>personnel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Seagoing</td>
<td>88,507,000</td>
<td>33,400</td>
</tr>
<tr>
<td>3. Longshoremen</td>
<td>11,982,000</td>
<td>6,400</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>$120,964,000</td>
<td>46,900</td>
</tr>
<tr>
<td><strong>Indirect Employment:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic vessel</td>
<td>$179,263,000</td>
<td>38,600</td>
</tr>
<tr>
<td>expenditures, other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>than salaries and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>wages (as above)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other domestic</td>
<td>29,889,000</td>
<td>6,400</td>
</tr>
<tr>
<td>overhead and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>miscellaneous</td>
<td></td>
<td></td>
</tr>
<tr>
<td>expenditures</td>
<td>16,509,000</td>
<td>3,600</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td>$225,661,000</td>
<td>48,600</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$346,625,000</td>
<td>95,500</td>
</tr>
</tbody>
</table>

result of $346,625,000 being disbursed by the lines in 1950. This could not be considered a small contribution to the national economy.

B. National Defense

The foregoing discussion has been concerned with the controversial justification for an American Merchant Marine from the viewpoint of its effect on the national economy. Needless to say it probably will remain a controversial subject as long as the American Merchant Marine is subsidized.

Few, if any, deny the necessity of the American Merchant Marine for national defense. Former Secretary of War Patterson said that the defense of the United States can best be conducted beyond the American continental limits; but to do so would require the early and rapid movement of millions of men and millions of tons of equipment and supplies across the oceans. Secretary Patterson also said that within the foreseeable future this movement will have to be accomplished by ships, and that the backbone of the fleet needed must come from the American Merchant Marine. 38 The industrial

might of the Nation can produce the sinew of war, but it will serve for naught unless delivered to the front.

President Eisenhower, in a letter addressed to the Propeller Club convention in Los Angeles, 1952, said:

In 1944, from London, I said, "When final victory is ours there is no organization that will share its credit more deservedly than the American Merchant Marine."

We were caught flat-footed in both world wars because we relied too much upon foreign-owned and operated shipping to carry our cargoes abroad and to bring critically needed supplies to this country.

America's industrial prosperity and military security both demand that we maintain a privately operated merchant marine adequate in size and of modern design to insure that our lines of supply for either peace or war will be safe.

I consider the merchant marine to be our fourth arm of defense and vital to the stability and expansion of our foreign trade.

Probably no other man has been in a better position to assay the role of the American Merchant Marine in regard to the defense of the United States.

C. Defense Consideration

When the Nation is waging a war, monetary cost becomes secondary in nature, but it might be of interest to note what it cost the United States to transport troops on the British Queen Mary and Queen Elizabeth during World War II.

The United States Government paid $100 per man for transportation on the two Queens. In addition, the ships’ fuel and supplies, and food for the troops were furnished by the United States Government. The total number of troops carried aboard the two ships was 1,002,923. At $100 per man, the United States paid $100,292,300 for the use of the Queens. The total construction cost of the two ships was $50 million or about $25 million each. It appears that the United States more than paid for those two ships.

40. According to former Secretary of Commerce, Charles Sawyer, the actual accounting figure used was 20 pound sterling per man. Since the exchange rate at the time was $4.03, a figure of $80 per man would be more correct. The use of the figure of $100 per man probably came from using the older exchange rate of $4.80 per pound.

From the viewpoint of national defense, the United States must have an American Merchant Marine. This is true regardless of whether there is an economic justification or not. It is also true that the economy, including government aid, cannot in time of peace support an American Merchant Marine which would be required in the event of a major conflict. Thus the problem from the viewpoint of national defense becomes one of some minimum nucleus which can meet the initial impact of war and be expanded to meet the further demands of war. This expansive nucleus may be larger or smaller than the fleet required for commerce. If they were the same size it would be only a coincidence.

Manpower availability is considered the critical factor in meeting the nucleus requirements. Ships and shipyards may be laid up in reserve for future use, but without the competent personnel to bring them into action, they are only of potential value. The Joint Chiefs of Staff estimate that the minimum requirement to meet the demands of mobilization is 435,000 men. This estimate does not include the Navy Department or ship repair needs.42

During World War II, it was found that the number of workers employed in time of peace could be expanded approximately 12 times. Based on this appraisal, 36,000 men should be employed during peacetime in merchant-ship construction. An annual construction of 60 modern oceangoing ships will provide gainful employment for such a nucleus.\(^\text{43}\) The industry is not now providing the nucleus which the Joint Chiefs of Staff considered to be the bare minimum. On January 1, 1955,\(^\text{44}\) there were less than 6,000 men employed in shipbuilding.

The requirements of national security on the American Merchant Marine are greater than the economic needs. Viewed from this viewpoint the economic justification becomes not an end in itself but rather one of providing the basis for part of the cost of national defense. If world conditions were such that the United States did not have to consider national security, the fate of the American Merchant Marine might well rest on its economic justification.


CHAPTER III

BRIEF REVIEW OF AIDS PRIOR TO 1936

The historical background of furnishing financial aid to the American Merchant Marine by the United States Government can be traced back to the British Navigation Acts. These Acts were discriminatory in nature and reflected an attempt on the part of England to protect and promote her merchant fleet and overseas commerce from foreign-flag competition. Another very important consideration was at that time every commercial vessel could be thought of as a potential war vessel.

The first of these Navigation Acts was passed as early as 1381. Even at this early date the merchant marine appears to have been a national problem. This Act of 1381 provided:¹

That for increasing the shipping of England, of late much diminished, none of the King's subjects shall hereafter ship any kind of merchandise, either outward or homeward, but

only in ships of the King's subjects, on forfeiture of ships and merchandise, in which ships, also the greater part of the crews shall be the King's subjects.

Again in 1651 under Oliver Cromwell one of the most famous of all the British Navigation Acts was passed. Some of its provisions were the following:

That no merchandise, either in Asia, or Africa, or America, including the English Plantations there, should be imported into England, in any but English built ships, and belonging either to England or English plantation subjects, navigated also by an English commander, and three-fourths of the sailors to be Englishmen, excepting such merchandise as should be imported directly from the original place of their growth and manufacture in Europe solely; and that no fish should henceforward be imported into England or Ireland, nor exported thence to foreign ports, nor even from one of their own home ports, but what should be caught by their own fisheries only.

Various other Navigation Acts were passed at later dates. Nearly all of the later Acts either confirmed or augmented the previous Acts. The protective policies

of the British Navigation Acts remained in force until their repeal in 1849.3

It is interesting to note what Adam Smith, who was an advocate of the laissez faire doctrine, said about the Navigation Acts. On purely economic grounds he probably would have condemned the Acts, but being realistic he said: 4

The defense of Great Britain, for example, depends very much upon the number of its sailors and shipping. The Act of Navigation, therefore, very properly endeavors to give the sailors and shipping of Great Britain the monopoly of the trade of their own country, in some cases by absolute prohibitions, and in others by heavy burdens upon the shipping of foreign countries.

It is little wonder that with this background of aid to the merchant marine by the mother country England that the United States at the very start should embark on a policy of protecting and promoting its own merchant marine.

3. Ibid., p. 2.

A. Period Before Civil War

With the successful conclusion of the War for Independence in 1783, the merchant ships of the American colonies lost their British nationality and were no longer protected by the British Navigation Acts. Instead of being protected, they were now discriminated against by these same Acts.

Furthermore the results of the War for Independence and the fear of competition caused a natural hostility on the part of the British toward the American Merchant Marine. The British immediately passed an Act which forbade trade with the lucrative West Indies, except in cargoes carried by British-owned and British-manned ships. Thus at one stroke a pre-Revolutionary trade of some $20,000,000 a year was denied the American Merchant Marine. William Knox, who was active in seeing this Act through Parliament, wrote that it had "... saved the navigation and maritime importance of this country (England) and strangled in the birth that of the United States...."5

When the American Merchant Marine sailed into the Mediterranean in search of other trade, it encountered

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the Barbary Pirates. For years, these pirates had been bought off by the European nations as a means of protecting their shipping. When American ships were taken by the pirates, Lord Sheffield, in a speech to the English Parliament in 1784, said: "It is not probable that the American States will have a very free trade in the Mediterranean. It will not be to the interest of any of the great maritime powers to protect them from the Barbary States. . . ." Lord Sheffield went on to say that if the great maritime powers knew their own interest they would not encourage the growth of the American Merchant Marine. He even acclaimed the seizure of the American ships by the Barbary States as being advantageous for the other great maritime powers.  

England was not the only country with navigation acts. The American Merchant Marine found itself further restricted in foreign commerce by the navigation laws of Spain, France, and Holland. These navigation laws to a large extent were similar to the British Navigation Acts in that they restricted the country's foreign trade to its own flag-ships for the purpose of promoting its own merchant marine.  

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6. Ibid., p. 4.
To meet the discriminatory policy of foreign countries, the United States began to enact laws to promote its own merchant marine. Five of the first eleven acts passed by Congress contained provisions to encourage and regulate American shipping. 8

One of these laws that had far-reaching effect was the Registry Act passed by Congress on September 1, 1789. The provisions of this Act stated that only ships built in the United States and belonging to American citizens could register under the American Flag. 9 This Registry Act gave new impetus to the American Merchant Marine because of the provisions of the Act of July 4, 1789, and the Act of July 20, 1789.

The Act of July 4, 1789 was entitled "An Act Imposing Duties on the Tonnage of Ships or Vessels." It provided a ten per cent discount of customs duties on goods entering the United States in American vessels. 10 This meant, as far as custom duties were concerned,

8. Ibid., p. 724.


that goods could be imported into the United States in American-Flag ships cheaper than in foreign-flag ships.

The Act of July 20, 1789 was even more discriminatory. It imposed a tax of six cents per ton on American-Flag ships and fifty cents per ton on foreign-flag ships. Furthermore it stated that American ships would pay this tax but once during the year, while the foreign ships should pay the tax every time that they entered an American port.11 These two Acts, the Act of July 4, 1789 and the Act of July 20, 1789, made the American import trade almost prohibitive to foreign-flag ships.


...They then passed a navigation act of their own, avowedly by way of retaliation and word for word the same as ours (1787).

The case then stood thus: By our act, no produce or manufacture of America could be carried to England in any other than English ships.

By their act, no produce or manufacture of England could be carried to America in any other than American ships.

Neither country could do without the other. We must have goods of theirs and they of ours; and how we and they got them, sets in the clearest light the wondrous wisdom of the navigation laws.

American ships came across the Atlantic to Liverpool in ballast, having in their wake English ships with rice, cotton, and tobacco.

English ships crossed the Atlantic to New York in ballast, having in their wake American ships laden with calicoes, cutlery, hardware, earthenware, and iron.

The English ships sailing in ballast furnish an explanation of how many of the American ante-bellum

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homes could be built economically of bricks that were made in England. The bricks were used as ballast in the English ships coming to the United States to pick up cargo. When the English ships arrived in the United States the bricks were sold without regard to the cost of transportation.

No doubt, many American and English goods were unable to move in international trade because of the relatively high freight rates that resulted from this one-way traffic of goods for the ships of each country. The charge had to be set high enough to make up for the loss on that part of the trip that was made in ballast. Ricardo in his book went on to describe the logical result of such discriminatory legislation.\(^{13}\)

\[\text{The which state of things, more or less, lasted for 8 and 20 years (1787-1815). Were this mere matter of history we scarce dare tell that it was so; but there are people living yet who remember it. English sailors, perhaps, who in the middle of the broad Atlantic, going out in ballast, have hailed Americans, also outward bound, in ballast; and these were the good old times that (British) shipowners long to have again, and that Mr. George Frederick Young, their}\]

mouthpiece, did publicly declare in June 1847, to have been an advantage to Great Britain and America. The force of wisdom could no farther go. A glorious nursery for British seamen were those empty ships crossing the Atlantic--floating high, and gently rocked on its broad waves. The only misfortune was, that such a happy state of things came to an end. Trade fell off. The Americans set themselves to do without us, and began to manufacture on their own account.

The description of trade between the United States and England by Ricardo is somewhat typical of the trade between the United States and the other great maritime powers during that same period. Nearly all of the nations that possessed a merchant marine had discriminatory laws favoring their own ships.

It was during this early period of the American Merchant Marine that the first record of an American President asking for aid for the merchant marine is found. George Washington in his second annual address to Congress on November 8, 1790, said:

I recommend it to your serious reflections how far and in what mode it may be expedient to guard

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against embarrassments from these contingencies by such encouragements to our own navigation as will render our commerce and agriculture less dependent on foreign bottoms, which may fail us in the very moments most interesting to both these great objects. Our fisheries and the transportation of our own produce offer us abundant means for guarding ourselves against this evil.

Both the Senate and the House sent back messages concurring with the President's views. The only significant legislation passed that year, however, was an act which was in the interests of seamen—the first of its kind in the world. This act contributed greatly to the quality of American crews.15

The American coastal trade had for all practical purposes been reserved for American-flag ships by the Act of July 20, 1789. This Act was highly discriminatory because of the tonnage tax that foreign-flag ships had to pay each time they entered an American port.16

In 1808 the coastal trade monopoly for American ships was made absolute when Congress passed an act


supplementing the Embargo Act. This Act forbade foreign ships from entering the American coastwise trade under any conditions. The absolute prohibition, however, was modified the following year. 17

It appears to be reasonable to conclude that these early acts were effective in promoting the American Merchant Marine. Table 5 shows a healthy growth of the merchant marine. The drop in tonnage for the year 1793 was due mainly to the increased action of the Barbary Pirates. The United States tried the European method of appeasement. A ship loaded with valuable cargo was sent to the pirate Dey of Algiers. The primary results of this appeasement were an increase of activity by other pirates who had not received any of the cargo. 18

Table 5 also shows a drop in tonnage for the years 1801, 1802, and 1803. A part of this drop in tonnage can be credited to the effects of the Napoleonic Wars. France was taking actions against American shipping which amounted to an "undeclared war." After the affair of the "undeclared war" with France was settled,

Table 5
American Merchant Marine
1789 to 1810

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Tons of Ships Engaged in Foreign Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1789*</td>
<td>123,893</td>
</tr>
<tr>
<td>1790*</td>
<td>346,254</td>
</tr>
<tr>
<td>1791*</td>
<td>363,110</td>
</tr>
<tr>
<td>1792*</td>
<td>411,438</td>
</tr>
<tr>
<td>1793</td>
<td>367,734</td>
</tr>
<tr>
<td>1794</td>
<td>438,863</td>
</tr>
<tr>
<td>1795</td>
<td>529,471</td>
</tr>
<tr>
<td>1796</td>
<td>576,733</td>
</tr>
<tr>
<td>1797</td>
<td>597,777</td>
</tr>
<tr>
<td>1798</td>
<td>603,376</td>
</tr>
<tr>
<td>1799</td>
<td>657,142</td>
</tr>
<tr>
<td>1800</td>
<td>667,107</td>
</tr>
<tr>
<td>1801</td>
<td>630,558</td>
</tr>
<tr>
<td>1802</td>
<td>557,760</td>
</tr>
<tr>
<td>1803</td>
<td>585,910</td>
</tr>
<tr>
<td>1804</td>
<td>660,514</td>
</tr>
<tr>
<td>1805</td>
<td>744,224</td>
</tr>
<tr>
<td>1806</td>
<td>798,507</td>
</tr>
<tr>
<td>1807</td>
<td>840,163</td>
</tr>
<tr>
<td>1808</td>
<td>765,252</td>
</tr>
<tr>
<td>1809</td>
<td>906,855</td>
</tr>
<tr>
<td>1810</td>
<td>981,019</td>
</tr>
</tbody>
</table>

*Duty tonnage. Figures for 1789 are for 5 months only, August 1 to December 31.

the American Merchant Marine continued its steady growth through 1810.

The trend of growth shown in Table 5 for the first 22 years of the American Merchant Marine was accomplished in the face of hostility by the major maritime powers of Europe. The hostility sometimes took the drastic form of seizure of American sailors and ships, but for the most part, it took the form of discriminatory navigation laws. It was only natural for the United States to retaliate by passing discriminatory laws of its own.

The Embargo Act and the War of 1812 caused an interruption in the growth of the American Merchant Marine. At the end of the War of 1812, while American shipping was reviving from the blows dealt it by the war, Congress enacted the Navigation Laws of 1817. Part of this Act which pertained to the coastwise trade has been continued in force up to the present time. It provides as follows:\textsuperscript{19}

\begin{flushright}
\end{flushright}
Section 4. And be further enacted, That no goods, wares, or merchandise, shall be imported, under penalty of forfeiture thereof, from one port of the United States to another port of the United States, in a vessel belonging wholly or in part to a subject of any foreign power; but this clause shall not be construed to prohibit the sailing of any foreign vessel from one to another port of the United States, provided no goods, wares, or merchandise, other than those imported in such vessel from some foreign port, and which shall not have been laden, shall be carried from one port or place to another in the United States.

At the time this law was enacted, probably no one could foresee how important this section pertaining to the coastwise trade would become in the future. It should be remembered that in 1817 the United States had no seacoast on the Pacific and only a limited seacoast on the Gulf of Mexico. With the acquisition of additional territory the law became increasingly significant.20

The Navigation Laws of 1817, in addition to the section which provided for complete exclusion of foreign ships from the coastal trade, "forbade the

importation of goods from any foreign port, except in American vessels or vessels of the country from which the goods came." Countries which imposed no such discriminations against American ships were exempted from this provision of the law. 21

As the major powers began to accept the provisions of the policy of reciprocity, the United States repealed its discriminatory duties. By 1830 nearly all of the discriminatory duties had been repealed. The American Merchant Marine was now so firmly established that Congress felt there was no longer any need for discriminatory legislation for the protection of American shipping. 22

B. Period of Mail Contracts

Most studies of the American Merchant Marine concur that the first half of the nineteenth century was on the whole a successful era for American shipping. Even

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though there was some aid from the government during this period in the form of the coastal trade monopoly and discriminatory duties, the industry was primarily one consisting of prosperous private enterprises. Toward the latter part of the period, government assistances took the form of indirect subsidies by providing grants for the carriage of mail. Most of these mail contracts called for a payment by the government of an amount greater than the cost of transporting the mail.

The first mail contract was authorized by the Act of March 3, 1845. Its purpose was to provide American flag steamers to compete with the foreign-flag steamers in the carriage of mail. The governments of France, Great Britain, and Norway had developed the steamship by engaging in experimental operations which resulted in the foreign-flag steamships taking over the carriage of mail.

Mail between the United States and Europe was being carried largely by the British experimental steamers. The mail between the United States and continental Europe had to be transmitted through the British post office. This mail was subject to being
opened for inspection by the British postal authorities. Inspection of American mail by the British postal authorities did not cease until after the inauguration of a mail service by an American-flag steam line.  

The Ocean Steam Navigation Company was the first United States steamship company to operate under the mail contracts. This company began operation in 1847 and was liquidated in 1858 when it lost its mail contract. It is interesting to note that the Collins Line, an American-flag company which began operation soon after the Ocean Steam Navigation Company, was the first American-flag company with steamships to compete successfully with the steamships of the British-flag Cunard Company. The British Line had been charging freight rates of about $35.00 per ton. After the American-flag Collins Line began operations, the freight rates soon dropped to less than $20.00 per ton. This drop of approximately 40 per cent in freight rates was due to the intense competition between the two Lines. The Collins steamers were more modern and faster than

the Cunard steamers and therefore obtained a greater share of the passenger traffic. In 1852 the Collins Line carried 50 per cent more passengers to New York and 30 per cent more passengers to Liverpool than its competitors.\textsuperscript{24}

This first mail contract period which began with the Act of March 3, 1845, ended in 1858 when all mail contracts were terminated. During this period of 13 years the United States Government paid out fourteen and one-half million dollars on mail contracts upon terms which amounted to a payment in excess of an equivalent for services rendered.\textsuperscript{25} From 1858 to 1865 the United States Government gave no aid to shipping companies in the form of mail contracts. No doubt, the government was more concerned with the Civil War and the events just prior to the war than with the promotion of its merchant fleet.

Many studies of the American Merchant Marine place the beginning of its decline to the time just prior to the Civil War. There are several reasons for this

\textsuperscript{24} Ibid., pp. 53-54.

\textsuperscript{25} Dunmore, \textit{op. cit.}, p. 20.
decline. The Crimean War ended in 1856 and released thousands of tons of British shipping to compete in international trade. This sudden increase in British tonnage could not be absorbed by world trade. One of the first effects of the increased tonnage was shown on the shipbuilding industry in the United States. There were nearly 600,000 tons of shipping under construction in the United States in 1855, and by 1860 the amount under construction had dropped to a little over 200,000 tons.26

Other adverse factors affecting the American Merchant Marine were the collapse of the gold boom in California and the American Civil War. The war resulted in a complete stoppage of United States merchant shipbuilding; and the American Merchant Marine, for all practical purposes, ceased to exist. Ships were transferred from international trade to blockade service. Many were captured and destroyed during the war. A considerable number were transferred to foreign-flag registry to avoid the hazards of war. Under the law, the ships transferred to foreign registry were not

permitted to return to the American-flag registry after the war ended.

Another reason for the continued decline of the American Merchant Marine was the previously mentioned subsidization by foreign governments of their steamships. This practice led to a highly competitive situation in world shipping. It also occurred during the time that the westward expansion was taking place in the United States. The growth of the railroads absorbed nearly all of the available capital. The discovery and exploitation of American natural resources also turned Americans' interest from the sea to internal affairs. The opportunity for investments in domestic industrial developments were limitless and provided a far greater return than investments in the highly competitive field of international shipping.²⁷

The combination of factors just listed and the termination of all mail contracts in 1858 had a drastic effect on the American Merchant Marine. With the termination of mail contracts, the steamship lines were, with one or two exceptions, forced to suspend operation. The percentage of the value of United States foreign

trade carried in American-flag ships dropped from 73.7 per cent in 1858 to 25 per cent in 1866.28

The government resumed its assistances in the form of indirect subsidies on a limited basis by providing grants for the carriage of mail under the Act of May 28, 1864. This Act authorized the establishment of ocean mail service between the United States and South America. It was later amended to include China and Japan.29 The Act provided no mail contract to steamship companies in competition with Great Britain on the important Atlantic route from New York to England. Because of scandals connected with payments to the Pacific Mail Line, all mail contracts were terminated on March 3, 1875. During this period, from 1864 to 1875, the government paid out approximately six and a half million dollars on mail contracts.30

No financial aid was furnished the American Merchant Marine for the next sixteen years. Toward the end of


this period, events took place which resulted in the
United States' becoming a colonial power. The an-
nexation of Hawaii, the Philippines, and Puerto Rico
brought to the attention of the people of the United
States their position in world affairs and emphasized
the need for overseas contact by ships for political
as well as for purely commercial reasons. This over-
seas contact took the form of ocean mail contracts
similar to the policy which all other governments had
adopted in the maintenance of their overseas communi-
cations with communities of political affiliation with
the home country. 31 This policy resulted in the Act of
March 3, 1891.

The Act of March 3, 1891 was one of the first mail
contract acts to embody national defense features. In
order for certain classes of ships to be used in
service under the mail contracts, the Secretary of the
Navy had to give his approval. These ships had to be
of a certain size, able to maintain a certain speed,
and be suitable for mounting and working at least four
6-inch guns. 32

31. Ibid., p. 59.

32. "An Act to provide for Ocean Mail Service
between the United States and Foreign Ports, and to
Promote Commerce," Statutes of the United States, 1874-
1891, inclusive, Government Printing Office, Washington,
1891, pp. 905-907.
Evidently, the shipping companies did not view the terms under the Act of March 3, 1891 as being very favorable. Of the 53 lines advertised for by the Postmaster General, only eight were at any time in operation. The total amount of payments on contracts under this law amounted to over twenty-six million dollars. For the same period of time, the Canadian Government spent twice as much on their merchant marine and England spent six times as much.

In evaluating the Act of March 3, 1891, little can be said for its success. It did not provide suitable mail service as evidenced by the fact that only eight lines were ever in operation out of the 53 lines called for by the Postmaster General. The Act did not promote commerce, one of its stated purposes. The gross tonnage of American-flag ships engaged in foreign trade actually decreased from 988,719 tons in 1891 to 816,795 in 1900. This is a decrease of 171,924 tons for the first ten years of operation under the Act.

34. The Encyclopedia Americana, op. cit., p. 661.
The Spanish-American War also showed the inadequacy of the Act of March 3, 1891, to provide an American Merchant Marine. During the war period, 1898-1899, Congress had to permit the temporary registry of 42,700 tons of foreign vessels in order to transport the needed troops and supplies to Cuba, the Philippines, and elsewhere. In addition to the above 42,700 tons, the army and navy bought 94,000 tons of foreign shipping. The requirements of the Spanish-American War were relatively small when compared to some of the other wars in which the United States was involved. Even so, the American Merchant Marine could not meet these requirements. It was fortunate for the United States that the war was fought under circumstances that permitted the United States to use foreign-flag shipping.

World War I which dwarfed the requirements of the Spanish-American War made many people, for the first time, aware of the importance of an American Merchant Marine. Emergency legislation was required which provided for the purchase, construction, and operation of an American-flag merchant fleet by the government. After the war ended, the Merchant Marine Act of 1920 was passed.

The Merchant Marine Act of 1920 was passed by Congress to enable the Shipping Board to dispose of the huge government-owned fleet which it had acquired during the war. Under the emergency legislation which had brought the fleet into existence, the Shipping Board was obligated to transfer the fleet to private owners or operators within five years after the end of the war.

The Shipping Board was also authorized to consult with the Postmaster General concerning mail routes, and the latter official was permitted to make contracts on the Shipping Board trade routes. This Act, however, contained provisions that went further than just securing suitable mail services. It set forth as the maritime policy of the United States the establishment and maintenance of a merchant marine of

... the best equipped and most suitable types of vessels sufficient to carry the greater portion of its commerce and serve as a naval or military auxiliary in time of war or national emergency, ultimately to be owned and operated privately by citizens of the United States. . . .

The Act directed the Shipping Board, in the making of rules and regulations, and in the administration of the shipping laws to keep always in view the purpose and object of the above maritime policy as the primary end to be attained. To assist further the Board to carry out the maritime policy, the Act set up a construction loan fund of up to $25,000,000 for loans to private companies for the building of new ships.38

The amount of mail contract payments made under the Merchant Marine Act of 1920 was a little less than five million dollars, and only six lines benefitted from these payments.39 The Act could do very little toward stemming the postwar shipping depression. The postwar world depression caused a decrease in foreign trade while at the same time, every one of the major maritime nations had a surplus in shipping tonnage.

To a large extent the merchant marines of the European countries had been built postwar and were relatively heavily subsidized, both as to construction and as to operation. In an attempt to put the American

39. Saugstad, op. cit., p. 64.
Merchant Marine back into competition with foreign-flag fleets, Congress passed the Merchant Marine Act of 1928.

The new Act, known also as the Jones-White Act, confirmed the national maritime policy as stated in the Merchant Marine Act of 1920. It authorized Government loans to American shipping companies for the construction of fast and modern ships, and it empowered the Post Office Department to enter into long-term contracts with such companies for carrying the mail on important trade routes. The compensation to be paid was more liberal than that paid under any previous mail contract. It was based, not upon the volume of mail carried, but upon the size and speed of the vessels used and the length of the route served.40

The germ of the later direct subsidy policy can be found in a national radio address made by Postmaster General W. F. Brown on June 6, 1931. In describing the Merchant Marine Act of 1928, he said:41

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This, of course, is ship subsidy, the purpose of which is to compensate American shipowners for three things: First, the much higher costs of ship construction in this country, by comparison with construction costs in foreign shipyards; second, the higher wages of American seamen; and, third, the subsidies which other nations provide for their own vessels. The direct object of the subsidy paid by our Government to American shipowners is, in other words, to equalize the costs of constructing and operating merchant ships between American and foreign operators, so that ships of the United States can compete for both cargo and passengers on substantially equal terms with other maritime nations.

The proponents of a strong American Merchant Marine, at first were optimistic as to the results of the Merchant Marine Act of 1928. For the first time since World War I, new ships were built in the United States. In all, forty-two ships were built under the Act, between 1928 and 1936. Forty-three mail contracts over essential trade routes were let. The concept of essential trade routes was used for the first time under this Act. The annual expenditures in payment of mail contracts averaged a little less than $20,000,000.42

42. The Encyclopedia Americana, op. cit., p. 662.
Even with this increase in payments, the American Merchant Marine could not compete with the foreign-flag merchant marines.

C. Failure of Indirect Subsidy Policy

Thus far, the subsidy policy followed by the United States was one of an indirect nature. Because it was of indirect nature, the purpose of the program was often-times misunderstood by the layman. The indirect subsidy policy offered opportunity for abuse of the program by the recipients of the payments on mail contracts. Scandals in connection with the payments under the mail contracts led Congress to terminate the contracts more than one time.

In any event, the American Merchant Marine was never on a very sound basis during the entire period of indirect subsidy policy based on mail contracts. The decline which began just prior to the Civil War continued until 1913 when only 9 per cent of the foreign commerce of the United States, both imports and exports, was being carried in American ships. 43 Probably one of

43. "Cargo Preference Bill (50-50 Cargo)," Hearings before a Subcommittee of the Committee on Interstate and Foreign Commerce, United States Senate, Eighty-third Congress, Second Session, p. 118.
the factors that prevented the indirect subsidy policy based on mail contracts from being successful was its lack of continuity. The on-again off-again policy which was typical of the mail contracts could not have led to a great degree of stability in the shipping industry.

At various times in the history of the United States, Americans have been made acutely aware of their need of an adequate American Merchant Marine. Not all of these occasions occurred when the United States was involved in a war. For example, the British coal strike, the Boer War, and the Crimean War adversely affected the United States foreign trade. The foreign-flag ships, which the United States was dependent upon, were withdrawn from American foreign trade to serve the interests of their own countries.

The failure of the indirect subsidy policy was again pointed up with the outbreak of World War I in Europe. The foreign-flag ships which had been carrying American foreign trade were withdrawn for war service in Europe. This action left an almost completely impotent American Merchant Marine to provide essential service. Lacking American ships, shipping rates soared.
The average rate on general cargo increased 1,117 per cent. Before the war, ships could be chartered for a dollar a ton. Two months after the outbreak of the war the charter rate was $13.88 a ton to areas outside of the war zone and $20 to $21 in war zones. These high shipping profits caused the sales price of ships to rise to $300 a ton from the prewar price of $60 a ton. In fact, shipping profits were so great that many ships were completely paid for from the profits of one voyage.

The shipping situation caused near panic in the agriculture industry. Cotton, tobacco, and other agricultural products piled up on the docks and glutted the warehouses for lack of ships. These conditions also affected manufacturing industries which were heavy exporting industries. Copper, steel, general manufacturing, and oil industries were completely disrupted.

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44. Cf. ante, p. 31.


United States Steel Company had to cut back its production until it was operating at 30 per cent of capacity. Not only did the United States not have the ships to carry its exports, but the United States was also cut off from such needed and vital imports as manganese, dyestuffs, and chemicals.47

Prodded by this crisis, the government itself entered into an emergency shipbuilding program. A United States Shipping Board was established and under it the Emergency Fleet Corporation. The Shipping Board was given broad regulatory powers over the entire shipping industry. It acquired ships by charter, purchase, and building. These ships were then operated in commercial services.

By the end of the war the United States possessed 2,547 merchant ships aggregating a total of 14,705,281 deadweight tons. The direct acquisition costs of these ships was $3,042,000,000. Of these ships 2,316 were constructed by the government at a cost of $2,951,807,000. The balance of 231 ships were acquired by purchases,

seizure of enemy property, and transfer from other government departments at a net cost of $126,194.48
This 2,547 merchant ships represented 22 per cent of the world total of merchants' ships.49

One witness before a Senate Committee Hearing estimated that if the same ships built under the emergency ship building program costing $2,951,807,000 had been built prewar, they would have cost about $840,000,000.50 In other words, if the indirect subsidy policy had provided a sound maritime policy, many of these ships would have already been built and would have saved approximately two billion dollars in ship construction cost. Besides the cost factors, these ships were produced with haste in construction rather than excellence in performance as an aim. As a result, many of them were of poor quality, low speed, and short operating life. Even with all the haste in construction, less than one-sixth of the ships were completed by the end of the war.51


51. The Encyclopedia Americana, op. cit., p. 663.
During the depression era of the 1930's, Congress began to question what the government was receiving in return for the subsidies disguised as mail contracts. In 1933 the Post Office appropriation was $28,500,000 for ocean-mail contracts, of which $9 million was estimated as the mail compensation on a poundage basis, leaving the difference of $19,500,000 as the subsidy.\textsuperscript{52} This subsidy was a rather large sum for those depression days.

Congress found the American Merchant Marine fast approaching old age in a block. Most of the ships were of World War I vintage. Only 40-odd ships had been built in the United States since the days of World War I.\textsuperscript{53} The shipping companies were unable to make replacements. They had failed to conserve their earnings or had invested their retained earnings in other enterprises, so that the funds were not available for ship replacements. None of the mail contract acts had provided any statutory requirement for the conservation of earnings or made any provisions for fleet replacements.

\textsuperscript{52} "Proposed Amendments to the 1936 Merchant Marine Act," \textit{op. cit.}, p. 234.

\textsuperscript{53} \textit{Cf. ante}, p. 75.
In 1934 a thorough investigation was begun by a Senate committee headed by Senator Black. At the same time, the Commerce Department, the Post Office Department, and the Attorney General also began investigations. Each produced reports that were quite similar. The closing paragraph of the Postmaster General's report summarized the defects of the prior program in these words: 54

The Government cannot hope to receive the full measure of benefit from its expenditures if those who receive Government aid in the form of mail contracts, or otherwise, are permitted to operate in an extravagant manner and pay unconscionable fees, salaries, and dividends; and to organize subsidiary companies, such as machine shops, agencies, or other companies, which are permitted to make exorbitant profits and incidentally stifle independent shops and firms; or to own, or in turn to be owned, wholly or in any substantial part, by holding companies that have exorbitant expenses. Nor should any concern receiving such aid be permitted, by intercompany agreement or otherwise, to dissipate its assets in any manner that would defeat the purpose for which the aid was given.

Although the four independent investigations were conducted under two separate branches of the federal government, they made essentially the same recommendations. These recommendations included the five following factors: 55

1. The welfare of the Nation requires the maintenance of a modern American Merchant Marine to protect and extend its foreign commerce in peace and to form the nucleus of a defense auxiliary in times of war; 2. The aid should be based, not on unconditional grants, but on carefully formulated programs with contractual obligations; 3. Subsidies should be designed to give parity with foreign competitors, by means of (a) construction differential, (b) operating differential, and (c) other differentials; 4. Subsidy should be limited to those willing to contract to serve an essential trade route; and, 5. Effective means must be taken to provide for the matter of ship replacement, by requiring (a) economical operation, (b) conservative financial practices, (c) accumulation of earnings and profits, and (d) a provision for the reinvestment of these earnings in new ships.

55. Ibid., p. 235.
The result of these investigations was the passage of the Merchant Marine Act of 1936. The new Act is based on the concept of direct subsidies rather than the policy of indirect subsidies of all prior acts.
CHAPTER IV

MERCHANT MARINE ACT OF 1936, AS AMENDED, AND WORLD WAR II

In 1935 it was evident that the indirect subsidy policy based on mail contracts had failed in its purpose to maintain an adequate American Merchant Marine. In addition to this obvious failure and the irregularities in connection with mail contracts which were brought to light by the various investigating committees, there was a general lack of understanding by the public of the indirect character of the subsidy. This lack of understanding led to strong public criticism.

A. President's Message to Congress

To meet the situation of an inadequate American Merchant Marine and the public criticism directed at the mail contracts, President Franklin D. Roosevelt on March 4, 1935, sent the following message to Congress:¹

I present to the Congress the question of whether or not the United States should have an adequate Merchant Marine.

To me there are three reasons for answering this question in the affirmative. The first is that in time of peace subsidies granted by other nations, shipping combines, and other restrictive or rebating methods may well be used to the detriment of American shippers. The maintenance of fair competition alone calls for American-flag ships of sufficient tonnage to carry a reasonable portion of our foreign commerce.

Second, in the event of a major war in which the United States is not involved, our commerce, in the absence of an adequate American Merchant Marine, might find itself seriously crippled because of its inability to secure bottoms for neutral peaceful foreign trade.

Third, in the event of a war in which the United States itself might be engaged, American-flag ships are obviously needed not only for naval auxiliaries but also for the maintenance of reasonable and necessary commercial intercourse with other nations. We should remember lessons learned in the last war.

In many instances in our history the Congress has provided for various kinds of disguised subsidies to American shipping. . . .

I propose that we end this subterfuge. If the Congress decides that it will maintain a reasonably adequate American Merchant Marine I believe that it can afford honestly to call a subsidy by its right name.

Approached in this way a subsidy amounts to a comparatively simple thing. It must be based upon providing for American shipping Government aid to make up the differential between American and foreign shipping costs. . . .
It is evident from the above quotation that the President was asking for the enactment of a law that could be called by its real name, a subsidy law. In response to the President's message, Congress passed the Merchant Marine Act of 1936 and it became law on June 29, 1936. It was based on a direct subsidy policy and therefore was not subject to the same criticisms as the old indirect subsidy policy.

B. Administration of the Act

The new Act abolished the United States Shipping Board as well as the Merchant Fleet Corporation which had succeeded the old Emergency Fleet Corporation. To administer the new Act, a United States Maritime Commission was established in the Department of Commerce. The new Commission was authorized to cancel the ocean-mail contracts executed under the 1928 Act. The contracts were cancelled by June 30, 1937, and claims totaling over $73,000,000 were settled at a cost to the Government of approximately $750,000.2

In 1950 under a Reorganization Plan by President Truman, the United States Maritime Commission was

succeeded by the Federal Maritime Board and the Maritime Administration. The Reorganization Plan left the Maritime operation in the Department of Commerce. Not counting the Department of Defense, this agency of Maritime operation is the largest single agency, asset-wise, of the United States Government. Its assets are valued at $5,500,000,000, which exceeds any other non-military operation of the government. The agency has a relatively small staff, approximately 3,000 employees.3

On February 2, 1955, Mr. Louis S. Rothschild, the Maritime Administrator, appeared before the House of Representatives' Committee on Merchant Marine and Fisheries and outlined the functions of the Maritime operations. Mr. Rothschild is also Chairman of the Federal Maritime Board. In his testimony Mr. Rothschild first explained the functions of the Federal Maritime Board which are independent of the Secretary of Commerce. He also cited the sections of the various laws from which the Board receives its authority. The following description is based on Mr. Rothschild's testimony.4

4. Ibid., pp. 2-6.
The Federal Maritime Board has regulatory functions under sections 14 to 20, inclusive, and 22 to 23, inclusive, of the 1916 act. It has regulatory functions under the Intercoastal Shipping Act of 1933, as amended. It has the making, approval, suspension, modification, or annulment of rules and regulations affecting shipping in the foreign trade under section 19 of the 1920 act. It has the power of investigating discriminatory rates and other allied matters in the foreign trade, and recommending legislation to correct them under section 212 (e) of the 1936 act. It has the power to require the filing of reports under section 21 of the 1916 act, as they relate to the above items.

Additionally, the Federal Maritime Board performs the following functions guided by the general policies of the Secretary of Commerce. It has the making, amending, and terminating of subsidy contracts, that is, contracts for construction, reconstruction, or reconditioning of vessels, the sale of vessels to subsidy applicants, payment of construction subsidy, and national-defense features and payment of operating subsidy, including hearings and determinations antecedent thereto under titles 5, 6, and 7, and section 301, 708, 805 (a) and 805 (f) of the 1936 act. It makes changes
in such determinations under section 301, readjustments of operating cost differentials under section 606 and has the approval of the sale, assignment, or transfer of operating subsidy contracts under section 608.

The determination of essential trade routes and their over-all requirements, under sections 211 (a) and (b) was left to the Secretary of Commerce and is now delegated to the Maritime Administrator. The Federal Maritime Board has the power to investigate and determine relative foreign and domestic construction and operating costs and foreign subsidies under sections 211 (c), (d), and (e), of the 1936 act.

The functions under section 12 of the 1916 act includes investigations and reports on relative costs and on marine insurance. It requires the filing of reports under section 21 of the 1916 act as they relate to 1 to 3 above. It adopts rules and regulations, makes reports and recommendations to Congress, subpoenas witnesses, under sections 204, 208, and 214 of the 1936 act, as related to Board functions under President Truman's Reorganization Plan.

Additionally, the Federal Maritime Board performs these functions: It conducts hearings, makes determinations, certifies findings, and conducts reviews
relating to charters under the 1946 act as amended by Public Law 591, 81st Congress.

Pursuant to Public Law 793 of the 81st Congress, it makes determinations of the values of ships insured under title 12 of the 1936 act. It approves limited liability mortgages for passenger vessels in connection with mortgage insurance under title 11 of the 1936 act.

As to the functions of the Maritime Administration, it performs those vested in the Secretary of Commerce by section 204 of the Reorganization Plan, other than the authority to establish general policies for the guidance of the Federal Maritime Board under section 105, and by the statutes referred to in Reorganization Plan, including amendments to such statutes. These are the functions of the former Maritime Commission not transferred to the Federal Maritime Board.

The Maritime Administrator also performs certain functions not previously vested in the Maritime Commission. The Maritime Administrator's functions include the following: making determinations and taking all actions involved in administering, other than amending or terminating, subsidy contracts, except for sections 301, 606, and 608 functions vested in the Board; the construction of vessels, and the adjustment of prices
for prior sales; the requisition and operation of vessels; the insurance of loans and mortgages for the construction, reconstruction, and reconditioning of vessels; the payment of the cost of national-defense features and the giving of mortgage aid to nonsubsidized vessels; the acquisition of vessels in exchange for allowances of credit on new vessels; the granting of approvals under sections 9, 37, and 41 of the 1916 act, the remission and mitigation of forfeitures thereunder and the approval of surrender of marine documents under the 1920 act; the training of officers and seamen for the merchant marine; the maintenance and operation of shipbuilding, terminal, and other properties; the regulation of construction reserve funds; the regulation of capital and special reserve funds of subsidized operators.

The Maritime Administrator makes surveys, investigations, studies, determinations, keeps current records, cooperating and collaborating, establishing liaison and making recommendations to Congress and to the Interstate Commerce Commission under sections 210, 211, and 212 of the 1936 act, and section 8 of the 1920 act, except as vested in the Federal Maritime Board.
The Administrator has the coordination of public and private forwarding agencies. He has the issuance of war-risk insurance under Public Law 763, 81st Congress, except for the authority reserved to the Secretary of Commerce. He has the mobilization functions with respect to intercoastal, coastwise, and overseas shipping and merchant ship construction and repair. He represents the United States in dealing with shipping agencies of Allied Governments in matters related to the use of shipping.

This resume indicates that Maritime operation is charged with varied and substantial responsibilities. The staff of some 3,000, in general, serve both the Administration and the Board. Chart I shows the lines interconnected in such a way that they illustrate how the staff serves both the Administration and the Board.

The first three squares indicate the three members of the Federal Maritime Board. The Maritime Administrator is Chairman of that Board. The functions of the Board are supervised by the Office of the Secretary of the Board, under whom operate the Hearing Examiners and the Regulation Office. The hearing examiners hear cases, and then, on recommendation of the hearing examiners, the Board concludes either to accept their
recommendations as given, or to ask for additional information, or to hold public hearings, or to do whatever seems to be the proper thing at the time.

In the Maritime Administrator's office, there is a Deputy Maritime Administrator, a Security Officer, a Maritime Training Officer, and an Internal Auditor. The Deputy Maritime Administrator does much of the Maritime Administrator's work, either in preparation or by delegation. The Maritime Training Officer is the liaison link between the Academy at Kings Point, the state academies, and the Administration in Washington. The Internal Auditor examines the various departments to see that they are performing their delegated functions and responsibilities.

The Office of Comptroller and the Office of General Counsel serve both the Maritime Board and the Maritime Administrator quite largely on an every minute basis. In the Office of General Counsel there are three divisions: Litigation, Contracts, and Legislation.

The Office of Comptroller has four divisions: Credits and Collections, Insurance, Audits, and Accounts. Besides the staff of auditors in Washington, there are also auditors in the three coast offices shown at the bottom of Chart I.
The next layer of offices shown on Chart I are to some extent self-explanatory except for the Program Planning Office. It is in this office that plans are developed for ships of the future. The Program Planning Office evaluates ideas that come from inside and outside the Administration. It is here that an attempt is made to separate the possible from the impossible.

The Office of National Shipping Authority is now on a standby basis. It stands ready to be expanded, in case of an emergency, to the position that it held during World War II. It was through this office that all of the government-operated ships were supervised.

The Office of Government Aid determines the amounts of the various subsidies. It also makes studies for determining essential trade routes.

The next office is the Office of Ship Construction and Repair. Any ships built for government account, which includes many of those built for the Navy, are handled by redelegation from the Navy in the Office of Ship Construction and Repair. This office also does the repairing of vessels for government account.

The last office shown on Chart I is the Office of Property and Supply. This office is similar to many other governmental setups. Within this office is a
Division of Purchase and Sales, a Division of Ports and Facilities, and a Division of Office Services.

C. Declaration of Policy

The Merchant Marine Act of 1936 states the national policy in regards to the Merchant Marine. Section 101 of Title 1 reads as follows:

It is necessary for the national defense and development of its foreign and domestic commerce that the United States shall have a Merchant Marine (a) sufficient to carry its domestic water-borne commerce and a substantial portion of the water-borne export and import foreign commerce of the United States and to provide shipping service on all routes essential for maintaining the flow of such domestic and foreign water-borne commerce at all times, (b) capable of serving as a naval and military auxiliary in time of war or national emergency, (c) owned and operated under the United States flag by citizens of the United States insofar as may be practicable, and (d) composed of the best-equipped, safest, and most suitable types of vessels, constructed in the United States and manned with a trained and efficient citizen personnel. It is hereby declared to be the policy of the United States to foster the development and encourage the maintenance of such a Merchant Marine.

The declaration of the national maritime policy as stated in the Merchant Marine Act of 1936 was reaffirmed 10 years later by the Merchant Ship Sales Act of 1946.

D. Restatement of Policy

The declared policy as restated in the 1946 act is in some respects more emphatic than the statement of national maritime policy in the Merchant Marine Act of 1936. In Section 101 (c) of the 1936 act which referred to operation and ownership of the merchant marine by American citizens under the American flag, the words "insofar as may be practicable" were eliminated in the 1946 act. The most important addition in the statement of the 1946 act was the statement that the American Merchant Marine shall be "Supplemented by efficient American-owned facilities for shipbuilding and ship repair, marine insurance, and other auxiliary services."

In order to carry out the declared shipping policy to foster the development and to encourage the maintenance of an American Merchant Marine, the Merchant Marine

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Act of 1936 set up a parity basis for providing assistance to the industry. The parity concept is for the purpose of overcoming the disadvantages faced by the American Shipping industry in competition with foreign-flag ships.

E. The Parity Concept

The principle of the parity concept as stated in the Merchant Marine Act of 1936 provides two distinct subsidies; namely, the construction-differential subsidy and the operating-differential subsidy. The first permits the American ship operator to acquire certain types of vessels at prices comparable to those paid by foreign-flag ship operators for vessels of similar plans and specifications. This plan is accomplished by the government's absorbing the difference in the cost of building the ship in an American shipyard and the estimated cost of building the ship in a representative foreign ship-building center. Of course, there are some limitations placed on the amount of this construction-differential subsidy aid.

The subsidy may equal but not exceed the excess of the bid of the shipbuilder constructing the proposed vessel in an American shipyard over the fair and
reasonable estimate of cost as determined by the Federal Maritime Board, of the constructing of the proposed vessel if it were constructed under similar plans and specifications in a foreign shipbuilding center which is deemed representative by the Board. The cost of national-defense features is determined by the Board and paid by the government. The plans and specifications of the proposed ship must receive Navy Department approval. Under the act as passed in 1936, such aid was limited to vessels to be used only on essential routes as determined by the Board. In 1952 an amendment was passed authorizing the granting of such aid in connection with the construction of any vessel to be used in the foreign commerce of the United States. 7

The operating-differential subsidy makes it possible for an American operator to conduct his business at a cost approximating that of his foreign competitor. The subsidy represents the difference in the cost of operating the same vessel with a foreign crew by the foreign competitor under the registries of the competitive foreign countries. 8

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There are certain qualifications that an applicant must have before the Federal Maritime Board will consider his application for an operating-differential subsidy. These qualifications are: 9

1. The operation of vessels in the service, route, or line is required to meet foreign-flag competition and to promote the foreign commerce of the United States and that the vessels were built in the United States; 2. The applicant owns or can and will build or purchase vessels of the size, type, speed, and number and with the proper equipment required to enable him to operate and maintain the service, route, or line in such manner as may be necessary to meet competitive conditions and to promote foreign commerce; 3. The applicant possesses the ability, experience, financial resources, and other qualifications necessary to enable him to conduct the proposed operations of the vessels as to meet competition and promote foreign commerce; and 4. The granting of the aid is necessary to place the proposed operation of the vessels on a parity with those of foreign competitors and is reasonably calculated to carry out effectively the purposes and policy of the act.

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There are also certain requirements which the applicant must agree to before being eligible to receive such aid. These requirements are:

1. The recapture of profits in excess of 10 per cent of capital necessarily employed to the extent of subsidy paid to him;
2. The establishment of reserve funds to provide for (a) prompt payment of his obligations to the United States, (b) replacement and acquisition of ships, (c) continued maintenance and operation of subsidized vessels; and, 3. the use of articles, materials, and supplies produced in the United States, and the repair of subsidized vessels within the continental limits of the United States.

The contract between the Federal Maritime Board and a ship operator cannot exceed a period of 20 years. Under this contract the Board agrees to pay no more than the excess of the fair and reasonable cost of insurance, maintenance, repairs, wages and subsistence of officers and crew, and other items of expense in which the Board finds the operator is at a substantial disadvantage in competition with vessels of a foreign country. The contract also states the minimum and maximum number of

voyages to be made by the subsidized operator in the
designated services covered by the contract.11

There are other financial aids provided by the
Merchant Marine Act of 1936. One of these financial
aids is the tax benefit which accrues to the subsidized
ship operator. The subsidized operator must maintain a
capital reserve fund and a special reserve fund. The
capital reserve fund is used mainly for the purpose of
purchasing replacement ships. The special reserve fund
is used mainly for the purpose of making payments due
to the United States Government for recapture of operating-
differential subsidies when profits have been in excess
of 10 per cent of the necessary capital employed. Under
the provisions of section 607 (h) of the Merchant Marine
Act of 1936, the funds deposited in these two accounts
are exempt "from all Federal taxes."12

Another form of financial aid provided by the
Merchant Marine Act of 1936 is that of government
financing of the cost of construction of a ship. The
government may finance up to 75 per cent of the cost

of the ship to the purchaser. This financing is secured by a preferred mortgage, and is payable in not more than 20 years with interest at 3.5 per cent.13

One other form of financial aid is the trade-in allowances provided for by section 510 of the 1936 act. Under this provision the Maritime Administration is authorized to accept ships of 12 years of age (17 years of age after June 30, 1958) as part payment of the cost of a new ship. The value of the ship being traded-in is determined by the Maritime Administration. It is arrived at by considering the value of the vessel for operation in world trade; the depreciation value based on a 20-year life; and the scrap value of the vessel.14

After covering the various terms of the Merchant Marine Act of 1936, a better perspective of the terms may be gained by looking at the principal benefits or expected benefits accruing to the government and to the ship operators.


F. Benefits Received by the Government

As a result of the construction-differential subsidy payments, the government expects to receive certain benefits. The first benefit that might be mentioned is that during time of war, the government would have available modern shipyard facilities and skilled shipyard personnel that can be expanded to meet the needs of building ships to fulfill the requirements of war.

A second benefit would be the availability of modern ships for defense. Under the subsidy, the government requires that ships thus built be registered under United States laws for a period of 20 years. The ships being registered are subject to requisition in time of emergency. The construction-differential subsidy ships must be suitable for economical and speedy conversion into military or naval auxiliary. If they are requisitioned, it is at a price which is not more than the original purchase price of the ship.15

As for the operating-differential subsidy, again, the government can expect during time of war the use of the operating subsidized vessels and crews. During

time of peace the government has the assurance of American-flag service on essential foreign trade routes. This assurance is accomplished by restricting the operation-differential subsidy to those routes which are considered essential and by setting a minimum number of sailings to be maintained.

Chart 2 shows the locations of 33 trade routes that were determined to be essential by the former Maritime Commission. These routes have not been changed since May, 1946. These routes, however, are under continuous review to determine whether a particular route should be changed or a new route added in order to meet the needs of foreign trade and national defense. The Maritime Administration also recognizes that properly located trade routes can be used as an instrument of national policy. With this view in mind, other government agencies are consulted so as to coordinate national policy.16

In a hearing held by the House of Representatives' Committee on Merchant Marine, former Maritime Administrator Rothschild was asked just what factors were

considered in determining a trade route to be essential to the United States' foreign trade and national defense. Mr. Rothschild said that in light of present day conditions, four basic areas—economic, geopolitical, national defense, and steamship economics—are considered. To show what factors are involved within each of these four areas, Mr. Rothschild provided an outline. The outline is as follows: 17

I. Economic

A. Comparison of area trade to total trade.

1. Relationship of total United States exports (tonnage-value) to foreign trade area.

2. Relationship of total imports of area purchased from the United States.

3. Comparative dollar balance exchange.

4. Postwar trends of 1, 2, 3, above.

5. Prewar versus postwar trade movement.

B. Significance of trade to the economy of United States.

1. Export-import movement (type commodity, value, and volume), prewar and postwar.

2. Relationship between volume and value of exports-imports.

3. Importance of exports to United States economy.

17. Ibid., pp. 310-312.
4. Importance of imports to United States economy.

5. Trading habits of area.

6. Postwar trend of export-import trade.  
a. Reasons for decline or increase.

7. Competition met by American goods in foreign market.

8. Other foreign competition encountered by area imports in United States market.

9. Raw materials resources and possibilities of development.

C. Domestic industrial relocation and development.
   1. Influence of shifts in location industry on trade movement.
   2. Trends in industrial movement.
   3. Effect of technological advances and discoveries.

D. Trade inhibitors.
   1. Tariffs
   2. Currency restriction
   3. Export-import quotas
   4. Licensing systems

II. Geopolitical

A. Factors concerning trade which make for stronger commercial and political ties, aid flow of ideas, and influence continuation of old, or establishment of new, lines of communication.
   1. Climate, geographical position, strategic position.
2. Aid programs--type, scope, effect.
   a. Mutual defense assistance program, point 4, etc.

3. Strategic importance of trade route as avenue for movement of materials vital to United States economy and national defense.


5. Influence of trade route on so-called fringe nations.

B. Political-economic relationships

1. Development possibilities of trade due to political status.

2. Competitive position of United States products by virtue of changed political status of foreign areas.

III. National defense

A. Evaluation of importance of trade route to national defense.

1. Direction of movement of military cargoes.
   a. Military concentrations, logistic support.

2. Stockpile considerations, projections. (See II. A. 3.)
   a. Development of exports through stockpile purchases.
   b. Creation of allies through raw materials purchases.
   c. Bolstering of economies of underdeveloped areas as aid to defense.
   d. Acquisition of military defense areas in overseas areas.

3. Advantage of increased export influence along areas adjacent to trade routes serving national defense needs.
IV. Steamship economics

A. Delimiting the trade area.

1. National grouping to form area.
   a. Broad flow trade to area (exports-imports).
   b. Balance or degree of imbalance of tonnage.
   c. Tonnage support from areas adjacent to trade area.

2. United States coastal areas and ports of export.
   a. Influence of inland rail rate on port or export.
   b. Alternative export ports.
   c. Economic hinterland for imports.
   d. Influence of inland rail rates on import.

3. Vessel routing to effect highest degree of utilization.
   a. United States ports.
   b. Trade area ports.

B. Description of trade area.

C. Service requirements of area.

1. Basic ports call.
   a. Irregular calls.

2. Cargo categories.

3. Type movement.
   a. Regular, seasonal.

4. Frequency of sailings.
   a. Efficiency of ports.
   b. Present tonnage.
   c. Potential tonnage.
   d. Distances to be traversed.
   e. Voyage turnaround.

5. Passenger movement.
   a. Statistical summary of prewar and postwar movement.
   b. Seasonality of movement.
c. Competition presented by aircraft.
d. Potential effect of air competition.
e. Prospective effective utilization of passenger equipment.

D. Vessel characteristics.

1. General requirements.
   a. Cargo category.
   b. Relation of deadweight to cubic.

2. Auxiliary cargo requirements.
   b. Refrigerator, chilled spaces.
   c. Heavy lift requirements.
   d. Advisability of sideports.

3. Passenger requirements.
   a. Accommodations, total and by classes.

4. Vessel speed requirements.
   a. Influence of passengers and cargo on speed.
   b. Distances to be traversed vs. turnaround.
   c. Weather considerations.
   d. National defense considerations.

E. Competitive vessels and service.

1. Comparison of United States vessels and foreign vessels serving route.

2. Requirements to meet competition.

As can be seen by the above outline, the factors to be considered for determining a trade route to be essential is rather comprehensive. The concept of essential trade routes appears to be one of the most important
provisions of the 1936 act. Its purpose is to develop to the fullest extent possible the foreign trade of the United States and at the same time as economically as possible.

The American Merchant Marine also helps maintain the United States Naval Reserve. All officers of a operating subsidized line, if eligible, must belong to the United States Naval Reserve. 18

Another benefit which is sometimes overlooked is the right the government has to recapture, a part or even the full amount of such subsidies paid, out of one-half of profits in excess of an average of 10 per cent per year on the necessary capital employed. 19 Out of all the subsidies paid to various American industries, the operating-differential subsidy paid to the American Merchant Marine is the only one which the government has the right to recover.

This subsidy that the government pays, in no sense, assures the ship operators a profit nor does it guarantee


him against a loss. Even though the ship operator is not guaranteed against a loss, he does receive substantial benefits from the subsidy program.

G. Benefits Received by the Ship Operators

Under the construction-differential subsidy, the American ship operator is able to obtain American-built ships at the same price that he would expect to pay for foreign built ships. This fact enables the American ship operator to deal with American shipyards rather than foreign shipyards which are subject to their own government's laws and regulations.

The operating-differential subsidy means that the American ship operator is placed on a competitive basis with his foreign competitors. He is enabled to use American sailors and American services and materials at the same cost that he would expect to pay for foreign sailors and foreign services and materials. Actually, the subsidy does not give the ship operator a financial return which he does not already possess. The ship operator can get the same financial return by going foreign.

With the government and the shipping industry both receiving substantial benefits from the Merchant Marine Act of 1936, the framers of the Act believed that the problems of the American Merchant Marine would eventually be solved. The problems were many.

In 1920, as a result of the World War I building program, the United States ranked as the foremost maritime nation in the world. By 1936 the status of the United States as a maritime nation had changed so much that Great Britain had a thousand more ships than the United States. This decrease in number of ships, serious in itself, was not the most serious problem facing the American Merchant Marine. The most pressing problem of all was the age of the fleet. More than 80 per cent of the tonnage was 19 or more years old, and the average speed of all vessels was less than 12 knots. This was the condition of the American Merchant Marine just a few short years before World War II.

H. Participation in World War II

One of the first undertakings of the Maritime Commission, which had been set up under the 1936 Act, was

an exhaustive survey, study, and analysis of the fleet. The Maritime Commission decided that the most pressing immediate need was to modernize the existing fleet so as to combat block obsolescence.

The Commission adopted a program of 500 new ships to be built over the following ten years. Fifty of these ships were to be built each year. The first year's fifty ships were undertaken, but before the second year's program could be started, World War II broke out in Europe.23

The outbreak of war in Europe necessitated a re- vision of the Maritime Commission's program of 500 ships to be built over a period of ten years. Before the war ended a total of 5,280 oceangoing vessels, aggregating over 54 million deadweight tons, were delivered from American shipyards instead of the originally planned 500.24 This development called for a tremendous expansion of shipbuilding facilities and the necessary skilled personnel. The construction program of 500


ships initiated under the Merchant Marine Act of 1936 provided the initial impetus for the expansion. For this reason the Merchant Marine Act of 1936 is often referred to as a "miracle of timing." It would have been an even greater "miracle" if it had been initiated several years earlier.

Inadequate shipping in the early period of the war was responsible for delays, setbacks, and insufficiencies of urgently needed materials which added to the cost of the war and to the loss of lives. Much of this loss would have been prevented if the United States could have had 500 additional merchant ships of high standard built prewar. This would also have reduced the requirements for emergency construction of inferior ships at inflated wartime cost. A program for constructing 50 standard ships of modern design annually for a period of 10 years would have cost about $1.2 billion under prewar cost conditions. The same ships would have cost at least 50 per cent more to build under the cost conditions of World War II. The ships that were built during the war were actually inferior emergency types.25

In the summer of 1940 Hitler overran Europe and in the fall of that same year England placed orders with American shipyards for 60 freighters. In order to fulfill England's order as quickly as possible, a simplified design was agreed upon. This design, which was actually obsolete and a copy of a British tramp ship, later became the design for the famous Liberty ships.26

The design from the very first was recognized as being obsolete. In referring to the design, H. R. No. 10, 77th Congress, 1st session (to accompany H. J. Res. 77, Public Law 5) stated:27

The type of ship proposed is described as what might be termed a "5-year" vessel. It is slow and seaworthy and has the longevity of a modern steel ship, but for the demands of normal commerce in foreign trade it could not compete in speed, equipment, and general serviceability with up-to-date cargo vessels.

The Maritime Commission specifications for the construction of these vessels, February 1941, generally

26. Ibid., p. 404.

outlined the type and design as follows: 28

These specifications and plans depict a ship for special emergency production and operation. They are entirely separate and apart from the Maritime Commission's merchant-marine program and are not intended to take any part in the United States merchant marine under normal peacetime conditions.

About half of all the ships built in the American shipyards during the five-year period 1941 to 1945 were the Liberty ships based on the above described design.

During the 27 months prior to the entry of the United States into the war, about 16 million dead-weight tons were sunk by the Axis powers. During this same period the output of the shipyards of both the United Kingdom and the United States amounted to only 5 million dead-weight tons. For the entire war period, September 1939 to August 1945, the Axis destroyed over 36 million dead-weight tons of shipping. 29

In referring to the problem created by the Axis destruction of the Allies' ships, Winston Churchill stated: 30

28. Ibid., p. 86.
Shipping was at once the stranglehold and sole foundation of our war strategy. With the entry of Japan into the war the strength of the Anglo-American military effort depended almost directly upon the replacement of our shipping losses by new production. During the first six months of 1942 the sinking of British and American vessels were nearly as heavy as for the whole of 1941, and exceeded the whole shipbuilding programme by nearly three million tons. At the same time the demands of the American Army and Navy increased enormously. But already in March the United States building programme for the following year was raised to fourteen million tons. By May, 1942, the Americans balanced their current losses with new ships. It was only late in August that this goal was achieved by the Allies as a whole. Another year elapsed before we could replace all our earlier losses. In spite of increasing American commitments, we were allowed to retain in our service nearly three million tons of American cargo and tanker shipping. Even this generous decision on the part of the United States did not make up for the mounting casualties in the British Merchant Navy.

... and all sea problems were eventually to be solved by the stupendous United States construction of merchant vessels.

It is of particular interest to note Mr. Churchill's reference in the above statement to the nearly three million tons of American cargo and tanker shipping retained in the service of the British. In fact, the
United States furnished its allies with 5,500,000 gross tons of ships and received only 715,000 gross tons of ships from its allies.\(^3\) This indicates that the United States cannot afford to be dependent upon foreign countries for shipping during an emergency. It is more likely that foreign countries will be dependent upon the United States.

The record speaks for itself. The shipyards met the unprecedented defense requirements which played a major role in the defeat of the Axis. This, however, was accomplished at great cost. For example, during peacetime conditions, a typical Victory ship can be built with 750,000 or 800,000 man-hours. But under the conditions of mobilization of wartime and great expansion, it would take approximately double that labor to build the same ship. In the first two or three years of the war shipbuilding program, almost 80 per cent more manpower was required to build a ship than would have been the case had it been built prewar.\(^3\)


The total cost in dollars of the United States war shipbuilding program was $19 billion: $6 billion to build the shipyards; another $13 billion to construct nearly 6,000 merchant ships; the Liberty ships, the tankers, and later, the Victory ships.33

Once the ships were built, they fulfilled a staggering assignment. The American Merchant Marine transported 89 per cent of all allied troops moved to the various fighting fronts and carried a total of 260 million long tons of cargo. As one study put it, this cargo if loaded into freight cars would make up a train long enough to extend almost twice around the world.34

Following the end of World War II, the vast war-built fleet was broken up. A fourth of the fleet was sold to foreign ship lines. Somewhat less than a fourth of the fleet was sold to American buyers. The part Americans bought is today's active American Merchant Marine. The additions since then have been few. The remainder of the warbuilt fleet went into idle status.


These "laid-up" vessels are protected from deterioration by special preservative methods.

The basic outside hull and decks preservation is a mixture of red oxide and consol oil. This preservative gives the ships a rusty appearance, but that is not the case. The mixture is the most economic means of preserving the vessels. It cuts into the loose scale on the hull of the ship in such a way that, if the application is repeated every two years, it will eventually condition the steel to a better temper than when the vessel was committed to the reserve fleet. There is also an underwater preservation method based on the cathodic system in use.35

The Merchant Ship Sales Act of 1946 makes the Maritime Administration responsible for the care and custody of ships placed in the national defense reserve fleet.36 The Maritime Administration established eight fleets. Chart 3 shows the locations of these fleets along with the locations of the Maritime Administration field installations. On the Atlantic coast there are three


fleets: one in the Hudson River, one in the James River, and one at Wilmington, North Carolina. In the Gulf, there is one at Mobile and one at Beaumont, Texas. On the Pacific coast, one fleet is located in Suisun Bay, a second fleet in Astoria, Oregon, and a third in Olympia, Washington. At the end of the second quarter of the fiscal year 1955, there was a total of 2,093 vessels in the reserve fleets. Of this number, 1,504 were the inferior Liberty ships.37

Upon the outbreak of the Korean War, the United States, for the first time in over 100 years of its history, entered a conflict with an adequate number of ships. Of course, many of these ships would have to be reactivated from the reserve fleet.

Late in November of 1950, at about the time the situation in Korea became exceedingly difficult, there developed an increasing concern on the part of various leaders in the government over the then developing situation and the realization that the war might spread. There was a definite need for some type of civilian organization within the government that would be

equipped to perform what emergency shipping operation that was needed. This organization could also be used as a nucleus to be expanded to meet the needs in merchant shipping if war became general.

The Maritime Administrator met with various leaders in shipping and with union and other groups connected with the maritime industry. As a result of these meetings there evolved a plan to set up a National Shipping Authority within the Maritime Administration.38

This agency which was formally established March 13, 1951, used commercial shipping firms to operate government-owned vessels.39 Over 700 vessels were reactivated from the reserve fleet. A monthly cargo lift of 700,000 tons of military and supplies was carried by ships to Korea.40 Not only did the American Merchant Marine have to meet the needs of the Korean War, but it was called

38. Ibid., p. 212.


on to carry coal and other materials to Europe for rebuilding its defenses. Additionally, there was a famine condition in India which required tremendous amounts of grains to be carried to that country. 41

In the initial stages of operation there were no difficulties encountered in getting personnel to serve on ships. By October of 1951, however, a shortage of skilled personnel developed. Some ships were delayed longer than 30 days awaiting crews; sometimes they were short only one necessary member of the complement, such as a radio operator. A vessel could not sail without one. The shortage was finally overcome by heavy recruiting arrangements made largely through union auspices. The unions used many devices to round up former members. Spot radio announcements were made throughout the country. Whenever possible, former members of the union were contacted by mail, to be urged to return to the sea. 42 These delays appeared critical at the time, but no military operations were delayed for lack of vessels. 43


42. Ibid., p. 222.

During the Korean War, there was a tremendous increase in the demand for shipping space, but freight rates remained at reasonable levels. The Foreign Operation Administration estimated that freight savings resulting from the availability of American-flag ships amounted to about $245 million on government-financed shipments alone during the 1952 fiscal year.44

CHAPTER V

POSTWAR FOREIGN COMPETITION

After the Korean emergency, those vessels which had been withdrawn from the government reserve fleet were returned to their inactive status. The active American Merchant Marine soon reverted to the highly competitive shipping of peacetime. In many respects, this was a competitive situation more intense than that existing prior to World War II.

The American Merchant Marine, actually, found itself in a more disadvantageous situation than would normally be expected for peacetime operation. The American fleet was a warbuilt fleet, for the most part, built under emergency conditions of inferior design and materials. It was, also, fast approaching old age. Only 13 per cent of the fleet was postwar built. The foreign-flag fleets, on the other hand, consist of about 30 per cent postwar built ships.\(^1\) The newer ships have a decidedly competitive advantage over the older warbuilt ships.

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A. Growth of Foreign-Flag Fleets

During World War II the foreign shipyards were unable to build ships. Most of them were within the range of enemy aircraft. Since the war, the major maritime countries have made a determined effort to restore their respective fleets. This situation has resulted in a higher percentage of postwar built ships in the foreign-flag fleets than in the American Merchant Marine.

A spectacular example of postwar shipbuilding is the German shipbuilding centers of Hamburg, Bremen, Bremerhaven, Kiel, and Lubeck. These shipyards became little more than a mass of tangled steel and rubble during the war. The bombers of the Allies had put them effectively out of service and what little undamaged equipment that was left after the war was dismantled under orders from the occupation forces. It was not until the Allies restrictions on German shipbuilding were lifted in late 1950 and early 1951 that Germany could start to rebuild her merchant fleet. Today these same shipbuilding yards employ more than 90,000 workers on overtime schedules to produce ships of the latest design, furnished with modern equipment.² Many of these new

ships have been constructed to meet the requirements of a specific trade. They, therefore, are more efficient than the older ships engaged in the same trade.

Not only have the major maritime powers rehabilitated their merchant fleets to prewar status, but such countries as Liberia, Burma, Colombia, Costa Rica, Ecuador, Iran, Guatemala, Indonesia, Iceland, Ireland, Israel, Syria, Korea, and Switzerland now have merchant fleets registered under their own flags. Prior to World War II these countries were dependent upon foreign shipping for the oceanborne movement of commodities vital to their economies. 3

For a comparison of the principal merchant fleets of the world, Table 6 is presented. Table 6 shows the number of ships and total tonnage of the principal merchant fleets of the world as of 1939, 1946, and 1954. As of June 30, 1954, all but four countries show an increase in tonnage when compared to the year 1939. Three of these four countries—Germany, Greece, and Japan—have made tremendous gains over their 1946 level. The British Empire, on the other hand, has slightly less tonnage than she had in 1939, but leads the world in

3. Ibid., p. 4.
Table 6

Merchant Fleets of Principal Maritime Nations, Seagoing Vessels of 1,000 Gross Tons and Over, as of September 1, 1939; June 30, 1946; June 30, 1954
(Tonnage in Thousands)

<table>
<thead>
<tr>
<th>Country</th>
<th>Number</th>
<th>Sept. 1, 1939</th>
<th>June 30, 1946</th>
<th>June 30, 1954</th>
<th>Deadweight Tons</th>
</tr>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Sept. 1, 1939</td>
</tr>
<tr>
<td>TOTAL, All Flags</td>
<td>12,798</td>
<td>12,445</td>
<td>14,535</td>
<td></td>
<td>80,601</td>
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<tr>
<td>United States</td>
<td>1,379</td>
<td>4,861</td>
<td>3,255*</td>
<td></td>
<td>11,682</td>
</tr>
<tr>
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<td>7,584</td>
<td>11,280</td>
<td></td>
<td>68,919</td>
</tr>
<tr>
<td>British Empire</td>
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<td>3,159</td>
<td>2,531</td>
<td></td>
<td>24,054</td>
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<td>64</td>
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<td>136</td>
<td>197</td>
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<td>324</td>
<td></td>
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<td>854</td>
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<td>1,783</td>
<td></td>
<td>4,312</td>
</tr>
</tbody>
</table>

*Includes 2,117 ships of 26,766,000 deadweight tons owned by the United States Government of which most are in the reserve fleet. No foreign government is known to maintain a reserve fleet similar to that of the United States.

number of tons engaged in trade. The tonnage figure of the United States for 1954 includes 20,768,000 tons in the reserve fleet. This leaves only 14,340,000 tons engaged in trade which is below the British Empire's figure of 22,626,000 tons.

The large gain shown by most countries in their 1954 figures over their 1946 figures is partly the result of the action of the United States Government. As part of its policy to aid in the postwar economic world reconstruction program, the United States Government under the Merchant Ship Sales Act of 1946 sold 1,113 surplus government-owned war-built ships to foreign registry. The sales price of these vessels was 50 per cent of their prewar cost, adjusted downward for depreciation.4

The figures in Table 6 show that the United States in 1939 had 11,682,000 of the 80,601,000 world shipping tonnage or 14 per cent. In 1946 the percentage had increased to 51 per cent. By 1954, because of the sale of American vessels and the shipbuilding programs of foreign nations, the United States' percentage of the

world shipping tonnage had declined to 29 per cent. If only the active vessels of the United States are considered, the percentage is 10 per cent of world shipping tonnage. The 10 per cent figure for 1954 indicates that the United States was somewhat lower than its 1939 position.

B. Foreign Subsidy Practices

A factor that is often overlooked when comparing the competitive position of the American Merchant Marine with that of foreign-flag merchant marines is that many foreign governments have improved the competitive position of their respective fleets by providing subsidy payments or other government aids. In a recent congressional hearing, Deputy Maritime Administrator Walter C. Ford was asked to report on foreign government subsidy practices.5 Mr. Ford stated that even though ships under foreign-flag registry are less costly to construct and operate than comparable ships of United States registry, foreign governments have attempted to improve the competitive position of their fleets by means of public assistance.

These aids are both of the direct and indirect type. Some are designed to reduce ship construction costs; some are intended to lower operating costs.

In reporting on construction aids, Mr. Ford said that no uniformity exists in the types and value of assistance granted by foreign governments to their own vessels; they differ in accordance with the dictates of national policy and national expediency. Aids granted to reduce ship construction costs might be made in the form of construction subsidies based upon carefully defined vessel characteristics such as size, speed, and type; exemptions from customs duties on shipbuilding and ship-repair materials and components; subsidies to shipyards and steel mills; loan guaranties at interest rates which are lower than those prevailing in the open market; interest contributions, liberal amortization, and other tax benefits. Of these aids, benefits accruing from rapid amortization are most common; a study of the tax legislation of 12 foreign countries whose merchant fleets are serious competitors of United States flag vessels shows that valuable aid is granted these foreign merchant fleets in the form of rapid depreciation either in the accelerated form or by means of unrealistically high normal depreciation rates. Moreover, some countries, especially those whose currencies have been
seriously inflated, permit these shipowners to base their depreciation upon replacement costs either in full or in part rather than upon original cost as is required of United States shipowners. The benefits of this tax legislation is substantial, since shipowners who can take advantage of these benefits are provided with a substantial portion of the capital needed to purchase a vessel on an interest-free basis.

Aids granted to foreign shipowners for the purpose of reducing operating costs are not as numerous as those which result in lowering construction costs. Nevertheless, in some countries this type of aid is worthwhile. Some countries provide mail contracts which compensate their ships above international rates; exempt their operators from the payment of income taxes for a stipulated period of time, or, like Panama and Liberia, eliminate the payment of any income tax; provide terminal facilities at low rental rates; or grant general navigation bounties based upon the type of service operated, stipulated ship characteristics, and the number of days operated.

C. Foreign Discriminatory Practices

Foreign aids which do not preclude or restrict the American Merchant Marine in participating in a particular
trade are usually not considered to be undue or unjust. The Shipping Act of 1916, section 26, refers to foreign discriminatory practices as

\[\ldots\] action of any foreign government. \ldots when it shall appear that the laws, regulation, or practices of any foreign government operate in such a manner that vessels of the United States are not accorded equal privileges in foreign trade with vessels of such foreign countries or vessels of other foreign countries.

Since World War II discriminatory practices have become fairly general in certain parts of the world, particularly in South America. The type of discriminatory practices vary in character in different countries. There are, however, four general types. One type involves manipulations or prohibitions in foreign exchange. A second type is the control of overseas cargoes, either directly by the governments themselves, or by policies of such governments which require or influence the forwarding of such shipments on vessels of national flag. A fourth type is the reduction of port charges and consular and documentation fees for national ships and for cargo moving over national ships.

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In 1952 the Senate Committee on Interstate and Foreign Commerce held a hearing on discriminatory acts of foreign governments affecting the American Merchant Marine. Mr. Theodore Brent, President, Mississippi Shipping Company, New Orleans, Louisiana, appeared before the Committee and gave testimony in detail as to how discriminatory acts of Argentina and Brazil had affected the operations of his company. A study of Mr. Brent's testimony provides information on how a country or countries practice the four general types of discrimination and the results of such practices.

Mr. Brent explained that in the First as well as the Second World War, Argentina remained neutral. Being far down toward the Antarctic, she had not deeply interested herself in the issues which troubled Europe and North America, and the Orient was still open to her. However, in the First World War she did finally suffer from a lack of shipping. Her neutrality in both instances was maintained in the hope of gaining economic advantage.

Before the Second World War began, she was dominated by the army; she was rapidly becoming an oligarchy with economic policies gradually being developed on the Italian pattern of a corporative state. In implementing this policy during the war, Argentina requisitioned or chartered the ships that were interned in her harbors and formed an Argentine Merchant Marine. This fleet then was sent out in every direction to find advantageous trade and to bring home what Argentina needed most, namely, fuel, of which Argentina had very little.

During this era and in the postwar years following, the Argentine Government acquired and virtually monopolized the production, refining, and sale of petroleum and products within her borders through a corporation commonly known as Y. P. F., which stand for Yacimientos Petroliferos Fiscales Argentinos, which translated means Argentine Government Oil Fields.

In payment of Britain's debt to her, Argentina absorbed all of the railroads in the republic which Britain had formerly owned, comprising some 15,000 miles of railroad service—substantially everything she did not already own. Argentina also bought the telephone system throughout the republic, the subways and surface
transportation of the city of Buenos Aires, together with the gas and electric plants—she already controlled the waterworks. The purchase for the operation and maintenance of this enormous category of industries represents a very large part of Argentine imports not only from the United States but elsewhere.

In order to control and take a toll from all its commerce, Argentina organized the trading concern known as I. A. P. I., or Instituto Argentino para la Formocion del Intercambio, or the Argentine Institute for the Promotion of Trade.

This institution either completely superseded the firms which had traded in Argentina's natural products—such as wool, meats, hides, grain, flax and other oil-bearing seeds, and in quebracho extract which American tanners for years have heavily relied upon for their tanning materials—or Argentina required these firms, in doing an export business, to secure from I. A. P. I. export permits, for the issuance of which she added a very substantial middle-man's profit between the grower or manufacturer and the buyers throughout the world. Through I. A. P. I. the government also controlled the amount of imports and the terms on which they could be bought and the prices at which they were sold to Argentine citizens.
It was a monopolistic scheme which worked quite well during the war, but when the war was over and more normal channels of trade were established throughout the world, the I. A. P. I., as an exporter to the United States lost a good deal of its monopolistic position. Argentina, however, with a fleet of her own still dominates her import trade to the detriment of the United States.

During the war period Alberto Dodero built up a considerable fleet under the Argentine flag. He took advantage of the United States Ship Sales Act of 1946 to buy a substantial number of ships. In 1948, the Argentine state fleet, the Flota Mercante, was substantially augmented with new construction both in Britain and Italy. This construction included three cargo-passenger ships which were, in the main, patterned after those of Delta Line. While the Dodero and Flota fleets are operated separately, they maintain one uniform policy—that dictated by the Central Bank of Argentina.

Effective March 9, 1948, the Argentine Ministry of Marine issued Decree No. 6087, which requires that (1) the national dependencies and decentralized agencies of the Argentine shall purchase merchandise f.o.b., and
such imports must be shipped preferably in vessels of Argentine flag, and (2) exports by the national dependencies and decentralized agencies either c.i.f. or c. and f. shall be transported exclusively on vessels of Argentine flag. The national dependencies and decentralized agencies mean all of the activities which the Argentine Government owns or controls. Thus, Decree No. 6087 resulted in making Argentine flag ships the dominant carrier of freight to and from the Argentine Republic.

The effect of this monopolistic control of the transportation of Argentine traffic was soon felt by the United States. By 1951 it had become acute, and such representation as had been made to the government seemed of no avail. In May 1951, Mr. Brent with several officers of his company went to Buenos Aires to seek the officials of the Flota Mercante and Dodero as well as the officials of the Central Bank. Since Mr. Brent's party anticipated an appeal to the American Ambassador, the State Department sent Mr. Charles Nolan, officer in charge, Transportation and Communications Bureau of Inter-American Affairs, to Buenos Aires at the same time.

Several meetings were held with the steamship officials during the week beginning May 22, 1951. Mr.
Brent explained that in order to insure that the conversations would be carried on in a friendly way, that his party decided to present its case in the nature of a friendly report to a friendly competitor of conditions which, to them, seemed to involve unjust discrimination, the result of which was causing disquietude in the industry in the United States and was beginning to have repercussions in Congress which could easily lead to measures which would be considered undesirable from the standpoint of both countries, particularly, legislation of a reprisal type.

At the conferences Mr. Brent's party stated their principal objections were to:

(a) The effects of Decree 6087 previously outlined;
(b) The manipulation of the character or exchange used in paying freights in the United States;
(c) Discrimination in the use of port facilities in Buenos Aires in favor of Argentine ships, and
(d) A large number of relatively minor advantages given to Argentine flag ships in the matter of consular fees, port charges, et cetera.

To substantiate their objections, the American party pointed out to the Argentine officials that in 1950 Delta

8. Ibid., p. 57.
Line had performed 43 sailings, or 64 per cent of the total sailings southbound from Gulf ports to Argentina and had carried only 18 per cent of the total southbound tonnage moving in that year from the Gulf. Contrasted with this, Flota and Dodero, together, had performed only 24 voyages, or 35 per cent of the total service from the Gulf, but through the several preferential requirements of the Ministry of Transport, they had carried 81 per cent of the total southbound freight moving that year from Gulf ports to Argentina.

By comparison, in 1947, before the Decree had been established, Delta Line carried 67 per cent of the traffic moving from the Gulf to Argentina. The Decree was published March 9, 1948. That year, Delta Line's proportion of the tonnage dropped to 47 per cent. In 1949, it was 21 per cent and in 1950, as previously shown, it was only 18 per cent of the southbound tonnage.

In response to the American objections, the case was presented by the Argentine Lines' representatives about as follows: His Excellency, President Peron, having in mind the disability suffered in the Argentine economy during both World Wars through lack of national
shipping, had decided that Argentina must have an extensive and well-developed merchant marine, for three separate and distinct reasons: (a) As a matter of security in case of emergency; (b) For the conservation of dollars; and (c) To make a profit from steamship operations.

As to the American's objection to the decree requiring all imports from government entities to be handled on Argentine flag ships, it was claimed that this was necessary for the preservation of Argentina's internal economy—in order to build up the traffic of Argentine flag ships so as to justify the acquisition and maintenance of a fleet such as contemplated by President Perón.

It was also necessary, they said, because only in this way could the Argentine government avoid the acquisition of thousands of dollars for the payment of freight if the traffic was divided between Argentine and American or other foreign lines. When southbound freight was ordered moved on Argentine-flag ships, the shipping lines, being domiciled and owned in Argentina, naturally accepted pesos in payment of freight charges, and no dollars had to be sent abroad to pay freight charges to American flag lines.
Under the second charge of unjust discrimination, that of manipulation of exchange, attention was called to the fact that south bound conference tariffs, to which both American and Argentine flag lines are parties, require prepayment of southbound freights in the United States in dollars. Argentina, however, was violating the conference rule while at the same time preserving the appearance of prepayment of southbound freights in dollars in the United States.

In answering this criticism, it was freely admitted by the representatives of the Flota and Dodero Lines that there was a manipulation of foreign exchange to preserve the appearance of prepayment of southbound freights in dollars in the United States. The manipulations by which this result was secured was outlined as follows: An importer who has a permit for the importation of a certain amount of United States merchandise, required by the Argentine economy, presents his case to the Central Bank. He has either received from the bank an import permit for a given sum, for which it has been agreed exchange shall be given, or he owns dollars in the United States sufficient to pay for the merchandise. He does not desire to expend dollars for the southbound freight charge, but prefers to pay these charges in
Argentina in pesos. The importer asks the bank, upon his guarantee and that of the Flota or Dodero, that the bank make available to the agent of Dodero or Flota, in New York, dollars necessary for the prepayment of the southbound charges, with the guarantee of the Argentine flag lines that these dollars will be returned to the repository of the Argentine Central Bank in New York by the New York agent of the carrier, within 24 hours after receipt of a bill of lading showing prepayment of charges in dollars. Actual payment of the freight, however, is in pesos in Argentina.

In admitting this subterfuge, the Argentine steamship officials claimed that there was no discrimination whatever against any foreign flag line trading between the United States and Argentina, as the same procedure could be carried on by any line. Later inquiry at the Central Bank, however, completely contradicted this statement. The bank officials stated categorically that southbound freights paid in pesos to any line other than one under the Argentine flag, was illegal; that pesos thus acquired by a foreign line were completely blocked and could not be used for any purpose or reported in the transactions within Argentina, of such foreign line.
In regard to the third and fourth charges of discrimination made by Mr. Brent, the Argentine officials admitted that there was discrimination in the use of port facilities, consular fees, and port charges. They said, however, that measures were then under way to remove these discriminations.

After terminating the talks with the Argentine officials, Mr. Brent stated that his group, in company with Mr. Nolan, spent some time with Ambassador Bunker discussing these discriminations. Ambassador Bunker was sympathetic to the problem and promised to take the matter up with the responsible Argentine government officials, which he soon did, however, without any visible remedial results.

Next, Mr. Brent's testimony covered the discriminatory practices that his company encountered in Brazil.

The principal Brazilian line, the Lloyd Brazileiro, is wholly government-owned. After the war the Lloyd built some 20 new cargo ships. Seventeen of these were built at Pascagoula, Mississippi, and are of the same speed and substantially the same capacity as the C-2

9. Ibid., pp. 64-67.
freighters. The Lloyd gives a regular service to and from Gulf ports and is a substantial competitor of Mr. Brent's company for the Brazilian coffee traffic.

The charges made by Brazilian consular officers in the United States for valorizing consular invoices and other documents required by the Brazilian government for both freight and passengers are extremely high. Studies have shown instances in which consular fees on small packages will run as high as the freight charges. This practice in itself is not discriminatory.

The Lloyd Brazileiro has for years made a practice of offering certain exporters of freight, which they wish to acquire, to reduce these fees by 50 per cent, if shipped via Lloyd's vessels. Since American flag lines have no means of offering similar accommodations except by cutting their freight rates, this is a character of competition that is discriminatory. The officials of Lloyd have responded to protests made by American flag lines that they do not make any rebates, that the fiscal department of the government simply waives half of the charges it would ordinarily make for these consular services in order to get some freight for the Lloyd ships.

One other difficulty Mr. Brent related in regard to Brazil were the extreme delays encountered in the harbors
of Rio and Santos. There is a lack of facilities at these two ports and straight-cargo ships have to go to the docks assigned to them in rotation of their arrival in the ports. The Lloyd Brazileiro ships, on the other hand, may proceed directly to the docks upon their arrival in the harbors.

In illustrating how discriminatory this practice is, Mr. Brent said that five of his company's ships arrived in Rio southbound in January and February, 1952. These ships were delayed an average of 21 days waiting for a berth where cargo could be discharged. The longest single delay was 30 days on the Citadel Victory.¹⁰ While the Citadel Victory was waiting, six of the Lloyd's ships came in and went directly to the docks and discharged. Mr. Brent said in his testimony that this practice was unjust discrimination of the most flagrant kind and one which under no circumstances would ever be tolerated by port authorities in the United States. He

¹⁰. According to an article which appeared in the New York Times, March 24, 1952, it was reported from Rio de Janeiro that "The fact remains as the daily list of ships awaiting berths and dates of their arrival shows, it is not unusual for a ship to wait 30 days before docking and sometimes it is 40 days. As of yesterday afternoon 27 ships were lying off Rio de Janeiro awaiting berths while costs pile up."
stated that it cost approximately $2,500 per day for one of his company's ships to be anchored and unable to get to a dock to discharge and load; furthermore, the company had additional expense in chartering other ships for purposes of maintaining regular service.

Mr. Brent closed his testimony before the Senate Committee with the plea:

We hope the Congress will publicly denounce these practices in so clear and forceful a way as to cause the offenders to cease and desist from these unjust acts.

Argentina and Brazil are by no means the only two countries that engage in discriminatory practices. In 1954 the Maritime Administration listed a total of 20 countries engaged in practices of a discriminatory nature. Argentina and Brazil were selected as examples in this study because their methods are somewhat typical of the practices found in many other countries.

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In all fairness to Argentina and Brazil, it should be reported that in 1955 the Secretary of Commerce stated that most of the complaints against Argentina and Brazil had been resolved favorable to the United States. The complaint that has not yet proved fruitful is the one regarding the Argentine government routing of state-controlled agencies under Decree 6087.\textsuperscript{13}

The recourse that the American Merchant Marine has in such discriminatory acts is primarily through governmental action. One course that the United States Government has is negotiations through diplomatic channels with the foreign government. A second method, closely allied with the first, is the signing of commerce, navigation, and friendship treaties.

The United States can also take retaliatory steps against foreign nations. Consular fees could be increased or the President may revoke certain exemptions from tonnage taxes under the Act of June 19, 1886.\textsuperscript{14} Another law, the Shipping Act of 1916, section 26,  


provides for the Secretary of Commerce to investigate complaints of discrimination and refer them to the President. The President is then authorized to refer the complaints to Congress if no relief through diplomatic channels is forthcoming. 15

Discriminatory practices which influence the routing of cargo away from American-flag ships or subject them to additional cost or obstacles are a handicap to the development and maintenance of the American Merchant Marine. The inequities in costs of operation brought about by such financial or discriminatory aid is not taken into account in the calculation of cost differentials under the present subsidy program. If it is the intention of the United States Government to have a privately-owned American Merchant Marine, the methods of combatting foreign discriminatory practices should be pursued with full vigor.


CHAPTER VI

THE BUTLER-TOLLEFSON ACT

A. Purpose of the Act

An offsetting factor to the intense foreign competition that followed the Korean War was the foreign economic and military aid programs of the United States Government. These programs have been of considerable assistance to the American Merchant Marine, particularly since World War II. Nearly all the legislation that provided the various foreign aid programs carries a statutory preferences clause which reserves a part of such cargo for the American Merchant Marine.¹ This is

¹ Provisions of this type have been included in the following statutes:

<table>
<thead>
<tr>
<th>Law No.</th>
<th>Congress</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>472</td>
<td>80th.</td>
<td>Economic Cooperation Act of 1948</td>
</tr>
<tr>
<td>447</td>
<td>81st.</td>
<td>Mutual Defense Assistance Act of 1949</td>
</tr>
<tr>
<td>820</td>
<td>81st.</td>
<td>Far East Economic Assistance Act of 1950</td>
</tr>
<tr>
<td>897</td>
<td>81st.</td>
<td>Yugoslav Emergency Relief Act of 1950</td>
</tr>
<tr>
<td>48</td>
<td>82nd.</td>
<td>India Emergency Food Aid Act of 1951</td>
</tr>
<tr>
<td>165</td>
<td>83rd.</td>
<td>Mutual Security Act of 1951</td>
</tr>
<tr>
<td>77</td>
<td>83rd.</td>
<td>Pakistan: Transfer of Price-Support Wheat to</td>
</tr>
</tbody>
</table>

154
often referred to as the "50-50 provision." If privately-owned American-flag ships are available at reasonable rates, they are entitled to receive half of such traffic. In providing the 50-50 provision in foreign aid programs, Congress was being realistic. The American Merchant Marine survival, in the final analysis, depends on cargoes, not on subsidies. The 50-50 provision's main purpose is to assure that a reasonable part of the taxpayer-backed cargoes is to be used to support the American Merchant Marine.

In 1954 the Butler-Tollefson, or 50-50, Act (P. L. 664) was passed. It is officially described as an act "to amend the Marine Act of 1936, Sec. 901 (b), to provide permanent legislation for the transportation of a substantial portion of waterborne cargoes in the United States-flag vessels." The word "substantial" has been legislatively interpreted to mean 50 per cent. Thus, the Butler-Tollefson Act amends the Merchant Marine Act of 1936 to codify and extend in permanent legislation

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the 50-50 provision which had been incorporated in earlier foreign aid bills. In substance it provides that at least 50 per cent of the ocean transportation of only Government-financed commodities shall be furnished by privately-owned United States-flag commercial vessels, if available at reasonable rates.\textsuperscript{3}

One reason for making the 50-50 provision a permanent part of the United States maritime legislation was the trend since World War II of American-flag ships' participation in the United States overseas trade. Table 7 shows a percentage decline for American-flag participation in both exports and imports since World War II. In 1946, when foreign competition was not very intense, the American Merchant Marine carried 69 per cent of the nation's foreign commerce. For the first 9 months of 1955, the percentage was down to 23 per cent. It would seem reasonable to assume this decline would have been even more drastic if the 50-50 provision had not applied to the various aid programs. In the years immediately following World War II, more than 50 per cent of the exports of the United States were in the nature of foreign aid.\textsuperscript{4}

\textsuperscript{3} "Public Law 664, 83rd Congress, 2d Session," \textit{op. cit.,} p. 510.

\textsuperscript{4} "Amendment to Cargo Preference Statutes," \textit{op. cit.,} p. 64.
Table 7

United States Overseas Dry Cargo Trade For the Years 1946, 1950, 1954 and First 9 Months of 1955
(Excluding Great Lakes and Canada)
(Tonnage in thousands of long tons)

<table>
<thead>
<tr>
<th>Flag of Vessels</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tons</td>
<td>Percent</td>
</tr>
<tr>
<td>Total for 1946</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>33,877</td>
<td>71</td>
</tr>
<tr>
<td>Foreign</td>
<td>13,935</td>
<td>29</td>
</tr>
<tr>
<td>Total for 1950</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>9,862</td>
<td>36</td>
</tr>
<tr>
<td>Foreign</td>
<td>17,512</td>
<td>64</td>
</tr>
<tr>
<td>Total for 1954</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>9,794</td>
<td>23</td>
</tr>
<tr>
<td>Foreign</td>
<td>33,253</td>
<td>77</td>
</tr>
<tr>
<td>First 9 months</td>
<td></td>
<td></td>
</tr>
<tr>
<td>total for 1955</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td>9,656</td>
<td>19</td>
</tr>
<tr>
<td>Foreign</td>
<td>40,556</td>
<td>81</td>
</tr>
</tbody>
</table>

Source: "Amendment to Cargo Preference Statutes," op. cit., p. 64.
To show the effects of the 50-50 provision on the American Merchant Marine, Secretary of Commerce Sinclair Weeks gave a Senate Committee the following account: 5

Of that portion of the total exports which was aid cargo, American-flag vessels in the 2 years, 1953 and 1954 carried 54 percent. The aid cargo accounted for about 17 percent of the aggregate American-flag liner carrying outward and for about 66 percent of the aggregate American-flag tramp carrying outward. It is estimated that for 1955 the aid cargo accounted for approximately 19.5 percent of the American-flag tramp carryings.

Without the preference provision, it is clear the American-flag ships would have carried a reduced percentage of the total. It is estimated that, if the 1953-54 total aid cargo (9.5 million tons) were removed from the total dry-cargo exports (88.7 million long tons), the percentage of total cargoes of total cargoes carried by American-flag ships would have been reduced from 23 to 19.5 percent, while the percentage of the tramp cargoes exported on our ships would have been lowered from 8 to 3 percent.

That segment of the American Merchant Marine other than tankers which are not subsidized, the American-flag tramps would have probably been in a very precarious

5. "A Bill to Exempt Sales of Surplus Agricultural Commodities for Foreign Currencies from certain Statutes relating to Shipping," op. cit., p. 49.
position without aid of the 50-50 provision. As the Secretary of Commerce pointed out, the aid cargoes constituted from two-thirds to three-fourths of the American-flag ships cargo. In the absence of the 50-50 provision, it is doubtful if the American-flag tramps could have secured much of the aid cargo during 1953-55. The foreign recipients of the aid cargo probably would have shown a preference for their own flag.

Prior to 1955, very little opposition was voiced against the 50-50 provision. Foreign maritime powers may not have liked the 50-50 provision, but they could not in all justice criticize the United States Congress, according to Senator Warren G. Magnuson, every 50-50 provision amendment to the various aid programs was passed unanimously. Those outside of Congress who opposed the 50-50 provision were the ones who generally opposed the entire subsidy concept.

In 1955 the 50-50 provision came under serious attack. The Agricultural Trade Development and Assistance

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6. Before World War II tramp operations under the American flag were negligible. On December 31 in 1955 there were only 63 tramps registered as American-flag ships.

Act of 1954 (Public Law 480) was passed shortly before
the Butler-Tollefson Act. President Eisenhower asked
the Attorney General for an opinion as to whether the
Butler-Tollefson Act applied to transactions under
Title I of the Agricultural Trade Development and As-
sistance Act of 1954. On December 15, 1955, the At-
torney General replied that such transaction did come
under the Butler-Tollefson Act.8

Title I of the Act authorizes the President, until
June 30, 1957, to carry out a program for the sale of
surplus agricultural commodities for foreign currencies
under agreement with friendly nations. Sales may be
made not to exceed $1,500 million in cost to the Com-
modity Credit Corporation, including the Corporation's
investment in shipping and other services as well as in
the commodities involved.9

Foreign Maritime powers, claiming that transactions
under Title I were not aid cargoes, brought pressure
against the Department of State and the Department of

8. "A Bill to Exempt Sales of Surplus Agricultural
Commodities for Foreign Currencies from certain Statutes
relating to Shipping," op. cit., p. 58.

op. cit., p. 545.
Agriculture to use their influence to get Congress to repeal the Butler-Tollefson Act. This pressure by the foreign maritime nations was in the form of threats not to consummate any purchases of surplus agriculture commodities.

Since the 50-50 provision may be considered an important aid to the American Merchant Marine and Congress was under pressure to repeal or amend the law, several Congressional hearings were held to determine the validity of the attacks. At the hearings, the executive branch of the Government was divided. The Department of State and the Department of Agriculture took firm and conflicting positions to that of the Department of Commerce. The representatives of agricultural interest also took conflicting positions. The National Farmers Union and the National Grange favored the 50-50 provision; on the other hand, the American Farm Bureau Federation was against the 50-50 provision.

A study of the main criticisms advanced by the opponents of the 50-50 provision at the congressional

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hearings and the rebuttal by the proponents give some insight into a feature that is now a permanent part of the United States maritime laws.

B. The Opponents' Views

The primary criticisms advanced by the opponents of the 50-50 provision were the following:

1. Increases Cost of the Program

The 50-50 provision increases the cost of the surplus agricultural commodities to the purchasing countries and in the same manner reduces the amount of total surplus agricultural commodities that can be disposed of under the funds allotted to the Commodity Credit Corporation. As a representative of the American Farm Bureau Federation said:11

Our own tabulation of the Public Law 480 program in fiscal 1955 indicates that $13 million of Public Law 480 authorization were spent for transportation the purchaser could have supplied himself. This $13 million could have represented sales of an additional 8 million bushels of wheat or 80,000 bales of cotton.

The American Farm Bureau Federation's representative, in referring to the use of tramp ships, stated that when the United States must finance the transportation for farm products, such as wheat, which move on tramp vessels, additional funds must be used to make up the price differential between American and foreign tramps. Approximately $3 million has been charged against the Public Law 480 program in fiscal 1955 because of this factor. An important effect of all this is the removal in many cases of competition in this field. A tramp vessel has little incentive to reduce its rates on cargoes on which foreign ships cannot compete with him.

2. Transactions are Commercial

Transactions under the Title I program are essentially commercial in nature and should not be considered a government aid program. Normal commercial channels are used in so far as possible. Insofar as exporters and importers are concerned, the sales differ from normal commercial sales in that the sales are made within a special government-to-government agreement and the cargo preference law applies.
A foreign importer pays for commodities purchased from the United States with his local currency whether or not he is buying under Title I program. The difference is that instead of the importer's bank buying dollars from its government to remit to its correspondent bank in the United States which has paid the United States exporter, the importer's bank deposits the local currency to the account of the United States Government and the United States bank is reimbursed in dollars by the United States Government. The local currency deposited to the account of the United States Government, depending on the special government-to-government agreement, may be used by the United States Government for several purposes.12

The opponents of the 50-50 provision claim that since the importer pays just as much under Title I as he would otherwise, the transactions cannot be called aid cargoes. If the transactions under Title I are essentially commercial transactions and subjected to the 50-50 provision, this amounts to a form of

12. "A Bill to Exempt Sales of Surplus Agricultural Commodities for Foreign Currencies from certain Statutes relating to Shipping," op. cit., p. 70.
discrimination against foreign-flag ships. The discrimination as practiced by the United States is used as a pretext for adopting flag discrimination in many forms by other nations in their normal commercial trade.

3. Adversely Affects Government Negotiations

The Department of State's position on the 50-50 provision was stated by Mr. Thorsten V. Kalijarvi at one of the congressional hearings held on the 50-50 provision. Mr. Kalijarvi is a Deputy Assistant Secretary for Economic Affairs in the Department of State. He stated that there has been an alarming tendency on the part of certain nations in the postwar period to resort to the use of discriminatory and restrictive practices in order to develop or maintain their national merchant fleets. This tendency has been given added impetus by the vigorous postwar development of new merchant fleets by hitherto nonmaritime nations.


According to Mr. Kalijarvi, the most dangerous of the discriminatory practices in the field of ocean shipping is the reservation to national vessels of a given percentage of cargo. This practice, which usually takes the form of a 50-50 division of cargo has been applied by some foreign governments to commercial cargoes and has appeared with alarming frequency as a provision in bilateral trade agreements. Pursued to its logical conclusion, the traditional pattern of ocean transportation will be seriously distorted and American as well as foreign vessels will be forced into unnatural and uneconomic trades. It would take international economic relations from competition between private commercial interests and place them in the field of competition between governments.

In attempting to intercede with foreign governments engaged in discriminatory and restrictive practices against the American Merchant Marine, Mr. Kalijarvi believes, "...these efforts have been compromised to significant degree by our own practices."15 The foreign governments to which the protests have been directed have repeatedly insisted that in extending the 50-50

15. Ibid., p. 8.
principle to commercial cargoes, they are merely pursing the precedent long since established by the United States with respect to Government-financed cargoes.

The Department of State has the responsibility of negotiating sales of surplus agricultural commodities for foreign currencies under Title I of Public Law 480, 83rd Congress, with foreign governments in cooperation with Department of Agriculture and through the Department's Chief of Missions abroad. Mr. Kalijarvi, in further stating the Department of State's position on the 50-50 provision, said that the Department of State had been unsuccessful in negotiating sales with many countries, because of the 50-50 provision. He listed the United Kingdom, Denmark, Norway, and Sweden as four countries which had refused the sales. 16

At a later congressional hearing, Mr. Kalijarvi, again representing the Department of State, modified his Department's position to some extent: 17

Subsequent experience indicates that the application of Public Law 664 to transactions under title I


of Public Law 480 would hamper the surplus-disposal program in only a few countries. In view of this fact, and the fact that the Department of Commerce has testified to the urgent need for the continued application of cargo preference to agricultural commodities moving under the latter measure, the Department is withdrawing its support of S. 2584.

The S. 2584 referred to by Mr. Kalijarvi was a proposed bill to exempt sales of surplus agricultural commodities for foreign currencies from the 50-50 provision. To show clearly that the above statement was not a complete reversal of the Department of State's position, Mr. Kalijarvi went on to say:18

Now Mr. Chairman, in light of the discussion that has taken place in your committee thus far I think we ought to make it perfectly clear that this statement is addressed to the very limited and restricted consideration of the application of 664 to Public Law 480 or vice versa, that on the broader subject of 50-50 it says nothing. I would like therefore, in order to lay the ground work for any future discussion or consideration before this committee and so that we are not charged with bad faith, to make our position clear on this point.

18. Ibid., p. 16.
The preceding arguments are only the primary ones against the 50-50 provision that were presented at the hearings. For the most part they were directed against the 50-50 provision as it applied to transactions under Title I of the Agricultural Trade Development and Assistance Act of 1954. It should be pointed out that most of the opponents of the 50-50 provision were not necessarily opponents of the American Merchant Marine. The American Farm Bureau Federation and the Department of State both suggested increasing the operating-differential subsidy to replace the 50-50 provision statute.\(^{19}\)

A study of the proponent's rebuttal to the preceding arguments will help to place the issue in its proper perspective.

C. The Proponents' Views

In answering the opponent's criticisms the proponents of the 50-50 provision presented the following rebuttal:

1. Does Not Increase Cost of the Program

One witness, at a hearing, pointed out that the price of farm surplus commodities laid down overseas is identical regardless of the flag of vessel furnishing transportation. This view arises because foreign-currency expenditures, which are the only real terms of payment for the purchasing nations, are the same whether their own or American-flag or other foreign-flag vessels are used. Ocean transportation is financed by the Commodity Credit Corporation only to the extent dollar freight financing is specified in the basic agreement. By regulation, local currency must be deposited by the purchasing country for the ocean freight so financed, but only to the extent of current freight rates prevailing in the world market. Thus, any differential which may be paid to American vessels as a program cost has no bearing upon the price paid for commodities by the purchasing country.

In answer to the representative of the American Farm Bureau Federation's charge that part of the appropriation for foreign aid must be used for payment of freight in dollars, Secretary of Commerce Sinclair Weeks

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stated that the programs under Title I included a number of countries which do not possess merchant marines.21 These countries, in view of their depreciated currencies, find it impossible or difficult to charter either United States or foreign ships to import the surplus agricultural products unless the Commodity Credit Corporation will provide dollars for payment of freight. It should be recognized, therefore, that part of the dollars used for freight are paid to foreign vessels at the request of recipients and are not occasioned by cargo preference. The program under Title I includes a number of countries with very few ships of their own, such as Yugoslavia, Turkey, Peru, Pakistan, Austria, and Korea.

Mr. Louis Rothschild, Under Secretary of Commerce for Transportation, disagreed that the approximately $3 million, which had been charged against Commodity Credit Corporation in payment of the differential price between American and foreign tramps, had added to the cost of the program or had resulted in lessening competition.22


Without the differential, the American tramps would probably have been laid-up. Since the supply of ships is rather inelastic in the short-run and tramp rates at any particular time are based on supply and demand, the foreign-flag tramps would have charged higher rates. It is conceivable that the higher rates would have added more to the cost of the program than the $3 million charged to pay the differential.

The Merchant Marine Committee of the National Security Commission of the American Legion presented a rather comprehensive study of the shipping costs involved in the Title I program.23 This study estimated that out of $1.5 million authorized under Title I, the total ocean-shipping revenue would amount to approximately $187,500,000. Of this total ocean-shipping revenue, American-flag vessels would receive $98,002,000 and foreign-flag vessels would receive $89,498,000. The difference of $8,504,000 between American-flag vessels' and the foreign-flag vessels' revenue would be due to the differential payments to the American tramp ships.

Table 8 shows the estimated disbursements of the ocean-shipping revenue received under the Title I

Table 8

Estimated Disbursement and Resulting Jobs Created from Ocean Transportation of Title I, Public Law 480, Cargoes

<table>
<thead>
<tr>
<th>Estimated Amount of Disbursements from Title I Program</th>
<th>Estimated Resultant Number of Direct and Indirect Employed (in man-years)</th>
</tr>
</thead>
</table>

### Direct Employment:
- **Domestic salaries and wages**
  1. Administrative personnel .................. $5,165,000  1,789
  2. Seagoing .................................. 22,333,000  8,417
  3. Longshoremen .............................. 3,024,000  1,613
  **Sub-total** ................................. $30,522,000  11,819

### Indirect Employment:
- **Domestic vessel expenditures, other than salaries and wages (as above)** .............. $45,233,000  9,727
- **Other domestic overhead and miscellaneous expenditures** .......................... 7,547,000  1,613
  **Sub-total** ................................ $52,780,000  11,340

**Grand total** ................................. $83,302,000  23,159

### Foreign expenditures for port charges, etc........ $4,900,000

**Estimated earnings** ............... 9,800,000

**Total paid for United States flag carryings** $98,002,000

**Source:** "Public Law 664, 83d Cong., 2d Sess.," Hearings before the Committee on Merchant Marine and Fisheries, House of Representatives, Eighty-fourth Congress, Second Session, January 31, February 1, 2, 3, 6, 7, 8, 9, 15, and 16, 1956, United States Government Printing Office, Washington, 1956, p. 573.
program by American-flag vessels. The estimated disbursements and estimated number of direct and indirect employment are based on a percentage-wise projection of a study made by the Ocean Shipping Panel to the Transportation Council for the Department of Commerce in 1950.24

Using the figures compiled in Table 8, the estimated minimum taxes paid to the Government can be shown in Table 9. This table shows that the Government will receive an estimated increase in tax revenue of $21,560,400. This figure more than offsets the payment of $8,504,000, which represents the estimated differential payments made to the American-flag ships. It should be remembered that only the unsubsidized tramp vessels are entitled to the differential payments. The subsidized liner vessels' rates are the same as the foreign liner vessels' rates.

The proponents of the 50-50 provision contend that the over-all cost to the Government is actually reduced because of utilization of the American Merchant Marine. The use of the American liner vessels enables them to

24. Ibid., p. 573.
Table 9
Estimated Minimum Tax Revenue Resulting in the Carriage of Title I, Public Law 480 Cargoes

<table>
<thead>
<tr>
<th>Description</th>
<th>Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes on direct wages at minimum rates of 20 per cent (.20 x $30,522,000)</td>
<td>$6,104,400</td>
</tr>
<tr>
<td>Taxes on indirect employment at minimum rates of 20 per cent (.20 x $52,780,000)</td>
<td>10,556,000</td>
</tr>
<tr>
<td>Corporate taxes and taxes paid by stockholders on dividends received at 50 per cent (.50 x $9,800,000)</td>
<td>4,900,000</td>
</tr>
<tr>
<td>Total minimum increase in United States Treasury tax revenues</td>
<td>$21,560,000</td>
</tr>
</tbody>
</table>

Source: Basic data from Table 8, this study.
increase their earnings, hence, fewer subsidies. The use of the American tramp vessels promote competition, therefore, lower freight rates.

2. Transactions are Essentially Aid

To show that transactions under Title I are in the nature of an aid program rather than commercial, the proponents point out several factors which differentiate the two.25

Title I of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) states that such transactions must be in "...excess of anticipated exports for dollars."26 In other words, these transactions must be beyond those which normally would take place in the day-to-day commercial export trade. The negotiations for these transactions are conducted on a government-to-government level and the foreign government, as purchaser, must agree that the undertaking for local currency will be above normal commercial dollar purchases.


Another noncommercial aspect is that the United States, as the seller, is not primarily interested in making a profit. Almost without exceptions these sales are at losses borne by the American taxpayer. President Eisenhower in his progress report on Public Law 480 stated that as of December 31, 1955, agreements under Title I for the disposal of surplus agricultural commodities amounted to $679 million at Commodity Credit Corporation cost; foreign currency to be received in payment amounted to only $504 millions.27

On November 5, 1955, Mr. C. D. Howe, a member of the Canadian Parliament and Minister of Trade and Commerce, delivered a speech which the proponents cite as support of their claim that the transaction are non-commercial. In part, Mr. Howe said:

...The United States sells wheat for payment in the currency of the buyer. The proceeds of sale are usually left in the buying country, either to be used by the purchasing government for some purpose approved by the United States Government, or in some cases to be converted into dollars several years hence. At the present time, for example,

It would be difficult to find private exporters who would make sales under the conditions described by the Canadian Minister of Trade and Commerce.

One test that can be applied to determine whether the transactions are commercial transactions or are a form of foreign aid, rather than a method of sale...

...Strangely enough, I have heard suggestions that Canada should deliberately imitate the United States policies of surplus disposal. It has been suggested to me, for example, that Canada should sell wheat for local currencies. What this really means, of course, is that Canada could hope to go on selling wheat for dollars or the equivalent of dollars to our best customers, and at the same time offer wheat for local currencies to other countries. If the local currency is as good as dollars, then there is no difficulty in selling for dollars. If the local currency isn't as good as dollars, then the wheat is really being sold at a discount, and in extreme cases for nothing.28

form of foreign aid is to look at the disposition of the foreign currency received in payment. Table 10 shows the planned use of foreign currency under Public Law 480 as of December 31, 1955. This planned use of foreign currency is derived from the basic agreements signed by the United States and the various countries involved. According to Table 10, the classification of what is aid shows that two-thirds of the program is for foreign aid.

3. Negligible Effects on Government Negotiations

To show how little the 50-50 provision effects the government's efforts to negotiate sales under Public Law 480, the proponents can point to the testimony of Mr. Kalijarvi, a representative of the Department of State. Mr. Kalijarvi stated that, based on past experience, the application of the 50-50 provision to transactions under Title I of Public Law 480 would "...Hamper the surplus-disposal program in only a few countries."\(^{29}\)

As of June 30, 1955, the end of the first year's operation under the program, Title I agreements had

\(^{29}\) Cf. ante, p. 164.
Table 10

Planned Use of Foreign Currency under Public Law 480
as of December 31, 1955

<table>
<thead>
<tr>
<th>Category</th>
<th>Million Dollars</th>
<th>Percent</th>
<th>Effect</th>
<th>Percent</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market development</td>
<td>12.72</td>
<td>2.5</td>
<td>---</td>
<td></td>
<td>2.5</td>
</tr>
<tr>
<td>Purchase of strategic material</td>
<td>3.8</td>
<td>.7</td>
<td>---</td>
<td></td>
<td>.7</td>
</tr>
<tr>
<td>Military procurement</td>
<td>93.44</td>
<td>18.6</td>
<td>15.5</td>
<td>3.1*</td>
<td></td>
</tr>
<tr>
<td>Purchase of goods for other countries</td>
<td>15.26</td>
<td>3.0</td>
<td>3.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants for multilateral trade and economic</td>
<td>7.5</td>
<td>1.5</td>
<td>1.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payment of United States obligations</td>
<td>130.22</td>
<td>25.9</td>
<td></td>
<td>25.9</td>
<td></td>
</tr>
<tr>
<td>Loans for multilateral trade and economic</td>
<td>235.57</td>
<td>46.8</td>
<td>46.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>development</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International educational exchange</td>
<td>5.04</td>
<td>1.0</td>
<td></td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Total signed agreements</td>
<td>503.55</td>
<td>100.00</td>
<td>66.8</td>
<td>33.2</td>
<td></td>
</tr>
</tbody>
</table>

*Includes $15.2 million for which the United Kingdom will construct and make available to United States Armed Forces dependent housing in Britain.

been signed with 17 foreign governments. These totaled, at Commercial Credit Corporation cost, approximately $468 million. This sum represents two-thirds of the original $700 million allocated to the program for a 3-year period. In the latter half of 1955, Congress changed the authorized amount under Title I from $700 million to $1,500 million. As of December 31, 1955, a total of $679 million in agreements had been completed out of the $1,500 million authorized for the program. 30

As to the claim that other maritime nations are using the American 50-50 provision as a pretext to establish 50-50 preference provision on purely commercial transaction, the proponents say that it is the duty of the Department of State to show that transactions under Title I are noncommercial in nature.

If the American taxpayer believes that it is necessary to support different segments of the economy, it appears only feasible to develop a program which is coordinated. Only in this way will the American taxpayer receive the greatest amount of benefits from the total dollars spent as support.

CHAPTER VII

PRESENT PROBLEMS AND POLICY

The old trite adage that "history repeats itself" is well illustrated in one of the most pressing problems facing the American Merchant Marine today. Stemming from World War II a problem that now faces the Maritime Administration is very much like the one that resulted from World War I with which the Maritime Commission contended in 1937. In that year the Maritime Commission sent the following report to Congress: 1

The outstanding weakness of our merchant marine is its high degree of obsolescence. This is true not only of the total seagoing fleet but of the various subdivisions. As of May 31, 1937, there are 1,422 oceangoing vessels (of 2,000 gross tons and over), aggregating 8,407,000 gross tons, registered under the American flag. Of this fleet a total of 1,305 vessels of 7,402,000 gross tons (91.8 percent of the number and 88 percent of the tonnage), will be 20 years old or more by 1942. More than 400 vessels, aggregating nearly 2,500,000 gross tons (about 30 percent of both number and tonnage of the entire fleet) are already 20 or more years old.


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It will be recalled that block obsolescence was one of the first problems that the Maritime Commission attempted to solve after the passage of the Merchant Marine Act of 1936. The Maritime Commission's replacement program of 50 vessels per year to alleviate the situation was interrupted by World War II.2 Today, the American Merchant Marine is again fast approaching a situation of block obsolescence.

A. Block Obsolescence

Unless counter-measures are taken, the American Merchant Marine will become largely obsolete in a block in the period 1961 to 1965. In arriving at these dates, the Maritime Administration's depreciation base of 20 years for a ship is used.3 Most of the ships in the American Merchant Marine were built during the period 1941 to 1945.

Table 11 shows the number of privately-owned American-flag vessels by age and their percentage distribution. An examination of this table reveals

2. Cf. ante, p. 117.
Table 11
Age of United States Privately-Owned Ocean-Going Fleet
December 31, 1955

<table>
<thead>
<tr>
<th>Age*</th>
<th>Number</th>
<th>Percent</th>
<th>Age*</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6</td>
<td>.5</td>
<td>16</td>
<td>30</td>
<td>2.8</td>
</tr>
<tr>
<td>2</td>
<td>17</td>
<td>1.6</td>
<td>17</td>
<td>4</td>
<td>.4</td>
</tr>
<tr>
<td>3</td>
<td>18</td>
<td>1.7</td>
<td>18</td>
<td>4</td>
<td>.4</td>
</tr>
<tr>
<td>4</td>
<td>7</td>
<td>.6</td>
<td>19</td>
<td>7</td>
<td>.6</td>
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<tr>
<td>5</td>
<td>7</td>
<td>.6</td>
<td>20</td>
<td>2</td>
<td>.2</td>
</tr>
<tr>
<td>6</td>
<td>4</td>
<td>.4</td>
<td>21</td>
<td>1</td>
<td>.1</td>
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<tr>
<td>7</td>
<td>3</td>
<td>.3</td>
<td>22</td>
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<tr>
<td>8</td>
<td>10</td>
<td>.9</td>
<td>23</td>
<td>1</td>
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<tr>
<td>9</td>
<td>19</td>
<td>1.8</td>
<td>24</td>
<td>9</td>
<td>.8</td>
</tr>
<tr>
<td>10</td>
<td>58</td>
<td>5.4</td>
<td>25</td>
<td>1</td>
<td>.1</td>
</tr>
<tr>
<td>11</td>
<td>271</td>
<td>25.2</td>
<td>26</td>
<td>1</td>
<td>.1</td>
</tr>
<tr>
<td>12</td>
<td>292</td>
<td>27.2</td>
<td>27</td>
<td>1</td>
<td>.1</td>
</tr>
<tr>
<td>13</td>
<td>191</td>
<td>17.8</td>
<td>28</td>
<td>0</td>
<td>.0</td>
</tr>
<tr>
<td>14</td>
<td>66</td>
<td>6.1</td>
<td>29</td>
<td>1</td>
<td>.1</td>
</tr>
<tr>
<td>15</td>
<td>34</td>
<td>3.2</td>
<td>30</td>
<td>1</td>
<td>.1</td>
</tr>
<tr>
<td>over 30</td>
<td>9</td>
<td>.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,075</td>
<td>100.0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* On basis of full year only.

that between 1955 and 1960 an average of only eighteen ships a year will reach the replacement age of twenty years. In the three-year period from 1962 to 1964, however, 754 vessels will need replacing in a block. Chart 4 is derived from Table 11 and shows graphically this concentration in percentages of ship replacements for the year 1962 to 1964. If the ships in the reserve fleet were counted along with the active fleet, this percentage concentration would be much larger.

If the American Merchant Marine is permitted to follow its present course, there will be a "crash program" of replacing the obsolete vessels in 1961-1965. Mr. John J. McMullen, Chief of the Office of Ship Construction of the Maritime Administration, testified at a congressional hearing that it would be impossible to build the ships with the available facilities during the 1961-1965 period, and, in addition, the cost of the ships would be greatly increased. 4

To meet this situation and to keep the mobilization nucleus of 36,000 men 5 employed, the Maritime


5. Cf. ante, p. 46.
Chart 4


* Year of replacement based on 20 year life.

Source: Table 11, this study.
Administration in April, 1954, submitted recommendations to Congress and the President to construct sixty merchant ships a year for sale to private shipowners. Such a program would cost an estimated $400 million a year (including subsidies) and would replace the entire commercial fleet gradually over a period of twenty years. It would also upgrade, to some extent, the reserve fleet by adding to it the commercial vessels received as trade-in on the newly-constructed vessels.  

The primary obstacle to overcome in a program of sixty-ships-a-year is the lack of inducements for private firms to invest in new ships. As noted above only a relatively few commercial ships will actually need to be replaced before 1961. Table 11 and Illustration 4 show that approximately three-fourths of the present commercial fleet have from 8 to 9 years of economic life left. Nearly all of these ships were built by the government during World War II and later acquired at greatly reduced prices by the present owners under the Ship Sales Act of 1946. The sales price in terms of percentages of

original cost, less depreciation, was 31.5 per cent for Liberty ships and 35 per cent for other types dry-cargo ships. Consequently, the commercial fleet costs the shipping companies, on the average, only $100 to $120 per deadweight ton. There is little incentive, at the present time, for the shipping companies to replace these ships with ships that will cost from three to five times more.

Even with construction subsidy aid up to the maximum of 50 per cent of cost and allowing for a trade-in of the old ship as a down-payment, the shipping companies would be required to make an investment of capital in new ships that would not give a proportional return. Shipbuilding costs have doubled since the start of the war. Shipbuilding wages have risen 110 per cent, at least half of the increase having occurred since 1947.

Part of the increased cost of shipbuilding is due to the tightening of United States fire and safety

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9. Ibid., p. 97.
specifications. These specifications are the most rigid in the world and are based largely on Senate Report No. 184, 75th Congress, 1st Session. This report was the result of investigations of the Morro Castle and Mohawk disasters.10 Another factor which has increased the cost of shipbuilding is the incorporation of improvements in the standard ship designs, such as more comfortable crew quarters. These additions or improvements add to the costs, but do not necessarily lead to increased operating economies or increased revenue.

The time-table for ship construction is another factor that ship operators must consider when replacing ships.11 The development and preparation of plans and specifications for an oceangoing ship are comparable to the engineering work performed in planning large installations on shore. The ultimate design is based on


financial, competitive and operational considerations which must be determined before the basic ship's characteristics are presented to the naval architect for preliminary development. The preliminary studies are discussed between the naval architect and the prospective ship operator; final basic ship's characteristics are agreed upon, and final plans and specifications developed. This work may require from six months for a cargo ship to over one year for a passenger or cargo-passenger ship.

After completing this stage, the prospective ship buyer may file an application for government aid with the Maritime Administration and present his proposed ship design for consideration. Three to six months may elapse before the Maritime Administration can complete its study and obtain the Department of the Navy's acceptance of the design as required by the Merchant Marine Act of 1936. The Maritime Administration then presents its recommendations to the Federal Maritime Board for action. If the application is tentatively approved, it is then necessary to request appropriations from Congress for each such approved application. At this stage considerable delay is encountered since an application approval either must be anticipated in advance of the
annual Maritime Administration construction appropriation request or a supplementary Congressional appropriation must be requested. After Congress receives the request, its enactment in whole or part is not assured. It depends on Administrative or Congressional policy. This is true regardless of the construction-differential subsidy provisions in the Merchant Marine Act of 1936. As a result, a prospective applicant for government aid has no assurance of being allowed the benefits of subsidy even after considerable expense has been incurred and a long period of time has elapsed in securing the Congressional appropriation.

After funds are appropriated, from four to seven months are required to request bids, to evaluate the bids, and to award the contract. It then usually requires another eighteen to twenty-four months to construct a tanker or cargo ship and an average of three years for a passenger ship. The total time necessary to plan and construct a ship from its inception varies from approximately three years to over six years depending upon the type of ship under consideration and the cumulative delays in completing the above outline of events.

The effect of the uncertainty of government financial support and the long delays incurred lend some instability to the ship replacement program. Opportunities to acquire long-term charters by the ship operators might be forfeited because of delays in obtaining government assistance. Such delays might prevent prospective shipowners from obtaining lower bids during an ebb period in the shipbuilding industry. The uncertainty and delays faced by the ship operators, however, might be viewed as the natural consequences of the checks that Congress maintains over the activities of the Maritime Administration. Congress limits the Maritime Administration construction authority to specifically authorized and named vessels.

From a financial viewpoint, shipping companies do not always find it advisable to replace a ship even after twenty years of service. A ship, of course, does not fall apart on its twentieth birthday. While maintenance costs are likely to rise considerably after twenty years, serviceable life actually is more like twenty-five to thirty years. Twenty-year replacement has been more a goal of government policy than an industry practice. Only the sixteen shipping companies receiving
operating subsidies are required to replace their fleets every twenty years, and some of these lines hope to lengthen the replacement period. Their contractual obligation stands only if Congress appropriates the necessary construction-subsidy funds, and there is some doubt that Congress will appropriate such a large sum in a three-year period to replace all twenty-year-old ships in 1963 and 1965.\textsuperscript{13}

It should be stressed that the dilemma of block obsolescence for the American Merchant Marine is not a result of its operation under the Merchant Marine Act of 1936, but one of the many consequences inherited from World War II. Block obsolescence, however, does tend to enlarge the problems of the American Merchant Marine and makes the Merchant Marine Act of 1936 more difficult to administer. The financial ability of the shipping companies to meet the problem of block obsolescence will be taken up in the next section.

B. Financial Condition of Companies

The ability of shipping companies to retain as well as attract capital, over a period of time, largely determines whether the declared policy of the Merchant

\textsuperscript{13} "Gloom in the Shipyards," \textit{op. cit.}, p. 97.
Marine Act of 1936 is being attained. Private ownership and operation of the merchant marine can be maintained only if a reasonable return is earned on the invested capital.

Current as well as past financial data are needed to make an analysis of the financial condition of the industry. Subsidized companies in general are closely held or family corporations and, like many other closely held corporations, do not publish financial statements of their operations. Neither are financial statements of the subsidized companies easily obtainable from the Maritime Administration. This difficulty was pointed out when Mr. Joseph Curran, President of the National Maritime Union of America, testified before the House of Representatives Merchant Marine and Fisheries Committee:

We have attempted to show a comparison of wage and salary costs to total operating revenues and

12. In the preparation of this study, several attempts were made to obtain current financial data on the subsidized lines from the Maritime Administration. Other data were made available, but never financial data.

operating expenses for more of the American Merchant Marine. We have been unable to show a more comprehensive comparison because the Maritime Administration has refused to release the pertinent data to us. This shortsighted approach on the part of the Maritime Administration is a good example of why there is a lack of more complete and factual material pertaining to our merchant marine. . . .


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Table 12
The Subsidized Lines, Changes in Stockholder Investment During the 14 Years Ended December 31, 1951

<table>
<thead>
<tr>
<th></th>
<th>Prewar Period, 1938-41</th>
<th>War Period, 1942-45</th>
<th>Postwar Period, Summary for 1946-51</th>
<th>14 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net operating earnings:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial operations</td>
<td>$86,393,557</td>
<td>$17,231,631</td>
<td>$232,053,722</td>
<td>$335,678,910</td>
</tr>
<tr>
<td>Wartime operations</td>
<td></td>
<td>86,782,622</td>
<td></td>
<td>86,782,622</td>
</tr>
<tr>
<td>Operating-differential subsidy (after interim adjustments of recapture)</td>
<td>15,820,635</td>
<td>987,660</td>
<td>130,350,029</td>
<td>147,158,324</td>
</tr>
<tr>
<td>Total</td>
<td>102,214,192</td>
<td>105,001,913</td>
<td>362,403,751</td>
<td>569,619,556</td>
</tr>
<tr>
<td>Less Federal income and excess-profit taxes</td>
<td>5,353,125</td>
<td>31,074,288</td>
<td>94,076,571</td>
<td>130,503,984</td>
</tr>
<tr>
<td>Net earnings</td>
<td>96,861,067</td>
<td>73,927,625</td>
<td>268,327,180</td>
<td>439,115,872</td>
</tr>
<tr>
<td>Gains on vessel transactions</td>
<td>25,516,637</td>
<td>41,348,683</td>
<td>5,560,761</td>
<td>72,426,081</td>
</tr>
<tr>
<td>Earned surplus at beginning of period</td>
<td>1,537,986</td>
<td>99,605,718</td>
<td>180,349,029</td>
<td>1,537,986</td>
</tr>
<tr>
<td>Total</td>
<td>129,915,690</td>
<td>214,882,026</td>
<td>454,236,970</td>
<td>1,307,939</td>
</tr>
<tr>
<td>Deduct:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends (in cash)</td>
<td>17,644,859</td>
<td>25,802,959</td>
<td>89,194,797</td>
<td>132,642,615</td>
</tr>
<tr>
<td>Capitalization of earned surplus, etc</td>
<td>(5,819,495)</td>
<td>10,569,402</td>
<td>24,946,443</td>
<td>29,696,350</td>
</tr>
<tr>
<td>Miscellaneous, net</td>
<td>12,484,608</td>
<td>(1,839,364)</td>
<td>(4,061,123)</td>
<td>6,584,121</td>
</tr>
<tr>
<td>Total</td>
<td>24,309,972</td>
<td>34,532,997</td>
<td>110,080,117</td>
<td>168,923,086</td>
</tr>
<tr>
<td>Earned surplus at end of period</td>
<td>99,605,718</td>
<td>180,349,029</td>
<td>344,156,853</td>
<td>344,156,853</td>
</tr>
<tr>
<td>Capital stock and surplus at beginning</td>
<td>62,157,192</td>
<td>72,471,684</td>
<td>74,829,273</td>
<td>62,157,192</td>
</tr>
<tr>
<td>Increases in capital stock and surplus</td>
<td>10,314,492</td>
<td>2,357,589</td>
<td>31,431,676</td>
<td>44,103,757</td>
</tr>
<tr>
<td>Stockholder equity at end of period</td>
<td>172,077,402</td>
<td>255,178,302</td>
<td>450,417,802</td>
<td>450,417,802</td>
</tr>
</tbody>
</table>

Table 12 shows the source of earnings and the application of these earnings by the subsidized lines for the first fourteen under the Merchant Marine Act of 1936. It is apparent that, as a group, the subsidized lines have followed a rather conservative dividend policy. For the fourteen years covered by Table 12 stockholders have received in cash dividends 30.02 per cent of the net earnings. A breakdown by periods shows that 18.22 per cent was paid in the prewar period, 34.90 per cent during the war, and 33.24 per cent in the postwar period. These figures indicate that approximately two-thirds of net earnings were retained in the industry and partly explain the growth of stockholder's equity shown in the table.\textsuperscript{15}

As to the rate of return earned on net worth, Table 12 reveals that for the three periods, 14.07 per cent, 7.24 per cent, and 11.91 per cent, respectively, were earned. These percentages compare fairly favorably with the rate of return earned on net worth by major manufacturing corporations. During the same periods,

\textsuperscript{15} Increase in stockholder's equity also reflects changes in the number of subsidized lines. The original number of subsidized lines having been increased from eleven to fourteen on December 31, 1951.
manufacturing corporations, on an average, earned 9.00 per cent, 9.77 per cent, and 14.08 per cent.  

A significant fact that is shown in Table 12 is that the operating-differential subsidy makes up a large part of the earnings of the subsidized lines. In the postwar period, it accounted for 48.58 per cent of the net earnings. It appears that as a group, the subsidized operators with government assistance received reasonable earnings on their net worth.

Table 12 gives no indication of the long-term debt position of the subsidized operators; however, a report on the subsidized operators made by the Maritime Administration in 1954 stated:

Five of the companies had no long-term debt, the remaining having debt ranging from 5.0 to 46.9 per cent of total capital. Only 3 companies, and these to a minor extent, borrowed capital from private sources. Equity capital represented each of the companies' largest proportion of capital, ranging upwards from 53.1 to 100 per cent. The outstanding point


of similarity in the capital structures is the relatively large percentage of earned surplus. Earned surplus for 10 companies represented more than 50 per cent of total capital. For 2 companies, earned surplus amounted to over 90 per cent of capital.

In view of this rather favorable report on the capital structure of the subsidized operators and their ability to earn a reasonable return on their invested capital, it would appear that the subsidized operators as a group should be financially able to replace their ships as they become obsolete. Such is not the case. This is true even though the subsidized operators are required by the Merchant Marine Act of 1936 to maintain a reserve fund to provide for the replacement of ships, and even though the government may finance up to 75 per cent of the cost of new ships. 18

According to an estimate prepared by the Maritime Administration, the net ship replacement cost to the subsidized operators as of December 31, 1952 was $1,632,409,000. 19 Since the subsidized operators are

18. Cf. ante, pp. 102-103.
required to provide out of their own funds at least 25 per cent of the acquisition cost as a down payment, they will need approximately $408 million. As a group, the subsidized operators will have only $364 million in reserve funds to meet the down payments on new ships as they are acquired in replacement. This is $44 million short of the required amount.

As shown below, a much more serious matter is that on an individual subsidized operator basis the deficiency amounts to $88 million. As of December 31, 1952, it was estimated that only 5 of the 15 subsidy operators would have sufficient funds to make the required replacements when their ships become obsolete. The reason for this deficiency is obvious. Depreciation is based on the relatively low acquisition cost of the ships rather than on the cost of replacements.

20. Ibid., p. 43.

<table>
<thead>
<tr>
<th>Lines with Deficiency</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Mail Line, Ltd.</td>
<td>$4,837,471</td>
</tr>
<tr>
<td>American President Lines, Ltd.</td>
<td>9,353,852</td>
</tr>
<tr>
<td>Farrell Lines, Inc.</td>
<td>12,787,653</td>
</tr>
<tr>
<td>Mississippi Shipping Co., Inc.</td>
<td>7,985,707</td>
</tr>
<tr>
<td>Moore-McCormack Lines, Inc.</td>
<td>1,480,222</td>
</tr>
<tr>
<td>The Oceanic Steamship Co.</td>
<td>1,951,630</td>
</tr>
<tr>
<td>Pacific-Argentine-Brazil Line</td>
<td>34,385</td>
</tr>
<tr>
<td>Pacific-Far East Line, Inc.</td>
<td>7,680,463</td>
</tr>
<tr>
<td>Pacific Transport Lines, Inc.</td>
<td>4,985,448</td>
</tr>
<tr>
<td>United States Lines Co.</td>
<td>37,062,262</td>
</tr>
<tr>
<td>Total</td>
<td>$88,159,093</td>
</tr>
</tbody>
</table>

In order to cover the deficiency described above, the subsidized operators will need to earn and retain substantial earnings or bring new equity capital into the industry. In the case of the unsubsidized operators, it is probably safe to assume that their deficiency is even greater than the subsidized operators. They, of course, are not required by law to maintain a depreciation reserve fund similar to that of the subsidized operators. In the cases of both the subsidized and the unsubsidized operators, it appears that depreciation is not being set aside on the true value of the American Merchant Marine. If the American

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22. The exact status of unsubsidized operators is difficult to determine. In many cases the shipping operation is only a part of the operation of a business enterprise engaged in other business activities.
Merchant Marine cannot finance its replacements and if the Government continues to support the declared national maritime policy, the problem can only be solved by additional financial outlays by the United States Government.

C. Cost of Program to the Government

Subsidies, regardless of their nature or their purpose, cost money. For the fiscal year 1955, maritime appropriations, which included the cost of operating and construction subsidies and all other costs of Maritime Administration, totaled $175.9 million. For 1956 the President has requested $240.9 million appropriation. Many people question the wisdom of making these appropriations. They view the cost as a needless expenditure. If spent properly however, these dollars may prevent a far greater expenditure.

During the emergency program of World War II when the dollar cost did not count, approximately $19 billion was spent on shipyards and on ship construction. This

vast sum of money, of course, increased the national debt. At a three per cent interest rate, an annual payment of $570 million must be paid to cover the interest charge alone on the $19 billion debt. This is more than double the appropriation requested by the President for 1956. If a proper program costing several million less than the above interest charge had been initiated several years prior to World War II, the emergency program would have cost many billions less. As the situation now stands, the government owes the principal, is paying interest on the principal, and is also paying current subsidies. The past cannot be changed; however it can be indicative of what course to follow in the future.

Most people do recognize the necessity of a merchant fleet for defense. It has often been referred to as the fourth arm of defense. Of the four arms of defense, the American Merchant Marine is the only one that even begins to approach self-support during peacetime. Appropriations to support this fleet have been relatively small in comparison with appropriations for the Department of Defense. The defense appropriations for the fiscal year 1955 totaled $35.5 billion; whereas, the appropriations for the American Merchant Marine were $175.9
million or about one-half of one per cent of that of the defense appropriation. For 1956, the President requested an appropriation of $34 billion for defense and less than three-quarters of one per cent of this amount for the Merchant Marine.\textsuperscript{24}

Not only is the appropriation for the Maritime Administration a small amount when compared to the total defense appropriation, but it is also overstated as an expenditure. For example, the total operating subsidy paid under the Merchant Marine Act of 1936 up to December 31, 1951, amounted to $258,550,362. Of this amount $111,392,038 was paid back into the general fund of the United States Treasury under the recapture provision of the Merchant Marine Act of 1936.\textsuperscript{25}

In a recent talk before the Propeller Club of the Port of New Orleans, Ralph Edward Casey, President of the American Merchant Institute, Inc., pointed out that from 1947 through 1954, the total operating subsidy was $508 million. In the same period $104 million was repaid to the treasury from company profits. This figure

\textsuperscript{24} Ibid., pp. 6-7.

\textsuperscript{25} "Merchant Marine Studies," op. cit., p. 138.
would reduce the seven-year total operating subsidy to $404 million or less than $70 million a year.\textsuperscript{26}

The Maritime Administration itself has various sources of income which it is required to put into the general fund of the United States Treasury. Table 13 is an itemized list of such income for the fiscal year ending June 30, 1954, and shows that the treasury received over $64 million into its general fund from the Maritime Administration. If these repayments to the Treasury were used as an offset against the appropriations received by the Maritime Administration, it would reveal a truer cost figure.

A somewhat similar case can be made on the storage of grain in the ships of the laid-up fleet. On July 21, 1955, Representative John J. Allen made a speech on the floor of the House of Representatives stating that currently 338 vessels of the laid-up fleet were loaded with government surplus grain and that an additional 106 vessels were scheduled to be loaded. Referring to these vessels, Congressman Allen said:\textsuperscript{27}

\textsuperscript{26} "Shipping and Subsidies," \textit{The Times-Picayune}, January 21, 1957, p. 10.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commissions on telephone pay stations in Federal buildings outside of</td>
<td>$3,493.72</td>
</tr>
<tr>
<td>Washington, D. C.</td>
<td></td>
</tr>
<tr>
<td>Registration fees, correspondence courses.</td>
<td>3,627.00</td>
</tr>
<tr>
<td>Moneys received from persons known.</td>
<td>25.00</td>
</tr>
<tr>
<td>Gifts to the United States, not otherwise classified.</td>
<td>24.00</td>
</tr>
<tr>
<td>Interest.</td>
<td>$11,654,695.13</td>
</tr>
<tr>
<td>Rental or operation of housing facilities</td>
<td>222.00</td>
</tr>
<tr>
<td>Rent of public buildings and grounds.</td>
<td>276,577.33</td>
</tr>
<tr>
<td>Rent of docks, wharves, and piers.</td>
<td>693,352.11</td>
</tr>
<tr>
<td>Charter hire of vessels.</td>
<td>279,323.98</td>
</tr>
<tr>
<td>Rent of equipment and facilities.</td>
<td>354,584.67</td>
</tr>
<tr>
<td>Sale of power and utilities.</td>
<td>2,460.81</td>
</tr>
<tr>
<td>Sale of publications and reproductions.</td>
<td>270.00</td>
</tr>
<tr>
<td>Sale of scrap, salvage, and waste.</td>
<td>394.73</td>
</tr>
<tr>
<td>Sale of stores.</td>
<td>9,225.67</td>
</tr>
<tr>
<td>Quarters (maritime training).</td>
<td>8,681.71</td>
</tr>
<tr>
<td>Subsistence (maritime training).</td>
<td>4,259.05</td>
</tr>
<tr>
<td>Overhead charges on sales of services or supplies.</td>
<td>213.23</td>
</tr>
<tr>
<td>Fees and other charges for miscellaneous services</td>
<td>1,500.00</td>
</tr>
<tr>
<td>Net proceeds from surplus property.</td>
<td>204,187.03</td>
</tr>
<tr>
<td>Proceeds from mortgage notes on surplus vessels sold under Ship Sales Act</td>
<td>$30,116,018.86</td>
</tr>
<tr>
<td>of 1946.</td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of vessels, titles V and VII, Merchant Marine Act, 1936, as amended</td>
<td>6,358,272.25</td>
</tr>
<tr>
<td>Proceeds from ship inventories, redeliveries from War Shipping Administration operations</td>
<td>43,257.83</td>
</tr>
<tr>
<td>Sale of scrap and salvaged surplus materials.</td>
<td>871,090.44</td>
</tr>
<tr>
<td>Sale of equipment.</td>
<td>113,420.15</td>
</tr>
<tr>
<td>Description</td>
<td>Amount</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>Proceeds from sales of Government property</td>
<td>$92,423.85</td>
</tr>
<tr>
<td>Proceeds, sale of securities</td>
<td>225,912.37</td>
</tr>
<tr>
<td>Recoveries from Government property lost or damaged.</td>
<td>23,027.36</td>
</tr>
<tr>
<td>War claims and awards waived under general settlements.</td>
<td>4,221.69</td>
</tr>
<tr>
<td>Recoveries, excessive profits on renegotiated contracts</td>
<td>717,475.56</td>
</tr>
<tr>
<td>Recoveries, excess cost over contract price</td>
<td>1,263,160.77</td>
</tr>
<tr>
<td>Refund of transportation charges</td>
<td>674.65</td>
</tr>
<tr>
<td>Refund on cable and radio messages</td>
<td>34.74</td>
</tr>
<tr>
<td>Recoveries from operation of ships (primarily from War Shipping Administration operations)</td>
<td>7,454,668.43</td>
</tr>
<tr>
<td>Recoveries, jury service</td>
<td>512.72</td>
</tr>
<tr>
<td>Repayments, lapsed appropriations</td>
<td>3,677,699.22</td>
</tr>
<tr>
<td>Refund on empty containers</td>
<td>250.55</td>
</tr>
<tr>
<td>Refund of terminal leave compensation</td>
<td>946.96</td>
</tr>
<tr>
<td>Miscellaneous recoveries and refunds</td>
<td>24,998.69</td>
</tr>
</tbody>
</table>

| Total payments into the general fund of the United States Treasury         | $64,485,184.26|

Each vessel stores an average of 228,000 bushels, or an average of 6,100 tons. The annual storage value per vessel at 15 cents per bushel is $34,200. The current annual storage value contributed by the 444 vessels is $15.2 million.

The United States Government, of course, does not charge itself for this storage value of the laid-up fleet. The point is, if these vessels were not available, the government would have to pay $15.2 million storage charge which it now does not have to pay.

The foregoing argument has not been intended to minimize the cost of the merchant marine subsidy program, but rather to correct a few of the exaggerations that are commonly associated with the program.

Another way of placing the maritime subsidy program in its proper scope is to compare it with several other subsidy programs of the government. During the first 10-year accounting period which ended December 31, 1948, the shipping companies received after recapture $35,515,800 in operating subsidy. During these same 10 years, the government provided $1,205,645,000 subsidy for dairy production, $524,195,000 to the sugar industry, $132,694,000 for potatoes, and $67,635,000 for
cheddar cheese. These are only a few of the subsidy payments that rank above the subsidy paid to the shipping lines. It should also be recalled that of all the subsidy payments made by the United States Government, only the subsidy paid to the American Merchant Marine has a recapture provision.

D. Current Activities

One program that the Maritime Administration is actively engaged in at the present time is the development of new ship designs. It is hoped that the program will result in appreciable savings in construction as well as operating subsidies to the government. By adopting standardized ship designs, there will be advantages resulting from standardized equipment, spare parts, and interchangeability of ships in various service. In addition, savings in the initial cost of the ships can be realized if ships are built in numbers. The Maritime Administration estimates that savings can be in the order of ten per cent or more of the construction cost of the ships. Another purpose the

program can serve, in view of approaching block obsolescence of the merchant fleet, is that the new ship designs may be used as a basis for establishing the characteristics desirable for the replacement ships. The program includes seven designs of ships: four types of cargo vessels, a bulk carrier, a tanker, and a trailer ship.30

Some further information as to present and future policy of the United States Government toward the American Merchant Marine can be gained by studying the government's current activities as reported in the annual report of the Department of Commerce.

The annual report of the Secretary of Commerce for the fiscal year 1955 states that in providing assistance to the maritime industry, the basic principles of Merchant Marine Act of 1936, as amended, were followed. The report covers the following activities:31

1. Construction and Operating Aid

Negotiations were completed for the construction of two passenger-cargo vessels for Moore-McCormack Lines,

30. See the Appendix for illustrations of the seven designs.

Inc. This is the initial phase in the replacement of the "Good Neighbor Fleet," as required under the provisions of the operator's subsidy contract. The Federal Maritime Board granted construction-differential aid for the reconstruction of four mariner-class ships purchased by the American President Lines, Ltd. In addition, at the close of the fiscal year there were pending applications from 4 operators for construction-differential aid in the construction of 6 new passenger-cargo vessels and the conversion of 3 mariner-class ships.

Contracts were entered into with 3 companies for the trade-in of 14 obsolete tankers as credit allowance to be applied against the construction of 6 new tankers. Still under consideration was another application involving trade-in of old tankers and construction of 2 new tankers.

Public Law 781, 83rd Congress, gave impetus to private financing of new ship construction by making more attractive to the shipping industry the mortgage insurance aid provisions of the Merchant Marine Act of 1936, as amended. A number of applications were filed under this law, and four were approved in principle.
Of particular significance in the field of ocean-going traffic was the enactment of Public Law 664, 83rd Congress, which provided for at least 50 per cent participation of United States privately-owned ships in the movement of government-financed cargoes to the extent that such ships are available at fair and reasonable rates. Surveillance was maintained over the provisions of this law.

No new operators were awarded operating-differential subsidy contracts during the 1955 fiscal year.

2. Operation of Ships

During the year, the number of privately-owned ships of 1,000 gross tons or over in the United States merchant fleet declined from 1,224 to 1,101. In terms of deadweight tonnage, these ships represented 11 per cent of the tonnage in the world's merchant fleets as compared to 12.5 per cent at the end of the previous year.

The operation of merchant ships by general agents for government accounts declined to a low of 11 ships by February 1955. At that time, 26 additional ships were placed in operation to meet the requirements of
the Military Sea Transportation Service. At the end of the fiscal year, 72 Maritime Administration-owned ships were in the custody of other government agencies and 26 were under bareboat charter to private operators.

As of June 30, 1955, there were 2,068 ships in the national defense reserve fleets, having a replacement value of approximately $8 billion. The ship preservation program progressed steadily, with 94 percent of basic lay-up and protection work completed. Protection of the underwater surfaces of hulls had also been completed for 1,542 of the ships.

At the request of the Department of Agriculture, 90 additional laid-up ships were made available for the storage of surplus grain, bringing to a total of 407 the number of ships authorized to be used for this program. At the end of the year, 355 of these ships had been loaded with approximately 81 million bushels of grain.

3. Shipbuilding and Repair

In the course of the year, 13 ships were under construction and 5 ships were being reconverted in various shipyards under Maritime Administration contracts. Ships under construction included the last 4
of a total of 35 Mariner-class ships, 3 of which were delivered during the year; 2 refrigerated stores ships and 3 tankers for the Department of the Navy; and 4 tankers contracted under the program for trading in obsolete tonnage for allowance of credit against new construction.

A program on an experimental basis involving the upgrading of the Liberty ships in the laid-up fleet has been undertaken. Four Liberty ships are now undergoing modifications for the purpose of improving their speed and cargo-handling features.

In anticipation of the use of nuclear power in merchant ships, contracts were entered into with a private design agent and a leading university with research experience in this field for a study of the technical and economic feasibility of the application of nuclear power to merchant ships.

4. Ship Sales

The SS President Cleveland and SS President Wilson were sold to the American President Lines, Ltd., for the sums of $6,346,362.50 and $6,318,078.50, respectively, under the authority of Public Law 553, 83rd Congress. Four Mariner-type vessels were also sold to the same company at a total sales price of $17,686,687.36.
A sales contract was entered into with Pacific Far East Lines for the purchase of 3 Mariner-type vessels. The preliminary sales price on one of these vessels was $5,750,000 and on the two others $5,700,000 each.

5. Maritime Training

During the fiscal year, 127 men were graduated from the U. S. Merchant Marine Academy, Kings Point, New York, and 253 from the State maritime academies maintained by the States of California, Maine, Massachusetts, and New York. These graduates received United States Merchant Marine officers' licenses as third mates or third assistant engineers of oceangoing ships, bachelor of science degrees, and commissions as ensigns in United States Naval Reserve and the United States Maritime Service.

6. Property and Supply

The maintenance and security program was continued at four government-owned reserve shipyards. Permits and leases were granted or continued to other agencies or private organizations for the use of substantial portions of the land, structures, and equipment at these shipyards and at two terminals.
Prior to the fiscal year a sizable portion of the reserve training station at Sheepshead Bay, New York, had been declared to the General Services Administration as excess to the needs of the Maritime Administration. During fiscal 1955 a revocable permit was granted to the Department of the Air Force for the use of balance of the station.

7. Other Activities

In the regulatory field, close watch was kept over the sudden rise in conference freight rates which began in the fall of 1954. It is feared that these increases may place an unwarranted burden on the conduct of trade.

Secretary Sawyers also reported that the Maritime Administration continued its cooperation with the Department of State in negotiations with foreign governments on discriminatory practices against United States shipping. Close liaison was maintained also with United States representatives serving with the Organization for European Economic Cooperation, to ensure adequate presentation of United States shipping policy before the Maritime Transport Committee of that organization.
CHAPTER VIII

SUMMARY AND CONCLUSION

In summarizing this study of the development of the national policy of financial aid to the American Merchant Marine certain facts and observed tendencies merit reiteration.

A. Summary

The United States has many natural advantages which lends itself to the maintenance of an American Merchant Marine. It is bordered on the east by the Atlantic Ocean which is crisscrossed by some of the busiest sea lanes found on any ocean. The Pacific Ocean, the largest ocean in the world, forms the western border. Part of the southern border is formed by the Gulf of Mexico which is a natural waterway to much of South America and Africa. This rather extensive coastline has many ice-free deep water harbors through which much of the world's commerce flows.

As was pointed out in Chapter II, the natural physical advantages and the United States' large volume
of international trade do not offset the American Merchant Marine's high cost competitive position. The American Merchant Marine must secure its equipment, labor, and operating materials in a tariff shielded high priced market. It, on the other hand, must sell its services in an unprotected world market. Many industries overcome this difficulty by adopting the technique of mass-production. This solution, however, does not apply to the American Merchant Marine because the nature of shipbuilding prohibits the full use of the mass-production technique. Ship subsidies, thus, are utilized to overcome the lower foreign cost.

There are certain benefits that accrue to the American economy to act as partial offsets against the cost of ship subsidies. Some of these benefits are: promotion of foreign trade; more dependable service of a higher quality; some protection against discrimination and exorbitant rates, and promotion of domestic trade. The overriding benefit, however, is defense. This one factor alone makes the American Merchant Marine necessary to the nation. There is a minimum size which the American Merchant Marine should not fall below. The minimum size should be large enough to be capable of
being quickly expanded to meet the demands of war.

The history of the American Merchant Marine shows that at times a minimum nucleus did not exist. There were times, in fact, when the American Merchant Marine hardly existed. More than one time, the lack of an American Merchant Marine proved to be very costly. This difficulty was not encountered to any great extent during the first half of the nineteenth century. During this period the American Merchant Marine could largely solve its own problems without aid from the government.

Several events occurred around the middle of the nineteenth century which adversely affected the American Merchant Marine. The gold boom in California came to an end; the United States became engaged in its Civil War; the ending of the Crimean War released a large amount of British shipping tonnage to compete in international trade; several foreign governments began to subsidize steamship operations, and the westward expansion in the United States caused Americans to shift their interest from the sea to the internal development of the country.

The combination of events just listed and the termination in 1858 of all mail contracts let under the Act of
March 3, 1845, had a drastic effect on the American Merchant Marine.

From this period up to the time of the passage of the Merchant Marine Act of 1936, several attempts were made by the government to develop and promote the American Merchant Marine by giving indirect subsidies in the form of mail contracts. These attempts, because of their lack of continuity, lack of understanding by the general public, and abuses by the shipping companies did not prove very successful.

It was pointed out in Chapter II that general cargo freight rates increased over a thousand per cent even before the United States became involved in World War I. American exports and imports were drastically reduced due to the lack of foreign-flag ships upon which the United States had become dependent. During the emergency of World War I, the United States Government took over the direct ownership of the American Merchant Marine which involved all the waste, high cost, and inefficiency that usually accompany such a program.

After the American Merchant Marine had been returned to private ownership, the government resumed its policy of indirect aid through mail contracts. In retrospect it appears that a major fault of the indirect
aid based on mail contracts was the lack of any contractual obligations on the part of the ship operators to provide for ship replacements. The problem of obsolescence in a block, thus, was of primary concern at the time of the passage of the Merchant Marine Act of 1936.

An analysis of the success of the first attempt to eliminate block obsolescence under the Merchant Marine Act of 1936 can be only a conjecture since the program was interrupted by World War II. The program, however, did provide an invaluable nucleus to meet the unprecedented demands of the war. The shipbuilding program of World War II enlarged the problem of block obsolescence and it is yet to be resolved successfully.

The age of the fleet also adds to the difficulties that the American Merchant Marine faces at the present time in meeting competition from foreign-flag ships. Chapter V pointed out that the foreign-flag fleets contained a much higher percentage of postwar built ships than is found in the American fleet. Another factor that added to the competitive disadvantage of the American Merchant Marine was foreign discriminatory practices, as illustrated in the cases of Argentina and Brazil. These types of discriminatory practices would be difficult
to overcome even if the American Merchant Marine operated on a lower cost basis than that of foreign-flag ships. The American Merchant Marine must largely depend on the United States Government to intercede in the cases of foreign governments' discriminatory practices.

The Butler-Tollefson Act appears to be a realistic attempt on the part of the United States Government to coordinate to some extent the shipping subsidy program with the agricultural subsidy program. This amendment to the Merchant Marine Act of 1936 has provided some relief to the American Merchant Marine in meeting the rather intense competition following the war.

In evaluating the financial condition of the ship operators, Chapter VII showed that the operating-differential subsidy accounted for a rather substantial share of the ship operators' earnings. Reinvestment of earnings and a rather conservative dividend policy appeared to be a characteristic of the American Merchant Marine. The subsidized ship operators as a group, however, are not providing a depreciation reserve fund of sufficient size to meet the down-payment requirements of new ships needed in the replacement program.
The deficiency exists even though the ship operators are fulfilling the requirements of the Merchant Marine Act of 1936 as it pertains to the depreciation reserve fund. Depreciation is based on acquisition cost and it was pointed out in Chapter VII that most of the existing ships were purchased at greatly reduced prices. The problem indicates that the United States Government may have to finance a larger share of the ship replacement program than the present law permits.

Ship subsidies cost the government a considerable sum and they will probably cost even more in the future. This cost, however, is very small when compared to the cost of other subsidized industries in the economy. Ship subsidy is also the only subsidy paid by the government subject to recapture in part or in whole.

The study of current maritime activities indicates that the Maritime Administration is attempting to carry out the national maritime policy as stated in the Merchant Marine Act of 1936, as amended. The success or failure of such a program, however, in the final analysis depends upon the willingness of Congress to make the necessary appropriations.
B. Conclusion

This study has covered four distinct governmental policies toward the American Merchant Marine, namely, no aid, indirect aid, public ownership, and direct aid. The first, no aid, was found to be unacceptable. It was pointed out in Chapter III that when the government adopted a policy of no aid, the American Merchant Marine tended to disappear. The second, indirect aid, was found to be inadequate. Chapter III also showed that under a policy of indirect aid, the United States never possessed an American merchant fleet that could be quickly expanded to meet the needs of war. The third, public ownership, was tried briefly and abandoned. In practice its use seems to be reserved for periods of war emergency. The fourth, direct aid, has been in effect since 1936 except for a period of public ownership during World War II. Despite certain imperfections in this policy which have been pointed out in the foregoing it seems to have been generally accepted by the Congress of the United States. At the moment no evidence is available that the Congress will abandon this policy in the foreseeable future by repealing the Merchant Marine Act of 1936.
Thus, the conclusion of this study is that the Merchant Marine Act of 1936 is considered basically a sound law.

No law should be viewed as complete and final. The law should be modified or changed to meet new situations and changing times. The Merchant Marine Act of 1936 has been amended several times during the past twenty years. These amendments, however, have not changed the fundamental purposes or methods of the original act.
APPENDIX A
Glossary of Shipping Terms*

Bulk cargo: Grain, coal, and other commodities shipped loose without packaging and without mark or count.

Cargo: Goods or merchandise in process of transport by ship.

Chartered vessel: A vessel which is hired either for a given voyage or for a period of time.

Coastwise: By way of, or along the coasts in transportation by water. Oceangoing coastwise trades include transportation along the Atlantic coast or the gulf coast or the Pacific coast or between the Atlantic and the gulf coasts.

Combination-type ship: A ship carrying more than twelve passengers and which transports a large quantity of cargo.

Common carrier: A carrier which accepts merchandise for transportation from any and every shipper for compensation on an impartial basis. A liner-type operation.

Conference rates: Rates established by shipping conferences (see Shipping conference).

Deadweight ton: The carrying capacity of a ship in tons of 2,240 pounds.

Deadweight tonnage: The number of tons (2,240 pounds) of cargo, stores, and bunker fuel that a vessel can carry. It is the difference between the number of tons of water a vessel displaces when light and the number of tons it displaces when loaded to its "deep-load line marks." Deadweight tonnage is used interchangeably with deadweight carrying capacity. A ship's capacity for weight cargo is less than its total deadweight tonnage.

Domestic commerce of the United States: Commerce between continental United States ports and between the United States and its possessions which is reserved to vessels built, owned, and operated by citizens of the United States.

Dry-cargo freighter: A vessel designed mainly to carry cargo other than liquids in bulk. It may not have accommodations for more than twelve passengers.

Essential trade route: A route between ports in a United States coastal area or areas to foreign markets which has been determined by the Maritime Administration to be essential for the promotion, development, expansion, and maintenance of the foreign commerce of the United States.

General cargo: Miscellaneous goods or merchandise.

Gross tonnage (vessels): Applies to vessels and not to cargo. In general it is determined by dividing by 100 the contents, in cubic feet, of the vessel closed-in spaces. It is a measurement unit in terms of 100 cubic feet.

Industrial carrier: See Private carrier.

Knot: A unit of speed and not of distance. The speed of a ship is expressed in knots, but the distance covered is expressed in nautical miles (6,080.27 feet).

Liner: A vessel engaged principally in the transportation of miscellaneous package and piece goods, although it carries some bulk cargo. It provides a common carrier type of service on a regular schedule and over a definite route. The term relates to the type of service provided by a ship and not the physical characteristics of a vessel.

Longshoreman: A person employed about the wharves of a port to load and unload vessels.

On the berth: A ship is on the berth when it is at a definite loading place ready to accept cargo as a common carrier.
Nonliner vessel: See Tramp ship.

Passenger ship: A ship whose revenues are obtained principally from passengers.

Private carrier: A ship operation in which the same person owns both the ship and the cargo. Also called an industrial carrier. Many private carriers transport common carrier cargo to supplement their regular cargoes.

Rate war: The reduction of liner rates to abnormally low levels by a ship operator or by a group of operators. Usually a temporary situation.

Shippers: Persons having goods to transport.

Shipping conference: A voluntary organization of ship operators cooperating for the purpose of regulating competition on a particular trade route or routes.

Shipway: The space in a shipyard where a foundation for launching ways and keel blocks exist and which is occupied by a ship while under construction.

Stevedore: A person having charge of the loading and unloading of ships.

Subsidized: The term signifies that service is being provided under an operating-differential subsidy contract for United States flag service on an essential United States foreign trade route.

Tanker: A ship built to carry liquids in bulk, especially petroleum.

Time charter: A basic shipping document embodying the contract or agreement between the party hiring a vessel and the owner or agent letting said vessel. Such an agreement places the vessel in the possession of the charterer. As a rule, the character pays the owner an agreed rate per deadweight ton per month for the use of a cargo-type vessel and to furnish the fuel and pay all expenses incurred at ports, except crew and provision expense.
Tramp ship: A ship distinguished more by its type of service than by its structural characteristics. It is engaged principally in moving bulk commodities which move in vessel lots. It does not operate on a published schedule or over a definite route, but accepts that cargo on a contract carrier basis which is most remunerative.
APPENDIX B
The Principal Regulations set out by the Merchant Marine Act of 1936, as amended, regarding Operating-differential Subsidies*

601 (a) Under Title VI of the Act, any citizen of the United States may apply for an operating-differential subsidy for a vessel to be used in an essential service in the foreign commerce of the United States.

(1) The operation must be required to meet foreign flag competition and to promote the foreign commerce of the United States.

(2) The applicant must own or be willing and able to build or purchase vessels of the size, type, speed, and number, and with proper equipment to operate the service.

(3) He must possess the ability, financial resources, or other qualifications necessary to enable him to carry on the operation. The applicant must disclose those having a pecuniary interest in his service and provide all financial statements required.

602 Subsidy may be paid only to meet direct foreign competition. Indirect competition may be considered under some circumstances, however, after hearing and investigation of the facts.

603 (a) A subsidy contract may cover a period of not over twenty years.

(b) The amount of subsidy granted shall not exceed the excess of the fair and reasonable cost of insurance, maintenance, repairs not compensated by insurance, wages, subsistence of officers and crew, or any other items of expense in which the Maritime Administration finds that the operator is at a substantial disadvantage, over the estimated fair and reasonable cost of such items to a substantial foreign competitor.

*"Operating-Differential Subsidies," The Federal Maritime Board and the Maritime Administration, United States Department of Commerce, pp. 2-5.
The amount of subsidy is determined and payable after a final accounting each year or other period fixed in the contract. Up to seventy-five per cent of the accrued subsidy may be paid on any particular voyage, or up to ninety per cent after audit of the voyage account. No subsidy may be paid until evidence is given that the crew wages have been paid.

An additional subsidy may be paid to offset government aid to foreign shipping after consultation with the Secretary of State. (This countervailing subsidy has never been invoked.)

No vessel serving coastwise or inter-coastal trade may be subsidized, except that vessels serving such trades as part of a round-the-world or noncontiguous service may receive a subsidy reduced by an amount bearing the same ratio to the total subsidy as the domestic revenue bears to the gross revenue earned. No vessel operating on inland waterways or on the Great Lakes exclusively is considered to be operating in foreign trade.

No subsidy may be paid on a vessel over twenty years of age unless the Administration finds it to be in the public interest.

No subsidy may be paid for additional service on a route already served by United States citizens unless it is determined after hearing that the service is inadequate and additional vessels are needed.

Subsidy payments are subject to review and readjustment not more often than once a year. If there is no agreement between operator and Administration, the Administration shall hold a hearing and issue a formal order setting the payments to be made.

Payments may be reduced for periods in which vessels are in layup, or for a leg of the voyage in domestic trade, may be changed to meet changes in service, or may cease if the operator proves he cannot operate with a reasonable profit.

At the end of any ten-year period, or at the termination of the contract, if the net profit of the contractor on subsidized vessels, after deduction
of depreciation charges, has averaged more than ten per cent per year over the operator's capital investment necessarily employed in the operation of the subsidized service, the operator shall pay one-half of such profits in excess of ten per cent as reimbursement of the subsidy, but not more than the total subsidy. In practice this recapture is withheld from subsidy payable.

(6) The contractor must operate his vessels in the most economic and efficient manner, with due regard to wage, manning scales, and working conditions prescribed by the Maritime Administration.

(7) Whenever practicable the operator shall use only articles, materials and supplies of United States growth, production, or manufacture, and must repair subsidized vessels in the United States except in an emergency.

607 Sets financial regulations for the operator. The operator may pay annually as profits or dividends not over ten per cent of his capital necessarily employed, to the extent earned. He must maintain a "capital reserve fund" in which he must deposit an amount equal to earned annual depreciation charges on vessels receiving subsidy; proceeds of sales or insurance on loss of subsidized vessels, together with whatever percentage of his cummulative net profits in excess of ten per cent the Maritime Administration feels necessary to build up a fund for replacement of subsidized ships. From the capital reserve fund the operator may pay the principal on notes secured by mortgages on subsidized vessels, may make payments for purchases to replace, re-condition, or add to his vessels.

608 A subsidy contract may not be sold or assigned directly or indirectly without the consent of the Maritime Administration, which may be granted only if the person acquiring it agrees to all its provisions. If a company goes into bankruptcy, the contract may be rescinded.

609 The Administration may withhold payment of operating subsidy while the contractor is in default in any payments due to the United States and may apply the amount withheld to satisfaction of the debt.
A vessel receiving an operating subsidy must be built in a United States yard, and, if constructed after 1936, in accordance with plans and specifications approved by the Maritime Administration and the Secretary of the Navy, with particular reference to its use in national defense.
**PROPOSED CARGO SHIP—ISLAND CLASS**

**C1-M-RM17a**

<table>
<thead>
<tr>
<th>DIMENSIONS</th>
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<tbody>
<tr>
<td>Length, overall</td>
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<tr>
<td>Length, b.p.</td>
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<tr>
<td>Beam, mid</td>
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<tr>
<td>Depth, main dk. side</td>
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<tr>
<td>Full load draft</td>
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<tr>
<td>Light ship draft</td>
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<tr>
<th>DISPLACEMENTS &amp; TONNAGES</th>
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<tr>
<td>Full load displacement</td>
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<td>Light ship weight</td>
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<tr>
<td>Total deadweight</td>
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<tr>
<td>Crew &amp; stores</td>
</tr>
<tr>
<td>Fuel oil</td>
</tr>
<tr>
<td>Fresh water</td>
</tr>
<tr>
<td>Dry cargo deadweight</td>
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<tr>
<td>Reefer cargo deadweight</td>
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<tr>
<td>Gross tonnage (approx.)</td>
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<tr>
<td>Net tonnage (approx.)</td>
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<tr>
<th>CAPACITIES, ETC.</th>
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<tbody>
<tr>
<td>Bale cubic</td>
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<tr>
<td>Reefer cubic</td>
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<tr>
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<td>Number of holds</td>
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<tr>
<td>Number of booms—2</td>
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<thead>
<tr>
<th>MACHINERY CHARACTERISTICS</th>
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</thead>
<tbody>
<tr>
<td>Type</td>
</tr>
<tr>
<td>Normal ship</td>
</tr>
<tr>
<td>Speed, sustained</td>
</tr>
<tr>
<td>Cruising radius</td>
</tr>
</tbody>
</table>
PROPOSED CARGO SHIP--FREEDOM CLASS
C2-S-RM15a

DIMENSIONS
Length, overall........440'0"
Length, b.p.............410'6"
Beam, mid..............65'0"
Depth amidships........39'0"
Full load draft........26'6"
Light ship draft.......10'3"

DISPLACEMENTS & TONNAGES
Full load displacement....13,350 tons
Light ship weight........4,550 tons
Total deadweight........8,800 tons
Crew & stores............40 tons
Fuel oil................1,600 tons
Fresh water.............160 tons
Reefer cargo deadweight...290 tons
Dry cargo deadweight....6,420 tons
Gross tonnage (approx.)...7,500 tons
Net tonnage (approx.)....4,500 tons

CAPACITIES, ETC.
Bale capacity...........497,000 cu.ft.
Reefer cubic.............29,000 cu.ft.
Passengers..............0
Number of holds...........5
Number of boilers—2....1 ton
................14....10 ton
................1....60 ton

MACHINERY CHARACTERISTICS
Type..................turbine
Normal speed.............12,000/16,000
Sustained speed........16 knots/18k
Cruising radius........13,100 n.m.
Note—for mobilization purposes, alternate power plants may be provided.
PROPOSED CARGO SHIP--CLIPPER CLASS
C3-S-RM18a

DIMENSIONS
Length, overall........... 496'-0"
Length, b.p............... 460'-0"
Beam, mid................ 73'-0"
Depth, main dk. side...... 41'-4"
Full load draft............ 28'-0"
Light ship draft........... 11'-4"

DISPLACEMENTS & TONNAGES
Full load displacement..... 16,900 tons
Light ship weight......... 6,000 tons
Total deadweight.......... 10,900 tons
Crew & stores............. 50 tons
Fuel oil................... 2,250 tons
Fresh water.............. 190 tons
Dry cargo deadweight..... 8,070 tons
Reefer cargo deadweight... 340 tons
Gross tonnage (approx.)... 10,000 tons
Net tonnage (approx.)..... 6,000 tons

CAPACITIES, ETC.
Bale cubic........... 600,000 cu.ft.
 Reefer cubic........ 34,000 cu.ft.
 Passengers........... 12
 Number of holds......... 6
 Number of booms-- 2... 1 1/2 ton
 10... 5 ton
 8... 10 ton
 1... 60 ton

MACHINERY CHARACTERISTICS
Type.................... turbine
Normal shp............. 11,000
Speed, sustained........ 18 knots
Cruising radius......... 15,000 n.m.
PROPOSED CARGO SHIP—SEAFARER CLASS
C4-S-RM19a

DIMENSIONS
Length, overall........... 529'-0"
Length, b.p................. 494'-0"
Mean, mid.................. 74'-6"
Depth, main dk. side...... 44'-6"
Full load draft........... 29'-9"
Light ship draft........... 11'-10"

DISPLACEMENTS & TONNAGES
Full load displacement..... 20,330 tons
Light ship weight........... 8,850 tons
Total deadweight........... 13,480 tons
Crew & stores............. 50 tons
Fuel oil..................... 2,660 tons
Fresh water................ 176 tons
Dry cargo deadweight...... 10,300 tons
Reefer cargo deadweight... 300 tons
Gross tonnage (approx.)... 11,300 tons
Net tonnage (approx.)...... 7,000 tons

CAPACITIES, ETC.
Bale cubic............. 732,000 cu. ft.
Reefer cubic........... 30,000 cu. ft.
Passengers.............. 12
Number of holds......... 6
Number of booms—12... 5 ton
........ 10 ton
........ 50 ton

MACHINERY CHARACTERISTICS
Type......................... turbine
Normal ship.............. 12,500
Speed, sustained........ 18 knots
Cruising radius........ 15,000 n.m.
### PROPOSED BULK CARRIER--BULK CLASS

**C5-S-RM20a**

#### DIMENSIONS

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#### DISPLACEMENTS & TONNAGES

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#### CAPACITIES, ETC.

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#### MACHINERY CHARACTERISTICS

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### PROPOSED OIL TANKER--PIPEDLINE CLASS

**T5-S-RM2a**

#### GENERAL PARTICULARS

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<tr>
<td>Length between perpendiculars</td>
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<tr>
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<td>Draft, scantling</td>
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<td>Deadrise</td>
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<tr>
<td>Capacity</td>
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<td>Displacement at 34'-9&quot; draft</td>
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<td>Deadweight at 34'-9&quot; draft</td>
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<td>Light ship weight</td>
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<tr>
<td>Trial speed</td>
<td>21 knots</td>
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</table>
# PROPOSED ROLL-ON-ROLL-OFF SHIP--TURNPIKE CLASS

## CHARACTERISTICS

### DIMENSIONS
- Length, overall: 518' 0"
- Length, w.l.: 500' 0"
- Length, b.p.: 480' 0"
- Beam, molded: 78' 0"
- Depth to 2nd deck, molded: 26' 6"
- Depth to main deck: 42' 0"
- Depth to upper deck: 57' 6"
- Design draft: 19' 0"
- Light draft: 13' 3"

### DISPLACEMENT AND TONNAGE
- Full load, displacement: 11,080
- Gross tonnage (approx.): 2,850
- Net tonnage (approx.): 10
- Cargo deadweight: 3,600
- Total deadweight, about: 4,400

### CAPACITIES
- Trailers, average 30 ft. long, 8 ft. wide:
  - Upper deck: 29
  - Main deck: 91
  - 2nd deck: 80
  - Total: 200

### MACHINERY & FUEL CONSUMPTION
- Type: geared turbine
- Number propellers: 2
- Normal shp, total: 15,000
- Fuel consumption per day at sea, tons: 87
- Fuel consumption per day in port, tons: 6.5
- Cruising radius, miles: 3,000
- Auxiliary power generators (400 kw): 2
- Evaporators: 2

### SPEED AND POWER
- Sustained sea speed at designed load draft, knots: 20
- Trial shp at 20 knots: 11,300
- Normal shp: 15,000
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Government Documents


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