MARITIME

A HISTORICAL SKETCH
A WORKERS' PROGRAM

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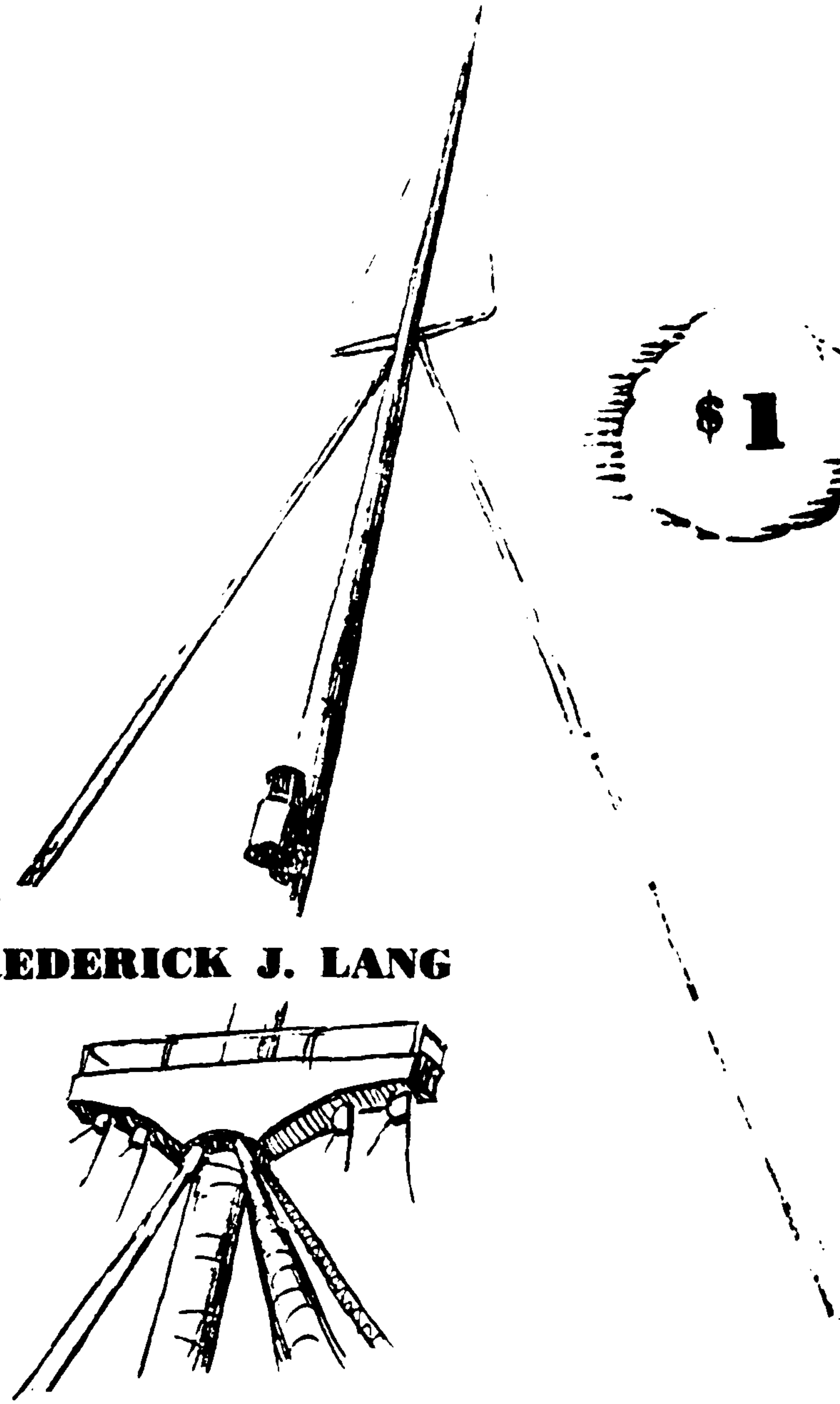

By

FREDERICK J. LANG

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SET UP · PRINTED · AND BOUND BY UNION LABOR

To

MURRAY GREENFIELD
HOWARD MANGUM
EDWARD PARKER
Sailors Union of the Pacific

CARL PALMER
Marine Firemen, Oilers, Watertenders and Wipers

EDWIN JAFFEE
RONALD TEARSE
DAVID UDELL
Seafarers International Union

—all members of the Socialist Workers Party, who lost their lives at sea in the Second World War when the ships they sailed were torpedoed by Axis submarines, this little book is dedicated.

These friends and comrades were more than skilled seamen and more than loyal union militants. They were class-conscious revolutionaries who devoted their energies to the great cause of freeing humanity from the depressions, wars, and fascism of the capitalist system. This, they believed, could be accomplished only through construction of a world-wide socialist society of peace and prosperity. In furthering this program, their first interest was to arouse seamen to the necessity of strengthening the union defense against the shipowners and their agents by adopting a militant general policy based on a Marxist analysis of the maritime industry.

It is hoped that this little book will help, however modestly, to carry on the work for which they gave their lives.

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AUTHOR'S NOTE

THIS LITTLE BOOK *was written with the cooperation and help of Terence Phelan.* ***Without*** *his aid in organizing the material and editing the work it could not have appeared in its present form.*

—F. J. LANG

Maritime

A

HISTORICAL SKETCH

AND A

WORKERS' PROGRAM

· I ·

IMPERIALISM AND THE MARITIME INDUSTRY

EVERY SEAMAN today finds that settling a beef is not the same thing it was back in job-action days. The skipper doesn't know where the ship is going, and wouldn't tell if he did. The company agent cannot decide a dispute offhand: it must go to Washington. For the union patrolman to get the dope about overtime pay due a crew means weeks or months of letters to the Maritime Commission. Everywhere, in everything, the seaman is faced with government. He begins to feel that everything is all fouled up.

This did not happen overnight. War was the immediate and primary cause. But long before war was declared, there was a deliberate and skillful government policy in this direction. It's bigger than any everyday beef. Militancy and common sense on an immediate problem are no longer enough. For the sailor to comprehend today's problems it is necessary that he see them in their full scope. To understand why the government is now clamping down on seamen and their unions, we must first realize the exceptional place of the maritime industry in the nation's life, we must examine the nature of government itself, and we must analyze just how we have got into the present difficult and dangerous position.

That is the purpose of this pamphlet: to show seamen how and why they have been caught in the net of government regimentation way ahead of other industrial workers, and to show the only way out of that net.

The first step is to understand the nature of the problem.

Nature of the Maritime Industry

Maritime is a peculiar industry, occupying a unique place in the industrial life of a nation. All industrial nations maintain their own merchant marine. The merchant fleets of the leading world powers, added together, are far more than what is necessary to transport the commerce of the world under peace-time conditions. The ships of any single one of the great powers would be almost sufficient to handle the entire burden of world overseas trade if this were scientifically organized. But that is not possible under the anarchy of capitalist competition.

The entire structure of capitalist economy, particularly in its imperialist stage of development, depends upon foreign trade and foreign markets. Competition among the highly industrialized countries—United States, Germany, England, Japan, France, and Italy—for control of the world markets, has forced each of these countries to give special consideration to its own maritime industry. They cannot permit any one country to establish a monopoly in this important service, on which the industrial life at home depends. In order to sell the manufactured product abroad, its safe transport to foreign markets must be guaranteed. The maintenance of an uneconomical merchant fleet is part of the price every imperialist country pays for that guarantee. The other part of the cost goes for the maintenance of a large navy.

When rivalry among the competing imperialist nations becomes so acute that it reaches the "shooting war" stage, the merchant marine then becomes even more important as an indispensable cog in the "national effort." The war, whether confined to the economic arena or finding military expression, is a contest to determine which of the imperialisms is going to rule the world market. And just as the economic warfare among them rages at the market place as well as at the home base, so in their military operations, they seek to occupy and hold market places abroad while they bomb enemy industries at home. The merchant fleet in time of open fighting is absolutely indispensable for carrying troops and war materials to the far-flung battle fronts; as now to India, China, Russia, North Africa, the Middle East, and the Pacific islands.

Imperialism Forces Government Control

Government in all the great imperialist nations exercises more control over its maritime industry than over any other part of the industrial machine. Because there has never been enough overseas

traffic to use all the ships that were built in the great yards at Sparrows Point and Bremen, on the Clydeside and at Le Havre, in Kobe and Genoa, private ship operators could not profitably compete with one another. The industry in every country operates at a loss. It is able to attract private capital only when profits are guaranteed by government protection which prohibits foreign competition in domestic trade and by government money which subsidizes ships in foreign runs.

The basic problems which all governments of the robber nations face in building and maintaining a merchant service are only one facet of the much broader problem of their foreign-trade rivalry and market-grabbing. Although the American government was late in recognizing this peculiarity of maritime industry, it finally developed a program in full conformity with the fact. That program was embodied in the Merchant Marine Act of 1936. This Act was tacit recognition that:

1) U.S. imperialism cannot compete for its share of the world's markets without its own merchant fleet.
2) The merchant fleet must be built and operated at government expense.
3) War is a continuation by military means of the economic struggle and is fought on the same world-wide arena.

The Merchant Marine Act of 1936 was a measure preparing for the present imperialist war. It specifically states that the merchant marine is to be used as a war-time auxiliary to the U.S. Navy. The fleet that was being built when war broke out was designed by Navy architects and especially built so as to be quickly convertible to tend and supply the Navy's warships and to transport troops.

The government program for maritime was not executed with the same boldness that characterized the main ideas behind it. It is one thing to draw up a plan of action, something else to put it into effect. The new shipbuilding program was hampered from the beginning by the hypocritical pretense that this vast project was a "private enterprise" that government was only helping out with subsidies, i.e., by furnishing the capital for both building and operating the ships. No one was deceived by the pretense that it was really a privately owned and operated merchant marine—least of all the Roosevelt administration. But the *principle* of private ownership had to be respected. The problem of manning the new ships was carefully considered in the government plan. What was emphasized was a "disciplined personnel." This meant the regimentation of seamen, the destruction of trade-union independence. But the organized seamen were too strong in 1936 for the immediate realization of this point in the government program.

Machinery was set up for effecting the full-blown program in the easiest and quickest possible manner. The Maritime Commission was the agency entrusted with this job. It got the shipbuilding schedule lined up. And at the same time it began an attack on the unions, so as to have ready at hand a "loyal and disciplined personnel" when the new ships slid down the ways.

Nature of Government

The story of U.S. government intervention in the maritime industry clearly demonstrates that this government is—and, as we shall illustrate in Sections II and III, has always been—the executive committee of the American capitalist class. This government—more precisely, the President and his cabinet—sits like a board of directors for the entire industrial plant of the nation.

This board of directors has to find answers, to all the big national and international problems that plague U.S. economic and social life, for the benefit of the capitalist class. This does not mean that there are not temporary differences of opinion between antagonistic sectors of that ruling class. The two boss partes, the Republicans and Democrats, have alternated in office, arguing over tariffs and other secondary differences of opinion within the ruling class. But the important thing is that even though these rival sectors of that class may propose different answers to problems which affect them immediately, the government always gives the answer which at the time appears to the dominant section of the ruling class to be in the best interest of the class as a whole. On major issues, such as the need of preserving private ownership of the means of production, of controlling labor, and of undertaking imperialist expansion, all sectors see pretty much eye-to-eye. With the development of American industry and the growing need for foreign markets, American capitalism as a whole began to turn outward, to challenge its imperialist rivals in all the market places of the world.

Government and the Maritime Industry

Prior to 1917 the government regarded maritime not as a special industry but simply as one among many—one that also needed protection against foreign competition until it grew strong enough to stand on its own feet. And in the early period the government limited itself to applying that principle, which is the basis for a protective tariff, in a modified form, to the maritime industry.

World War I proved that this was not enough, that a merchant fleet is an absolute essential in the great game of imperialist rivalry—and especially under war-time conditions.

American capitalism emerged from the 1914-18 war in a much more favorable position than it had held at the outbreak. It had become the greatest creditor nation in the world. The dollar had financed the war and every nation of the world owed America money. The American industrial plant had produced enough war material to supply half the world through four years of slaughter. Thus was produced the paradox that led ultimately to the 1929 U.S. and the 1929-31 European crashes. On the one hand, that mammoth new U.S. industrial plant had to be kept going if American capitalism was to extract profits from its exploitation. On the other, to avoid monetary catastrophe, the debtor nations had to pay in consumers' goods, which competed with the products of U.S. industry. The Republicans who from 1920 to 1932 were the directing committee for U.S. imperialism, coasted along, partly at the expense of war-torn Europe, partly by means of a gradual credit expansion for the sale of U.S.-made consumers' goods internally, never attempting any basic solution to a set of contradictions full of economic dynamite.

During the post-war "prosperity" era they had built a huge tariff wall around this nation. The debtor countries had been unable to pay off their war debts because the American government's high tariff had kept exports above imports; instead of debts to America being whittled down, they were increased. If other countries cannot pay for goods received from America in the form of other goods imported into this country, they have to pay in gold bullion (that was back in the days when the gold standard was something sacred). But America had a large share of the world's gold already, and to demand more of the other nations meant the collapse of the gold standard (this is what finally happened). There was only one other means whereby the debtor nations could pay off, however small the payment: by services. Shipping is a major service to world economy.

Thus, while buttressing its industrial machine behind an insurmountable tariff wall, the leading committee of American capitalism sacrificed its high-seas merchant service to greedy shortsightedness which dictated payment—at least something—on the war debt.

Although the government is the executive committee of the ruling class—and whatever political administration is elected to power always represents the will of the dominant section of the class at the time of election—this does not mean that this board of directors is able to satisfy all the requirements of all sections of the capitalist class at once.

The economic decline that began on a world scale in 1929 proved particularly painful to those industrialists who produce consumers' goods—clothing, furniture, tobacco, etc., and which depend directly on the purchasing power of the masses. These light industrialists wanted a "New Deal"—a deal which would increase the mass purchasing power immediately. They took the lead in instituting a shake-up of the top committee.

The economic decline that began on a world scale in 1929 proved that some serious mistakes had been made somewhere along the line. The American boss began a shake-up in the top committee, prompted by the growing discontent of the masses of people.

Roosevelt came to power in 1932 with a whole set of emergency measures. He showed far more imagination and had a better understanding of the problems that harass U.S. imperialism than any of his predecessors. He lowered the tariff wall and oiled the industrial machine with public funds.

With a weather eye to the gathering war clouds, Roosevelt turned the attention of government to the imperative necessity of a modern fleet. The merchant marine modernization program of 1936 was the conscious effort of full-grown U.S. imperialism to meet one of its most overdue needs. It had no intention of being caught short as it had been in World War I when an emergency fleet had to be built *after* the outbreak of open hostilities.

The U.S. merchant fleet in 1935 ranked below that of any of the leading imperialist nations. It was largely the remnant of the emergency fleet built by the government during the First World War. Title to it had been given to private operators. Whatever small fees had been charged by the government for the legal title were more than offset by government money poured into the industry in the form of mail subsidies, without which the merchant fleet would have ceased operation entirely. In actual fact this merchant fleet, though ostensibly a private enterprise, had been built and was operated at the expense of the U.S. Treasury. The new expansion called for no change in this respect. It did, however, envisage a more careful control by the government over the industry. The idea of control was to be applied throughout, from top to bottom. But its most noticeable effects have been at the bottom. The base

of all industrial life is the working man whose labor alone builds and runs industry. There is where government now applies its most restrictive and rigid control.

Government and the Maritime Unions

Maritime labor had joined the great wave of revolt that swept across America in the years 1934-38. The longshoremen's and seamen's strike on the Pacific in 1934 established one of the strongest sections of the American labor movement. Seamen extended their organizational gains and by 1938 the vast majority of seamen were in either the AFL or CIO on the Gulf and Atlantic Coasts as well as the Pacific.

This development of strong independent unions alarmed the government. Long-established domesticated unions are pliable instruments and usually lend themselves to government pressure. They often become important instruments for government regimentation of labor as has been notably demonstrated in Great Britain. But the militant new unions that were forged in the heat of the great strike struggles of 1934 and 1936-37 were not tame enough for ready acceptance of the government's 1936 merchant marine program.

With U.S. entry into World War II the government still had not realized its program. It had made a fair start. But events overtook it. Under the pressure of war-time conditions tactical improvisations were introduced to speed up the work. The entire industry was requisitioned and brought under direct government control.

Control of the labor supply is the main emphasis of the government's war-time tactics. It talks of "requisitioning" labor, just as it has requisitioned the merchant fleet. But it cannot ignore the unions. Some sections of the ruling class have become impatient and favor a frontal attack, an open drive to smash all union opposition to the repressive measures against seamen. Occasionally such drives are tentatively launched by the government. They have not been carried through. The government is cautious: it realizes that this is not the best method at this time for the American boss to use in his war on the home front. He doesn't risk so much by proceeding more cautiously for the present.

The key fact of the present situation is that the leaderships of the seamen's unions are united on the basic question from which all tactical actions flow: that is, all sections have declared complete support of the imperialist war.

The fact that trade unions exist independent of direct government control is a threat to the imperialist aims of U.S. capital. No one understands this better than American capital's present board of directors—the Roosevelt administration. They seek to utilize the trade-union officialdom. One pincer of their dual solution to the problem is carefully to control the unions by bringing the officialdom into the government apparatus. The unions then become semi-official government agencies through which the program of the government is applied.

Under government pressure the unions are being transformed from independent working-class organizations defending the immediate economic interests of the sailors into dependent instruments politically integrated into the state structure, at the service of finance capital. (No merely negative "anti-political" tactic can stop this historical process. It was completed in England during World War I. It is now taking shape in this country in the crucible of the Second World War.)

Before the solution we offer to this culminating problem can be clearly understood, there is necessary a thorough understanding of its constituent components: the role of the government as shown in its policy toward shipowners and toward maritime labor; the crisis of the divergent policies of maritime-union leaderships; and the full implications of the government's tendency to integrate the once independent unions into the state apparatus. But to understand the present stage in each of these matters, it will first be necessary to see how we have reached it, that is, to retrace our steps a little and sketch in its broad general outlines the history of maritime. We shall thus see that the role of the government toward shipowners at the present juncture is nothing novel or exceptional, but only the logical end-product of a long consistently worked-out process. For convenience in handling this complex material, it is subdivided into the government's attitude to the shipowners, and its attitude to maritime labor. But it must never be forgotten that they are only two faces of the same coin. Later their intimate interrelation will become apparent.

· II ·

THE GOVERNMENT AND THE SHIPOWNERS

1: *Up Through the* 1915 *Seamen's Act*

AS AN *independent business the U.S. merchant marine has never stood on its own feet, but has been artificially fostered as part of the government's international policy. From its very beginnings, shipowners have been shielded from the normal effects of free international competition by special government legislation of a protective nature. This over-all policy, culminating in the Seamen's Act of 1915, was originally conceived of as a temporary measure, in the belief that the shipping industry would finally be able to stand on its own feet. This proved to be an illusion: quite on the contrary, the shipowners have only increased their profitable dependency, their successful sucking at the public teat, with every passing year; moving from protective legislation through concealed subsidies to direct subsidies, they have drained increasingly astronomical sums from the general wealth of the nation until at the present time their completely parasitical role has become nakedly visible.*

AS EARLY as 1789, a tariff act provided for lower duties on goods entering the country in American bottoms, specifically those from China and India; and imposed heavy duties on foreign vessels in coastwise trade. In 1804 an additional fifty cents per ton duty was levied on all foreign ships. A supplement to the Embargo Act in 1808 closed U.S. coastal trade to foreign ships. First of a long line, these measures were designed to enable the otherwise uneconomic U.S. shipping industry to compete successfully with foreign vessels in overseas trade, and to eliminate their competition from coastal trade.

To supplement these *negative* measures of discrimination and monopoly, the shipowners in 1830 persuaded the government to begin extending *positive* aid in the form of mail subsidies. These measures, which were to terminate after World War I in a scandalous orgy of pork-barrel graft and treasury raids, were at first very tentatively applied, largely because of differences of opinion in the capitalist class itself, the Southern and Western agricultural sector opposing mail subsidies just as it opposed the parallel protective tariff; and for a few years after 1845, to appease these elements, these subsidies were abolished altogether. Nevertheless, with the victory of the industrial North in the Civil War, the policy was reapplied in individual cases, such as ten-year contracts for ships running to Brazil and to the Orient; and crystallized in the Postal Aid Act of 1891.

Special privileges for U.S. shipowners and shipbuilders were accorded also from other angles. The 1909 Tariff Act, for example, helped cut shipbuilding costs sharply by providing for duty-free entry of foreign materials going into ship construction. Meanwhile every new opportunity for reapplying the old discriminatory protectionism was seized on: with the opening of the Panama Canal in 1912, for instance, U.S. shipowners were aided by an act establishing free transit for U.S. coastal vessels while foreign vessels paid fees. Though this situation has since been modified, higher fees are still paid for the transit of foreign than of U.S. vessels.

It should be understood that all these measures were on a relatively small scale. American maritime law at any given period reflects the attitude of the U.S. government to the maritime industry and is an index of the developing economy of the country. In clipper-ship days the maritime industry shared in the same anarchy of industrial capitalism that characterized the whole period of the rise and development of American economy up to the opening of its imperialist phase in 1900. But the rapid expansion of the frontier and the building of railroads to reach the new markets of the American continent afforded more lucrative investments for capital than the maritime industry. There were, of course, American shipping companies, and lots of money to be made in the business; but in the main, it was comparatively neglected by U.S. capital, and declined after the Civil War. In a parallel way, questions relating to maritime industry were comparatively neglected by the government, set aside as special but secondary problems,

until the big imperialist upsurge of the new century. A chart will show at a glance this decline and resurgence of U.S. shipping:

Foreign Water-Borne Commerce of the U.S., 1821-1934
(Compiled in Bureau of Foreign and Domestic Commerce of Dept. of Commerce)

Year	*Exports and Imports Percent in American Vessels*
1821-30	90 (approx.)
by 1860	65
by 1900	9.3*
by 1920	42.7
by 1930	33.8
by 1934	35.2*

With the burst of U.S. imperialist expansion following the Spanish-American War, U.S. capitalism began to grow aware of the importance of its merchant marine. The epoch of the frontier was over and American capital was having to seek new frontiers beyond the seas for further expansion. The old methods of aid by discrimination were continued: in 1900, for example, the legislation barring foreign vessels from U.S. coastwise runs was extended to cover Puerto Rico and Hawaii. But the government was beginning gropingly to seek a more consistent generalized policy.

Essentially the U.S. capitalist government had been trying to protect its maritime industry in roughly the same way that it protected all its young industries (straight protective tariffs in the latter case, discriminatory equivalents in maritime), in the hope that it would ultimately be able to rival foreign fleets in free competition. To encourage this, the government was even willing to make concessions to foreign shipping provided it received reciprocal concessions, while taking sharply punitive measures against recalcitrants. As early as 1815, such reciprocal agreements were arranged with Sweden, Norway, and Great Britain (exclusive of the British West Indies); while in 1820 a prohibitive duty of $18 per ton was slapped on the vessels of France, which had refused concessions to U.S. shipping. With the Seamen's Act of 1915, this basic illusion that its merchant marine could finally become self-sufficient reached its highest expression. The entire maritime problem had just been sharpened by the outbreak of World War I,

*These figures become the more striking when it is noted: 1) that total American foreign commerce in 1900 was more than three times that of the war year 1865; 2) that "by reason of world-wide business depression, the total volume of American exports and imports shrank from $7,157,827,442 in 1930 to $3,266,938,298 in 1934."

which caused a huge tonnage of ships to be withdrawn from service by the belligerents, at a moment when the U.S. was dependent on foreign vessels—e.g., in 1913, only 10.1% of U.S. trade was carried in U.S. bottoms.

The 1915 Seamen's Act was primarily intended to improve the wages and conditions of U.S. merchant seamen.* But (as may be reasonably deducted from its acceptance by the capitalist government) it had also another significance which, though secondary, was more far-reaching. In matters of labor conditions capitalist government is often more far-sighted than is the small handful of capitalists in charge of a particular industry. What had appeared to the seamen to be government paternalism for them was in fact paternalism—but for the shipowners.

By such provisions in the Act as the abolition of imprisonment for desertion and the legal guarantee to seamen that they could at any port draw one-half of all wages earned up to that point, and above all by making these provisions applicable to seamen on foreign vessels in U.S. ports, the government aimed at a double goal: increasing the maritime labor supply by encouraging foreign seamen to jump ship in U.S. ports; or, alternatively, forcing foreign shipowners, in an attempt to prevent this loss of their crews, to raise wages and better conditions, thus improving the competitive position of the U.S. shipping industry. As a matter of fact, in actual practice it worked out partially in both ways.

That this was a deliberate and conscious policy is revealed by an article in the *Pacific Marine Review*, authoritative organ of the West Coast shipowners, which frankly confessed:

> This decision will place foreign vessels at the Panama Canal on the same basis as American vessels so far as the part payment of wages earned is concerned, and will probably increase the number of desertions from foreign vessels, now comparatively few in number, with possibly a resulting increase in wages to the American scale on foreign vessels paying less.

So dangerously successful was this device at first that foreign governments had to take severe counter-measures. H. L. Gray, some years afterwards investigating in England for the U.S. Shipping Board, reported:

> The higher wages offered seamen in American vessels have led certain British crews who found themselves in American ports to go over to the more lucrative employment. To counteract this tendency the British Ministry of Shipping has since August 1918 required that every member of a British crew provide himself with an "identity and service" book, which he must always be ready to produce. Failure to show it or produce it exposes him to the operations of the Military Service Acts. The important stipulation attached to this certificate is that the holder may not take service on the merchant vessels of any other nation. By this restrictive device, it is hoped that the British crews may be retained intact despite the attraction of higher wages elsewhere.

*The strictly labor aspects of this Act are examined in detail later. Here we are concerned primarily with its significance for U.S. shipowners in particular and U.S. imperialism in general.

But in spite of certain momentary gains, the 1915 Seamen's Act in essence failed of its capitalist purpose, partly because of such counter-measures by rival imperialisms as in the British case just cited, but in the ultimate analysis because its basic conception—that a capitalist merchant marine can finally be got somehow to operate successfully in free and open competition—was false. It did not take into consideration the inescapable fact that *every* imperialism must maintain its *own* merchant fleet—however uneconomic it may be in itself, and without regard for the international oversupply of vessels created thereby—for its higher imperialist needs both in peace and in war. The Act's failure led to the realization of this fact, and to the consequent adoption, after various experiments and false starts, of new and different policies, consciously and consistently imperialist in character.

2: 1915-1920: *Paternalism (Real)*

UP TO *the moment of its own entry into the first imperialist holocaust, the government still clung to the belief that its measures were only temporary and would succeed in making the maritime industry self-sufficient. With its war-entry, however, theory or no theory, it had itself to launch a mammoth shipbuilding program and essentially take over the administration of shipping. But though it had to adopt an over-all program of which the private shipowners were incapable, either individually or collectively, it fell over backward in avoiding even the appearance, let alone the reality, of modifying the principle of private property. Its policy toward the shipowners became one of the purest paternalism. It built ships for them, hired them as managers, and guaranteed their profits. And though the war ended in the midst of its program, it lived up to its commitments to the shipowners, opening the epoch of the gravy-boat and noisome scandals which followed.*

THE AMERICAN boss was unprepared for the First World War. And this was especially true of the maritime industry. Foreign fleets, which had been carrying 90% of U.S. cargoes, disappeared. Foreign-bound freight piled mountainously on the docks, and exports, even with the war boom, fell by $370,000,000 in 1914 alone. Improvised expedients were adopted, but proved totally inadequate. Under the pressure, the government was driven to develop a comprehensive program.

It did so with the passage, in September 1916, of the Shipping Act. This created the U.S. Shipping Board, with five commissioners at $7,500 per annum. The Board's negative duty was to stop diminution of the U.S. merchant marine by controlling the transfer of U.S. vessels to foreign registry "in time of war." Its more important positive powers were "to form one or more corporations for the purchase, construction, equipment, lease, charter, maintenance, and operation of merchant vessels in the trade of the U.S."—for which it was assigned a sum "not in excess of $50,000,000." Its success, though slow in getting under way, was finally phenomenal: between 1917 and 1922 it constructed, at Sperry Point, Hog Island, and elsewhere, 2,316 ships. On the labor side, its Sea Service Bureaus shipped approximately 50,000 new men into the industry.

But the most striking and significant of the provisions were those guarantees that it was not "nationalization," that the government had no intention of replacing private capitalist ownership. It was carefully specified that the operation of vessels by such "emergency corporations" was permitted "*only* when the Board was unable to contract citizens of the U.S. for charter of such vessels." Furthermore, such government operations might not continue for more than five years after the conclusion of the war, when they should stand dissolved. "All property and vessels of any such corporation would be taken over by the Board, through which the Property, other than vessels, might be disposed of on the best possible terms. . . ," etc.

But the war was of greater scope than U.S. capitalism had dreamed. When the U.S. itself became a belligerent, the scale of the 1916 Act was found inadequate, and there was rushed through Congress the Emergency Shipping Act of 1917. This granted broad powers to requisition the existing fleet and necessary facilities for new ship construction to the President, who promptly turned them over to the U.S. Shipping Board. The following figures indicate the Act's scope:

Cost for requisitioning fleet: $250,000,000 (appropriated for immediate use: $150,000,000).

Cost for construction of new ships: not to exceed $500,000,000 (appropriated: $250,000,000).

Cost of operation: $5,000,000.

As in the case of the 1916 Act, the Emergency Shipping Act of 1917 was careful to protect "private enterprise": it was specified that all power granted to the President "shall cease six months after a final treaty of peace is proclaimed between this government and the German empire."

In a deficiency-appropriation act of 1919, further millions were poured in:

> For acquisition of plants and materials, and for enlargement or extension of such, authority is granted to enter into contracts or otherwise to incur obligations for not to exceed $34,662,500 in addition to amount heretofore appropriated.

The scope (and the richness) of the gravy is again indicated by the April 1919 report of Charles Piez to the Board of Trustees of the U.S.S.B. Emergency Fleet Corporation on the corporation's activities, which began April 16, 1917 with a capital of $50,000,000. By October 15, 1918, he reported that:

> Our total program, including deliveries, vessels under construction and under commitment, consisted of 3,155 ships of 17,276,318 dead weight tons, and that contracts for all the materials for this tonnage had been ordered at war prices months before.

The profits extracted by private capital from these operations were incredible. Let us take as an example Bethlehem Steel, whose shipbuilding subsidiary owned 27 of the country's 87 building ways and 19 drydocks. During 20 years of existence Bethlehem Shipbuilding made more than $1,000,000,000 from building and repairing of ships—*two-thirds* of which was made between 1917 and 1921. In the well-documented book, *Our Ships*, by the editors of *Fortune*, the nature of the tie-up between private capital and its government is neatly illustrated by the Bethlehem case:

> Mr. F. A. Shick, Bethlehem's comptroller . . . explained to the [Nye] committee how the government lent Bethlehem some $32,000,000 worth of facilities to build destroyers, engines and boilers during the war. The yards on the Squantum swamp, for example, which Bethlehem built with government money, were used by Bethlehem to build thirty-five destroyers, on which they made a guaranteed profit. "What did we earn on that investment? You could make it a million percent, if you wanted to. We did not have any money in it," Mr. Shick explained. The $32,000,000 "was put in by the government for the benefit of getting Bethlehem's 'know-how'."

Fighting for its immense imperialist stake in the war, the government could not leave the vital question of shipping in the hands of private management, with all its inefficient, disorderly anarchy. But, by its capitalist nature, it had to assure private industry of huge private profits from government operations, and it had to guarantee to return, at the conclusion of the emergency, the U.S. merchant marine to private ownership. This is precisely the role of capitalist government in these matters.

3: 1920-1935: *Shipowners' Gravy-Boat*

TOWARD INDUSTRIES, *other than maritime, the government during the roaring twenties followed a hands-off policy. U.S. capitalism was able to live off its World War I profits. Abroad, surplus capital found investment in Europe and Latin America via government and private loans; at home, new industries depending on a mass market, such as autos, radios, etc., expanded production, boomed along by an expansion taking the form of "installment-plan" credit for the working people, of Wall Street speculation for the financier—producing the artificial "prosperity" which crashed in 1929.*

But in maritime, it was different: the government did not at first see further immediate need for its emergency-built fleet, at least not on a scale adequate to handle the burden of its foreign commerce. It had "solved" the critical lack of ships by embarking on an improvisation as mammoth as it was expensive. But it did not immediately draw the full logical conclusions from that crisis. It abandoned, true, its notion that a merchant marine can be self-supporting, and developed the system of indirect subsidies. But it did not carry its thought through to the realization that in an epoch of sharpened imperialist commercial rivalries, of inevitable imperialist wars, an imperialism has to plan an uneconomic merchant marine on a consciously imperialist scale in order to keep its trade routes open in peace, and to act as a naval auxiliary in war. In the 1920 Merchant Marine Act it was interested principally in quickly retiring from maritime operation and turning the industry back to the shipowners.

The war had made the U.S. a creditor nation, with a favorable balance of trade, and enormous war-debts owed to it. When to this, the U.S. added the erection of impossibly high tariff barriers, the debtor nations had to pay either in gold, of which they had little, or in "services," among which shipping services

are not the least important. To accept them struck U.S. capitalism, momentarily fearing no immediate inter-imperialist explosion, as the easiest and cheapest way.

But there were all the war-built ships, like white elephants. The policy of indirect subsidies adopted by the government flowed from a hodge-podge of mixed motivations. It was willing to let the fleet decline, but not disappear. A sense of national prestige combined with a desire to have its mails carried under its own flag. And if those ships were to be kept going, its own costly experiences and the knowledge that all foreign fleets were subsidized made it realize that some sort of subsidization would be necessary. Furthermore, in a groping and tentative way, it was confusedly sensing the imperialist need of its own merchant marine, though that did not fully crystallize till 1936.

Thus, though the industry dropped to one of second-rate importance again in the eyes of the government because it was not lucrative enough to attract private capital, and U.S. goods could be more cheaply transported in foreign bottoms, a skeleton of the industry was kept together through government mail contracts and subsidies. During the boom years between 1923 and 1929 a handful of increasingly parasitical shipping magnates, in an orgy of graft and gravy, grew fat on these subsidies, siphoning off colossal sums, while the ships themselves, and the conditions on the ships, deteriorated till the U.S. lagged far behind the other wrangling imperialisms.

THE IMMEDIATELY post-war situation is thus summarized in *Our Ships*:*

**Our Ships, an Analysis of the United States Merchant Marine*, by the editors of *Fortune*, New York, Oxford University Press, 1938. This volume, rich in documentation and revelation, is notable as showing that even important sectors of the ruling class itself were disgusted with the shenannigans of the shipowning buccaneers. Not that *Fortune* raises any objections to the exploitation of maritime labor, or to the pouring of public funds into an important capitalist industry; no, what exasperates this intelligent spokesman of capitalism is the sheer bungling inefficiency of the thing, the fact that not all the billions produced anything remotely resembling an imperialist merchant marine. In this present chapter we are going to quote extensively from this work, using its words where possible rather than our own investigations, for this reason: the shipowners might make a plausible case in accusing us of a richly deserved prejudice against them; but they will find it more difficult to make such an accusation against the most brilliant spokesmen of their own class.

Late in 1916, the U.S. Shipping Board was created with authority to do almost anything it pleased with the merchant marine. . . . The Board's program was hardly launched when . . . the War ended . . . the number of ships on order was cut to 2,316.

The contract cost of these ships at inflated wartime prices was $2,900,000,000; and miscellaneous expenses brought the whole cost of that building programme to more than $3,000,000,000. Some of the ships were little better than junk. . . .

The Shipping Board's chief object since the war has been to get rid of its 2,316 ships. . . .

From the 25 per cent cash demanded in 1919, the down payment eventually fell to a nominal 2.5 per cent. And on such terms as these the Board *did* finally manage to dispose of 1,976 of its vessels. [They] brought in almost $340,000,000.

In a word, the capitalist government turned the fleet over to private industry at approximately ten percent of its cost; and then subsidized the private shipowners to run it. The necessary legislation was provided by the Merchant Marine Act of 1920.

This Act described itself as "An Act to provide for the promotion and maintenance of the American Merchant Marine, to repeal certain emergency legislation, and provide for the disposition, regulation and use of property acquired thereunder, and for other purposes." Its chief provisions were: a reorganized Shipping Board, its membership increased from five to seven, their salaries raised from $7.500 to $12.000; the Board was empowered to sell or dispose of, as soon as practicable, government vessels to U.S. citizens so that all ships might ultimately be "owned and operated privately by citizens of the U.S."—sales to aliens being permitted only by a vote of at least five of the Board's members; the Board was authorized to establish "adequate and regular" steamship services, set up a marine insurance fund for government vessels, and put aside out of revenues from sales and operations for a period of five years a construction loan fund of $25.000.000 (later increased to $125.000.000) to encourage modern ship construction by paying two-thirds of the cost thereof. Other provisions of the Act were: exemption of American shipowners from excess-profits tax for a period of ten years; encouragement to U.S. vessels for carrying mail; preferential railroad rates on goods imported or exported in U.S. ships; exclusion of marine insurance companies from the provisions of the Sherman and Clayton Anti-Trust laws; and repeal of certain hindering treaties, etc.

By the supplementary Merchant Marine Act of 1924, mail subsidies were handsomely increased. For the next six years, the payments totaled some $4,800,000, or an average of $800,000 a year.

Despite these more than generous provisions, "from 1921 to 1926 the percentage of total imports and exports of the United States carried in American ships fell steadily—1921: 39.8%; 1926: 32%." But shipowners had cause to be happy. It was the period of Harding-Coolidge "normalcy," and the graft and corruption which on shore blew up in such scandals as Teapot Dome had their less-known maritime counterpart. There were lashings of thick rich gravy, and the capitalist government ladled it out with a hospitable hand to private capital. In his authoritative volume, *America's 60 Families*, Ferdinand Lundberg provides some detailed examples:

The Shipping Board after the war, under Albert D. Lasker, Chicago advertising man of potent connections, especially with R. R. McCormick of the Chicago *Tribune*, provided an opportunity for a favored few to add to their hoards. The steamship *City of Los Angeles*, formerly the German ship *Aeolus*, was sold to Harry Chandler, publisher of the Los Angeles *Times* and leading stockholder of the Los Angeles Steamship Company, for $100,000, after prearrangement between Lasker and Chandler to have bids advertised for ten days while the ship was out of port and not available for inspection by outsiders. This was learned in the Senate's investigation of the United States Shipping Board. A year earlier Chandler had offered $250,000 for the vessel, and after the war the International Mercantile Marine had offered $660,000; both offers were refused. Subsequent to the latter offer the government spent $2,816,000 on reconditioning, and according to experts the ship was worth $100,000 for scrap alone when it was released to Chandler.

The Shipping Board also sold seventeen vessels at bargain prices to the Dollar family of California for the Dollar Line. The Dollars themselves had constructed four cargo ships in China at a cost of $2,250,000 each to the government; they later acquired title to them from the government for $300,000 each. Another ship, the *Callao*, which had cost the government $1,619,502.27, was sold to the Dollars for $375,000 although an earlier bid of $825,000 from the International Mercantile Marine was rejected. In October, 1923, the Dollar Line bought seven of its "President" type ships for $550,000 apiece; each had cost the government $4,128,000 to construct. . . .

In 1933 a Senate committee investigating ocean-mail contracts brought out that enormous bonuses and commissions had been voted to Dollar by his stockholders. For purchasing seventeen ships from the government for $13,975,000, Dollar received commissions of $635,493.75 and interest of $73,014.69. From 1924 to 1929 the Dollar Line made a net profit of $6,746,759.33 on the "President" ships, defaulted on its payments to the government in 1933, but went on making payments of commission to Dollar. Although it had liens on the vessels, the government did not reacquire them.

Lasker, while head of the Shipping Board, introduced a merchant-marine bill which a Senate committee found would have subsidized the shipping enterprises of companies like the Standard Oil Company and the United States Steel Corporation in the carrying of their own products. Standard Oil would have recieved $1,500,000 annually and U.S. Steel $500,000. Enterprises like the Cudahy Packing Company and International Harvester Company were even then protesting that ocean freight rates were higher after the merchant marine had been subsidized than before. . . .

Lasker on May 12, 1922, wrote to Robert R. McCormick, of the Chicago *Tribune*, who had suggested that the Paris edition of the newspaper be given more Shipping Board advertising. Lasker said that the Chicago *Tribune* under a new schedule was slated for fourteen hundred lines of advertising a week and that he was sending under separate cover copies of the ship subsidy bill and the Board's study of subsidies. He suggested that McCormick might want to assign a writer to compose a series on the American merchant marine, and offered to cooperate. The Chicago *Tribune* soon afterward syndicated a series of propaganda articles signed by Lasker himself under the title: "Why the United States Should Have a Merchant Marine." The Shipping Board then gave the *Tribune* the contract for the news service on board its vessels; under this contract the Shipping Board paid deficits and the *Tribune* shared profits.

(So much for the "objectivity" of the capitalist press in treating maritime problems.) Of graft and collusion between the Shipping Board and the shipowners, examples could be multiplied indefinitely, but the above will suffice.

But "appetite grows with eating": the shipowners wanted even larger helpings and richer gravy, and the Merchant Marine Act of 1928 was passed to give it to them. In essence it reaffirmed the general policy of the 1920 and 1924 Acts, but made the mail subsidies even juicier. Title III of the Act increased the construction loan fund to $250,000,000. Title IV established mail contract rates as follows:

Class	*Tonnage*	*Speed (knots)*	*Mail Subsidy per Nautical Mile*
7	2,500	10	$ 1.50
6	4,000	10	2.50
5	8,000	13	4.00
4	10,000	16	6.00
3	12,000	18	8.00
2	16,000	20	10.00

Interest provisions were, to say the least, generous. The government loan fund was raised to $250.000.000 in the 1928 Jones-White Act, and the Postmaster General was authorized to negotiate new mail contracts on a ten-year basis. What the new mail scales meant in practice is made clear in *Our Ships:*

As they were presently signed, the new contracts called for mail payments to operators of a total of $272,000,000 by 1938. Taking this bounty by the year, it meant an average expenditure of

$27,000,000—almost *thirty times* the average annual cost of the old mail subsidy during the past thirty-eight years. . . . Within the next three years the government approved more than $116,600,000 in construction loans for forty-one passenger and cargo vessels. . . . In addition there were nineteen vessels of more than 155,000 tons that were to be rebuilt or converted to foreign trade at a cost of $10,000,000 or more.

These loans, added to the subsidy, made a total of almost $400,000,000 that the government was prepared to lay on the line to put U.S. shipping industry back on its feet. But it wasn't enough.

It certainly wasn't. The shipowners' greed was a bottomless well in which millions disappeared without leaving a trace. The same *Our Ships* sums it up as follows:

Study most of the U.S. lines engaged in the North Atlantic freight trade and you will find that they were born at about the same time, with about the same amount of confusion, after the War; that their early years were bad and their later ones not much better; that they got away with homicide in all its degrees; that the more they were pampered by the U.S. Shipping Board the more irresponsible they became. . . .

It was a real "dance of the millions." Prior to World War I, the government had given private operators less than $15.000.000 all told. But between 1914 and 1937, the U.S. government paid close to three and a half *billion* dollars: $211.000.000 in operating subsidies, and $3.200.000.000 to build and operate its ships.

But, in contrast to these astronomic figures, consider the investment of the shipowners. When he was Maritime Commission Chairman, Joseph P. Kennedy estimated the amount of private capital in the lines eligible for subsidy as only $56.000.000—and in all U.S. lines in foreign trade as only $125.000.000.

Our Ships adds elsewhere that "a company can lose $7.000.000 in seven years and still make a net [profit] of $4.200,000." It adduces as a striking but not unusual example: ". . . the Dollar Steamship Company . . . which made what the Black Committee figured to be a $6,700.000 profit on a $500 investment with government aid. . . ."

Finally, in summary, *Our Ships* contrasts ship-subsidies with subsidies to new and struggling industries like air-transport:

This kind of subsidization, indeed, is like adding vitamins to an otherwise insufficient diet. But maritime subsidization, as defined by the present law, undertakes to provide its charges with free daily meals, from soup to peppermints.

The 1928 Act showed certain results. According to the carefully documented *Merchant Marine Policy of the U.S.*,* by 1933 forty-two new vessels of the modern type, aggregating 468,000 gross tons, had been built; and forty vessels had been reconditioned to operate at a higher rate of speed and carry a greater number of passengers; there had been established and maintained regular steamship services for the transportation of mails between the U.S. and foreign ports—at a cost that by 1932 had totaled $125,509,341.48, and by March 1933, $147,734,794.66. In one fiscal year alone, that ending June 30, 1934, ocean mail carrying was estimated to have cost the government $29,611,481.99.

In the general reshuffling of bureaus attendant on the return of the Democratic Party to power in 1933, the U.S.S.B. and its Merchant Fleet Corporation were transferred to the Department of Commerce, the new organization being known as the United States Shipping Board Bureau of the Department of Commerce. This paper shift made no change whatsoever in either the Board's functions or its behavior.

By 1935, however, the situation had grown so scandalous that some intervention was imperative. Discussing the incredible costliness of the government program of indirect subsidies, *Our Ships* notes:

> Also you can deduct a considerable sum that has been pocketed by private shipping interests since the War. But when a special Senate Committee began to investigate the $26,000,000 a year subsidy that the U.S. was then paying in the form of mail contracts, it found such a turgid record of fraud and extravagance that Chairman Hugo L. Black advised the government to abrogate all mail contracts and to operate its own merchant marine.

But that, as we shall see, is precisely the opposite of the functions of a capitalist government, which exists, among other reasons, to guarantee private ownership of the means of production, including shipping. The nine closely printed volumes of the Black Committee's report reveal one long mess of piratical looting of public funds. On them, *Our Ships* comments:

> Some of the disclosures of the way in which government officials worked hand in hand with private interests are reminiscent of the scandals of the Harding Administration. It was demonstrated, for instance, that lucrative mail contracts had been parceled out among the operators themselves, then passed on to the Post Office Department for endorsement—which they invariably got. On forty contracts bidding had been in name only: they had been awarded by personal conference, usually at the highest rate the law allowed. The performance of vessels at sea (on which the rate of payment depended) had been falsified, and ships' masters had been forced to connive at the falsification. Contracts had been given, against the spirit of the law if not its letter, to coastwise lines that had no foreign competition, even to lines with foreign subsidiaries.
>
> Through intricate networks of subsidiaries and affiliates, the Black Committee tracked down mail payments that had been withdrawn secretly in the form of profits. There was the case of the Pacific Lighterage Corporation with only $10,000 in physical assets that was owned by Stanley Dollar, his wife, Esther Dollar, Harold Dollar, and A. F. Haines—who also controlled the Dollar Line, which was drawing a government subsidy. In five years the tiny lighterage company paid its owners more than $1,000,000 in profits. . . . And while all this was going on, lobbyists and publicity men employed by the steamship companies (out of money that they got from the government) were in Washington, trying to influence public opinion in favor of bigger subsidies.
>
> For all this sorry mess the Black Committee held three errors to blame: The Merchant Marine Act itself, the conduct of the officials who had administered it, and the greed of the shipowners and operators who had profited by it. . . .
>
> [Postmaster-General] Farley was able to report . . . that practically all the existing contracts had been signed in open defiance of the law. . . .

A few specific examples will further illuminate the state of affairs. The Matson Line started building the *Mariposa* and *Monterey* in 1930. They cost $8,300,000 each, a total of $16,600,000. Matson put up $5,000,000: the government "lent" the rest. On the basis of these ships the government boosted the mail bounty to $10 a mile, which comes to about $74,800 a voyage, or nearly $937,000 a year. Matson picked up in the process two additional mail bounties coming to approximately $380,000 a year. On this situation, *Our Ships* is frank and detailed:

> Wherefore the question arises: could the *Mariposa* and *Monterey* earn their way in the South Pacific without a subsidy?
>
> The answer is a flat—No! An examination of Oceanic's [Matson subsidiary] income statements, heretofore denied outside observers and involving sums not reflected in the published balance sheets of the parent Matson Navigation Co., will quickly document the denial. During the five years 1932 to 1936 inclusive, the *Mariposa* and *Monterey* made a total of $1,066,800, or about $213,000 a year. But the U.S. mail bounty, meanwhile, totaled some $5,120,000 (including poundage payments and payments for interport mail), or over $1,000,000 a year. Therefore without this chunk of subvention the two ships would have lost Oceanic some $3,900,000 in all, or around $787,000 a year, since they first stood down for Sydney.

*Doctoral thesis by Hsin Ssutu, University of Pennsylvania, 1935. This curious document, though loaded with bourgeois prejudices, is a mine of factual revelation—certainly far more than its author ever intended that seamen should know.

Or take the curious history of American Export Lines. In 1920, still according to *Our Ships*:

At that time the Shipping Board . . . had started a highly unsatisfactory experiment of assigning its excess ships to private operators and paying them to maintain various services. Export Steamship, with seven vessels, C. D. Mallory & Co., with eight, and A. H. Bull & Co., with six, were all going to various parts of the Mediterranean and the Black Sea, and all losing money for the government. Their combined losses amounted to $1,572,000 in the fiscal year ending June 30, 1923, and to somewhat more in the following year.

The Shipping Board tried consolidating the services and gave the contract to Export, which promptly lost $750,000—better, but hardly brilliant. In 1925 the government offered to sell these ships, built at a cost of $29,000,000 and having at that time a market value of $3,582,000—and Export's president, one Henry Herbermann, picked them up for $1,062,000. Though the company showed steady deficits on the books, Herbermann "paid himself lavish salaries and expenses." With the Jones-White Act of 1928, Export got a mail-subsidy guarantee of $2.50 per nautical mile. In 1929, a total subsidy of over $1,000,000 miraculously converted its half-million-dollar operating loss into a cozy profit of $587,000. Export then proceeded to expand, planning the construction of four sixteen-knot modern freight-passenger ships.

The total cost of the Four Aces [*Exeter, Excambion, Excalibur* and *Exochorda*], as Export began to call them, was $9,442,000, and to pay for them the company borrowed $6,900,000 from the Shipping Board, which thereby acquired a first mortgage on the line. The remaining $2,500,000 was to be paid by the line itself. The government loan . . . with interest varying from three-eighths of 1 per cent to 1.5 per cent . . . was to be paid back over a twenty-year period. Still outstanding in 1929 was more than $500,000, which Export owed the Shipping Board for the purchase of its eighteen original ships. . . .

The four ships rated as Class 4, received $6 per mile for mail, and in 1931 they brought the line a subsidy of $1,620,000. But the world crisis caught the firm: by 1931 Herbermann had defaulted in construction payments; the N.Y. Ship, the Philadelphia National Bank and the Central Hanover Bank and Trust Co. of New York moved in as second mortagees. By 1939 the Black Committee moved in too, and revelations commenced:

Was it true, [Senator Black] wanted to know, that Mr. Herbermann had in 1924 paid out of his company's funds a $510 tailor bill for his good friend T. V. O'Connor, former Chairman of the Shipbing Board? Had he not in the same year given twenty-four head of blooded cattle worth $4,000 in all to one A. W. Pattiani of Pope

Valley, California, Mr. Pattiani being the father-in-law of H. D. Gatewood, then head of the Shipping Board's Maintenance and Repairs Division? Could Mr. Herbermann justify or explain his expense accounts, which were studded with such items as "meals, $75 per day; waiters, $100; entertainment, $120"?

It was an uncomfortable time, and when it was over Herbermann had been thoroughly smeared with allegations of extravagance, mismanagement of the company, and shady dealings with the Shipping Board. There was the matter of the questionable advancing by the Board of $457,000 for insurance premiums on Export Ships; the payment of mail subsidy on vessels that Herbermann had merely chartered for use in the Black Sea trade; the singular history of the *Storm King*, a freighter that had been wrecked on the treacherous north coast of Africa during her first voyage under Export ownership and had been declared a total loss. The full amount of the $200,000 insurance (less $2,000 broker's fee) was collected, and Export replaced the *Storm King* with another cheap ship, the *Half Moon*. When both ships had been paid for in full a balance of $55,000 remained out of the insurance, and this the Shipping Board had permitted Export to keep. . . . And so on.

But nothing that the committee unearthed was so damaging to Export as the fact that in spite of mail payments amounting to over $8,000,000 between 1928 and the middle of 1934, the line was $747,000 in arrears on its government-loan installments. Unhappily this amount was almost precisely what Mr. Herbermann had drawn in salaries and expenses during the same period. In addition, he had collected $86,000 in dividends and had personally borrowed from the company over $200,000. . . .

Far from going to jail, Herbermann turned over his stock to the second-mortgageholders to settle his debts, resigned the presidency and—became a vice-president at a salary of $15,000 a year. Lehman Brothers took over, and the merry dance of the millions went on. In 1936 Export lost $836,000 in operations; received $1,479,000 subsidy from the government; and thus had a profit of $643,000 (plus a non-recurring profit of $227,000 from the sale of ships), or 32% on its $2,000,000 invested capital as of the end of 1936. Breaking the figures down to average voyages, *Our Ships* wryly comments:

In 1935-36, the average ship on an average voyage lost $9,765. Through the courtesy of the U.S. taxpayers, of course, American Export was able to show sizable profits . . . the $2.50 per mile eastbound rate for Hog Islanders and $6 for the Aces that the Post Office paid meant an allowance in the past two years of $19,882 on an average Export voyage, and turned the vessel's actual loss of $9,765 into a gift-horse profit of $10,117.

To show that American Export is no exception, let us examine the Gulf firm of Lykes Brothers, owners and operators of numerous shipping subsidiaries, of which the more important are Lykes Bros.-

Ripley Steamship Co., the Tampa Interocean Steamship Company, the Dixie Steamship Co., the American Gulf Orient and the Southern States. The big expansion of Lykes came with the 1928 Merchant Marine Act. It is to be noted, however, that all its expansion has been in unprofitable lines rendered profitable by government subsidies. Take the Gulf Orient Line, for example: without the government subsidy, Lykes would have lost $60 per voyage day on the average. For the Dixie Mediterranean Line the figure would have been $118. This firm has also caught the interest of *Fortune's* editors, who write very frankly about it:

> But . . . Lykes has done very handsomely indeed. As a matter of fact, the parent company has never lost money for a single year since it was founded. And the steamship side of the company has built up its original capital of $700,000 into an existing net worth of around $5,000,000, after disbursing in the neighborhood of $2,000,000 in dividends. Total assets for the shipping company as of June 30, 1936, came to $10,950,000. Cash on hand was $1,750,000, etc.
>
> This brilliant position is based entirely on one factor—the $11,300,000 that Lykes had received in mail pay up to that time. (Through December 31, 1936, it received $12,900,000.) Indeed, mail pay converted what would have been a voyage operations loss of $3,955,000 or a net loss (counting administrative and other expenses) of $7,083,000 into a net profit of $4,204,000. . . .
>
> The government's charitableness, judging by the Postmaster General's report, is scarcely so marked as Lykes's intemperate willingness to take alms. Consider first the case . . . of Foreign Ocean Mail Route No. 23. . . . When the Post Office took a look, it discovered that between 1928 and the middle of 1934, Lykes, for carrying mail that would have given it around $2,000 on a poundage basis, received well over $2,000,000. During all this period there were faster mail deliveries than Lykes's to the ports in question. Further, there was almost no mail carried except what Lykes itself had addressed.

It would thus appear that Lykes was getting some $2,000,000 a year for hauling its office mail to its foreign agents. But there is more:

> All this may be called the government's munificence towards Lykes. But Lykes didn't simply show a modest gratitude for what it got; it went out of its way to get more. Rate of mail pay is based on a ship's tonnage and rate of speed. On Route No. 23 Lykes had a Class 6 ship, the *Moshico*, of some 3,500 gross tons and a speed of ten and one-half knots. Lykes spent $143,000 reconditioning her, named her the *Margaret Lykes*, claimed she could now make thirteen and a half knots, asked the government to promote her to Class 5, paying $1.50 per sea mile more. This the government did, waiving the inadequate tonnage because speed was said to be "essentially important" on the route. Between 1929 and 1934 she received $460,000 as a Class 5 vessel where she would have received $290,000

> as a Class 6. But the government, questioning her speed, ordered a trial run over a measured mile, and the *Margaret Lykes* did not make the grade. In fact, the Postmaster General's report concluded that the *Margaret Lykes* appeared to belong, not merely in Class 6, but in Class 7 (see p. 11).
>
> Now consider the case where Lykes stood in most need of help. Between April, 1933, and April, 1936, Lykes-Bros.-Ripley, holder of Foreign Ocean Mail Contract Route No. 57, sustained, on its voyage operations, a loss of $3,682,000. Of the four services enjoying mail pay under this contract, two heavy losers were the two Dixie lines, which Lykes took over when the contract was obtained. That these lines were bound to lose money—a lot of money—was obvious. Lykes could have no possible interest in such dead cats by themselves. But certainly Lykes might be interested if along with the dead cats came a guaranteed artificial respirator from Washington.
>
> Here, then, was an instance, not of Lykes trying to stay in business with the help of mail pay, but of Lykes going into business mainly for the sake of it.

But enough. It must be stressed, however, that the foregoing examples are not exceptional, but typical. While the government helped the shipowners provoke and smash the 1921 strike, to establish an open shop and hold it, while wages were driven lower and lower and the two-watch system reintroduced, that same government with its other hand was ladling out gravy to the shipowners in a rich steaming flood. While repression and want stalked the waterfront, graft and collusion were rampant between the government and shipowners, as was clearly revealed when the whole nauseous mess was finally aired by the Black Committee.

But the graft, rich as it was, is only a side-issue to the main point. Graft can be periodically and momentarily cleaned up (though, under capitalism, it cannot fail to break out again). But what is *basically* wrong in the situation just exposed continues to exist. What is historically significant in all this mess is the increasingly parasitical and essentially meaningless role of the shipowners themselves. For the billions which the government rained into the apparently bottomless pit of the maritime industry, and which went pouring off into the pockets of Bethlehem Shipbuilding, ship-"owners," operators and the accompanying grafters, it could have built itself an efficient fleet.

Whenever there is an argument about capitalism, one of the main arguments of the capitalists is that they risk their precious capital in new adventurous construction on which they can only gradually recoup, and thus deserve a profit. Quite apart from the general falsity of this argument, it is particularly noteworthy that in the post-war shipping industry it doesn't even *apply*. For the few millions (often only "paper" of dubious value) which private capital put in, the government poured in *billions* drawn from the general wealth of the nation. But it was the private operators who drew the profits, based, not on their own relatively small investment, but on those government billions. The figures for the period just prior to 1937, as collated in *Our Ships*, reveal the whole swindle: the equity of private capital in the U.S. merchant marine was a mere $125,000,000; yet their gross was $200,000,000.

What happened was that, instead of building and running an efficient merchant marine itself, the government first turned its war-built fleet over to the buccaneering private operators for a song, then poured in at one end subsidies that, offsetting operating losses, came out the other end as private profits. In sum, the government forced an industry that cried out for expropriation back into the morass of private ownership. That was not merely bad judgment, or party politics, or a mistaken policy, or anything accidental or temporary: *that flowed automatically from the nature of the capitalist state as the guarantor of private ownership of the means of production.*

4: 1935 *to Pearl Harbor: Government Rationalization*

THE ROOSEVELT *administration had tried to bolster U.S. capitalism internally by the New Deal "pump-priming" measures. But no extemporizing with price-fixing, limitation of production, and public works, on the home front, could offset the decline of capitalism toward collapse on a world scale. U.S. capitalism under Roosevelt by 1935 had to give careful consideration to the reorganization of its foreign markets.*

Though agricultural production was restricted by government pressure and subsidization (AAA) to conform more nearly with the home market's depression limits, this did not help idle Wall Street capital or surplus industrial production to find foreign markets. These markets the government undertook to organize just as it had tried to organize and expand the consumer market at home.

Knowing that for imperialist expansion a merchant marine is an absolute essential, the government carefully studied the maritime industry, and worked out a program that finally rationalized all its previous gropings. Its legal formulation was the

1936 Merchant Marine Act. The new and definitive program recognized two fundamental facts: 1) organization of foreign markets, in this epoch of sharpened imperialist competition, demands peace-time mercantile supremacy; 2) economic competition inevitably leads to military operations. Hence U.S. imperialism planned a merchant fleet to carry its foreign commerce in peace time, and to serve as an auxiliary to the Navy in war.

The old system of mail subsidies was in its nature hypocritical and had become so graft-riddled that a more forthright approach was obviously necessary. The new program frankly provided for direct subsidies. This was neither a reversal *of the old policy, nor its simple* continuation: *it was its final* rationalization. *The government had finally thought the problem through and taken the appropriate measures.*

Though the mail-subsidy system had relieved shipowners of all financial risk, it had failed to build a merchant fleet. After pouring millions into the industry for 15 years, U.S. imperialism found itself with a third-rate merchant marine. The anarchy of "private enterprise" had dissipated the public funds. The new program introduced government "planning." Thus, having previously relieved private operators of financial risk, the government now took the next step: to relieve them of the responsibility of organizing the industry. One important item, however, it was careful to leave in private hands—profit. Thus, though the 1936 Act introduced important changes in government financing of maritime and increased government control over it, these changes in method only served to accentuate the increasingly parasitical role of private capital in the industry.

PRIOR TO 1935 there was a developing interest shown by various government agencies in the maritime industry. As we shall see in a later chapter, this interest was stimulated somewhat by the great Pacific Coast maritime strike of 1934. The Nye Committee and the Black Committee proved that the old mail subsidies represented a colossal waste of public funds. These congressional investigations indicated that some sections of the employing class were beginning to recognize the need for a well-planned merchant service, and were dissatisfied with the results of government expenditures.

In a letter to Judge Bland, Chairman of the Committee on Merchant Marine and Fisheries, the Secretary of Commerce on March 13, 1934, set forth the following recommendations made by the Shipping Board Bureau:

> 1) The present system of linking subsidies with the carrying of mail should be abandoned, and in its place specific subsidies granted for the maintenance of essential services should be given. Such subsidies should be extended to lines in the protected trade.
>
> 2) Subsidies contracts should be based on the differentials in building and operating costs, should be sufficiently flexible to permit their equitable readjustment as changes in conditions occur, and should provide for necessary replacement.
>
> 3) Subsidies should be divided into four classifications: (a) construction differential subsidy; (b) operating differential subsidy; (c) trade penetration subsidy; (d) other conditions bearing on the issue, such as foreign subsidies, etc.
>
> 4) Money for subsidies should be appropriated from General Treasury fund, and not, as at present, provided indirectly through some other Department of the Government.
>
> 5) Subsidies should *not* be granted to more than one (1) line competing in the same trade route without the business volume justifying it.
>
> 6) The preceding proposals contemplate uniform cost information at all times available to the Government and regulatory power over subsidized lines and construction companies.
>
> 7) Subsidies to be recommended through a joint committee of experts, representing Government departments, having a direct interest in the development of the merchant marine.

This letter indicates the general nature of the program which at that time was being considered. So far as the government attitude toward the shipowners is here defined, it anticipates in all essential respects the Copeland Bill, now on the statute books as the Merchant Marine Act of 1936, the key recommendation and main policy change being provision for direct subsidies. This Act, the legislative basis of all subsequent developments, deserves—and will receive—long and careful treatment.

On March 4, 1935, President Roosevelt gave his executive encouragement. According to the *New York Times* report, he recommended direct subsidies instead of the then operative mail contracts to avoid such abuses as:

> the improper operating of subsidiary companies, the payment of excessive salaries, the engaging in business not directly part of shipping and other abuses which would have made for poor management, improper use of profits and scattered effort.

By the time Senator Copeland introduced H.R. 8555, smooth spade-work had already assured its speedy passage. The whole plan,

as it developed, showed itself to be an integral part of the government's general war program. In working it out, the Roosevelt administration drew heavily on U.S. capitalism's World War I experiences in this field. It also borrowed many ideas from the British, but these had rather to do with the question of "discipline," with which we shall deal later.

The 1936 Merchant Marine Act called for the building of a merchant fleet second to none in the world, and for a trained and disciplined personnel to man it. The Maritime Commission was established to do the job.

The Maritime Commission stems directly from the old United States Shipping Board, crossed with the British strain to temper it. Everything the Commission has done during the past five years testifies to its heritage. It is the granddaddy of all other present-day government agencies dealing with shipping, and casts its shadow over all the activities of the various boards it creates. Such agencies as the War Shipping Administration and the Maritime War Emergency Board are creatures of the Maritime Commission. They were set up to handle specific problems in the industry, and to juggle these problems back and forth when they become too hot.

In planning its tasks the Commission took into consideration all aspects of the industry and attempted to correlate these with the needs of American industry as a whole. The government realized even then that its most urgent need was a war machine. The fleet that the Maritime Commission was instructed to build was designed for the coming war. Its task was thus described in the Merchant Marine Act of 1936:

> the creation of an adequate and well balanced merchant fleet . . . to provide shipping services on all routes essential for maintaining the flow of foreign commerce of the United States, the vessels to be so designed as to be readily and quickly convertible into transport and supply vessels in a time of national emergency. In planning the development of such a fleet the Commission is directed to cooperate closely with the Navy Department as to national defense needs and the possible speedy adaptation of the merchant fleet to the national defense requirements.

This meant regimentation of the entire industry from top to bottom. It was essentially an extension of the government's 1918 wartime program.

The Maritime Commission drew a balance sheet of the industry after 15 years of "private management" in order to clear the ground for the job ahead of it. It found the merchant fleet in so deplorable a condition that its first assignment was obviously the construction of a new fleet. Few new ships had been built since the days of World War I. The old ships were slow, incapable of more than ten or twelve knots. They had passed the twelve-year mark, many of them, and were ready for the scrap heap. How far the deterioration had gone was not recognized until the Commission made its survey. It learned that:

> while ranking third among maritime nations of the world in the point of number of ships in aggregate tonnage, the U.S. now stands fifth in the matter of ships ten years of age and under, it being outranked by Great Britain, Germany, Japan, France and Italy. It is in an equally unfavorable position with respect to the speed of the vessels in its merchant marine.*

Joseph P. Kennedy, first chairman of the Maritime Commission, reporting to a meeting of ship operators at a National Maritime Day celebration on the 15th anniversary of the Propeller Club, May 21, 1937, gave the following round-up of the development of the industry as of that date:

> In 1928, Congress finally decided that only through a comprehensive plan of subsidies could the job be done. Aid was extended through the mail contracts. The government contracted to pay out over thirty million dollars per annum to shipowners in this way. Upon the announcement of its program, shipowners and their lawyers scurried to share the "Treasury's largesse." But once again the program as a whole was a failure. Despite large grants and liberal loans, relatively few ships were constructed to replace our aging fleet.
>
> There is no value in arguing how far American shipping operators were to blame. Certainly the world wide economic collapse had a lot to do with it. And I agree that the sins of the few should not be saddled upon a whole industry. Nevertheless, public confidence in the shipping business was justifiably shaken as testimony before the Senate Investigating Committee revealed improper salaries, "milking" devices, and other abuses which showed that "subsidies" had been abused.
>
> . . . As the President recommended, the new act under which the Maritime Commission is functioning, abolishes the subterfuge of mail contracts. In its place, the government is to pay two kinds of direct subsidies. One is the payment to the shipowners of the difference between American and foreign operating costs. The other is payment to the shipbuilders of the difference between the American and foreign costs of construction. The keynote this time is competitive equality, not favoritism. . . .
>
> . . . For the third time Congress has rejected government ownership as a way of securing an appropriate merchant marine. Perhaps it wouldn't be untimely to suggest that in view of such

*Maritime Commission press release of January 18, 1937; see also Press Release No. 60 of May 11, 1937.

> an intense purpose to have an adequate merchant marine, the failure of private enterprise *this time* may bring about a different method of achieving the goal. If the government has to pull the whole load again, the people may want to own the tow as well as the tug.

This was a warning to the "private operators" that a scandal at that time would have disrupted the whole program of further subsidies for private management. Seamen acquainted with the fact might demand workers' management of the industry. One thing is certain: whatever shipowners' stooges may allege against workers' management, it *could* not have been less efficient than the management of the past period had been; indeed any active seaman knows that it would have been infinitely more efficient.

In February 1940, William L. Standard, attorney for the National Maritime Union, wrote a little pamphlet called *The Coming Subsidy Scandal.* Hastily prepared, the pamphlet contains little factual information, but in it Standard revealed that the Maritime Commission had much more information about the industry than it ever made public. Joseph P. Kennedy made an economic report to Congress in November 1937. Standard claims:

> Shortly after his [Kennedy's] report was submitted to Congress, it came to my attention that Dr. Theodore J. Kreps, associate professor of business economics at Stanford University, in his economic study of the American shipping industry, offered as his opinion that every American shipping company investigated by him was insolvent as of that day, with the exception of the United Fruit fleet and some of the Grace properties. The importance of this report immediately becomes apparent, because if it is a fact that in 1937 the prospective applicants for direct subsidies were insolvent, why subsidize a privately-owned and privately operated fleet? (*Pilot*, Feb. 9, 1940.)

The Maritime Commission suppressed the Kreps report, utilizing some of the facts it contained for making subsidy adjustments with some of the shipping outfits, but drawing exactly opposite conclusions from those implicit in the report.

Far from refusing to subsidize insolvent companies, the government launched its new shipbuilding program by pouring funds into the hands of the mismanagers of the industry. Testifying before the House Appropriations Committee in August 1937, Kennedy revealed that contracts for construction of 95 new ships had been let. The shipping companies contracting for the new ships with the prospect of operating them after they were built were required to pay

> 25% of the American costs (exclusive of national defense features). . . . The remaining 75% is paid by the government to the ship-

builder, the applicant obliging itself to repay with interest the foreign cost of the vessel less the down payment within twenty years. The only part of the construction costs of these ships if the government doesn't recover, therefore, is the difference, if any, between the foreign and the actual American cost.

Asked whether the government enterprise in shipping would discourage private ownership, Kennedy hastened to point out very clearly that the Commission

> . . . seeks to advance private ownership. In effect we say, "We will give you a subsidy for six months, at the end of six months we will be in a position to judge whether you, the operator, can qualify under the statute for a permanent subsidy." In some instances this raises the question whether the operator can raise new capital required for qualification.

Thus with touching confidence in the promoters who in the immediately preceding period had carefully nursed their own swollen salaries and profits but had put the industry on the rocks, the government now pegged its new program to the "honest dealing" of these leeches. All that Kennedy is here doing is restating certain formal provisions of the 1936 Merchant Marine Act; he is explaining to the Appropriations Committee how the shipbuilding program was *supposed* to be conducted. Now we shall see how in fact it *was* conducted. It is a long and dirty exhibition, which would be tedious were it not so incredible. It is, in one sense, the same spectacle of greed and gravy; but it is now a modern-tempo greed, a "vitamin-enriched" gravy—grafting has become positively aerodynamic.

The Maritime Commission itself swung into its work under very dubious auspices. Joseph P. Kennedy was himself a stockholder in Todd Shipbuilding Corporation as well as a big-time Wall Street speculator. The Merchant Marine Act forbids an owner in the industry to be in any way connected with the National Maritime Commission. But Roosevelt simply disregarded the provisions of the law and pushed Kennedy into the Commission chairmanship.

One of the first things Kennedy did was boost the ante for ship-construction subsidies from one-third to one-half. In a press release, August 30, 1937, this was explained as follows:

> Under the Merchant Marine Act, the Maritime Commission may subsidize the cost of vessels for operation in foreign trade by paying the difference between the domestic and foreign cost of construction, providing the subsidy does not exceed 33⅓%, or in special cases, 50%, of the domestic cost of the ship. In building a ship under this subsidy plan, *the commission handles the whole transaction and pays the shipbuilder direct for the vessel.*

> [Our emphasis.] The shipowner is required to make a payment of 25% of the down cost through the Commission during the course of the construction of the vessel, and upon its completion to repay the balance of the purchase price in regular installments spread over a period of twenty years with interest of 3½%.

Kennedy was making sure his shipbuilding interests did not suffer as a result of the well-known shipowner duplicity in financial commitments. The Maritime Commission itself guaranteed full payment to the builder.

Construction subsidies were only the beginning. The government also guaranteed profitable operation of the new ships. On termination of the old ocean mail contracts, June 30, 1937, Kennedy announced the Commission's program for granting operating-differential subsidies which were a substitute for them. He explained that:

> An eligible American ship operator of an essential service in the foreign commerce of the U.S. may be paid an amount not to exceed the excess of the fair and reasonable cost of certain items of expense in which the ship operator is at a substantial disadvantage with foreign flag ships. In the main, these disadvantages are a consequence of the higher operating costs of American flag ships necessitated by the higher American wage and standard of living.

It did not take Kennedy long to forget about the "improper salaries," "milking" devices, and other shenannigans which showed that the "subsidies" had been "abused." But Kennedy's reference here to "the higher American wage and standard of living" was purely for popular consumption. Note that when he had been talking more or less privately to the shipping fraternity before the Propeller Club (pp. 32-33), this was not mentioned. Seamen will do well to remember that these people always reserve a more candid tone for conversations among themselves.

The operating differentials were based not only upon a comparison between American and foreign costs in the matter of wages and subsistence, but also such items as insurance rates and maintenance and repair costs.

But how little of government subsidy differentials were actually based upon wages and maintenance of crew under the much-touted "American standard of living" became clear when the Commission adjusted the old mail contracts. This involved 32 companies operating 43 routes. Many of them duplicated one another. In some instances—as we have seen—they gave such poor service that actually no mail except their own office communications was carried by these subsidized ships. Yet these operators made claims of $52,000,-

000 for balance of payments had the contracts been continued until their expiration dates. They also wanted $21,000,000 for damages arising from reduction in mail pay, reclassification of vessels, substitution of ships, construction and reconstruction of ships, and other minor items. Thus these people, sensing the advent of a new gravy train, wanted the government to give them an advance hand-out in the amount of about $73,000,000. And this came right after Kennedy's tip to them to take it easy, the industry would not stand a scandal at that time. Nevertheless, the financial report of the Maritime Commission for the period October 26, 1936 to October 31, 1937, shows that it paid the operators $25,456,360.83. This figure does not include any shipbuilding subsidies: that is merely what it took during that one-year period, under the methods of private management, just to keep the old junk afloat.

When the Commission prepared its first annual report in 1937 it began to check up on its assets. After pouring millions into the industry the government ought, by that time, to have had a sizable stake in it. But all the assets it could find were 278 over-age ships, most of them in the laid-up fleet. It found that the government also held title to a few terminals. But besides this the Maritime Commission discovered that some of its principal assets "are the construction-loan notes and ship-sold notes." In other words, the ship operators had built and bought ships at government expense, simply giving their notes for payment. For money paid out under the Merchant Marine Act of 1928 there was a "small" amount given to the operators, and still outstanding: $76,298,147.48. And this is only the part that the government expected to collect: most of the money given away was in the form of outright grant. But when the ship-"owners" get in a hole and can't make up the difference which they are supposed to pay as their share, the government "lends" this to them. The 76 million just represents these "loans." Sometimes the ship-"owners" become indebted to the government in another manner. They "buy" ships—with notes. As of October 1, 1937, the Maritime Commission had a bale of these notes representing $10,985,075.87.

So completely mismanaged was the industry under the old mail subsidies that many companies who had received money upon promise to meet speed standards, maintain schedules and undertake construction of new ships, had simply ignored the terms of their contracts with the government. All they did was take in the shekels. The irregularities and open violations of contract were so flagrant that the Commission charged that some of the companies owed

money to the government and should be making payments instead of demanding adjustment compensation. Actually this was true of every company that operated under benefit of mail subsidy. But some were outstanding, among them the American-Diamond Line, Export Steamship Co., and Lykes Brothers-Ripley. The curious coincidence here is that although these companies were made to refund money to the Maritime Commission for failure to fulfil former contracts, the Commission turned around and gave them more money under the new plan of direct subsidies in the form of an operating subsidy than they were forced to refund. Thus, American-Diamond refunded to the government $70,367.59 and received an operating subsidy of $179,768; Export returned $143,000 and was given $166,000; Lykes had to give back $325,000 and took $814,910. It sounds like a game of "put and take"—with the shipowners getting the "take." After having proved that these three companies had swindled the government, the Maritime Commission actually gave them the tidy little sum of $922,310.11 to stay in business. This is typical of the entire industry, and demonstrates how much the Maritime Commission's new program has altered the old state of affairs. The only difference here is that 900-odd thousand represents a slight reduction from the old gravy-boat days of mail subsidies. The government was beginning to exercise a little more control, cut out some of the "irregularities," but management was left in the hands of the ship-"owners."

If the operators were good boys for a while the Maritime Commission promised better days to come. When it submitted its 1937 report it estimated the operating differential subsidies it would give out for the coming year, 1938, as follows: Grace—$1,083,000; Lykes-Ripley—$2,290,000; New York and Cuban Mail Steamship Co.—$398,000; Oceanic (Matson Co.)—$650,000; South Atlantic—$266,000; Mississippi—$406,000; U.S. Lines—$2,266,000. This was pretty good bait: $7,359,000 just for the operation of old ships during one year. But the shipbuilding program promised much more, especially when it is considered in the light of increase in the companies' capital equipment at almost no cost to themselves. Let us now look into some cases of new-ship construction.

During the first year of the Maritime Commission's existence it contracted with Standard Oil of New Jersey to build twelve new high-speed tankers capable of 16½ knots. These represented equipment needed by Standard for transportation of its own products. The Commission assumed 28% of the construction cost of these ships: an outright grant, given under the pretext of the ships' "national defense features." This is the final realization of the scheme which Lasker, when he was head of the U.S. Shipping Board in its most corrupt days, failed to put over (see p. 20). Cost to the government of these twelve Standard Oil tankers stood at $10,563,000.

One of the highly publicized projects undertaken by the Maritime Commission was the construction of a new luxury liner, finally named the *America*. As we learn from Kennedy's 1937 report, this had been mulled over for a long time:

> The replacement of the *Leviathan* has been the subject for discussion and negotiation for several years. One of the provisions in the agreement of March 18, 1935, whereby the U.S. Lines Co. was permitted to lay up the *Leviathan* provided that a firm bid for construction of its successor should be made within six months. On different occasions bids were obtained for the construction of a vessel of the *Washington-Manhattan* class. As no firm contract for construction was submitted, the time for fulfillment of the U.S. Lines Co. construction agreement was repeatedly postponed until passage of the Merchant Marine Act of 1936 prohibited all new construction loans. In the Spring of this year the design for a vessel similar to the steamships *Washington* and *Manhattan* was perfected by the technical staff of the Commission (with full cooperation of the Navy and private interests) and on August 1, an invitation for bids was issued. Bids were received from Newport News Shipbuilding and Dry Dock Co., in the amount of $15,750,000 on an adjusted price basis; that is, the invitation provided for the adjustment of the final price on the basis of any changes in material and labor costs during the construction period, but in no event more than 14%. The contract for the construction of this vessel, which was signed on October 21, 1937, calls for its completion within 852 days. This new liner is expected to enter the transatlantic service in 1940 and will cost the U.S. Lines Co. $10,500,000 which is the Commission estimate of the foreign construction cost of this vessel.

Now the U.S. Lines is owned by International Mercantile Marine, a holding company. IMM is truly international. As of December 21, 1941, all voting power in this holding company was owned by the following subsidiaries: International Mercantile Marine Co., Ltd. (Canada): Roosevelt Steamship Co., now inactive (U.S.); Atlantic Transportation Co., Ltd. (Great Britain); Societe Anonyme de Navigation Belge-Americaine, now in liquidation (Belgium); U.S. Lines Co. (U.S.); U.S. Lines Operations, Inc. (U.S.); Rosskai G.m.b.H. (Germany); North Atlantic Transport Co., Inc. (Panama); No. 1 Broadway Corporation (U.S.); Baltimore Mail Steamship Corporation, in liquidation (U.S.); Panama-Pacific Lines, operated by U.S.

Lines. This one company alone demonstrates the international character of capital.

Through U.S. Lines the IMM has been doing business with the American government for as many years as there has been an abundance of government gravy for the shipping industry. Its representatives know their way about Washington. From Kennedy's report it appears as if the U.S. Lines paid ten and a half million dollars for the *America*. Nothing of the sort!

The *America* was finally delivered to U.S. Lines in July 1940. Its total construction cost was approximately $17,000,000. Of this amount U.S. Lines paid 25%. The remaining 75% was paid by the Maritime Commission. $5,667,000 was given outright in the form of a construction-differential. Another $7,083,000 paid by the Maritime Commission was guaranteed by U.S. Lines notes to be paid back over a twenty-year period. Thus it would appear that into the construction of the *America* the Maritime Commission put over five and a half million, U.S. Lines another four million, and the balance of the seven and a half million was loaned by the Maritime Commission to U.S. Lines to make up the difference. This too is deceptive.

Under the golden rain of the Maritime Commission subsidies, U.S. Lines has annually sprouted a profit in excess of 10% return on its capital investment, each season since 1938. In figuring the capital investment here, it is always taken as the figure originally invested plus the proportion of the company's capital operations, in the case of the *America*, four million plus. . . . But besides the original construction subsidy, the Maritime Commission continues to pour funds into the company through the operating-differential scheme. So much came through this sluice-box that in June 1941 the company voluntarily agreed to a reduction in subsidy rates to a comparatively normal figure. What is considered a "comparatively normal figure" is indicated by the fact that for that year it reported $2,313,510 received from the Maritime Commission.

The *America* was not the only new ship constructed under contract to U.S. Lines. The ship construction program of the government gave U.S. Lines a fleet of ships consisting of—apart from the *Manhattan*, *Washington* and *America* of the big passenger liner class—four of the Commission's C3 type; fourteen C2's; and five C1 freighters.

Old ships operated by the company before the government began building new ones were disposed of at a handsome price in the early days of World War II. From ships sold alone the company showed a profit at the close of 1940 (*exclusive* of $406,973 deferred) of $3,170,300. Nearly a million more was collected from insurance indemnities on chartered vessels lost at sea.

This was during the period of the Neutrality Act when American vessels were legally forbidden to sail in the war zone. It was a simple matter for such an outfit as the IMM to shift its vessels from one flag to another. But not so easy for the companies holding title to the ships to get reasonable insurance rates. The Maritime Commission fixed that up. Section 10 of the Merchant Marine Act of 1920 authorizes the Maritime Commission, as successor to the old U.S. Shipping Board, to insure any vessel to which the U.S. has claim. Many of the ships had been turned over to private operators for a song by the old Shipping Board and the government no longer held any legal claim on them. But the Maritime Commission explained in its 1940 report to Congress how such small matters are circumvented:

> Passage of the Neutrality Act in November 1939 eliminated the necessity of sufficient war risk insurance on American vessels proceeding to Europe and the United Kingdom but the Commission was faced with the problem of providing protection on passenger vessels which made several voyages for the purpose of repatriating American citizens. The operators of such vessels were unwilling to maintain European sailings without war risk protection, and as commercial rates were deemed excessive, the Commission determined that the interest of the U.S. in those vessels engaged in repatriation as a service to the national government equaled the full commercial value of the vessels. War risk insurance was provided by it at a rate below the commercial rate for the voyages necessary to bring thousands of Americans then in Europe back to the United States.

Whether these cut-rates were given to freighters transferred to foreign flags, is not specifically indicated in the annual report of the U.S. Lines Co., but the report shows an income from insurance indemnities during the year of $902,706. This represents money collected on ships lost at sea. No ships carrying refugees from Europe were sunk during that period.

During especially fat years these shipping companies are permitted to lay aside certain funds which ordinarily would go back to the government. Not content with underwriting the cost of building ships, underwriting operating losses, and guaranteeing profits, the law also exempts these shipping companies from income-tax payments. Moody's Index reports that U.S. Lines made no provision for income tax for the year 1941, although it showed an earned surplus of $4,813,462 for that year:

> . . . preliminary computation indicates no tax liability. As provided in the Merchant Marine Act of 1936, U.S. Lines claimed reductions for Federal income taxes for prior years, the estimated amount deposited as required to be deposited in the capital and special reserve funds which were established pursuant to provisions of said Act.

In other words, if the company makes a little too much one year it is permitted and encouraged to put an amount aside for less lush times. Meanwhile the Maritime Commission continues paying operating-differential subsidies.

There were worse companies than the U.S. Lines. In the days of the old Shipping Board it had at least made some pretense of keeping a fleet together. To be sure, this was done at government expense. But there were other previous companies that operated at government expense too. And as we saw in the previous chapter, government money was drained off into subsidiary companies, high salaries and bonuses. One of the most flagrant outfits in this respect was the old Dollar Line. The Robert Dollar Co. represents the investments of the Dollar family. It pays dividends. But the Dollar Steamship Lines, Inc., Ltd. was always tottering on the brink of bankruptcy. Senate investigations proved that it was nothing but a net for catching government mail subsidies. Despite the vast amounts of money given to this company, its indebtedness grew until private capital was in danger of losing investments in worthless mortgages against the company. The Dollar interests had guaranteed these mortgages against the fleet, but it would be asking too much to expect any of the other Dollar companies to stand the losses of the Dollar Steamship Lines. The Maritime Commission stepped into the breach.

On August 19, 1938, an agreement was signed between the U.S. Maritime Commission and certain financial interests which gave the Commission 90% of the voting stock in the decrepit Dollar Steamship Co. In this manner R. Stanley Dollar and certain of the Dollar companies along with the Anglo-California National Bank got out from under their obligations. According to the agreement with the Maritime Commission, Dollar was released from liability under various guarantees that had previously been given upon [interest] rates received by ship mortgages upon the fleet. These matters were straightened out by the Maritime Commission very simply: the name of the company was changed to "American President Lines"; 90% of the voting stock in the new company was held by the Commission: management of the company was left to private operators; and the Commission came out with mortgages against the former Dollar fleet in the amount of $9,279,707. Even though it held some 9¼ million dollars worth of mortgages, the Commission found that these scraps of paper would not transport cargo and passengers in the round-the-world trade. Neither would the old Dollar fleet. The Commission had to advance $2,000,000 for repair of the vessels, and the Reconstruction Finance Corporation put in another $2,500,000 for working capital. But that was not all. Under the agreement the new company received a government operating-differential subsidy of approximately three million dollars a year.

Beneficiary of the agreement was the Anglo-California National Bank. This firm, which in 1938 was *heavily obligated* to the government for the indebtedness of the old Dollar Steamship Lines, had by December 31, 1941, become a *creditor* to the American President Lines to the extent of $1,337,449.

During the life of the Maritime Commission it has been kind to all ship operators. According to the Commission's annual financial reports it distributed money, during the period July 1, 1937 to October 25, 1941, in excess of $176,927,231.69. This figure represents only money disbursed for operating and construction differentials; it does not include what the Commission calls "managing agents' compensation"—in the amount of $684,849.21, for example, for the period July 1, 1937 to June 30, 1938. This is what the Commission paid to the managing agents for running the government-owned fleet at a loss. For the next fiscal period, July 1, 1938 to June 30, 1939, the total cost to the Commission for operating its own ships through the services of such managing agents as Moore-McCormack, Inc., C. H. Sprague & Sons., Inc., and Pacific Northwest Oriental Lines, Inc., etc. was $1,537,374.85. Only people handling public funds can continue to operate on the basis of a one and a half million dollar annual loss.

While the Maritime Commission was hiring private managers to operate government-owned ships to the tune of a one and a half million dollar annual expense account, it was also building and financing the operation of "privately owned" vessels at an average cost of approximately forty-five million dollars annually for the first four years. This is a rising average. More than twice this sum was spent in the single year July 1, 1940 to June 30, 1941. The construction-differential subsidies for this period were $73,963,760; operating differentials, another $13,056,134. Total government gift to "private owners" for this one year was $87,019,894. After that the Maritime Commission prudently stopped issuing financial reports.

Now for results. Compare the state of the U.S. merchant fleet of June 30, 1941 with that of 1937 when the Commission settled down to its rebuilding job. It had spent approximately 200 million dollars in those four years. In 1937 the U.S. merchant fleet consisted of 1,444 vessels totaling 8,461,000 gross tons. By June 30, 1941, the total tonnage of the merchant fleet had *decreased* to 6,841,561. The Maritime Commission gives a breakdown of this, showing types of ships, trade in which they were employed, and percentage "privately" owned.

U.S. Maritime Commission Figures—June 30, 1941

PRIVATELY OWNED	*Comb. Pass. & Freight*	*Freighters*	*Tankers*	*Total*
		In Gross Tons		
Nearby Foreign	105,028	400,505	391,130	896,603
Overseas Foreign	223,637	1,226,894	82,819	1,523,350
Coastwise	320,866	1,512,160	2,110,866	3,853,892
Laid up	22,035	20,585	8,573	51,193
GOVERNMENT OWNED				
Nearby Foreign	20,042	......	......	20,042
Overseas Foreign	61,411	304,675	......	366,086
Coastwise	......	......	......	......
Gov't Service	21,329	11,807	......	33,136
Laid up	......	87,199	......	87,199
TOTAL AMERICAN FLEET	684,348	3,563,825	2,563,388	6,841,561

This table does not reveal the *state* of the merchant fleet. Actually it was much improved over the 1937 condition. Much of the old junk had been "scrapped"—sold at handsome prices to the British or other Allies, or transferred by American interests to foreign flags, and sunk by Nazi submarines. This accounts for the decline in tonnage. New ships had been built to replace some of the old ones. After a brief four years and at an expense of about 200 million dollars the Maritime Commission had managed to keep the old fleet running, weed out some of the worst junk, and launch nearly 100 new vessels. By the time another year had passed it had brought the total tonnage up to the 1937 figure, and some 22,000,000 gross tons of merchant vessels were under construction or contracted for. But this spurt was caused by the formal entry of U.S. into World War II. The cost has not yet been announced—nor is it very soon likely to be.

With the exception of the *America*, the total construction cost of all ships launched under the Commission's building program up to June 30, 1941, ought not to have exceeded 100 million dollars. During World War I the Hog Island yard built 122 freighters at a total cost of 235 million dollars, at inflated war-time prices, and on rush order which created exorbitant waste. These ships were built entirely at government expense under the old U.S. Shipping Board, notorious for graft. But the Maritime Commission from 1937 to 1941 was contracting for ships under peace-time conditions. The new ships were supposed to be privately owned with the government granting a 25% construction differential of the cost. Yet this construction differential alone came to $131.856.531.16. If this figure actually represents only one-quarter of the cost of all ships built during the four years, the total on less than 100 vessels would come to something over 527 million dollars. That is expensive shipbuilding—if the so-called "private" owners actually put in their three-quarters share of the construction cost.

For operating the merchant fleet the Commission spent in excess of $17.276.969.69—this in the form of managing agents' expenses, subsidies, and operating losses to keep government and "privately owned" ships running. Where did these enormous sums of public money go? Perhaps if we take a look at the stockholders' dividends paid by some of the steamship companies, we shall begin to see.

Let us start with the American-Hawaiian Steamship Company which operates under peace-time conditions in the intercoastal trade. It had 33 ships under its house-flag, was protected from foreign competition by U.S. law, and carried cargo at profit-bearing rates set by the government's Interstate Commerce Commission. (With the outbreak of war in Europe in September 1939, it chartered most of its fleet for foreign runs.) As a result it shared in governmental operating subsidies and managing agents' fees. The extent to which it shared is reflected in the dividends paid to stockholders for the four-year period 1938-41 inclusive: 1938, $433,800; 1939, $650,700; 1940, $1.566.350; 1941, $2,177,000. This company alone had a "take" totalling $4.787.850 for the four-year period. Note in particular how the steepness in rise of dividends parallels U.S. capitalism's preparations for and entry into the imperialist war, of which the government's 1936 maritime program was an integral part. Note also that these dividends—four and three-quarter millions tossed out to stockholders who have nothing to do with running the industry—are quite exclusive of salaries and bonuses paid

to its board of directors and top administrators. The *New York Times* reports that, "after providing for 'depreciation' [a notorious racket], Federal income taxes, and $700,000 for 'contingencies' [another, equally notorious], the consolidated net profit for last year was $2,817,947." In a word, there was left for special inside slicing a little pie containing $610.947.

Another example. The American Export Lines got in on the ground floor. In the early days of World War II its passenger ships were shuttling back and forth across the Atlantic repatriating U.S. citizens from Europe, packing them in like sardines on cots in public-rooms at rates higher than first-class fares on luxury liners. It is one of the Maritime Commission's favorites. Dividends paid stockholders indicate as much. In 1938, they got $264,000; 1939, $312.000; 1940, $198.000; 1941, $770.000—a total of $1,844,-687, with the rate of climb rising sharply, and rising in rough correspondence with Maritime Commission expenditures. From 1938 to 1941 Export's dividends per share of stock jumped from 55 cents to $1.50 and in 1942, after the second quarter, seemed headed for $3. This is apart from a 300% stock dividend in 1939.

The Matson Navigation Company shows a similar boom paralleling war preparations. From 1938 to 1941 dividends per share climbed solidly from $1 to $1.50 annually, with 1942 shaping up for $1.80. Here is the record: 1938, $1.659.950; 1939, $2,157,389; 1940, $1.986.424; 1941, $2.476.921; 1942, for the first half-year only, $1.485.000, or an estimated $2.970.000 for all 1942. Tidy total for the coupon-clippers up to mid-1942, $9.280,674. But the coupon-clippers are not the whole story. According to the *New York Times*, Matson's *net* profit was $4.752.288, equal to $2.16 each on 1,650.000 capital shares. But the actual dividend disbursement was $1.50 a share, or, as noted above, $2.476.921. Hence we may justifiably assume that in 1941, $2,275,367 balance from the net was available for special bonuses to the big shots, and for those mysterious categories, "reserves," "special reserves," and similar not very publicized purposes.

Moore-McCormack Lines stockholders have had to be more patient: they had no dividends in 1939. But though the company owes promissory notes to the Maritime Commission in the amount of $11,440.924, it was able to pay its preferred stockholders $534,-375 in 1940; and in 1941, after splitting its common shares 50 for 1, it paid $500.000 in dividends to that common, besides $270,000 to the preferred. Thus we see that even companies with creaky financial structures began to flourish under the beneficent application of Maritime Commission oil as the war boom picked up momentum.

U.S. Lines too has a long-term debt to the government in the amount of $23,219,564. It too continues to show profits and pay dividends as long as government money is coming in. On preferred stock it paid $2,437,690 from 1938 to 1940. For the single year 1941 the holders of preferred stock got $1,450,075. Most of this is held by the big shots of IMM.

What the "directors" of these companies get is no small item when counted in everyday terms. The officials of American-Hawaiian, its chairman Edward P. Farley, president Roger D. Lapham, vice-president John E. Cushing, along with three others who make more than $12,000 a year, pull in an aggregate of well over a hundred thousand a year to be divided among them. IMM officials do even better. Philip A. S. Franklin, chairman of the company, got $74,628 salary in 1938. The salaries of president John M. Franklin and vice-presidents Basil Harris, Kermit Roosevelt and A. J. McCarthy totalled another $124,700. This was back in the days when the Commission was just beginning to put these companies on their feet. If salaries have increased in proportion to profits and dividends, they should by this time be at least three times the 1938 figure. Salaries are no longer listed for the public.

These five companies are typical of the shipping industry. In 1937 there were 36 such companies, most of them smaller, but most of them also holding ocean mail contracts with the government. Under the old system they were raking in about 30 million a year. Since that time the government's annual donation has averaged more than 40 million up to 1941, and that year alone it was in excess of 87 million. For the five companies listed, the money drained out of the industry and into the pockets of stockholders during the four years from 1938 to 1941 totals $18,850,901. These five companies represent, roughly, only about one-fifth of the industry. The old days of the mail-subsidy "gravy-boat" were slow compared to modern times. Instead of hand-ladling the gravy, the government is now pressure-pumping it.

It would be very interesting to be able to give figures also on the "captive" lines, such as the shipping subsidiaries of Alcoa, U.S. Steel, and Standard Oil, which lug exclusively the parent company's cargoes. But these figures are so prudently buried among those of the parent companies that they are practically unextractable. From the companies' viewpoint, it is probably better so. We can, however, gain some idea by examining the statements of the United Fruit

Company, whose operations are more evenly balanced between its fruit and its transport business. This company, which in 1938 picked up a cool $3,814,449 from the government in settlement of its suit for cancelation of mail contracts, was able to increase its dividends from 1938's approximately $8,689,800 to about $11,586,400 in 1939, which it repeated in 1940 and 1941; and looks like not only maintaining but increasing in 1942—when, we are told, the banana business is shot to hell. Such are the merry miracles of maritime management.

Detailed facts of all this "legal" swindling are known to the House Committee on Merchant Marine and Fisheries, headed by Representative Bland of West Virginia. For example, according to an Associated Press dispatch dated October 26, 1942:

> Details of a transaction by which the Coast Guard cutter *Seneca* was sold in 1936 by the Coast Guard for $6,605 and repurchased in 1941 by the Maritime Commission for $45,000 were laid before Congress today by Representative Bland of Virginia.
>
> The vessel, now the *Keystone State*, is in the service as the training vessel of the Pennsylvania State Nautical School.
>
> After the transaction was criticized in Congress early this year by Representative Jones of Ohio, Mr. Bland, chairman of the House Merchant Marine Committee, investigated the circumstances and today submitted for the record copies of his correspondence with Rear Admiral Emory S. Land, chairman of the Maritime Commission. Mr. Bland said that the transaction would be subject to further investigation.

Beneficiary of this "transaction" was the Boston Iron and Metal Company of Baltimore, Maryland. Further details may never be made public. The extent, however, to which the Maritime Commission is in league with the ship-"owners" is indicated by an Associated Press dispatch of October 29, 1942, quoting the following letter from Senator Aiken to his colleague Senator David I. Walsh, chairman of the Senate Naval Committee:

> From a review of material which has come before me, it appears that:
>
> 1) The United States Maritime Commission has paid exorbitant and outrageous prices for old and obsolete ships.
>
> 2) It has paid unwarranted subsidies for construction based on foreign costs long after foreign competition ceased to exist.
>
> 3) It has paid operating subsidies after foreign competition virtually ceased and even increased the amount of operating subsidies while foreign competition was rapidly decreasing.
>
> 4) It has spent millions of dollars in subsidizing ships for private corporations, particularly the Alcoa Steamship Company owned by the Aluminum Company of America, when these ships were intended primarily to carry the goods of the corporation itself.

5) It has failed to collect the statutory 3½% interest charge from shipping corporations on secured and miscellaneous accounts (other than new construction) constituting an estimated indebtedness of $45,139,824. (The amount collected for the fiscal year 1942 was $805,000 while 3½% interest on $45,139,824 would amount to $1,579,893.)

6) It has failed to recover excess profits from shipbuilding corporations.

7) It has failed to collect 25% down payment on all ships sold; although required by law to do so.

8) It has repurchased ships for sale to the Navy, paying the owners for the full amount they have invested without deducting for use of the ships or depreciation, as required by law.

9) It has been a party to transactions whereby it has sold ships, both completed and under construction, to private corporations, which have thereupon, in accordance with understandings had with the Commission before it transferred title, resold the same ships to the Navy at higher prices which were not justified by increases in value.

10) It has permitted wilful extravagance, incompetent management and looting to prevail at shipyards holding contracts with the Commission for the construction of vessels on a cost-plus-fixed-fee basis.

As a result of the Maritime Commission's extravagant and incompetent handling of the Merchant Marine, American taxpayers have been virtually robbed of untold millions.

It would be difficult for anyone to draw up a more sweeping indictment. And it is not we, admittedly partisan, who draw it up, but one sector of the capitalist government, against another.

It is a tedious task to assemble such material as the foregoing; it is, perhaps, tedious to wade through it. But it unanswerably documents our charge. With 1935, rationalization began. But leopards do not change their spots so easily: through the wonderland of graft and gravy, incompetence and rackets, the operator-leeches rode merrily on. We have learned, from the Commission's own reports, about the disposal—or rather, dispersal—of the first 200 millions. As we shall immediately see, that was only the beginning. But in the midst of this process, the long-expected explosion between American and Japanese imperialisms burst out at Pearl Harbor. Maritime problems which were important enough in the war-preparedness period became, with open military hostilities, critically urgent.

5: Pearl Harbor to Date: Regimented Integration

THE EXECUTIVE *committee of the capitalist class asserts its authority in time of war as at no other. Since military campaigns depend for success on a well-functioning industrial machine at home, the government assumes control of the nation's entire industrial life, in order to limit as far as possible the anarchy and waste of normal capitalist enterprise. But it is one of the insoluble contradictions of capitalism that even in such emergencies all individual bosses want their particular profits guaranteed, war or no war. Hence the government cannot move without first consulting various sectors of the employing class, balancing individual objections by capitalists in particular fields against the general interests of the capitalist class as a whole, in order to work out finally, in agreement with that class's leading representatives, a general over-all program.*

Immediately following Pearl Harbor, the government moved to rationalize every phase of U.S. industrial life. For maritime, that meant transformation of the merchant fleet into a conveyor belt for military supplies. But at first, till shipowners had been consulted, the war program continued to be carried out through the private shipping companies. The government must foster the pretense of "private ownership," though the fleet had been constructed at government expense. It proved totally inadequate for the needs of modern war. The shipbuilding program, launched back in 1937 as a measure of the employing class to prepare itself for World War II, even if it had the years it allowed itself, would have been totally insufficient.

War wiped out all the companies' hypocritical self-justification for their existence. Not only did it reveal that under private management, even "rationalized" by the government, the U.S. maritime industry was essentially unprepared for war; it also eliminated the old trade routes, since the merchant ships now followed the Army and Navy. It posed the imperative necessity of a full-scale imperialist merchant marine under modern war conditions.

The government had to take the next step in regimentation, central control, *by setting up the War Shipping Administration, which requisitioned the merchant fleet. "Requisitioning" meant in effect the government's chartering back from the "owners" the ships that it had itself given them in the first place, and* *guaranteeing them charter-fees and insurance. Naturally the shipping pirates agreed; but further, at their demand, they were integrated into this new government apparatus. The change is thus seen to be one of degree only and not of kind. Within the WSA, the "management" of the "private operators" is a continuation, under the new war conditions, of the same old plunder methods of peace time. But their role has now reached such a pitch of pure parasitism that it begins to become not only economically indefensible, but just plain ridiculous.*

WHEREAS PRIVATE operators, up to Pearl Harbor, had used the new ships in established runs, keeping up a front as "independent business men," the war stopped this overnight. War required new and more serious methods. Yet two months were spent merely extemporizing with emergency measures, attempting to adjust pre-war preparedness methods to the conditions of actual warfare, and to keep bolstering the old myth of private ownership. These measures were threefold: shipbuilding plans were expanded; cargo rates were raised; revolving insurance was provided.

Haphazard as they were, these measures were far-reaching. Two weeks after America's formal entry into the war, for example, the Maritime Commission issued a comprehensive report on the status of its shipbuilding program. The following facts were given:

> 1) Private shipyards capable of building 400 foot or larger ocean-going merchant vessels have been expanded from 10 with 40 ways in 1937 to 40 with 275 ways, an increase of approximately 500 percent in production capacity, not including that on the Great Lakes.
>
> 2) Authorization and approximations had been made covering construction and delivery into service of more than 1,400 ocean-going cargo vessels, in addition to about 150 accessory ships of other types, by the end of 1943, involving an estimated total investment of approximately three billion dollars.
>
> 3) Approximately 1,000 of these ships are under construction or contract, the remainder to be ordered as rapidly as propulsion equipment becomes available.
>
> 4) As an auxiliary to the armed forces, the Maritime Commission to date has acquired and turned over to the Navy and the Army approximately 175 major ships aggregating about 1,250,000 gross tons, in addition to many smaller craft.
>
> 5) All the 198 ships remaining in the first World War laid-up fleet and turned over to the Commission in 1937 have been utilized and most of them have been returned to service, either through sale or charter after reconditioning.
>
> 6) Approximately 80 merchant ships of foreign registry, laid up in United States ports, have been requisitioned and placed in

> service, many having been reconditioned.
>
> 7) In cooperation with the Commission, shipyards on all coasts of the nation have established training schools for shipbuilders to meet the peak requirement of 600,000 to 700,000 men by late in 1942. Ordinarily there have been less than 100,000 skilled men thus employed.

This report indicates the extent of the government's program to prepare the maritime industry for the war. At this point it had become a three-billion dollar program. And this figure is an estimate based only upon the cost of ships that were to be turned out in the two years thereafter. The cost of shipyard construction far exceeds this three-billion dollar estimate. The so-called shipowners must have glowed with satisfaction upon reading this report. By the end of 1943 they were promised ships representing a three-billion dollar capital investment. That is a handsome gift for the government to pass out to any group in society. And the shipowners are numerically a very small one.

War meant not only rapid expansion of the shipbuilding program, it meant also carrying the rationalization of the shipping industry to its logical completion. In the first weeks of the war the government began reorganization of its maritime management. A conference in Washington, called by the Maritime Commission and the Department of Labor, in the first weeks of December, ostensibly took up the question of seamen's bonus rates. Out of the conference came the Maritime War Emergency Board. True, this Board did establish bonus rates for seamen sailing in submarine-infested waters. But no sooner had it fixed these bonus rates than it moved to lift the "burden" off the back of the operators by fixing a surcharge on cargo rates. The rates were increased 26% for ships serving the west coast of Central America and the Pacific Coast of the U.S., 22% for those operating in the Caribbean, reports the *Seafarers' Log* for Jan. 19, 1942. Six months later these rates were again doubled and trebled. *The Journal of Commerce*, over a Washington dateline on July 26, reports the second raise:

> Reflecting the gravity of current shipping situations, the War Shipping Administration today issued a new war risk schedule which in most cases doubles, and in some cases triples, previous rates on export cargoes destined for foreign ports.

During the same period bonus rates paid seamen for sailing through dangerous waters actually decreased, according to the *Log* of July 30, 1942.

Since all ships are now carrying war materials and the government is the principal shipper, this simply means that the government has assumed operating costs for the shipowner, guaranteeing him a profit on the capital investment originally given him by the government.

But there is still more! In the midst of all the big problems of the war, Congress took time out to provide especially for the shipowner. A law was passed hardly more than a month after the U.S. declaration of war which gave the Maritime Commission authority to insure the shipowners directly in case the private insurance rates became "exorbitant." Accordingly, as reported in the *New York Times* of January 2, 1942:

> The Maritime Commission established today a $40,000,000 fund to provide war risk insurance and reinsurance on American ships the owners of which are unable to obtain adequate protection at "reasonable terms and conditions" from commercial underwriters.

This was really protection for both the insurance companies and the shipowners. At the then rate of sinkings, no "private" insurance company could afford to insure ships and cargo and lives, no matter how high the premiums. They were a cinch to lose. But the shipowners had nothing to lose because they had nothing invested. What really happens here is government insurance on its own investment paid to some "private operator" who has been granted claim to profits accruing from government operation of government-built ships carrying government war materials.

These first moves in the two months following Pearl Harbor were mere extemporizing. But war made the problems of shipping so urgent that this cumbersome system had to be given up. After a series of conferences with the big shipping magnates, a way was found to centralize completely the control of the industry.

Two months almost to the day after the formal declaration of war, the War Shipping Administration was created by presidential order, on February 9, 1942. On the same date Congress was asked to appropriate $3,852,000,000 for construction of new ships in 1942 and 1943. This was in accordance with the rush-order building plan previously announced by the Maritime Commission.

From the day this board was established it was clear that this was no ordinary run-of-the-mill war board. When Admiral Land, chairman of the Maritime Commission, was made the new administrator, press announcements were accurate when they described him as a "czar over shipping." The presidential order described the Board's functions in general terms: operation, purchase, charter, requisition, allocation of ships; provision of insurance; representation of U.S. interests and endeavor to coordinate American and

British shipping; maintenance of current data; and keeping the President informed.

By this time it had become obvious that the government would have to "eliminate" the private operator in the old sense that he was the manager of a fleet of ships carrying cargo to all corners of the world in competition with other shipping companies, both American and foreign. The war wiped out established runs; all cargo carriers were routed to the war fronts. The government was preparing to requisition and allocate the merchant fleet for war duty. That was the special task for which the War Shipping Administration was created.

When Admiral Land began collecting his staff together it became clear who was going to exercise the powers of this "czar over shipping." The ship-"owners," "thrown" out the window, simply marched back through the front door. Lewis W. Douglas, president of the Mutual Life Insurance Co. of New York, was given the post of adviser to Land. From the staff of the Maritime Commission came S. D. Schell, David E. Scoll and W. Creighton Peet Jr. Schell was appointed executive officer of the War Shipping Administration. Scoll was to assist and represent Land on a combined Anglo-American shipping board, and Peet Jr. was named secretary of the War Shipping Administration.

Within the War Shipping Administration there was formed "a committee to advise and consult with Admiral Land on problems of general policy." The personnel of this committee would in effect comprise the board of directors for the entire shipping industry. They would lay down the *general policy*. Appointments to this top committee were announced February 22: H. Harris Robson, former vice-president of United Fruit Company; D. F. Houlihan, member of the public accountant firm of Price, Waterhouse & Co.; William Radner, formerly representing the Matson Navigation Company. They were given titles in the War Shipping Administration as follows: Robson, Director of the Division of Emergency Shipping; Houlihan, Director of Fiscal Affairs; Radner, General Counsel.

As the War Shipping Administration dug into its work, the influence of the old "private operators" began to show more and more, especially in the appointment of personnel. John E. Cushing, president of the American-Hawaiian Steamship Co., was made Pacific Coast Director and later replaced Robson on the top committee of the Administration. Captain Granvill Conway, shipping master for the open-shop operators in the days of the old U.S.

Shipping Board, turned up as the Atlantic Coast Director. Chester H. Marshall became Gulf Representative, and M. H. McCann, Boston Port Agent.

A minor shake-up in the top committee of Land's War Shipping Administration retained Lewis W. Douglas in the leading advisory capacity with Cushing and Houlihan as his subordinates. A third name appeared among the top group, Frank Schneider, World War I major general. In the leading circles of the War Shipping Administration last April sat such other company officials as Wilcox of United Fruit, Knight of the Isthmian Line, and Bradley of Matson. These are the $1-a-year men who speak for the government in the shipping industry. This explains in part why the government is so generous to the "private operators." Each new shift in personnel brings with it more names of the presidents or vice-presidents or agents of some shipping outfit. Charles H. C. Pearsall, vice-president of the Atlantic Gulf and West Indies Steamship Lines, Inc., was named manager of the Caribbean area. AGWI vessels ply the Caribbean. Charles M. Colgan while on leave from the American Export Lines service cropped up as WSA administrator in the Canal Zone. He was at one time Matson Line agent in South America.

This exchange of personnel between government agencies and leading industrial concerns supposedly operating under control of the government is nothing new. It is an old practice in the maritime industry. The U.S. Shipping Board was packed with shipping company agents and their stooges. Finally, as we have seen, the graft became so flagrant that the Shipping Board was discontinued as a separate agency and its functions transferred to the Department of Commerce. But that in no way ended the close interrelationship between the government and shipping companies. The Maritime Commission raised it to a new height. Back in 1939, Mr. Ben Geaslin, for example, was general counsel for the Maritime Commission. He resigned June 22, and on December 29, 1939 appeared before the Commission as counsel for the Waterman Steamship Corp. It was revealed on October 23, 1942 in the daily *PM* that the Maritime Commission

> sold five ships to the Waterman Steamship Corp. of Mobile, in 1940, for a total of $596,000 and in 1941 paid the same company $3,374,000 or six times as much, for five older ships, instead of exercising an option to get the first ships back at a saving of almost $2,000,000.

Extraordinary coincidence. But when coincidences get very frequent, they are no longer coincidences, but policy. Take another

example, a deal carried out, not behind the Maritime Commission's back, but with its full cooperation, according to *PM*. Here the Commission made "fictional sales" of ships to a Florida shipbuilding company which resold them to the Navy at "pyramided prices." *PM*'s report:

> The charges of "fictional sales" of ships arose out of a contract between the Maritime Commission and the Tampa Shipbuilding and Engineering Co. for the construction of four cargo vessels. The company ran into financial trouble and the contract was modified, the Comptroller General said, in such a way that the surety companies were released of their obligation to guarantee the work, and the Commission, without lawful authority, guaranteed company debts of $300,000.
>
> Land (Chairman of the Commission) was personally involved, the Comptroller General found, in awarding the contract to the company although "the company was, at the time, practically insolvent and would need at least $1,000,000 operating capital" to fill the contract.
>
> As a condition precedent to awarding the contract, the Commission and the RFC required the company's property to be reappraised. It was reappraised and valued at $3,092,090, or $35,000 an acre, although it had been carried on the company's books at $1,261,000. Four years earlier the company had informed the Secretary of State of Florida that the land was not worth back taxes of $57,000.
>
> Within a few months the company was in such serious financial condition that the Commission's director of finance recommended cancelling the contract. But a year later the company was given another contract for four additional ships, although the Comptroller General reported, "the files are replete with data tending to show that the company could not perform its contracts, and that it was insolvent and would sustain heavy losses."
>
> The first contract was awarded in 1938, the second in 1939. In 1940, the Commission's general counsel prepared a charter for a new company, the Tampa Shipbuilding Co., Inc., with George B. Howell, one of the bankers for the original company, as president. Howell got all the stock in the new company for $500.
>
> One week after this new company was organized, the Comptroller General charged, the Commission indulged in the "fictional sale" to it of three of the first four ships under construction by the previous company, and a few months later sold the company the other four.
>
> The company, in turn, sold the eight ships to the Navy for almost $2,000,000 above their contract value, and used the money to pay off the obligations of the previous company to Howell's bank and others.

This is a typical example of government attempts to foster "private ownership." The necessity of centralizing control of the maritime industry under war-time conditions brought an influx of these "private owners" into the government apparatus.

Every expedient had now been resorted to in order to keep alive the "private ownership" myth. The results were distinctly unsatisfactory, and, with the way the war was going, it was no time for fooling around. The obvious next step was to requisition the entire maritime industry for war duty: ships and seamen alike. But, unlike requisitioned seamen, the about-to-be "requisitioned" shipowners had to be carefully consulted in advance. The seamen stood to lose only their lives; the shipowners, a much more sacred thing—property. They held out for guarantees. Thus it was April 1942 before the stage was sufficiently set for the WSA to "requisition" the merchant fleet.

The fact was, the ship construction program of the Maritime Commission had been stepped up till it was all out of proportion to the ability of these "private owners" to meet their obligations under the provisions of the 1936 Merchant Marine Act. And they were not interested in any such investments even if they had idle capital in search of a market; it was so much easier to let these war-time projects be financed by the sale of war bonds to the public. In any case, they figured to fall heir, as after the last war, to what was left of maritime capital equipment after this war was over.

The plan of requisitioning the merchant fleet, and the emergency need of it, cast a revealing light on the whole "planning" of both naval and shipowner administration. Some seamen may doubt the practicality of workers' control, and think it only natural that the shipowners and naval men are used as administrators, since "who else has the technical knowledge?" etc. Let us take a short look at the record and see just what the experts' "knowledge" and "planning" have amounted to in practice.

The original war-preparedness shipbuilding plan announced in 1937 was to build 500 ships over a ten-year period.* With an imperialist war imminent, this quantity and this time-schedule were, from the imperialists' own viewpoint, ridiculous. But at least the ships built before the war were well designed and constructed compared with the hurry-up jobs of today. Those were the Maritime Commission's C1, C2, and C3 types, capable of 15 to 22 knots, most of them speedy enough to outrun submarines. On the other hand, the present mass-production Liberty ship is a jerry-built job, made to be sunk. They are thrown together with thin plates, and can make only 11 knots under favorable conditions. In a word, the 1937 "planning" was so unrealistic that it had to be totally junked, and a brand-new "plan" adopted: the "Liberty ship" program. That, assured such experts as Navy Secretary Colonel Knox and Maritime Commission Chairman Admiral Land, would solve everything.

The construction of these sea-cows reflected Secretary Knox's brilliant idea, "We can build 'em faster than they can sink 'em." Quite apart from the callous disregard for seamen's lives revealed in this statement, the soundness of Knox's curious notion is indicated by the fact that in less than ten months of open warfare the Nazis not only sank more ships than the Maritime Commission originally planned to build over a ten-year period, but even more than the Liberty ship program could keep up with. On November 15, Land, War Shipping Administrator and Chairman of the Maritime Commission, announced new "plans":

> When the Liberty Ship was first designed, it was not contemplated that it would be required to carry the amount of guns, gun foundations and several other forms of protective devices that are now being installed. As a consequence of this added top hamper, it has been found necessary to carry a moderate amount of ballast. The Commission, therefore, is designing a vessel to replace the present Liberty Ship type which will have greater length, slightly more beam and somewhat greater carrying capacity.
>
> It is planned also to increase the power to a volume which, together with a better hull form, will result in higher speed. The increased speed should be sufficient to render the Liberty Ship less vulnerable to submarine attack in wartime and greatly improve its competitive value commercially in the post-war era.

Six months prior to this announcement the Maritime Commission head did not "contemplate" that the Liberty ship "would be required to carry the amount of guns, gun foundations and several other forms of protective devices that are now being installed." But at that time the war had been on for two and a half years, and the U.S. openly involved in it for four months; its lessons were plainly evident. And Admiral Land—like all admirals—is supposed to be

*Admiral Land, chairman of the Maritime Commission, said on January 25, 1939: "This long range program of 500 ships was, and is, based on the Navy's needs. . . . The merchant fleet is the lifeline of the Navy. It feeds it, fuels it and repairs it at sea. In addition, it transports troops when necessary." These words make it clear that the 500 ship program was a plan for *war*. Yet as early as August 29, the number of vessels sunk in the Western Atlantic area since Pearl Harbor was already *447*, according to an unofficial tabulation by the Associated Press. By then, some *2,938* seamen had lost their lives, *1,700* were missing, and *13,858* had been rescued. This does not take into account vessels sunk in other areas such as the Pacific or Arctic; we can assume that the total number was in excess of 500 ships lost. The number has long since passed 500.

a naval expert and know about these things. Such are these "experts" and their "plans."

Yet as late as April 3, the Maritime Commission was announcing that it had contracted for the construction of six shipyards and 33 of the old type Liberty ships. Their cost was announced at about $2,000,000 for each ship, making the expenditure of the government $60 to $70 million, according to the *New York Times*. This was part of the $3,852,000,000 Congress appropriated for the construction of new ships.

The government apparatus is so well rigged by the so-called shipowners that when President Roosevelt submitted his budget for the new fiscal year (1942-43) to Congress (*New York Times*, June 2) it contained a little item in the amount of $1,100,000,000 for "compensation" for these "shipowners" for vessels taken over for the duration of the war by the War Shipping Administration. The government announced at that time its intention to keep the merchant fleet in a state of "good repair" so that it could be returned to the "shipowners" at the end of the war in good repair. (No mention was made of any plan to keep the seamen in "good repair.")

Even after the requisitioning of the fleet and establishment of complete government control over the maritime industry, the idea of private ownership is still kept alive.

It is pretty hard today for the private operator to keep up the pretense of "independence." He would in fact be a government employee—if he did any work. But all that is needed for this work in the actual operation of the merchant fleet is a competent office staff. So the "shipowner"—that is, the private operator and the stockholders in his firm—is nothing more than a government parasite. The *New York Times* on June 20, 1942, carried an announcement that the government had worked out a policy to

> make it possible for the "unemployed" operators to return to work. . . . A policy of spreading the operation of ships among as many responsible operators as possible was announced today by the War Shipping Administration.

"Unemployed"! And the WPA just abolished!

Provision was of course made to pay these "unemployed" operators by means of fees and charter revenues for the duration. That is why we find the Maritime Commission fixing higher carrying rates on its own material after it had requisitioned the fleet and was operating it under the War Shipping Administration.

The benefits to be derived by the capitalists interested in the shipping industry are summarized on September 11, 1942 in Stan-

dard and Poor's *Industrial Surveys*. This publication issued for the benefit of big investors gives the following optimistic picture for shipping and shipbuilding during the war. It notes:

> *Good Shipping Profits Indicated*
>
> The entire fleet of the United States ocean-going merchant vessels, including those formerly operated in both foreign and coastwise services, has now been chartered to the War Shipping Administration. For the duration of the war, revenues of shipowners will consist of the charter hire paid for these ships and the management fees paid for the operation of ships under the direction of the War Shipping Administration. The latter should rise gradually as newly completed merchant ships are added to the domestic fleet. . . . Except for foreign operators and companies which chartered a large part of their fleets during the major portion of 1941, most shipping companies will report a gain in net before taxes this year.
>
> Charter revenues, of course, will be reduced as ships are sunk, and these declines will not be offset by the growth in management fees incident to the operation of additional new ships. In most cases, however, the insurance payments on ships are substantially above book value of these vessels. Substantial book profits are thus being created and funds are being built up for the restoration of fleets after the end of the war.

Standard and Poor's also gave a "Basic Survey" of the maritime industry in May 1942, in which it commented on the postwar prospects of the shipowners, relating them to present conditions:

> However, the lessons learned after the last war will not be forgotten. Operators will be reluctant to invest in high-cost vessels which will eventually face a period of low-traffic and unprofitable rates. The Maritime Commission may solve the problem by selling its vessels to private operators at a sacrifice.
>
> Barring changes in charter rates paid by the Maritime Commission, loss of vessels, and the possible inclusion in earnings of profits realized from insurance settlements, earnings of shipping companies, before taxes, should exhibit unusual stability for the duration of the war. While high taxes and lower charter rates will doubtless hold profits under the 1941 level, earnings of most concerns should be fairly satisfactory.

Note that this is from one of the dope sheets of the capitalist class. It comes out like the *Racing Form*, only it is more reliable. It predicts that the private operators will be in the money this season. For American Export Lines, a good bet, it foresees that "maintenance of the indicated $2 common *dividend rate*, which affords an 11% yield, is possible." But the whole field is a winner, in this race. The government pays money to all entries.

That the dope sheet gives the right steer is indicated by some of the pay-offs listed below, chosen at random from the *New York Times* financial pages:

> American Mail Lines Ltd. For 1941: Net profit $1,636,281 equal to $15.83 each on 103,337 common shares, compared with 1940 net of $369,769.
>
> American Export Lines, Inc. reported yesterday for the year ended with December a net profit of $13,699,498. . . . Net profit report for 1940 was $7,680.901.
>
> Net profit of U.S. Lines for 1941, excluding that of these three vessels (*America*, *Washington*, and *Manhattan*) was $4,739,090, compared with a profit of $3,801,180 for 1940.
>
> American-Hawaiian S.S. Co. March quarter [1942]: consolidated net profit before Federal income and excess profit taxes, $1,894,034, compared with $1,569,518 in [first quarter of] 1941.
>
> The American President Lines, Ltd. had a net profit in 1941 of $8,170,265 after charges, or almost double the net profit of $4,602,048 reported the year before. . . .

The figures are listed not merely because they are big (though it will be observed that this is not exactly hay), but because of the sharp upward trend they reveal. In the demagogic program of "equality of sacrifice" shouted for by the government, this is a fair picture of the sacrifices of the ship-"owners."

In the face of such results, the shipowners have overcome all their doubts. At first they were a little distrustful of the New Deal career-men and apprehensive of government regimentation of the industry, even though they sensed in the war an opportunity to smash their way through all tough labor problems under a cloak of "patriotism." But it has all come out all right: the government program is their program, end-product of more than a century of groping, now rationalized and streamlined. New, practically free ships coming down the ways with a "disciplined" personnel to man them—it is the realization of their age-long dream. Item by item, the government has lifted from their shoulders one problem after another: finding capital with which to be capitalists, the bother of management, the handling of militant unions, and finally the cares of "ownership" itself, leaving them nothing but—their property and their profits. All their problems are solved.

It is somewhat different with the problems of the average rank-and-file seaman. He too has been patriotic. But, as we are now about to see in tracing his relations with the government up to the present day, his patriotism has not been worth so much to him; today, for example, patriotism will not keep a man afloat when a torpedo hits his ship.